

City, County, and State Policies and Actions that Build Community Wealth

Cities, counties, and states have an important role to play in building community wealth. Across the country, an array of new government policies and actions are strengthening economies and producing important benefits in the lives of citizens and communities. Here are more than two dozen such innovations that any state or local government might try:

City & County Level

1. *Use regional tax sharing to reduce loss of business tax revenue*

Implement regional tax sharing, as the Minneapolis-St. Paul area has done, to discourage local municipalities from bidding against neighboring cities over tax incentive payments to businesses. www.newrules.org/environment/taxbasesharing.html

2. *Assess development impact fees on sprawl*

Assess a surcharge on developments that occur outside of the urban core to discourage sprawl, as the city of Lancaster, California, has done. Another example is Sacramento County in California, which charges half as much for sewer hook-ups of in-fill developments than for new developments.

<http://www.newrules.org/environment/lancaster.html>,

<http://cfpub.epa.gov/sgpdb/policy.cfm?policyid=424>.

3. *Tax excess energy use by the rich*

Assess fees on very large and energy inefficient homes as Aspen and Pitkin County in Colorado have done. Their program charges new homeowners one fee if their homes exceed 5,000 sq. ft. and another fee up to \$100,000 if they exceed the "energy budget" allotted to their property by the local building code, raising roughly \$1 million a year for local energy efficiency and renewable energy projects.

www.newrules.org/environment/climateaspen.html

4. *Develop city-owned businesses to promote local economic development*

Create a city-owned business to promote local economic development like Ashley, North Dakota. In 1997, the 1,000-person city of Ashley, North Dakota set up Tech Link in 1997, in which it retains a majority ownership stake. In addition to data processing, the 45-employee business now provides web design and software development consulting, implements web marketing and on-line sales applications for local Ashley businesses, and creates company Web sites linked to the City of Ashley's site.

www.smallcommunities.org/ncsc/THN.htm

5. *Expand existing public utilities to build broadband capacity*

Today, there are over 2,000 publicly owned power companies in the United States that provide electricity to 43 million people, which provide a strong foundation to promote local business formation by expanding into broadband, as the Grant County, Washington public utility district, which has developed a fiber-to-the-home infrastructure and leases capacity to different service providers, much as a shopping center owner leases commercial space to vendors.

http://www.provo.org/index.php?module=ibcms&fxn=mayor.Mayor_s_Speeches_main#broadband%20speech
, www.appanet.org/aboutpublic/index.cfm?ItemNumber=429

6. *Charter community corporations to protect community-valued enterprises*

Rather than watch business leave town, use a community corporation structure, like the 4,000-person city of Ely, Nevada, did in 2004 to raise capital and maintain the business. Selling shares at \$500 each to in-state residents, the city was able to raise \$400,000 and preserve the town's only department store.

(Susannah Rosenblatt, "When Major Retailer Calls It Quits, Town Opts to Open Shop," *Los Angeles Times*, November 28, 2004).

7. *Develop real estate to both promote public transit usage and raise revenue.*

Transit-oriented development can both raise funds and ridership, as the example of Washington D.C. attests. The Washington D.C. transit authority earns over \$6 million a year in lease payments and has built ridership by leasing out surplus land surrounding stations. Such transit-oriented development projects seeks to combine retail, office space, and housing (both market-rate and affordable). (www.wmata.com/bus2bus/jd/jointdev.cfm, www.wmata.com/about/board_gm/FY2006_Proposed_Budget_Book.pdf)

8. *Use revolving loan funds to invest in local businesses.*

A number of cities and counties have developed revolving loan funds as a way to invest in community economic development, such as the Tri-County Economic Development Corporation of Butte, Glenn, and Tehama Counties of Northern California, which, between 1988 and 2000, made loans totaling \$7.6 million, leveraging \$44 million in private funds, and creating over 1,100 jobs.

www.tricountyedc.org

9. *Make equity (venture capital) investments in local firms and share in their success.*

Many cities, such as Austin, Minnesota, have invested in and become part owners of local ventures. For the Development Corporation of Austin, investments range from \$5,000 to \$500,000, with most between 50,000-\$200,000. The City of San Diego has invested \$2.5 million in an "emerging technology" fund, which targets "small businesses that increase employment in Low Income Communities and that expand economic opportunity among historically underserved groups in San Diego County."

www.spamtownusa.com/dca,

www.cdvca.org/index.cfm?fuseaction=Page.viewPage&pageID=158

10. *Take advantage of real estate assets to earn income.*

Through participating lease agreements (commercial leases where the city gets a percentage of revenues) and other real estate asset management techniques, cities can earn significant revenues. For instance, leasing brings the 55,000-person suburb of San Marcos, California, \$2.4 million in annual revenue, making it the city's third leading revenue source — after sales tax and car taxes. (Source: Conor Dougherty. "San Marcos, Inc.: Going into the development business pays off for charter city." *The San Diego Union-Tribune*. October 5, 2003, page N-4.)

11. *Use inclusionary zoning to expand affordable housing development without raising fees or taxes.*

Inclusionary zoning is a technique that involves increasing permissible development density in exchange for developers setting aside a percentage (typically 15-20%) of housing for people with low or moderate incomes. Inclusionary zoning has been used for more than 20 years in

Montgomery County, Maryland and is now used in many major U.S. cities, including San Diego, Sacramento, San Francisco, Denver, and Boston.

www.bpichicago.org/rah/pubs/large_cities_iz.pdf

12. *Use linked deposits to achieve community development goals.*

Cities and counties can make better use of the millions of dollars that temporarily sit in bank accounts, by choosing where to bank based on banks' willingness to re-lend those dollars to meet local community development goals. For instance, in Cuyahoga County, Ohio uses linked deposits for investing county tax proceeds to assist suburban homeowners near the central city of Cleveland to rehabilitate their homes. As authorized by law, the county treasurer can invest up to 12% of total property tax intake in participating banks at below-market rates (not to exceed a 3% differential). In exchange, banks must commit to pass on the savings to borrowers in the form of low-interest loans for home rehabilitation and renovation.

<http://cfpub.epa.gov/sgpdb/policy.cfm?policyid=422>

13. *Tie a greater portion of property tax to land to discourage speculation and finance redevelopment.*

By taxing land at a rate five times greater than the buildings on that land, a method technically known as "split level property taxation," Pittsburgh since 1980 has minimized speculation by both raising the cost of land acquisition and using the tax revenue collected to subsidize new infill development.

<http://cfpub.epa.gov/sgpdb/policy.cfm?policyid=582>

14. *Use value capture financing to fund public transit development.*

Since public transit increases the property value of land within a quarter mile of stations, some cities, such as Dallas and Los Angeles, have developed special tax assessment districts to finance construction. In Los Angeles, the fee raised \$130 million toward subway construction costs.

<http://www.vtpi.org/smith.htm>, www.reconnectingamerica.org/pdfs/financingTOD.pdf

15. *Pass living wage ordinances to build good paying jobs while reducing social expenditure costs.*

When subsidized employers pay their workers less than a living wage, taxpayers foot a double bill: the initial subsidy and then the social services low wage workers require to support themselves and their families. Living wage ordinances, which tie subsidy payments to wage level requirements, now used in Baltimore and over 100 other cities, help ensure that public dollars are leveraged for the public good.

www.livingwagecampaign.org/index.php?id=1953

State Level

1. *Invest pension dollars in state to generate wealth and create jobs*

Implement policies, as states such as Alabama, Wisconsin, and California have done, to invest a substantial portion of public pensions within the state. For instance, the Retirement Systems of Alabama plainly state their investment philosophy in their 2004 Annual Report, in which they highlight in-state investments and write, "By investing in Alabama, the RSA is setting in motion the foundation of a strong and vibrant state to grow and strengthen for future generations." Source: Retirement Systems of Alabama, "Foundations for the Future," Montgomery: RSA, 2004). [Annual Report for fiscal year ending Sept. 30, 2004]: quote on page 7.

www.rsa.state.al.us/Publications_and_Forms/pubs_and_forms.htm

2. *Target pension revenues specifically to meet the needs of under-served communities.*

In California, the state's two leading public employee funds have set goals of investing 2% of their assets — \$5.6 billion — in low-income communities (“domestic emerging markets”), with a focus on in-state investments. Some of these investments are already bearing fruit. For instance, CalPERS expanded its initial (1996) \$50 million investment in inner city retail development to \$290 million in 2004. So far, it has earned a 14% annual rate of return on its investment. <http://www.treasurer.ca.gov/publications/dbl/DBL.htm> (September 2004).

3. Invest in employee ownership.

By supporting support centers to help employees own the businesses where they work, states can increase their tax base and protect jobs at the same time. Ohio's Department of Job and Family Services has provided funds (averaging \$10,000-\$20,000 per case) to promote employee ownership as an alternative to plant closures. Since 1987, OEOC has helped 438 Ohio companies and plants explore the possibility of employee ownership. As well, OEOC receives annual funding of roughly \$100,000 from the Ohio Department of Development. Without OEOC, thousands would have lost jobs to plant shutdowns or corporate downsizing. Instead, this approach has created 12,825 new employee business owners.

www.odod.state.oh.us/owf/jan04, <http://dept.kent.edu/oec/FriendoftheCenter.htm>,
<http://dept.kent.edu/oec/BuyoutAssistance/PreliminaryFeasibility.htm>

4. Maintain state estate taxes

Protect tax progressivity by decoupling the state estate tax from the federal estate tax, which is currently being phased out, as Nebraska and 11 other states have already done.

www.stateaction.org/issues/issue.cfm/issue/EstateTaxDecoupling.xml

5. Tax wealth

Following the lead of Florida, states can tax intangible wealth, such as stocks, bonds and money market accounts. Florida taxes intangible wealth at the rate of 0.1% (exempting the first \$250,000 in assets) and raised approximately \$600 million in revenue.

<http://jamesmadison.org/article.php/134.html>

[Note: This is an anti-tax foundation source calling for the tax's repeal].

6. Raise income tax rates on the top 1%

In 2004, New Jersey increased revenues by more than \$850 million through a 2.6 percent increase in tax rates that only affecting taxpayers with incomes above \$500,000.

www.stateaction.org/issues/issue.cfm/issue/BalancingStateBudgets.xml

Apply progressive principles to corporate income taxes

Thirty-one states use a flat tax for corporate income. That means there is only one tax bracket, with no graduated scale at all. These states could follow the example set by such states as Iowa, Kentucky and Maine, which have graduated scales from \$25,000 to \$250,000, with tax rates ranging from 3.5 percent at the lowest to 12 percent at the highest

www.stateaction.org/issues/issue.cfm/issue/BalancingStateBudgets.xml

7. Use state purchasing power to enforce Internet sales tax collection

Require the state to purchase goods and services only from companies that collect sales tax on all sales in the state to cut down on sales tax evasion by companies selling goods on line, as North Dakota and North Carolina have done.

www.newrules.org/retail/efairmc.html

6. Label homegrown products to encourage more local business

Certify products that are grown in state to encourage local consumption, as Minnesota has done with locally produced agriculture.

www.newrules.org/agri/soolabel.html

7. Pass disclosure laws to make business tax breaks transparent

Implement laws, like Maine and Minnesota have done, that require local, regional, and state development agencies to file disclosure reports annually until the subsidized company has achieved its job creation and wage goals.

www.ctj.org/itep/disclosure.htm

8. Implement business incentive “performance measures”

Make business tax breaks and incentives contingent on results, as Georgia and 19 other states have done. If the business fails to follow through on its commitments, then it must pay back some or all of the economic incentive to the state.

www.goodjobsfirst.org/clawbacks.htm

9. Give preference to in-state businesses in government purchasing

Include rules that give a 5% preference to in-state bidders over out-of-state bidders on government contracts, as Alaska and Wyoming have done.

www.newrules.org/retail/purchasing.html

10. Bring outsourced work back home

Identify contract services that have been shipped offshore, then develop the means to provide services in-state, as North Carolina did in March 2004, when the state legislature passed a bill to create an in-state call center to recapture outsourced jobs.

www.stateaction.org/issues/issue.cfm/issue/Outsourcing.xml

11. Use housing trust funds to develop affordable housing and promote private investment.

Many states use a dedicated tax source, commonly assessed on the transfer of real estate property during sales, to provide a dedicated revenue to finance affordable housing construction. Between 1998 and 2001, the state of Nebraska awarded \$15.9 million in financing, which leveraged \$78.2 million in private financing and created 819 housing units. The construction projects also generated \$167 million in economic activity and helped create 1,773 jobs.

(Mary Brooks, *Housing Trust Fund Progress Report 2002*. Frazier Park, CA: Center for Community Change, June 2002).

12. Use the state’s credit authority to back private venture capital expansion.

Raise capital investment for in-state ventures through the use of a state guarantee. In Oklahoma, public utility companies have contracted to purchase up to \$50 million in tax credits in the event there is a need to meet a call on the board’s guarantee. With this guarantee, in the first six years of the program (1993-99), the Oklahoma Capital Investment Board Venture Capital Program was able to raise \$26 million from institutional investors, leveraging an additional \$61.6 million in equity and \$123 million in debt capital.

(Robert G. heard and John Sibert, *Growing New Business with Seed and Venture Capital: State Experiences and Options*. Washington, D.C.: National Governors’ Association, 2000).