

The Economic Stimulus Package: the Economic Development Component

**Meeting with the International Economic Development Council (IEDC) and
President-elect Barack Obama's Treasury Department Transition Team**

Tuesday, December 16, 2008

Introduction

The International Economic Development Council (IEDC) (www.iedconline.org) is a non-profit membership organization representing more than 4,600 economic developers and related academic and business organizations. IEDC is dedicated to helping economic developers do their job more effectively, creating more high-quality jobs and developing more vibrant communities.

IEDC's members fully grasp the challenges that President-elect Obama faces in his mission to revitalize the struggling U.S. economy and are committed to sharing their knowledge to contribute to the country's well-being and vitality.

In preparation for today's meeting, IEDC consulted its membership for recommendations that they deem to be the most crucial investment issues of the new Administration to tackle. While IEDC members recognize that the economy is in dire need of an immediate boost, the IEDC membership strongly cautions against investments being made in haste, repeating patterns from previous decades. Rather, stimulus investments should be targeted in a way that will meet the country's long-term needs, focusing both on enduring structural change and short-term policies that will stimulate the economy and enhance future prosperity. By aligning business investment strategies with key social and economic goals, the Administration can achieve measurable results, not just in the number of jobs created, but in terms of social capital and long-term sustainability. This implies not only sustainable funding, but behavioral changes from both the public and private sectors.

The recommendations in this document are intended to help the President-elect's Transition Team in shaping a viable economic stimulus plan to lift the country out of the economic crisis and doing so in a way that builds the foundation for broadly shared prosperity. IEDC has also developed a Transition Document that outlines strategies for nurturing long-term economic sustainability.

The recommendations cover the following core points:

- Investment in infrastructure
- Increasing access to capital
- Investment in renewable energy and energy efficiency
- Investment in workforce development and job training
- Using existing programs

Investment in Infrastructure

In recent years the deterioration of the nation's public infrastructure has become a critical source of concern. The levee system collapse in New Orleans, the Minneapolis bridge collapse, the steam pipe explosion in mid-town Manhattan, and countless emergency measures being undertaken to offset crumbling dams, bridges and tunnels throughout the country have focused public attention to this issue. While the local details vary, what has been revealed is a systematic failure – at all levels of government - to invest in the nation's capital stock.

The stimulus provides the opportunity to invest in critical infrastructure projects that are urgent for the nation's security. Investments in infrastructure, particularly shovel ready projects, are encouraged by economic developers to immediately stimulate the economy. Shovel-ready projects are those infrastructure projects that are ready to be started once financing is made available. These projects have already been targeted by state, local, and municipal governments and have completed any community, regulatory, or environmental review processes, so that work can truly begin once funding is provided.

Currently, thousands of shovel ready projects await funds in the U.S. These may include highways, rural roads, bridges, sewers and water treatment facilities, public transit, construction, capital improvement projects, as well as the development of wet labs and research facilities, investment in innovation and fiber-optic/broadband infrastructure, modernizing schools, upgrading hospital technology, and green and alternative energy initiatives. The injection of funds for these types of projects can create a large quantity of jobs in the short-term and leave our communities in a stronger competitive position in the future. Furthermore, infrastructure projects incur maintenance costs that can help to retain jobs over the long term. Enacting these projects within the Administration's first 100-days will be critical to effectively jump-starting the economy.

However, in order for these projects to have a meaningful and sustainable effect, certain criteria should be met in choosing which projects to fund and spending should be targeted for long-term capital investments to increase the nations' productivity. Notably, these shovel ready projects should be designated with the intent of building a 21st century infrastructure, curtailing any haphazard spending and the knee-jerk reaction to "build just any road".

Key points to consider include the ability to create jobs in competitive industries, the environmental impacts, and whether the project will improve the quality of life of the nation's citizens. Projects should be energy-efficient and make use of the latest planning and construction technology in order to reduce costs and limit environmental consequences, favoring smart growth initiatives over those that encourage further sprawl. All infrastructure investments should undergo a review of real economic and environmental objectives to determine if they do fulfill these criteria. Also, the administration must know and trust that the projects called "shovel ready" are truly projects that can begin construction within 120 days.

Particular projects to consider that will improve the infrastructure and the economy in both the short and longer-terms include:

- Innovation infrastructure. There is currently a backlog of projects nationally involving innovation assets. Research parks, laboratories, incubators - that are ready to launch, but lack financing. By targeting a portion of the infrastructure to innovation assets, the federal government will receive payback through increased revenues and jobs by helping create high-growth companies - in addition to the initial stimulation through construction contracts.
- Construction projects that target on green building retrofits or rehabilitations (e.g. weatherization, insulation). These projects - for commercial, residential and industrial buildings - tend to be more labor intensive than large scale public works projects, but can provide jobs to local contractors and fulfill the objectives of ultimately improving energy efficiency, as well as creating more liquidity in the market. Thousands of schools need improved weatherization and tens of thousands of public housing units and homes of low-income families could use insulation retrofits. Funding these types of activities could reduce governmental and low-income family costs on energy, improve the environment, and create opportunities for lower-skilled workers who learn new skills that will have value in the market. Existing state weatherization programs could be a vehicle for funding.
- Water-related projects. Projects that will encourage infill development, as well as projects that provide water storage for already developed areas that are water-deficient or threatened, and projects that will provide for storm water retention rather than runoff into streams and rivers should all be considered in the infrastructure stimulus as they are essential to the long-term stability of communities, the nation, and the planet itself.

Further recommendations include:

- Implementing both larger and smaller projects at this time will each have value in jump-starting the economy and creating jobs.
- Attaching training provisions to infrastructure investments to create a better workforce while improving the infrastructure.
- Increasing funding to the Environmental Protection Agency (EPA) Brownfields program would additionally help in the clean-up process and the building of a green infrastructure in the future
- Broadening criteria for Economic Development Administration (EDA) funding to include areas that contain large numbers of innovations assets - smart people, growth companies, existing infrastructure - such as research parks, incubators and universities.
- Replacing military equipment that was shipped to Iraq and Afghanistan. There are many National Guard units and Reserve units that have shipped equipment to the two warfronts. Much of those materials will not be returning and needs replaced. A military necessity and a jump-start to certain manufacturing would be the replacement of these trucks, jeeps

and other items. This has the benefit of creating more manufacturing jobs and meeting some long-term pressing military needs.

In the 21st century, an infrastructure portfolio could achieve both a high level of stimulus in the short-term with more enduring returns than in the previous century.

Increasing Access to Capital

Increasing access to capital for businesses is vital to stimulating the economy in the short-term and to maintaining a vibrant business community in the future. The stabilization the housing market today - including assistance for home mortgage industry debt restructuring - is a crucial step that will facilitate access to credit in the long-term, providing a positive ripple effect on the rest of the economy, rebuilding consumer confidence and helping firms to grow.

The most common form of small business financing assistance include direct lending, revolving loan funds, micro-loan programs, and state and federal financing programs. Other sources can be found through the conventional banking system or through city governments that provide economic development professionals with bond and creative tax incentive funding options.

Increasing access to capital will help stabilize businesses, allowing them to survive and retain jobs. It will allow businesses to purchase products and increase movement in the market, enabling them to expand, invest, and create new jobs in the long-term.

Moreover, several existing federal programs provide effective vehicles to stimulate economic recovery. By taking advantage of useful programs already in place and improving on some of their features to better suit today's economic situation, it would facilitate access to credit. And, while it may not be possible to for firms to create new jobs immediately, it is urgent that steps be taken to stabilize firms and retain those existing jobs.

Programs that could effectively help to jump-start the economy are:

- The Small Business Administration's SBA 7(a) and 504 programs. These programs expand the supply of capital for small businesses through reducing the risk to private banks and lenders. SBA guaranteed loans have historically represented around 5% to 7% of bank commercial and industrial loans. The current credit crisis warrants an increase in this share. Notably, as banks are withdrawing access to capital, the Administration needs to ensure that the SBA is meeting the needs of small businesses.
- The SBA microloan program should be expanded and allow SBA microlenders to become 7a lenders as well with a focus on being able to deliver the Community Express program and the Technical Assistance associated with it.
- The HUD 108 Program allows community development block grant (CDBG) entitlement communities to supply loans to businesses and real estate projects with future CDBG funding guaranteeing repayment of the federal bonds used to fund the loans. This

program does not cost the federal anything, but allows communities to provide gap financing for critical economic development projects at up to 5 times their annual CDBG entitlement. Communities may use HUD108 to fill funding gaps and leverage private sector financing via subordinate loans or guarantees.

- The Manufacturing Extension Partnership (MEP) works with manufacturers across the country to improve efficiency, implementing new technology and innovation, and strengthening company growth. Increased funding for this program will allow U.S. manufacturers to survive and invest in the future, helping the nation's manufacturing sector to advance to the 21st century standards

Further recommendations in this area include:

- Modernizing the Industrial Development Bonds (IDB) authorizing legislation to qualify small issue bonds to include new economy industries, and increase maximum bond size limitation to expand the program's ability to increase capital availability
- Allocating \$1 billion of the 700 Billion TARP funds to CDFIs and other community and non-profit organizations that can get this money out to projects and small businesses as soon as possible. This would need to be done on more flexible terms than is being offered to banks (longer term, lower interest or grants).
- Expanding the Community Reinvestment Act (CRA) to all financial institutions and insurance companies, allowing for community organizations to deploy capital and create jobs.
- Authorizing the New Markets Tax Credit Program through 2014 with an annual per round allocation of \$4.5 billion.

Entrepreneurship plays an essential role in generating innovation and stimulating U.S. economic growth. But, raising capital remains a key challenge for entrepreneurial ventures. The most common external sources of entrepreneurship financing is equity, especially from family, friends and savings, most of which has dried up lately. Thus increasing the supply of seed and debt or equity funding for start-ups and entrepreneurs is a critical stimulus strategy.

At some point, all high-growth companies - especially those involved in technology, innovation, and renewable energy - will need a significant injection of funds to sustain growth. Both debt and equity financing - either by traditional loans, use of credit cards, or through angel investors - are essential, enabling the firm to invest and spend in its future while immediately injecting liquidity into the wider economic system.

An additional suggestion for easing access to capital for entrepreneurs includes:

- Issuing federal tax credits to stimulate private angel and seed capital investments in start-ups and early-stage businesses as a vital step towards reversing the negative impact of tightening loan markets on new businesses.

These high growth companies are paving a road for the nation's future and providing the access to the capital that they need to evolve – for issues ranging from research and development to office supplies, and payroll – is imperative to stimulating the economy and promoting an entrepreneurial culture.

Invest in Renewable Energy and Energy Efficiency

The U.S. needs a federal commitment to conserve and develop alternative energy resources. The current economic crisis provides an opportunity to invest in those industries that will increase energy independence for our long-term sustainability. Investments in renewable energy sources and in green technologies can help to stimulate the economy in the immediate by:

- Reinvigorating manufacturing (which is crucial given the current auto industry crisis).
- Creating jobs - including lower and mid-skilled - in specified industries such as solar, wind, geothermal, and other clean-technology manufacturing areas, thus broadening employment opportunities.
- Pumping liquidity back into the system as energy efficiency saves money for all sectors: public, private, and personal.

Federal funds can help to accelerate the advancement of next generation of biofuels, facilitate the commercialization of plug-in hybrids, and promote the development of commercial scale renewable energy. Notably, in the short-term, the goal should be to provide capital in the hands of businesses that can create jobs or help stimulate the marketplace where production of the products has to take place in the U.S. With the longer-term in mind, this investment helps to build a new industrial infrastructure for the 21st century in an emerging global industry.

Existing programs that could effectively stimulate the economy with additional funding are:

- **The Renewable Energy Job Training.** The Green Jobs Workforce Investment Fund, authorized in 2007, was designed to respond to the lack of skilled workers needed to build renewable energy and energy efficiency in the United States. Title X of P.L. 110-140, Green Jobs, created a program to be administered by the Secretary of Labor to provide quality training for jobs created through renewable energy and energy efficiency initiatives. Further funding could be directed towards funding the national training partnerships, directed at displaced energy workers, veterans, and the unemployed.
- **Renewable Energy Manufacturing Tax Credit.** The Research and Experimentation federal tax credit, in effect since 1981, is designed to encourage manufacturing companies to make technological improvements to products and processes. The credit is intended to offset the decreased spending by the federal government to support private research and development activities. It is also intended to increase the competitiveness of domestic manufacturers. While this tax credit includes many different kinds of R&D in solar

energy, it does not cover investments in new manufacturing capabilities, as has been done in some U.S. states that have provided such incentives. The stimulus bill should include a manufacturing tax credit for 2 years for newly built or retrofitted facilities for the manufacture of renewable energy equipment, components and materials, which would expand domestic capacity and U.S. export capability.

- Clean Renewable Energy Bonds (CREBS). Additional authorization would allow these bonds to be rapidly used by municipalities in order to build green energy.

Further recommendations include:

- Expanding and extending the renewable energy investment and production tax credits to support development of renewable energy resources and new technology for energy storage and transmission.
- Promoting the growth of industries that develop energy-efficient vehicles and other energy efficient modes of transportation, such as mass transit.
- Investing in mass-transit systems that reduce congestion and carbon emissions.
- Creating a federal Renewable Portfolio Standard (RPS).
- Establishing a Green Collar Jobs Hiring Tax Credit.

Moreover, incentives for green technology should be performance-based with themed criteria, include accountability and oversight, and be geographically neutral.

Investment in Workforce Development and Job Training

The U.S. unemployment rate continues to rise, totaling 10.3 million unemployed persons today. In the last year alone, two million jobs were lost, representing the greatest downturn since 1933 affecting factories, construction, retail, and the financial sector, as well as many others, as the domino-effect of job losses continues to touch ancillary industries. It is urgent that the issues of job creation and retention be addressed by the new Administration in the stimulus plan.

Investment in human capital - as with physical infrastructure - is vital for the nation's long-term viability and the vast amount of available human capital in the country represents a valuable national resource. However, an additional three million people could lose their jobs in the near future if the current auto industry crisis is not stabilized. These potential additional job losses will make it nearly impossible for people to keep their homes, further acerbating the housing crisis, diminishing consumer spending and decreasing liquidity in the economy.

Throughout the country - particularly in places like the mid-west - where factories have been closing in industries that have become obsolete in the 21st century economy, displaced workers need help in transitioning to the jobs for the future. These displaced workers need financial assistance and expanded benefits to be able to maintain their livability and prepare

for a new job. At the same time, it is imperative to retain those people who are currently in the workforce and make it easier for incumbent workers to learn new and worthwhile skills.

Increasing the capacity of the nation's workforce is intrinsically linked to the issues of infrastructure and renewable energy investments - where skilled workers in the manufacturing and construction sectors will be needed to address energy efficient projects and green construction - especially where specialized skills like weatherization are required. Direct human capital investments will increase productivity and incomes and the stimulus plan provides an opportunity to build a workforce for today while preparing for the future. Using a percentage of all infrastructure monies for job training, job placement, and job preparation for disadvantaged workers can help to set them on a path that will not only ensure them a better quality of life, but increase the competitiveness of domestic manufacturers, better respond to the lack of skilled workers for renewable energy initiatives, and ultimately ensure a competitive workforce for the 21st century.

Mechanisms will be needed to help workers retain the jobs that they have as well as allowing them to prepare for future opportunities. Key issues to consider in the immediate include:

- Training for transitional workers and expansion of unemployment benefits to mitigate current challenges while preparing them for forthcoming jobs.
- Training for incumbents for retention purposes and increasing business capabilities and competitiveness.
- Expanding financial supports, such as the Earned Income Tax Credit to augment household income as workers pursue career advancement opportunities.

Using Existing Programs

In administering the economic stimulus package, the Administration can and should make use of existing Federal agencies and programs. Agencies such as the Economic Development Administration (EDA), the Housing and Urban Development Agency (HUD), the Environmental Protection Agency (EPA), and the United States Department of Agriculture (USDA) all have the infrastructure, knowledge, procedures, and relationships needed to assist in the implementation of the stimulus and shovel ready projects in the pipeline.

These agencies can address the issues that are vital to our nation's recovery in terms of infrastructure, access to capital, becoming more energy efficient, and in preparing the workforce for the new economy. However in many cases in the past, the speed in which these agencies have been able to implement projects and/or requirements for funding have either stymied initiatives or made them completely unattainable. For instance, the EDA's requirement for a 50% match in funding would not be feasible for many places today to comply with.

Centralizing the management of these programs, whereby programs get merged and funds be leveraged across federal agencies in a targeted manner – in accordance with state and local efforts - would increase the impact the programs with a better rate of return.

This sort of consolidation would allow the Administration to address economic development challenges in a timely, targeted, and transformative manner, further enhancing the ability of the Administration to jump-start the economy in the short-term and remain efficient and pro-active in the longer-term.

These recommendations are only a first step in helping President-elect Obama's Transition Team in revitalizing the U.S. economy during this crisis. IEDC members are committed to an ongoing relationship with the new Administration, offering their cooperation and assistance for the long-term prosperity and sustainability of the nation's economic base.

This document follows a set of suggestions that we have made for the new administration on economic development programs, funding and delivery. This document can be found at http://www.iedconline.org/downloads/2009_Federal_Economic_Development_Agenda.pdf