

The Role of Local Government in Regional/Local Economic Development



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Outline of Presentation

- Defining a role for local governments in economic development
- Implications for local finance and governance
- Role of tax incentives in attracting businesses
- Two case studies: tax increment financing (U.S.) and urban development agreements (Canada)



Role for Local Governments in Economic Development - Background

- Cities are key to economic growth
- New knowledge-based economy
- Agglomeration economies (benefits of cities)
- Emphasis of economic development has shifted from cost advantage to quality of life factors



Role for Local Governments in Economic Development

- To provide goods and services within geographic boundaries
- To provide infrastructure (“hard” and “soft”)
- Land use planning; local by-laws that affect living and working conditions



Implications for Local Finance and Governance

- Need access to sufficient fiscal resources
- Need to price services correctly
- Local economic development policies need to be organized on a regional basis
- Need to coordinate marketing programs on a regional basis



Tax Incentives

- Designed to increase the size of the fiscal base
- Non-residential properties can result in net fiscal benefits under the property tax – bring in more revenues than use in services



Tax Incentives

- To calculate net fiscal benefits, need to consider:
 - Net fiscal impact of households
 - Where costs and benefits occur
 - Excess capacity in infrastructure



Tax Incentives

- Effectiveness depends on size of differential between competing communities and if differential is sufficient to offset other costs or market factors
- Tax differentials more important within regions than between regions



Tax Incentives

- Can lead to deterioration of tax base and low levels of service
- May be wasted on firms that would have located in the municipality anyway
- Unfair competition among businesses



Tax Increment Financing (U.S.)

- Used by cities in more than 40 U.S. states for revitalization and to finance infrastructure
- Stimulates private investment in downtown cores of cities that are need of revitalization



Tax Increment Financing

- Determine geographic boundaries of TIF district
- Freeze property taxes at pre-revitalization levels
- Incremental tax accrues to redevelopment for 15 to 35 years
- Issue TIF bonds against incremental taxes



Tax Increment Financing

- Advantages:
 - Can assist revitalization
 - No tax bonusing
- Disadvantages:
 - May not generate sufficient funds
 - Development may have occurred anyway
 - Taxing authorities resent lack of access to increment



Urban Development Agreements (Canada)

- Generally used in neighbourhoods in need of revitalization
- Agreements among all orders of government
- Needed to coordinate activities across governments and between ministries within governments



Urban Development Agreements

- Example from Vancouver, Canada
- Downtown Eastside (DTE) neighbourhood
- 12 federal departments, 19 provincial ministries, 14 municipal departments, city police department, coastal health authority
- Model of collaboration



Urban Development Agreements

- Goals:
 - Increase economic development in DTE
 - Improve health outcomes of residents
 - Increase public safety
- Strategies:
 - Economic development and job creation
 - Dismantle drug scene
 - Turn problem hotels into safe places to live
 - Make community safer for vulnerable population



Urban Development Agreements

- Collaboration and coordination for complex problems
- Move away from “one size fits all” approach to cities
- Need to set clear objectives/measurable outcomes
- Need sustainable funding
- Need community participation



Conclusions

- Changing economy means changing economic development focus
- Local governments should focus on infrastructure and services
- Need to get the prices right
- Need economic development policies on a region-wide basis
- Need cooperation and collaboration among governments