NEW REALITIES for Funding Economic Development Organizations
International Economic Development Council

IEDC is the world’s largest membership organization serving the economic development profession, with over 4,300 members and a network of over 25,000 economic development professionals and allies. From public to private, rural to urban, and local to international, our members represent the entire range of economic development experience. Through a range of services including conferences, training courses, webinars, publications, research and technical assistance efforts, we strive to provide cutting-edge knowledge to the economic development community and its stakeholders. For more information, visit www.iedconline.org.

Paul Krutko, FM
President and CEO
Ann Arbor SPARK
Chairman of the Board

Jay C. Moon, CEcD, FM
President and CEO
Mississippi Manufacturers Association
Immediate Past Chairman of the Board

Jeffrey A. Finkle, CEcD
President and CEO
International Economic Development Council

© Copyright 2013 International Economic Development Council
Economic Development Research Partners (EDRP)

The EDRP Program is the “think tank” component of IEDC, designed to help economic development professionals weather the challenges and grab opportunities from economic changes affecting our communities. EDRP members are leaders in the field of economic development, working through this program to improve the knowledge and practice of the profession.

IEDC would like to thank the Economic Development Research Partners program for providing the impetus and resources for this project.

Ronnie Bryant  
President and CEO  
Charlotte Regional Partnership  
EDRP Co-Chair

Bill Sproull  
President and CEO  
Richardson Economic Development Partnership  
EDRP Co-Chair

Bill Allen  
President and CEO  
Los Angeles County Economic Development Corporation

Darrell Auterson  
President and CEO  
York County Economic Alliance

Dee Baird  
President and CEO  
Cedar Rapids Metro Economic Alliance

Dyan Brasington  
Vice President, Economic & Community Outreach  
Towson University

John Chaffee  
President and CEO  
Economic Development Council of North Carolina’s Eastern Region

Tim Chase  
President and CEO  
Wichita Falls Chamber of Commerce and Industry

Kurt Chilcott  
President and CEO  
CDC Small Business Finance Corporation

Amy Clickner  
Chief Executive Officer  
Lake Superior Community Partnership

Denny Coleman  
President and CEO  
St. Louis County Economic Council

JoAnn Crary  
President  
Saginaw Future, Inc.

J. Vann Cunningham  
Asst. Vice President, Economic Development  
BNSF Railway Company

Don Cunningham  
Lehigh Valley Economic Development Corporation

Jim Damicis  
Senior Vice President  
Camoin & Associates, Inc.

Richard (Buzz) David  
President and CEO  
Amarillo Economic Development Corporation

Julie Engel  
President and CEO  
Greater Yuma Economic Development Corporation

Michael Finney  
President and CEO  
Michigan Economic Development Corporation

Kurt Foreman  
Executive Vice President  
Greater Oklahoma City Partnership
Jim Fram  
Senior Vice President, Economic Development  
Tulsa Metro Chamber

Bob Geolas  
President and CEO  
Research Triangle Foundation of North Carolina

Crystal Gettys  
Interim Director  
Lincoln Economic Development Association

Dan Gunderson  
Executive Director  
Baltimore County Department of Economic Development

Mark James  
Vice President, Economic and Business Development  
American Electric Power

Steve Johnson  
Executive Vice President  
St. Louis Regional Chamber & Growth Association

Michael Jordan  
Executive Director  
Fay-Penn Economic Development Council

Ronald Kitchens  
President & CEO  
Southwest Michigan First

Paul Krutko  
President and CEO  
Ann Arbor SPARK

Tom Kucharski  
President and CEO  
Buffalo Niagara Enterprise

Michael Langley  
President and CEO  
Minneapolis Saint Paul Regional Economic Development Partnership

Susan Mazarakes-Gill  
Executive Director  
Longview Economic Development Corporation

Tracye McDaniel  
President & CEO  
Choose New Jersey

Kenny McDonald  
Chief Economic Officer  
Columbus 2020!

Tim Miles  
President  
North Louisiana Economic Partnership

Janet Miller  
Chief Economic Development & Marketing Officer  
Nashville Area Chamber of Commerce

Jay Moon  
President and CEO  
Mississippi Manufacturers Association

Diedre Myers  
Director  
Oklahoma Department of Commerce, Office of Business Location

Allison Thompson  
Executive Director  
Cedar Hill Economic Development Corporation

Kim Walesh  
Chief Strategist  
City of San Jose, Office of Economic Development

Scott Walker  
CEO  
Midland Tomorrow

Rick Weddle  
President and CEO  
Metro Orlando Economic Development Commission

Frederick Welch  
Vice President, Economic Development  
Greater Houston Partnership

Roy Williams  
President and CEO  
Greater Oklahoma City Chamber

Greg Wingfield  
President and CEO  
Greater Richmond Partnership, Inc.
Acknowledgements

IEDC would like to thank the Economic Development Research Partners (EDRP) program for providing the impetus and resources for this research.

In particular, we would like to acknowledge the Funding Economic Development Organizations Task Force for their guidance in the paper’s development: Allison Thompson, Chair, and members JoAnn Crary, Julie Engel, Buzz David and Jim Damicis. This paper would not be possible without their contributions and expertise.

We also would like to thank all the economic development professionals and industry experts who took the time and effort to interview with us and provide input. Although too numerous to be thanked individually, we recognize that this paper would be incomplete without their contributions.

Finally, we would like to thank Jeffrey A. Finkle, President and CEO of IEDC, for his oversight of this project.
# Table of Contents

Executive Summary ........................................................................................................... 1

Introduction ......................................................................................................................... 3

I. Broad Trends in EDO Finance ......................................................................................... 7
   Organizations’ Geographic Area of Focus Affects Funding Streams .............................. 7
   Funding Streams Vary by Organization Structure ......................................................... 8
   Funding Streams Change Over Time .............................................................................. 15
   Funding Streams Vary by Region .................................................................................. 18
   Organizational Structures Vary by Region ..................................................................... 18

II. Public Funding Sources .................................................................................................. 20
   Federal Funding .............................................................................................................. 22
   State Funding ................................................................................................................ 25
   Local Resources are the Backbone of EDO Funding ....................................................... 30

III. Private Funding ............................................................................................................. 34
   In-Kind Contributions .................................................................................................. 38
   Membership Dues ......................................................................................................... 40
   Foundations Grants ..................................................................................................... 42
   Charitable Donations ................................................................................................. 46
   Fee-for-Service Contracts and Management Fees ....................................................... 49
   Real Estate .................................................................................................................... 55
   Interest on Investments ............................................................................................... 58
   Other Sources of Revenue .......................................................................................... 59

Conclusions ......................................................................................................................... 62

Appendix A – Survey Questionnaire .................................................................................. 64

Appendix B – Descriptions of Funding Streams ................................................................. 70
Executive Summary

Funding for economic development organizations (EDOs) is changing in response to several global, national and local shifts. Reduced public funding, enhanced scrutiny, increased accountability demands, changes in foundation funding preferences, the Great Recession, and the weak global economy are the major issues that EDOs are responding to. Not only are funding mechanisms impacted, but also EDO structures and their business practices.

This paper examines various public and private funding streams that EDOs utilize and shifts in these funding streams. It is part of a series of research papers under the theme, Adapting and Thriving: New Realities for Economic Development Organizations, sponsored by IEDC’s Economic Development Research Partners (EDRP) Program. A majority of the data presented in the study comes from a survey IEDC conducted in summer 2012. Additional research through interviews, case study development, and internet research contributed to the paper as well. Select international examples are also included.

Several Factors Impact EDOs’ Sources of Funding

The geographic area of focus, the size of the community and the organization’s structure all impact the types of funding that an organization typically receives. Funding streams also change with the region and time. EDOs constantly need to evaluate their options for different funding mechanisms and explore new and innovative ways to bring in additional revenues.

In an effort to access additional funding streams, especially from the private sector, many EDOs have changed from public organizations to public-private partnerships or even private organizations. The City of Annapolis, Maryland terminated its Department of Economic Affairs within the city government and established the new Annapolis Economic Development Corporation, a public-private partnership in an effort to boost efficiency and effectiveness.

Public Funding Streams are Declining, but Remain Important

This is no news to economic development organizations. However, public funding continues to be a valuable revenue stream for EDOs, especially where authorized by the state government to levy additional optional taxes dedicated to economic development, such as in Texas and Nebraska.

The nature of support from public agencies is changing too. Increasingly more funds are attached to specific programs, with pre-defined deliverables and timelines, and in most cases, such funds only constitute a portion of the project budget, requiring EDOs and their partners to explore other ways to make up for the shortfalls in the budget.
Accountability and transparency are also of increasing concern among public agencies supporting economic development efforts. EDOs are required to report back more frequently and future funding is based on performance-based metrics. The city government and several other public sector investors signed separate contracts with the Laramie Economic Development Corporation (Laramie, Wyoming) citing to boost accountability and transparency in the use of funds.

In addition, economic developers continually need to educate public decision makers about the importance and impact of economic development programs to keep their community competitive and secure future public funding.

**Private Funding Streams Are Saving the Day**

It appears that the historic ratio of public to private funding for EDOs has reversed in recent years. Whereas a few decades ago, 70 percent of EDO funding came from public sources and 30 percent from private sources; the opposite is now true. In-kind contributions and fee-for-service contracts are two revenue streams that are more commonly used by EDOs now.

With the enhanced reliance on private funding streams, EDOs are also adapting their business practices in significant ways. They need to spend more time on fundraising activities than they have historically done and develop skills in areas such as grant writing. EDO staff members need to identify opportunities and develop partnerships with other organizations in the community to leverage their resources and deliver programs effectively. Hospitals, utility companies, and law firms are a few examples of organizations that EDOs now partner with on a regular basis.

**Not Many Unique Funding Sources Exist**

One of the objectives of the study was to find examples of EDOs that are utilizing unique or entirely new funding sources, or using known funding sources in a new way. The research shows that not many such cases exist. What is new and unique for a particular EDO, in most cases, has been used by others in the industry for some time. A few examples of unique funding sources for EDOs include additional car rental taxes, fees from waste management services, and funding through foreign trade zones.

In summary, each EDO must find its own unique mix of funding sources based on their mission, services, and programs. They need to be smart about the use of resources and nimble enough to adapt to changing situations.
Introduction

Economic development organizations (EDOs) are critical to maintain and grow globally competitive communities. They operate in a complex and dynamic 21st century economic landscape that is impacted by shifts in local, national, and global markets. Not only do they need to ensure that their communities attract, retain, and grow successful businesses and talented people, they need to do so with reduced public funding, enhanced scrutiny, and accountability concerns from private investors while engaging a broad range of stakeholders in every aspect of their work. The combined effect of these forces is impacting the way EDOs are structured, the way they are financed, and the way they conduct business.

Funding for economic development organizations historically came from public sources. It still does for a sizeable number of the EDOs in the United States, and public funding continues to be the model in much of Canada, Europe, and Australia. However, increasingly more EDOs are exploring ways of bringing in additional revenues from non-public sources and adapting their business practices to meet investor demands. Nimble EDOs today are adjusting organizational structures, program offerings, funding mechanisms, and staffing plans to continue to serve their communities and make their organizations more competitive.

The Great Recession – which started in December 2007, lasted 18 months, and has been followed by a weak recovery so far – exposed numerous vulnerabilities across the economy. Several shifts were in play in the economic development industry for some years even before the onset of the recession, such as increased private sector engagement and funding. The recession set in motion additional shifts, and in some cases increased their pace. Ultimately, their combined impact will only be known in a few years. The American Recovery and Reinvestment Act (ARRA, commonly known as the Stimulus Package) of 2009 provided short-term support to EDO budgets during the recession and immediately following it. Its impact on the long term EDO business practices is tenuous at best.

This research, sponsored by IEDC’s Economic Development Research Partners (EDRP) program, is part of a series of research papers under the theme, *Adapting and Thriving: New Realities for Economic Development Organizations*. The series aims to explore ways in which EDOs are responding to global economic changes. The first paper in the series, *New Realities for Economic Development Organizations*, was published in May 2011 and identified six major shifts in the economic development industry and how EDOs have adapted with new business practices and strategies. EDO funding practices are one of the shifts examined in the paper.
This paper builds on that research, focusing on shifts in organizational funding streams and their impact on the way economic development organizations operate. Trends and shifts in economic development programs and services are not part of this paper.

**Research Methodology**

A majority of the data presented in this paper comes from a survey IEDC conducted in summer 2012 to explore EDO funding streams and changes they have undergone in the past five years. (A copy of the survey questionnaire is provided in Appendix A.)

The survey collected data on funding from federal, state, local, and private sources, as well as their contribution to EDO budgets. Funding data are analyzed in regard to respondent characteristics, such as the organization’s geographic area of focus, organization structure, community type, and population size, to identify trends. Additional research conducted to supplement survey information included case studies, interviews with fundraising consultants, senior leaders of EDOs, and other economic development professionals, and internet research.

The paper tries to discount the effects of the federal stimulus package on EDO budgets by analyzing shifts at two points in time: before the onset of the recession (five years ago) and after the recession ended (two years ago).

The survey was aimed at identifying new or unique funding sources that EDOs are now using to cope with economic shifts, as well as innovative ways of using existing funding streams. Such examples, though few, are shared as case studies.

The study also examines trends in EDO financing in Canada, the United Kingdom, Europe, and Australia. These are highlighted as case studies in the paper, since the survey did not receive enough responses from foreign EDOs to draw broad conclusions about EDO financing practices abroad.

For ease of understanding, different funding mechanisms are grouped together as described in Table 1 below. For additional information on funding streams, please refer to Appendix B.

**Table 1: Grouping of Funding Streams by Major Funding Category**

<table>
<thead>
<tr>
<th>Type of Funding</th>
<th>Description</th>
<th>Funding Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>Funding streams from federal government agencies that go directly to EDOs</td>
<td>Grants, loans, allocations, other</td>
</tr>
<tr>
<td>State</td>
<td>Funding streams from state government agencies going directly to EDOs</td>
<td>Grants, loans, allocations, other</td>
</tr>
</tbody>
</table>
Local Funding streams from local government agencies going to EDOs
Local income tax, sales tax, general fund allocations, taxing district, other

Private All non-government funding streams utilized by EDOs
In-kind contribution, foundation grants, charitable donations, management fees, real estate, interest on investment, other

Data Limitations
As is common in survey methodologies with a self-selecting or volunteer sample, the data collected from the IEDC survey has a few limitations.

- Invitations for the survey were sent to IEDC members and promoted through various economic development related LinkedIn groups. At this time, we are not aware of a database of EDOs nationally (or globally) that would allow for a comparison of survey respondents with the “universe” of EDOs. Therefore, it is difficult to determine if we have a representative sample.
- The data include more responses from small to medium-size communities (43 percent of the responding organizations are from communities with 25,000 – 200,000 and 200,000 – 500,000 population) than very small (less than 25,000 population) or large communities (more than 500,000 population).
- A large percentage of the respondents identified themselves as representing rural communities (30 percent). The data may be slightly skewed as a result.
- Both public-private partnerships and private organizations accept public funding in different forms. However, organization structures are defined differently across the country in terms of characteristics such as governance and ratio of public to private funding. As such, respondent choices to survey questions vary based on their own understanding of such terms and phrases.

In spite of these limitations, the information gathered provides valuable insights into funding streams available to EDOs today. Economic development experts consulted for this study agreed with the general trends and practices discussed in this study.

IEDC received responses from close to 250 different EDOs throughout the United States. Respondents include a mix of urban, rural, and suburban communities as well as those of small, medium, and large sizes. Table 2 and Table 3 below illustrate these characteristics.
### Table 2: Respondents by Type of Community

<table>
<thead>
<tr>
<th>Type of Community</th>
<th>No. of Respondents</th>
<th>Percent of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly Urban</td>
<td>21</td>
<td>8.4%</td>
</tr>
<tr>
<td>Mostly Suburban</td>
<td>30</td>
<td>12.0%</td>
</tr>
<tr>
<td>Mostly Rural</td>
<td>76</td>
<td>30.4%</td>
</tr>
<tr>
<td>Combination of Urban Suburban</td>
<td>33</td>
<td>13.2%</td>
</tr>
<tr>
<td>Combination of Urban Rural</td>
<td>22</td>
<td>8.8%</td>
</tr>
<tr>
<td>Combination of Rural Suburban</td>
<td>24</td>
<td>9.6%</td>
</tr>
<tr>
<td>Combination of Urban, Rural and Suburban</td>
<td>36</td>
<td>14.4%</td>
</tr>
<tr>
<td>Native American and Aboriginal Communities</td>
<td>3</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

### Table 3: Respondents by Community Population

<table>
<thead>
<tr>
<th>Population</th>
<th>No. of Respondents</th>
<th>Percent of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25k</td>
<td>64</td>
<td>26.1%</td>
</tr>
<tr>
<td>25k-200k</td>
<td>106</td>
<td>43.3%</td>
</tr>
<tr>
<td>200k-500k</td>
<td>30</td>
<td>12.2%</td>
</tr>
<tr>
<td>More than 500k</td>
<td>44</td>
<td>18.0%</td>
</tr>
</tbody>
</table>

The remainder of the paper is divided into three main sections:

- Section one explores broad trends in organizational finance and factors that impact EDO budgets.
- Section two examines public funding streams – federal, state and local – for EDOs.
- Section three focuses on private funding mechanisms and identifies examples of several EDOs that have worked successfully with private investors to attract funding.

Case study examples are highlighted throughout the study.
I. Broad Trends in EDO Finance

This section discusses the overarching trends and observations that emerge from the survey data. These cover changes in funding mechanisms by organizations’ geographic area of focus and organizational structure, as well as trends in different parts of the country.

Organizations’ Geographic Area of Focus Affects Funding Streams

The geographic area of focus for an organization (the level at which it operates, e.g., city, county, state, etc.) impacts its sources of funding. Table 4 below shows the number of survey respondents by type of organization.

Table 4: Respondents by Geographic Area of Focus for Organization

<table>
<thead>
<tr>
<th>Geographic Area of Focus</th>
<th>No. of Respondents</th>
<th>Percent of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>State or Provincial</td>
<td>14</td>
<td>5.7%</td>
</tr>
<tr>
<td>County</td>
<td>87</td>
<td>35.5%</td>
</tr>
<tr>
<td>Municipality</td>
<td>83</td>
<td>33.9%</td>
</tr>
<tr>
<td>Regional</td>
<td>40</td>
<td>16.3%</td>
</tr>
<tr>
<td>Multiple States</td>
<td>5</td>
<td>2.0%</td>
</tr>
<tr>
<td>Sub-Local</td>
<td>16</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Figure 1 below provides details on funding sources by organizations’ geographic area of focus.

Survey Findings

- State governments are the biggest recipients of federal funding, followed by regional organizations. It also reflects the fact that a significant portion of survey respondents described themselves as rural communities (30 percent). Federal funding for such communities is typically funneled through state level programs rather than direct disbursement.
- More than 90 percent of regional organizations receive private funding. Large regional organizations often have more resources to devote to fundraising activities (such as grant proposals, entries to competitions, etc.) to raise capital from private sources than other types of EDOs.
- At the same time, almost 80 percent of EDOs operating at the sub-local level, such as downtown merchants associations, receive private funding. Most of this is comprised of contributions from local businesses and organizations.
**Funding Streams Vary by Organization Structure**

The legal structure of the organization – public, private, or public-private partnership – also affects the types of funding that an organization can receive. Almost half the survey respondents defined their organization as public entities, with the other half divided between public-private partnerships and private organizations. Table 5 below shows the survey results by organization structure.

**Table 5: Respondents by Organizational Structure**

<table>
<thead>
<tr>
<th>Organizational Structure</th>
<th>No. of Respondents</th>
<th>Percent of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>125</td>
<td>50.0%</td>
</tr>
<tr>
<td>Private</td>
<td>49</td>
<td>19.6%</td>
</tr>
<tr>
<td>Public-Private Partnerships (PPP)</td>
<td>71</td>
<td>28.4%</td>
</tr>
</tbody>
</table>
Survey Findings

- Among public funding streams, local funding comprises the largest proportion for all types of organizations. Public entities receive more federal funding than the other two groups.
- Interestingly, all types of organizations receive all types of funding. However, not all sub-categories of funding are available to all types of organizations. For example, in a majority of the cases, only nonprofit organizations with the IRS 501(c)(3) designation are able to receive grants from foundations.

Public-Private Partnerships

Public EDOs have dominated the economic development landscape for decades. While completely private EDOs are still uncommon, public-private partnerships (PPP) have ascended in the wake of declining public funds for economic development. Budgetary flexibility is one of the main reasons why communities have utilized the PPP model for economic development purposes. While public-private partnerships are more widespread in the United States, there are a few PPPs emerging in Canada and Australia.

PPPs receive funds from both public and private entities, though there are limitations on certain types of funding streams and activities that the PPP can receive or be engaged in. For example, a
vast number of PPPs in the United States are 501(c)(3) nonprofit organizations.¹ These types of organizations are tax exempt and can receive charitable donations, but cannot use more than 15 percent of their revenues for lobbying activities. Similar restrictions apply to other tax-exempt nonprofit designations such as 501(c)(4), 501(c)(6), and 501(c)(12).

Survey Findings

- Nationally, over 80 percent of public-private partnerships receive local funding, which represents their second-largest source of revenue after private funding.
- Less than 20 percent receive state or federal dollars. Most of the local funding comes in the form of allocations from local governments and allied agencies.
- Among private funding streams, membership dues and in-kind contributions are the largest funding sources (received by 86 and 50 percent of respondents respectively). Long term relationships with members and working with partners can have a tangible impact on EDO budgets.

Public-Private Partnerships Abroad

While public-private partnerships are more widespread in the United States, there are a few PPPs emerging in Canada and Australia. The United Kingdom is moving to a public private partnership model for local economic development throughout the country.

Canada’s Technology Triangle (CTT)

CTT is a regional EDO that markets the Waterloo region around the globe and connects entrepreneurs and growing businesses to the data and resources they need to succeed. Located in Ontario to the west of Toronto, the triangle includes the cities of Cambridge, Kitchener, and Waterloo and the townships of North Dumfries, Wellesley, Wilmot, and Woolwich. Currently the regional population is around 550,000. CTT’s funding is approximately 53 percent public and 47 percent private.

Before CTT was founded in 1987, there was significant competition between the local EDOs. Several EDOs came together under the idea of a PPP to promote the region, leading to more collaboration across multiple jurisdictions. For the first 10 years, there was no staff – only a team of volunteers. Currently there are 10 employees at CTT. As the organization has grown, a new focus on Foreign Direct Investment (FDI) and research has emerged.

¹ Private EDOs can also be structured as a 503(c)(3) nonprofit organization and are subject to the same limitations regarding lobbying activities.
The partnership is a triple helix composed of representatives from the public sector, the private sector, and institutions in the region. A board of directors—made up of six public partners, four chambers of commerce and technology associations, two university presidents, one community college president, and ten private businesses—governs the partnership. While some of the board members are paying partners, the board of directors is not a pay-to-play structure.

There are three different categories of partners who have long-term commitments to the organization: community, municipal, and corporate. Each of the eight municipal and 22 corporate partners provides financial support to the organization. The 10 community partners do not necessarily provide funding.

A major challenge for the organization is showing a suitable return on investment for its funding partners. Although CTT does not guarantee a return on investment, it is important that they meet expectations in order to secure funding for coming years.

**Project-Based PPPs in Australia**

Public-private partnerships are slowly being created in Australia for economic development purposes, though they tend to be project specific rather than serve in a variety of economic development functions. For example, there is a partnership between the Marine Alliance and Mornington Peninsula Shire Council (MPSC) to conduct research on the local marine sector. The private funding from the Marine Alliance allows MPSC to hire a private consultant to conduct some of the research.

Other experiments of working with PPPs have not been successful. For example, there are public-private partnerships for road improvements and maintenance; however, they have received mixed reception.

**Major Shifts to PPPs in UK**

Economic development organizations in UK are undergoing significant shifts in their funding mechanisms. The Coalition Government took office in May 2010 and put in place an entirely new structure of EDOs, known as local economic partnerships (LEPs), with an emphasis on engaging the private sector in a way that they had not been engaged in the past. Some industry experts contend that the model is based on the success of PPPs in the U.S., though it is facing some major challenges in implementation.

LEPs replace regional EDOs that were almost entirely funded through public funds, a majority of which came from the central government. LEP jurisdictions are more aligned with economic regions, rather than political boundaries, to better address economic development challenges.
The coalition government significantly cut back central government funding for EDOs and wants the gap to be filled by contributions from the private sector. However, businesses have not been actively engaged in economic development activities in the past and LEPs are facing challenges with demonstrating to businesses what they can earn from such investment. Most businesses that have contributed so far have provided in-kind contributions such as staff time, free meeting space, etc. For now, most of the EDOs are getting by with little public funds as they figure out how to engage the private sector in a meaningful way.

**Private Economic Development Organizations**

The distinction between private EDOs and PPPs comes more from their governance structures rather than their funding sources. Boards of directors of private organizations tend to be dominated by private-sector partners. In instances where public organizations are represented on the board, it might be because of the individual’s skills, expertise, and knowledge rather than their position in a public entity.

**Survey Findings**

- Less than 20 percent of the responding organizations are private.
- They tend to be more common in rural areas, as more than 40 percent of the private organizations work in mostly rural areas.
- Private organizations are also more likely to geographically focus at the regional or county level than the local or state level.
- Just 65 percent of the private organizations are in areas of population under 200,000.

**Economic Development by the Private Sector**

**Economic Development Partnership of Alabama**

In 1991, a group of corporate partners created the Economic Development Partnership of Alabama (EDPA), a totally private, nonprofit organization focused solely on economic development. The organization provides complimentary resources and support to organizations on the state, regional, and local levels. These include strategic planning, economic development marketing and research support, consulting services and other support services to communities and companies. As a result, this decreases the burden on public organizations, freeing resources and funds for other purposes. EDPA is funded through annual contributions from over 80 corporate partners investing in economic development. The corporate partners contribute to EDPA as an investment in the state’s ability to attract and retain quality jobs and create opportunities to grow their businesses.
Columbus 2020

Established by the Columbus Partnership Initiative, Columbus 2020 focuses solely on a regional economic development strategy. The Columbus Partnership Initiative is made up of 43 CEOs from the leading corporations and institutions within the Columbus region. It is a membership-based nonprofit organization. Columbus 2020 is a private 501(c)(3) organization that functions like a corporate foundation and is funded via an annual fundraising campaign.

For private investors, there is a $5,000 minimum investment. However, it is not a pay-to-play model. A formula is utilized for public-sector investment. Currently there are over 250 investors from around the Columbus region. This unique model allows investors to know that they are investing in the organization for the sole purpose of supporting the economic development strategy development and implementation. The strategy allows other organizations within the region to focus on other initiatives.

Organizational Structures Change Over Time

In addition to adopting different funding mechanisms, EDOs also are adapting their organizational structures to deliver better services and products to their stakeholders.

Survey Findings

- Less than 18 percent of respondents reported any change in their organizational structure in the past five years.
- Structural changes occurred due to a variety of reasons. Organizations faced reduced funding and staffing levels, which resulted in reduced services; mergers of different departments within local governments, as well as mergers of different organizations; expanded scopes of work; changes from public structure to public-private partnerships and vice versa; changes in board structures; and enhanced emphasis on private-sector participation, among others. Some of these changes can happen without changes to the organizational structure.

Privatizing a Municipal Economic Development Department: Annapolis Economic Development Corporation

The City of Annapolis (pop. 33,880) is the state capital of Maryland and the county seat. The largest employers are public entities including the state government, Anne Arundel County government, City of Annapolis government and the United States Naval Academy. In addition to government, other local industry clusters include tourism, retail, and maritime.
In December 2009, Joshua Cohen was sworn in as mayor. As part of his transition plan, Mayor Cohen created a bipartisan “Idea Team” to explore areas for government effectiveness and efficiency. One of the committees explored economic development and found that the current Department of Economic Affairs was not working effectively. The department managed all economic development activities plus the Main Street organization, the arts district, and the sister city program. The City Council passed an ordinance to create the Annapolis Economic Development Corporation (AEDC) as a 501(c)(3) organization. (A copy of the ordinance can be found at [http://www.annapolis.gov/Government/Council/Adopted/Ordinances/O1210.pdf](http://www.annapolis.gov/Government/Council/Adopted/Ordinances/O1210.pdf).

As a result of the ordinance, the city terminated the Department of Economic Affairs and laid off its staff. Mayor Cohen created a working group that created the private corporation and hired the new president and CEO in January of 2011. A 12-member board of directors also was nominated to oversee the organization. The Mayor nominates the chairman and three directors; four represent the Annapolis & Anne Arundel County Conference & Visitors Bureau, the Annapolis and Anne Arundel County Chamber of Commerce, and the Annapolis city manager; and the final four are from the local business community.

The original Department of Economic Affairs had a budget of approximately $500,000. As part of the ordinance, AEDC has to request funding annually from the city council. The first year, the city provided $400,000 in funding, followed by $385,000 in the second year and $450,000 in the third year. The goal is for the organization eventually to become self-sufficient. Another goal is to obtain a multi-year grant from the city to aid the organization with long-term planning. There is currently no memorandum of understanding or contract between AEDC and the city.

The majority of the city’s private employers are small businesses with fewer than 200 employees and are unable to provide significant financial support. AEDC has received up to $2,000 in private funding and sponsorships for specific events. They also receive several in-kind donations, including subsidized rent, meeting rooms, and coffee and donuts for meetings, which have provided substantial savings to the organization.

Practicing Economic Development in Rural Illinois: Sullivan Chamber and Economic Development

Sullivan, Illinois is a small town (pop. 4,326) located north of Lake Shelbyville on the border of Illinois’ Amish Country. Surrounded by farms, there are two manufacturing plants and a number of small businesses in the downtown square. The Sullivan Chamber and Economic Development
SCED was established in 2011 as a 501(c)(6) from the merger of Sullivan Area Economic Development Corporation and the local chamber of commerce. The idea of the merger came about as the two organizations started to see overlaps in their work. SCED manages economic development, tourism, city beautification efforts, and the chamber membership. Their budget for 2013 is just under $162,000. A tax increment financing (TIF) district provides $70,000 of that total.

Since the merger, the organization has increased its membership by over 100 members in just over a year, resulting in an increase of $18,000 in membership dues. The merged organization allows for larger, more professional events; an annual visitors guide; monthly newsletter and a weekly e-newsletter; and stronger regional relationships. The additional membership dues and merger have allowed the new organization to decrease its administrative expenses and support two full-time staff members: a chamber administrator who addresses the day-to-day issues and an economic development coordinator who supports economic development initiative.

Funding Streams Change Over Time

The section below covers the changes in funding streams over the past five years. Modifications to funding streams in the past two years are cited with the individual funding streams.

Approximately one-third of EDOs reported an increase in their overall funding level and an equal number reported either a decrease or no change. While these results are difficult to interpret, the survey did find significant shifts in specific funding streams in the past five years, and those impacts on EDOs budgets have been far reaching.

Survey Findings

- Funding declined most dramatically among grants from the federal and state levels (Figure 3 and Figure 4). In both instances, twice as many respondents experienced a decrease in these funding streams as experienced an increase.
- Decreases in allocations from the state and federal levels also far surpassed increases in these funding sources. Only a handful of EDOs saw an increase in allocations from the state and federal governments.
- Loans, at both the federal and state levels, stayed relatively unchanged.
- The largest decline at the local level was due to cutbacks in local allocations (Figure 5).
- Local economic development income taxes and taxing district revenues largely stayed the same.
- Further, in spite of the economic downturn, more than 40 percent of respondents said they have seen an increase in local sales tax collections in the past five years.
Figure 3: Federal Funding Change – Past Five Years

Figure 4: State Funding Change – Past Five Years
The funding landscape looks much different when it comes to private sources.

**Survey Findings**
- Almost three-fourths of the organizations report either an increase in private funding or no change.
• In-kind contributions were the type of private support that increased the most, with more than twice as many respondents seeing an increase versus a decrease (Figure 6).
• Interest on investments was the only private funding source that declined for more EDOs than it increased.

**Funding Streams Vary by Region**

Table 6 depicts the distribution of funding sources for EDOs by region. Though the pattern is similar across regions, a few trends are worth mentioning.

• State funding for economic development is much more prevalent among EDOs on the east coast than in other parts of the country. State funding tends to be much lower in the Midwest and South.
• Private funding also is relatively higher among eastern states than other parts of the country. At the same time, local funding is much lower in these states.
• Federal funding is less prevalent among EDOs in the Midwest and South.

<table>
<thead>
<tr>
<th>Region</th>
<th>Federal</th>
<th>State</th>
<th>Local</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>31%</td>
<td>34%</td>
<td>50%</td>
<td>69%</td>
</tr>
<tr>
<td>Midwest</td>
<td>24%</td>
<td>18%</td>
<td>75%</td>
<td>66%</td>
</tr>
<tr>
<td>South</td>
<td>23%</td>
<td>16%</td>
<td>72%</td>
<td>60%</td>
</tr>
<tr>
<td>West</td>
<td>34%</td>
<td>27%</td>
<td>71%</td>
<td>67%</td>
</tr>
</tbody>
</table>

*Note: Cells depict the percent of EDOs in the region receiving that particular funding source*

Some of these observations reflect the way EDOs have evolved in different parts of the country to respond to varying local needs in different ways, and it is certain that their funding streams and structures will continue to evolve.

**Organizational Structures Vary by Region**

Organizational structures vary by region, too. Figure 7 below shows that public entities comprise the majority of EDOs across the country.

*Survey Findings*
• The West has more private organizations than other regions, while the Midwest has more public-private partnerships.
• Nearly a third of EDOs in California and half in Arizona are private organizations.
• In the Midwest, eight of the 12 states have an above average number of PPPs (the national average is 28 percent). Iowa and Wisconsin stand out in this region; 50 percent or more of their EDOs are structured as public-private partnerships (see Table 7).

Figure 7: Organization Structure by Region

Table 7: States in the Midwest with Above Average Share of PPPs

<table>
<thead>
<tr>
<th>State</th>
<th>% PPPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Average</td>
<td>28%</td>
</tr>
<tr>
<td>Iowa</td>
<td>60%</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>50%</td>
</tr>
<tr>
<td>Michigan</td>
<td>42%</td>
</tr>
<tr>
<td>Kansas</td>
<td>40%</td>
</tr>
<tr>
<td>Missouri</td>
<td>36%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>33%</td>
</tr>
<tr>
<td>Indiana</td>
<td>31%</td>
</tr>
<tr>
<td>Illinois</td>
<td>29%</td>
</tr>
</tbody>
</table>

The following sections explore each funding source in more detail, starting with public funding sources.
II. Public Funding Sources

Public funding remains an important part of EDO budgets across the country and much of the rest of the developed world. Though there is heightened need and pressure for greater private-sector involvement in and contribution to EDOs, survey results show that public funding is still very important for a majority of EDOs.

Public funding can be in the form of loans, grants, or allocations from federal, state, and local governments, as well as local taxes (in some cases enabled through state legislation), special districts, and other contributions from local government.

Survey Findings

- More than 90 percent of EDOs surveyed receive public funding from federal, state, or local governments.
- Less than 7 percent of respondents reported that they are purely privately funded.
- EDOs, on average, collect public funding from nine different public sources, ranging from grants to tax revenues and loans from federal, state, and local sources.

It is well known that public funding for economic development has declined over the past several years. But while certain types of public funding sources have seen a sharp decline (e.g., grants and allocations from federal and state governments), some public funding sources have gained in use over the same period. Local sales tax is one such example. This is discussed in more detail later in the paper.

An increasing number of communities are looking for direct funding streams (discussed in detail under state funding mechanisms) such as Ohio’s conveyance fees, Indiana’s economic development income tax (EDIT), and the local option sales tax in Texas. These fees and taxes provide EDOs with a steady revenue stream. However, implementing new taxes and fees (whether at the state or local level) is often politically difficult.

EDOs may also have to compete for grant funding designated for specific programs (such as disaster recovery efforts, small business development, or workforce training) from public sources. This highlights the need for economic development professionals to broaden their skills to include grant writing and proposal development, even when working for public-sector organizations.
Additional Survey Findings

- Organizations receive public funding in a variety of ways. Just under 25 percent of organizations receive it in one of two formula-based ways: per capita (15 percent of organizations) or ratio to private funding (7.3 percent).
- Approximately 20 percent of organizations compete for grants from public agencies for program-related projects.
- In 63 percent of organizations that receive public funding, money is allocated on an ad hoc basis at the public entity’s discretion. This can create uncertainty for EDOs when planning and undertaking long-term programs or projects. Therefore, it is important for EDOs to develop additional revenue streams to lessen their dependence on public sources.

Support from Utility Companies for Economic Development Organizations

Access to utility funding for economic development depends largely on the way utility companies are structured, which varies by state in the U.S. Some states regulate utility companies through a public utility commission (also known as a public service commission). Other states are deregulated. The United States Energy Information Administration provides a map with the status of each state’s utilities at http://www.eia.gov/cneaf/electricity/page/restructuring/restructure_elect.html.

Where regulated by state law, the public utility commission determines the use of operating funds and rate structures. This extends to funding for economic development. Appointed commission members – the decision makers on operating budgets – generally understand the significance of economic development programs and may allow the operating expenses to be covered in the rate base. In deregulated states, funding for economic development is determined by the rate base, company operating budget and shareholders.

Pat Sims, Manager of Community Development at Georgia Power, recommends that economic developers have a “good relation[ship] with the regulating body, legislature and elected officials so they understand the importance of economic development and allow funding for economic development organizations. As cities are cutting funding, it is important to educate [such stakeholders] about the importance of continued economic development.”

---

2 Commissions may provide guidelines on how the funds may be spent by the utility. In certain instances, the funds may only be used for projects or programs and may not be used for operations.
Leveraging Utility Funding: Chesterfield County Economic Development Alliance

In 1996, the South Carolina legislature passed the Rural Development Act (RDA), which allows utilities in South Carolina to direct up to $300,000 of their annual gross-receipts tax obligation to infrastructure related economic development projects in the local communities they serve. The funds can be used for specific permitted uses including strategic planning, speculative-building development, professional development for local economic developers, industrial park development, road development and other infrastructure needs.

Chesterfield County, with rural county with a population of 46,000, is one such example of a community that has taken advantage of RDA funds to develop an economic development strategic plan. The strategic plan was completed in 2009. Unfortunately, the plan’s strategies were based on assumptions of pre-recession conditions, so the strategic plan had to be updated — using additional local RDA funds — to address the realities of the recession.

Federal Funding

Approximately 30 percent of respondents reported receiving federal funding as a part of their EDO budgets. For the majority of organizations, federal funding accounts for less than 20 percent of the organizational budgets. Federal dollars for economic development have shifted over the past several decades and with the overall decline in public funding, most communities are well attuned to looking for resources elsewhere. Figure 8 shows the budget distribution by different types of federal resources. Grants are the most common type of federal funding; almost 75 percent of the EDOs that receive federal funding reported receiving federal grants, as shown in Table 8.

Table 8: Distribution of Different Types of Federal Funding

<table>
<thead>
<tr>
<th>Type of Funding</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>17.8%</td>
</tr>
<tr>
<td>Grants</td>
<td>72.6%</td>
</tr>
<tr>
<td>Allocations</td>
<td>31.5%</td>
</tr>
<tr>
<td>Other</td>
<td>23.3%</td>
</tr>
</tbody>
</table>

Other types of federal funding include project-specific grants or provisions, also known as earmarks. Earmarks are funds that Congress provides directly to specific projects or programs. Federal earmarks have come under fire in recent years as they tend to circumvent the typical allocation process based on merit or competitive needs. In 2010, a moratorium was placed on all federal earmarks. This moratorium has been extended through FY2013.

**Survey Findings**

- Federal loan amounts largely stayed the same between the past five and past two years.
- However, more organizations reported declining federal grants over the past five and two years as compared to federal loans and allocations.
- Less than 20 percent of the organizations reported an increase in overall federal funding over the past five and two years.
- It also appears that larger communities are more successful at attracting federal funding. More than 50 percent of the respondents with populations greater than 500,000 received federal funding, as opposed to less than 20 percent of respondents in communities with less than 25,000 residents. This can be explained partly by the fact that smaller communities receive federally allocated resources (such as Community Development Block Grant – CDBG – funds from the U.S. Department of Housing and Urban Development) through their states rather than directly from federal government

---

agencies. Yet, knowing that the vast majority of EDOs receive federal dollars through competitive grants, it seems likely that larger EDOs have the resources and skills required to develop quality proposals for grant competitions, which may not be the case with smaller communities. It is also likely that the federal government directs more funding to regional organizations in support of efforts to boost regional cooperation and economic development strategies. However, additional data and research are needed to confirm these hypotheses.

- EDOs in predominantly urban areas are less successful at attracting federal funding as compared to regional EDOs or even those operating in primarily rural areas. Less than 20 percent of EDOs in mostly urban and mostly suburban areas receive federal funding. On the other hand, close to 50 percent of EDOs operating in a mix of urban, suburban, and rural areas (i.e., regional EDOs) receive federal funding.

### Federal Government Support for Local Economic Development in Other Countries

The federal or national-level government continues to be the primary funding mechanism for economic development organizations outside the United States. Our study examines Australia, Canada, the United Kingdom, and the rest of Europe. Each is discussed briefly below.

#### Australia

The Commonwealth of Australia is highly supportive of economic development at the state and local levels. There are approximately 640 local economic development councils in Australia that are spread across the six states and two mainland territories. Support for economic development is included in the national constitution. State constitutions mandate public funding of economic development councils as well, though the amount of public funding a local economic development council receives depends on the size, scale, and goals of the municipality. As a result, huge differences exist throughout the country in the funding levels of economic development councils. Some local economic development councils in large urban areas may have only one part-time employee, whereas another in a rural small town may have three to four employees. Part of the decision depends on the importance placed on economic development initiatives by the municipal government.

On the regional level, the Commonwealth has created a regional development fund of $1 billion (AUD) for infrastructure improvements. The country is divided into 50 committees covering all municipalities. The committees are made up of state- and commonwealth-appointed members for a period of three years of unpaid service. The purpose of the committee is to charter a regional plan. Each committee reaches out to its municipalities to identify up to three
infrastructure projects within the region that meet the goals of the regional plan. These projects are reviewed by the committee and then proposed to the state and commonwealth governments for consideration and funding. Each round of grants has a different focus and grants range in price from $50,000 to $25 million. As part of this program, each committee receives a small operating budget from the commonwealth and state which includes funding for one staff person per committee.

Due to the Commonwealth’s support for economic development, there are a number of grant programs for which communities and organizations can apply. State economic development departments receive their own support through taxes and funds from the Commonwealth. For example, the State of Victoria receives $500 million for infrastructure, investment promotion, marketing, and other broad responsibilities.

With the dependence on public funding comes the potential for fluctuations in state and federal budgets from year to year that impact EDO budgets in return. For instance, there was an expectation for a budget surplus in 2012. However, due to a decrease in mining revenues, budgets are forecast to decrease in 2013.

European Union

Economic development activities and organizations throughout much of Europe are publically funded. The European Union (EU) has a large economic development fund called the European Regional Development Fund (ERDF) that regional development authorities (RDAs) can apply for funding for specific projects and programs. Most countries provide additional support for EDOs and key projects from the national government, the regional government, or both. Municipalities are able to raise some funds locally as well. Funding for economic development has been abundant for the past several years. Since the global economic downturn, EDOs have started looking at ways to supplement their budgets in different ways, such as fee-for-service contracts, managing loan programs, engaging in real estate investment, etc.

State Funding

State funding for economic development is a slightly different story than federal funding.

Survey Findings

- The number of organizations receiving state funding is slightly lower than those receiving federal funding (27 percent versus nearly 30 percent, respectively).
Like federal funding, a large majority of the organizations receive state funding in the form of grants (65 percent) and allocations (35 percent).

State funding is not a large portion of the organizational budget and typically constitutes less than 20 percent (see Figure 9). This shows that most EDOs rely heavily on local governments for public funding support.

**Table 9: Distribution of Different Types of State Funding**

<table>
<thead>
<tr>
<th>Type of Funding</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>16.7%</td>
</tr>
<tr>
<td>Grants</td>
<td>65.2%</td>
</tr>
<tr>
<td>Allocations</td>
<td>34.8%</td>
</tr>
<tr>
<td>Other</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

**Figure 9: Types of State Funding as a Proportion of EDO Budgets**

Just like federal funding, states can provide earmarks to local economic development agencies and organizations. However, the number and amount of earmarks varies by state. State legislatures pass bills with earmarks for local projects included. These can be controversial when they conflict with projects that state agencies deem to be most pressing.

Other types of state funding for economic development organizations include fees for services, sales tax allocations, state turnbacks, and special legislative appropriations, among others. Only 15 percent of the respondents indicated receiving funds through these state funding streams.
Direct Funding Streams from State Governments

A variety of different types of state funding other than grants, loans, and allocations can be grouped together as direct funding streams. These are different from state earmarks. We classify direct funding streams as monies dedicated for economic development purposes and provided directly to economic development organizations or programs. These include state turnbacks, which are funds collected by the states but turned back to the community for economic development purposes, and local option sales taxes for economic development (where allowed by state legislatures). Direct funding streams from states are very important sources of funds for economic development programs in communities that receive them. Below are several examples showcasing different types of direct funding streams from states.

1. Missouri’s Local Option Sales Tax for Economic Development – The state legislature passed a law in 1995 providing localities the option of enacting up to a half percent sales tax on all retail sales within the municipality. In order to utilize this at the local level, majority of the municipality’s citizens must approve the retail sales tax. The use of the tax revenue is overseen by an economic development tax board. Eligible uses for the tax revenues include staff, project administration and facilities. For more information, please visit http://www.missouridevelopment.org/.

2. Local Option Municipal Economic Development Tax in Nebraska – The state of Nebraska has a similar program that was created by law in 1991 and modified several times since then. The law allows cities and villages to collect and appropriate local tax dollars (sales/property tax) after voter approval. The law requires an economic development plan to be created first and approved by the voters along with the tax rate. A guide to the law can be found at http://www.neded.org/files/assist/LB840Guide.pdf.

3. Local Option Sales Tax in Texas – Through the Development Corporation Act of 1979, Texas cities are able to adopt a sales tax to fund economic development organizations and projects. The law defines what projects are eligible. Type A is for developing industries, which funds industrial development projects such as business infrastructure, manufacturing, research and development, BRAC (Base Realignment and Closure), job training classes, and public transportation. Type B focuses on all of Type A activities in addition to cultivating community assets such as parks, museums, sports facilities, and affordable housing. Type B includes more administrative restrictions than Type A. Additional information can be found at http://www.texasahead.org/tax_programs/typeab/.

4. Sales and Use Taxes for Counties in Wyoming – Wyoming passed a law that allows counties to charge up to one percent sales and uses tax (increased by quarter percent
increments) for economic development purposes. The amount varies by county. A four percent lodging tax, increased in increments of one percent, is permitted for local travel and tourism promotion. Detailed information available at http://www.wyotax.org/sales_and_use_tax.aspx.

5. *Specialty License Fees in Massachusetts* - In Massachusetts, the legislature allowed a fee from a specialty license plate to support economic development initiatives in the Cape Cod region. Additional information can be found at http://www.capecodedc.org/licenseplategrantsintroduction.htm.

---

**Spotlight Arkansas: State Turn-back Funds**

The State of Arkansas created a municipal aid fund also known as the state turnback fund to support economic development organizations and activities at the local level. Once the state revenues have been appropriated to different programs, the remaining funds can be set aside for counties and municipalities through a legislature-created per capita rate. The amount of funding the local government receives is based on the county or municipal population. However, the legislation only dictates that the state legislature *may* provide these turnback funds; they are not mandated by law. Thus, they are not guaranteed annually. Local governments typically separate these monies into two funds: one for streets and one for general purposes, which may include economic development initiatives.

Another turnback fund is financed through property taxes. Arkansas law requires counties to facilitate the certification of all delinquent properties to the Office of the Land Commissioner. For two additional years, the commissioner’s office will then attempt to collect the tax and fines from the property owner. If there is no attempt by the property owner to redeem the property, the property becomes eligible for public auction. The state auctions the property and the funds return to the county through the state turnback fund, which may be used for economic development activities.

Lastly, Arkansas communities are allowed to institute an advertising and promotion tax. Communities can choose to institute a tax on hotels rooms and prepared foods of up to 3 percent. The state collects all taxes and then returns the special tax to the community. The tax revenues can be used only for specific purposes, such as advertising and promotion of the city, venue development (such as a convention center or stadium), and tourist attractions.
Different types of state funding streams other than grants, allocations, and loans include:

- Contracts for services,
- Tourism,
- Local dues,
- Membership dues,
- Sales tax,
- State turn back, and
- Special legislative appropriations.

Additional Survey Findings

- Similar to federal funding, grants and allocations from state governments have decreased over the past five years and two years, although state loans have largely remained unchanged.
- EDOs operating in medium to large communities appear to be the biggest recipients of state funding. Well over 40 percent of EDOs in population centers of more than 500,000 people and over 35 percent of EDOs in communities of 200,000 and 500,000 populations receive state funding as opposed to less than 20 percent in communities with 25,000 to 200,000 populations and less than 25 percent in less than 25,000 populations. Given that state funding is distributed primarily through competitive grants, it can be concluded that larger EDOs have better resources to pursue competitive funding opportunities.
- Regional EDOs (those working in areas with a mix of urban, suburban, and rural areas) are more successful at attracting both state and federal funding. Less than 20 percent of mostly urban areas receive federal funding as compared to almost 50 percent of regional EDOs.

The Curious Case of State Economic Development Organizations

The budgets of state-level EDOs can be complicated. State EDOs receive and disburse funds for economic development projects and programs. They can receive funding from federal government agencies, other state agencies, local governments, and private contributors (depending upon their structure), although they typically disburse funds to local and regional EDOs only or invest in special economic development programs and projects directly through earmarks.

As discussed earlier, organizational structures impact the revenue streams available for economic development. In 2011, five state governments transferred control of their economic development agencies to public-private partnerships or quasi-public organizations. The driving
force behind these decisions appears to be interest in attracting more private business and foundation funding for state economic development initiatives. Previously, only seven states had some form of privatized economic development efforts.

State economic development organizations that are quasi-public or public-private partnerships receive partial funding from the state general fund and may receive additional funding from corporations, nonprofits, and the federal government. At Enterprise Florida, for example, investors contribute a minimum of $50,000 annually in exchange for the opportunity to have input into business policies and strategies aimed at making Florida competitive. The Economic Development Corporation of Utah (EDCUtah), a public-private partnership, receives part of its revenues from both public- and private-sector investor memberships. The Utah Governor’s Office of Development contracts with EDCUtah for the state’s business recruitment activities.

Although each state office releases its publicly funded budgets on government websites, details of private funding typically are not released.

Local Resources are the Backbone of EDO Funding

Local resources are by far the most prevalent funding mechanism for economic development organizations.

Survey Findings

- Not only do more than 80 percent of respondents receive local funding for economic development activities, but local resources comprise a significant portion of their budgets.
- For more than 55 percent of responding EDOs that receive local funding, local sources comprise between 81 and 100 percent of their budgets.
- General fund allocations are the biggest source of local public funding for EDOs. Figure 10 illustrates that general fund allocations surpass all other forms of local financing.
- In states that allow local option taxes for economic development purposes, such as Texas, the option provides between 81-100 percent of the budget for over half the organizations. More than 85 percent of the organizations attribute at least 40 percent of their budget to local option taxes. Examples of states that allow local option taxes for economic development purposes were discussed earlier under state funding.
Table 10: Distribution of Different Types of Local Funding

<table>
<thead>
<tr>
<th>Type of Funding</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>ED Income Taxes</td>
<td>10.7%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>18.3%</td>
</tr>
<tr>
<td>General Fund Allocations</td>
<td>72.6%</td>
</tr>
<tr>
<td>Taxing District</td>
<td>14.2%</td>
</tr>
<tr>
<td>Other</td>
<td>29.4%</td>
</tr>
</tbody>
</table>

Figure 10: Types of Local Funding as a Proportion of EDO Budgets

Organizations listed a number of other methods by which they receive local funding for economic development. These include:

- Utility funds
- Local community redevelopment agency funds
- Hotel/motel tax revenue
- Video poker revenues
- Self generated revenues, such as event sponsorship
- Tax increment financing (TIF)

For cities with large convention centers or ample tourism traffic, hotel/motel taxes can provide a sizable amount of income for EDOs. Other EDOs reported collecting membership dues, fees for services, and even gambling revenues as part of their organizational budgets.
Car Rental Tax funds 75% of Organization’s Budget

The Northern Kentucky Tri-County Economic Development Corporation (NKY Tri-ED) is a nonprofit regional organization serving Boone, Campbell, and Kenton counties. They have benefited from a car rental tax on short-term car rentals at the Cincinnati/Northern Kentucky International Airport (CVG) since 1994.

From 1987-1993, the NKY Tri-ED had a budget of approximately $350,000. Working in partnership with CVG leaders, NKY Tri-ED explored short-term rental car fees as a means for funding economic development activities in the region. In 1994, legislation was passed by the Kentucky General Assembly enabling a three percent tax on all short-term car rentals in Boone, Campbell, and Kenton counties. The counties collect the funds and then reallocate the revenues to NKY Tri-ED. Through an inter-local cooperation agreement among the three counties, all revenues from the short-term rental car tax are shared with NKY Tri-Ed.

Since inception of the tax, NKY Tri-ED receives approximately $1.8 million annually, or approximately 72 percent of its budget, from the car tax revenue. Boone County provides approximately 95 percent of the tax revenues, where Cincinnati/Northern Kentucky International Airport (CVG) is located. The funds may be used for economic development purposes including staff, operations, and programs.

Over 40 percent of the organizations that receive local funding saw their local sales tax dollars increase over the past five years, though they remained largely the same over the past two years. As the economy recovers from the economic downturn and consumer spending picks up, it is likely that local sales tax dollars will start increasing. Only 20 percent of respondents reported that their sales tax dollars decreased over the last five years. The remaining 40 percent indicated no change. Local income taxes dedicated to economic development, as well as special taxing districts, remained largely unchanged over the last five years.

EDOs large and small receive significant local funding. However, it appears that the largest EDOs (those serving areas with populations greater than 500,000) do not receive as much local funding as their smaller counterparts. Rural and urban EDOs (as opposed to regional EDOs) also receive more local funding. In contrast to federal and state funding, local funding tends to be allocated based on ad hoc budget allocations from general funds rather than competitive grants. The resources and skills that prove helpful for larger EDOs in attracting federal and state funding may not give them an advantage over smaller EDOs when it comes to local funding.
Foreign Trade Zone: Supporting Economic Development in McAllen, Texas

Situated on the Mexican border, the McAllen Economic Development Corporation (MEDC) in McAllen, Texas, manages the McAllen Foreign Trade Zone, a profitable industrial park that contributes significantly to the MEDC organizational budget. The FTZ was established in 1973 but was not actively used until MEDC took over its operations in 1987, when the MEDC was formed to serve as the main economic development agency for the city.

After assuming management, the MFTZ saw an increase in demand and occupancy. Eventually, the companies moving into the zone began to demand third-party logistics assistance. In response, MEDC created a separate company, FTZ Logistics, to assist companies within the industrial park and in Mexico with third-party logistics. The newest entity to be established is FTZ Intermodal, Inc., which is in the process of developing an intermodal park. The revenues for MFTZ, FTZ Logistics, and FTZ Intermodal, Inc. all are reinvested in the individual entity first and then revenues above budget are donated to MEDC.

These four entities function separately but are located in the same building, which is owned by MFTZ. MEDC leases the space from MFTZ and pays rent on a monthly basis. As a way to save overhead expenses, the receptionist, accounting department, management team, and marketing department are shared. A contract created between the organizations to outlines the division and percentage of salaries and benefits that are paid by MEDC and the FTZ.

The city continues to contribute to MEDC’s budget, as its interest in being involved in economic development remains. However, as the city’s revenues decreased, its budget became strained and some of the economic development funding shifted to other agencies. Over the past six years, MEDC received a set amount of funding from the city and fills the holes with in-kind contributions from the other entities. For example, a marketing program may be sponsored by the FTZ as a contribution to MEDC. Currently, 15 percent of the revenues come from non-city sources. The city of McAllen does participate in Texas’s local-option half-cent sales tax. Because MEDC receives financial support from the three other entities, it is able to dedicate the half-cent sales tax revenues towards training programs, infrastructure, strategic planning, and other programs and projects.

The next section of the report covers private funding sources, trends, and examples of communities and EDOs that have adapted their business models and practices to work better with private investors.
III. Private Funding

Utilizing private sources represents a growing trend in EDO financing. Sixty percent of the respondents reported receiving private funds for their EDOs. Economic development experts agree that this finding represents a reversal of the traditional ratio of public-to-private funding for economic development activities. A few decades ago, 70 percent of EDO funding came from public sources and 30 percent came from private sources, whereas now the opposite is true.

Private funding sources range from in-kind contributions to fees for service and real estate incomes. Nearly half of the organizations that collect private funding receive membership dues. An equally large source of private support is in-kind contributions including, but not limited to, staff time, office space, radio ads, legal services, etc. Figure 11 shows the distribution of different types of private funding sources in EDO budgets. Just under 30 percent of EDOs receive private funding from additional sources such as fees for service, royalties, and impact fees (Figure 11).

Figure 11: Utilization of Different Types of Private Funding

Examples of other kinds of private funding sources include:

- Advertising, event, and project sponsorships,
- Licensing of proprietary software,
- Training fees,
- Royalties, and
- Impact fees.
Many organizations look to private sources to diversify funding streams as public funds decline. It also requires EDO staff to become more proficient in private fundraising skills and delivering programs and services that EDOs may not traditionally provide. Care must be taken when deciding which private funding sources an organization should seek.

**Fundraising Campaigns**

Fundraising campaigns are events or projects dedicated to raising private funds for an EDO. They are becoming more common given the increased focus on private funding sources. Campaigns bring in funds annually or every two, three, or five years, depending on the organization’s needs. Following the recession, many corporations are earmarking their contributions to nonprofits for specific projects.

### Recommendations on Fundraising

- Create a strategic plan in advance of a fundraising campaign. It should be holistic and focused regionally. Ideally, the plan should build on past fundraising efforts and expand the scope to a reasonable extent.
- Be very careful about who you reach out to for funding. It is critical to have true alignment between the mission and objectives of the funder and your organization. For example, although in some instances religious organizations have contributed to economic development programs, their mission in creating jobs is usually different (i.e. focused more on structurally under employed or unemployed people) than those of EDOs that tend to focus more on high-skill jobs.
- Ask for funds for specific initiatives. With funders conscious about where their money is going and how it is used, general funding campaigns no longer work.
- Include your board of directors as part of the campaign, especially top-level representation. They will be able to ask their peers and colleagues for donations at a higher level.
- When necessary, encourage a pay-to-play mentality. For certain levels of contributions, the contributor can join the board of directors, leadership, or industry council.
- Meet with your local utilities. Many utilities have funds set aside specifically for economic development.
- Do not be afraid to ask the unlikely funders. Hospitals, convenience stores, grocery stores, media, car dealers, and newspapers are all potential funders. Madison, South Dakota, a town of less than 7,000 people, received a $50,000 donation from a local Dairy Queen.
Establishing a Public-Private Partnership: Chesterfield County Economic Development Alliance

Chesterfield County, South Carolina is a rural county with a population of 46,000. There are eight towns located within the county, but there is no central town. The county operated an economic development organization, but there were no EDOs at the local level. Instead, towns had chambers of commerce and some tourism organizations. The strategic plan created with local RDA funding recommended the county create an economic development alliance that is funded by both the private sector and the municipalities. A feasibility study was conducted and it was determined that there was enough proposed funding available for a five-year campaign for a public-private partnership. The county council in a private meeting unanimously agreed to the creation of an economic alliance for Chesterfield County.

The Chesterfield County Economic Development Alliance was created in 2012 as a 501(c)(3) after two years of research and strategic planning. Over $1 million was raised during this two-year fundraising campaign, which was enough to fund the new organization for five years. The county economic development employees staff the alliance, which is governed by a board of directors. As the organization is starting from scratch, they have created a pay-to-play scenario where businesses who pay $10,000 per year and local chambers of commerce who invest $5,000 annually receive a role on the board of directors. Each local municipality involved in the alliance commit one person to participate on the mayors’ committee. From an established mayor’s committee, one representative is chosen to participate on the board of directors. The municipalities are the only public funds invested into the Alliance. The formula chosen was each town would pay $1-$2 per capita based on population. When final, the board of directors will consist of fifteen members.

Crowdfunding

Collaboration is changing the way businesses, projects, and programs are funded. Crowdfunding is a financing strategy in which individual investors contribute varying amounts of money to fund a project, program, or business idea. Multiple Internet platforms have sprung up to support crowdfunding efforts locally, regionally, nationally, and even internationally. Expectations and actual returns on investment vary by type and size of project.

There are two types of crowdfunding opportunities. Most commonly, a person or organization makes a donation or pledge without expectation of significant monetary return. There are some who prefer to be an investor, where they are able to invest up to $1 million annually.
Many communities and organizations are exploring different strategies for crowdfunding. Some examples of crowdfunded projects include.\(^5\)

- Fundraising for the Sister Cities Program in Los Angeles, California
- Economic Development Investment Fund in Sarasota, Florida raised funds to develop an incubator in a building they purchased.
- Handmade in America in Western North Carolina supports programs that focus on artist entrepreneurship, small town revitalization and infrastructure.
- Flint, Michigan’s Farmers Market raised funds to expand the market to two suburban neighborhoods where many residents lack transportation.
- The arts community Springville, New York raised funds to open a coffee shop and develop arts space to help revitalize downtown.
- Valentine, Nebraska raised funds to attract and support a movie to be filmed in the community (as a marketing vehicle and to support a budding arts community).

Crowdfunding for economic development projects and programs is very new and untested. Many communities and experts are experimenting with using crowdfunding to meet community match requirements for federal grants.

---

### Crowdfunding for Economic Development

Neighbor.ly, a Kansas City company, is a civic crowdfunding platform for municipal, county, and metro-conglomerate governments; public-private partnerships; institutes; and private and nonprofit organizations that are civically focused. Public projects can be listed on their website for raising funds. Neighbor.ly engages actively in the fundraising campaigns and assures investors that the contributions made through its platform will be used for the intended projects. It has been successful in funding a number of projects to date and has several others open for investment on its website. For more information, please visit [www.neighbor.ly](http://www.neighbor.ly).

Another example of crowdfunding for economic development projects is Rally St. Louis. In December 2011, an article from Forbes magazine, entitled “St. Louis Doesn’t Suck,” went viral. The attention and feedback eventually led to a grassroots campaign called Rally St. Louis. The campaign is building momentum locally by gathering or “crowdsourcing” ideas from local citizens on what will improve the quality of life in the region and then crowdfunding the top ideas for implementation. First, the public submits ideas and then has the opportunity to vote on the ideas submitted. Each month, the three ideas with the most votes will be evaluated and the

---

\(^5\) Examples retrieved on November 15, 2012, from [www.indiegogo.com](http://www.indiegogo.com).
next steps for implementation will be determined. These ideas will then move to a crowdfunding platform, where the public can provide donations to help fund the projects. Projects that reach funding goals will be implemented in the community with the funds raised. Local and regional economic development organizations are participating on the board of directors. The campaign is fairly young – the first call for ideas opened on November 14, 2012 and voting commenced on December 1, 2012. For more information on Rally St. Louis, visit http://www.rallystl.org/.

In the following section, each private funding mechanism is discussed in more detail. Advice is included for practitioners who want to add these as a part of their organizational budget.

**In-Kind Contributions**

Although in most cases cash is king, in-kind contributions are a valuable source of EDO support. An in-kind contribution is any service, good, or property that is donated in place of a monetary contribution. Leading examples include staff time and services (such as printing, postage, etc.).

Organizations should accept in-kind contributions when they match an item within their budget or otherwise fits within the organizational mission. If the contribution is not replacing an item located within the budget, the donation can lead to additional costs that negate the purpose of the donation. Sometimes, in-kind donations can be made when a local firm is unable to contribute to the EDO financially. For example, an engineering firm may be able to contribute services instead of cash – but will only do so if asked.

**Survey Findings**

- Almost 45 percent of EDOs receiving private funding accept in-kind contributions.
- These organizations represent all types and sizes of communities.
- All three types of organizations – public, private, and public-private partnerships – receive in-kind contributions.
- Almost 50 percent of PPPs receive in-kind contributions as compared to less than 35 percent of private organizations. Even public organizations, although only 7 percent, indicate receiving in-kind contributions.
- As shown in Figure 12 below, for most responding organizations (70 percent), in-kind contributions account for less than 20 percent of their budget.
- About 10 percent of organizations rely on in-kind contributions for 80-100 percent of their budget. These were primarily organizations operating in smaller communities with populations under 200,000.
- Levels of in-kind contributions largely stayed the same over the past five years and the past two years.
According to the survey, organizations currently receive the following types of in-kind contributions.

- Media and news services
- Printing
- Website
- Offices
- Phones, computers, and other office equipment
- Internet service and free Wi-Fi for visitors center
- Meeting space
- Advertising and marketing services
- Professional services such as legal, auditing, engineering, and accounting
- Vehicle usage, airline tickets, and hotel rooms
- Food and beverage services
- Country and health club memberships
- Business consulting and consulting fees
- Time—advisory boards, volunteering, interns, and staff
- Event sponsorships
- Gift certificates and promotions
- Educational trainings and colleges
- Organizational membership dues
- Research trades
A Wealth of Resources and Services: Utility Companies Offer In-Kind Contributions

Most U.S. utility companies promote economic development efforts in their service areas. These initiatives vary by company but may include grants, sponsorships, memberships, and services. A number of utility companies also have economic development departments with staff available to work with local economic development organizations.

Many of the economic development services that utilities offer can be included as in-kind contributions to replace items already in your budget. Your local utility may offer the following services.

- Community profiles
- Industry studies and research software
- Engineering services
- Shovel-ready certification
- Available property and spec building databases
- Visualization and presentation technologies
- GIS databases, site optimization software, and workforce analysis
- Strategic planning facilitation
- Transportation and logistics studies
- Customized research services
- Preparation of Request for Proposals (RFPs)
- Coordination of site visits and meetings
- Developing mailing lists and prospect research
- Photographic renderings and 3-D models
- Workshops and special programming
- Business retention and expansion services, including visits and sample surveys
- Leadership training
- Community assessments
- Tourism development tools

Membership Dues

Dues allow key stakeholders to contribute to, and benefit from, membership organizations.
Survey Findings

- Over 40 percent of the respondents receive membership dues.
- They are among the largest sources of private funding for EDOs.
- They also tend to make up a significant portion of the budget: 60 percent of organizations reported that between 20 and 60 percent of their budget comes from membership dues (Figure 13).

Figure 13: Distribution of Membership Dues as a Percent of EDO Budgets

Setting a membership dues structure that all members are satisfied with, however, can be tricky. Organizations must ensure that all paying members feel that they make an equitable contribution and receive just benefits in return. In many organizations, members with larger budgets and operations pay a higher rate than members smaller in size. In such instances, it is crucial to use certain common criteria to determine the dues structure. According to Steve Carey, CAE, at Associations Now magazine, commonly used criteria include total revenue, total sales, units of production, number of employees, number of plants, total assets or square footage, payroll/salary, and total income. Other categories to consider are total population, percentage of budget, and type of organization.

Those charged higher rates typically receive additional benefits. Some organizations charge private businesses or consultants higher membership dues because of their business interests. Unfortunately, there is no standard formula to use in setting membership dues. Rates are typically established after trying various formulae and relying on trial and error.

Dues also can be structured so that all members contribute the same amount to the organization. When the base rate is the same, organizations tend to feel they are getting equal
treatment. This can be especially useful when organizations choose to offer the same level of services and benefits to all members, or where there could be issues with one member paying more than another member in the same industry or among competitors.

It is important that organizations clearly describe what benefits are received at each level of membership. It is equally important that EDOs offer only those benefits that they are capable of delivering, and also delivering everything that’s promised. Benefits may include a position on the board of directors or leadership committee; a regular newsletter with potential advertisement space; and access to educational programs, technical support, and expertise.

When setting the amount of dues to be collected, it is important to figure out what non-dues income the organization will receive through other sources to cover expenses and contribute to a reserve fund.

Inevitably, there comes a time when dues must be increased to meet inflation rates. When considering increasing dues, communicate clearly, early in the process, and give members the opportunity to provide feedback. Be sure to use multiple communication vehicles to ensure you are reaching all of your current members. With dues increases, it is essential that membership benefits do not decrease. For relatively large dues increases, organizations should increase the benefits so that members see the increase as justified and adding value.

**Foundations Grants**

Foundations are typically regulated in the United States by the IRS under section 501(c)(3) of the tax code. Organizations must use the grants to further a cause that provides a public benefit and not serve private interest. Although economic development is not included within the tax code, many economic development activities fit clearly within the tax code descriptions:

- Relief of the poor and distressed or the underprivileged;
- Advancement of education and science;
- Erection or maintenance of public buildings, monuments, or works;
- Lessening of the burdens of government; and

---

• Promotion of social welfare by organizations designed to accomplish any of the above purposes or...to lessen neighborhood tensions...eliminate prejudice or discrimination...or to combat community deterioration.

Survey Findings

• Foundation grants comprise the smallest portion of private funding for EDOs. Only 20 percent of the respondents said they receive foundation funding.

• For two-thirds of these respondents, it comprises less than 20 percent of their budget (Figure 14).

Fundraising experts point to a growing trend among EDOs to change their designation to 501(c)(3) status in order to be eligible for foundation grants. Although 501(c)(6) organizations are also eligible for grants, many foundations only provide grants to 501(c)(3) organizations.

Figure 14: Distribution of Foundation Grants as a Percent of EDO Budgets

Foundation funding has declined since the recession. Over 40 percent of the respondents report a decline in the past two years. In comparison to the past five years, an equal number of respondents (37.5 percent) indicated an increase and decrease in foundation funding. As interest on investments sharply declined during the recession, many foundations had to curtail their grant-making activities. As the economy improves, it is likely that foundation funding will bounce back.
Types of Foundations

Foundations typically fall into one of six different categories. While there are many similarities among the types of foundations, each has distinguishing characteristics. Below is a broad description of the different types of foundations found in the United States.

- **General purpose foundations** (also known as independent foundations) – General purpose foundations are considered the industry standard. General purpose foundations are nongovernmental nonprofits with a board of directors’ governance structure and a large, trained professional staff. They mostly include the larger well known foundations that have relatively few grant-making restrictions. Typically, they provide 50 percent of all grants awarded annually. Examples of general purpose foundations include the F.B. Heron Foundation, Kellogg Foundations, and Ford Foundation.

- **Family foundations** – Family foundations make up majority of the private foundations in the United States. Families set up the foundations with funds mostly derived from members of their family through gifts or bequests. The family members often serve on the board of directors or as officers and take a significant role in making grant decisions. Typically, these grant decisions reflect the interests of the family and go to programs or causes of their choice. While majority of family foundations are small and informal organizations, they can vary in size, grant-making interests, and style of organization. Legally, these foundations are similar to general purpose foundations. Examples of family foundations include the Bill & Melinda Gates Foundation and the Z. Smith Reynolds Foundation.

- **Community foundations** – Community foundations tend to be supported and operated within a set geographical area (e.g., a city, region or state). Traditionally, these foundations address local needs and provide community leadership. Community foundations are typically created as a public endowment with many donors. The structure can include a cluster of smaller funds that are named for individual donors and may be dedicated to specific purposes. While community foundations may be classified by the IRS as private foundations, the majority are public charities that raise significant funding from the public. Examples of community foundations include the Cleveland Foundation, the Calhoun County Community Foundation, and the Maine Community Foundation.

---

• **Corporate foundations** – Corporate foundations are separate legal entities that businesses use for philanthropic giving and for promoting corporate citizenship. These foundations are typically structured with board of director governance that may include members of the corporation board, contributions committee, other staff members, and members of the community.

Corporate foundations typically make grants in the communities where they have operations. The corporation funds them via a system called “pay in and pay out.” At times when profits are high, the corporation will donate more money than the foundation disburses. When corporate profits are low, foundations typically maintain or decrease their grant amounts.

Corporate foundations are similar to corporate giving programs, yet are regulated as private foundations. Corporate giving programs are administered through the corporate affairs, marketing, public relations, or human resources offices and go directly from the company to the nonprofit. They also are more closely tied to a company’s profits and are not held to the same reporting standards as a foundation. Corporate giving is part of the company’s operational budget and is not tax deductible. Some corporations will have both a foundation and a corporate giving program, as corporate giving programs have more flexibility than foundations. Examples of corporate foundations include Wells Fargo Foundation, Verizon Foundation, and Lowe’s Companies Foundation.

• **Special purpose foundation** – Special purpose foundations are similar to independent foundations except in that they limit their grants to a specific field of research or a particular activity. An example is the Susan G. Komen for the Cure foundation for breast cancer.

• **Operating foundations** – Operating foundations are more common in Europe than the United States. Rather than making grants to other institutions, they typically fund their own research and activities. There are two types of operating foundations. The first type is a financial endowment that uses proceeds to support programs, projects, and activities, such as the Russell Sage Foundation. The second type includes non-monetary foundations such as private museums, hospitals, private universities, and research institutes such as Johns Hopkins University. Their grants may include in-kind contributions of land or works of art, for example.
Expert Advice for Applying for Corporate Foundation Grants

Nancy Williams, former director of national giving programs for the Verizon Foundation, provided the following advice for organizations seeking grants from private foundations.

- Make sure the foundation’s mission is aligned with your organization’s mission. A foundation may give grants only in certain focus areas. For example, the Duane Reade Charitable Foundation’s mission is to improve the quality of healthcare in New York. The foundation’s website should provide its priority giving mission.
- Carefully research the foundation before submitting a grant request. The grant proposal should match the foundation's area of interest and relate to the foundation.
- Always check the foundation’s position on making contact. It is always helpful to make a connection at the foundation with someone who can answer questions and check the status of the application. Historically, foundations were relation-based organizations. However, organizations increasingly are applying to foundations without making contact first. It is important to note that a relationship with the foundation does not guarantee a grant.
- The description of the project should be well thought out and described. It is not enough to say that a project is focused on education and therefore connected to the foundation’s mission in supporting education initiatives. Detailed information provides the reviewer a clear picture of the project and how the funds will be spent.
- Always provide a method to measure results of the grant, even if the application does not request benchmarks. The project needs to be measurable and show an outcome. Some organizations are more focused on benchmarks than others.
- When completing the application, address: (1) what the project is; (2) why the organization is committed to the project; (3) what the projected outcomes are; and (4) why the organization is asking for money. Always be clear on what activities and expenses the grant will fund. Having a plan first will help answer these questions.
- It can be helpful if one of the company’s leaders or employees is on your organization’s board of directors.
- It is okay to reach out to several foundations, businesses or corporations for financial support for a project. Be creative in identifying potential funding partners for a project.

Charitable Donations

Some economic development organizations can accept charitable donations from private contributors. Charitable donations – which are monetary, as opposed to in-kind contributions –
typically, can be deducted from the donor’s personal or organizational taxes. However, in order for an organization to accept charitable donations, it must be set up as a tax-exempt nonprofit per the IRS. For EDOs, this is typically the 501(c)(3) designation, though other types of nonprofit designations – such as 501(c)(4), 501(c)(6), and 501(c)(12) – also can accept charitable donations to varying extents.

**Survey Findings**

- Almost 30 percent of the organizations surveyed receive charitable donations as a part of their budgets.
- While they account for less than 20 percent of the budget for almost half the EDOs, about one-third of the organizations report that 20 to 40 percent of budget comes from charitable donations, and 80 to 100 percent of the budget for more than 10 percent of the organizations (Figure 15).
- Charitable donations have stayed largely the same in the past five years and the past two years.

**Figure 15: Distribution of Charitable Donations as a Percent of EDO Budgets**

![Pie chart showing distribution of charitable donations]

**Fiscal Sponsorship**

If an EDO wants to accept charitable donations but does not have a tax-exempt status, donations can be routed through a fiscal sponsor. A fiscal sponsor is a 501(c)(3) organization that agrees to accept charitable donations on behalf of a project or organization that is not tax-exempt. The

---

sponsors assume responsibility for the legal and administrative aspects of the project. By law, the sponsor cannot be used as a pass-through organization. The sponsor can charge an administrative fee to the project for its services.

The benefit of a fiscal sponsorship is that a fledging organization can concentrate on building its programs and services without the administrative infrastructure. Organizations can raise money immediately through fiscal sponsorship without awaiting their 501(c)(3) designation. Some organizations retain a fiscal sponsor to accomplish their goals without becoming an incorporated entity as their permanent funding structure. The downside is the project surrenders some of its administrative decision-making and may be absorbed into the sponsoring organization.

According to a Tides Center field scan, the projects may have the following types of missions.9,10

- Arts and culture
- Environmental/sustainable growth
- Youth development
- Education/training
- Human services/social services
- Economic opportunity/community economic development
- Social justice and political advocacy
- International development
- Transportation
- Disaster relief
- Festivals and events

---

**The Work Around: Fiscal Sponsorships for Northeast Indiana Regional Partnership**

Northeast Indiana clearly has roots in the history of the Midwest’s “rust belt.” The region has experienced business closures including the loss of headquarter operations. However, what remained was a leadership and entrepreneurial legacy of the former headquarter executives. Many leaders from the chief industries decided to remain in Northeast Indiana and either started or purchased companies. As a part of the culture of giving back to the community, many

---

9 Based in New York City and San Francisco, The Tides Center is a non-profit organization that work and support American non-profit infrastructure and social service delivery. They have fostered fiscal sponsorships for over 230 groups in the United States. www.tides.org
of the individuals started private foundations. The private and community foundations in the region have combined assets of over $1.5 billion and make charitable contributions of approximately $102 million.

The Northeast Indiana Regional Partnership (NIRP), located in Fort Wayne, Indiana, represents 10 counties with an approximate total regional population of 700,000. At its creation in 2006 as a regional marketing organization, their funding goals were to receive 50 percent of their funding from the private sector, 30 percent from foundations, and 20 percent from the public sector.

As part of the creation of NIRP, the founders began a fundraising campaign raising over $2 million from the local private foundations as individual contributions in growing business investment and the economy of the region. The founders of the organization had expected that the funds will be used directly to support regional marketing efforts. However, in working with their legal counsel, the founders realized that the IRS will not view these as charitable donations. Instead, the foundation investments were best utilized to build the capacity of the region for economic development. In response, the founders created the Northeast Indiana Fund (Fund), a separate 501(c)(3) organization to support NIRP and complement their efforts to grow the region. The founders were able to repurpose a previously inactive 501(c)(3) IRS designated organization identified within the region. By repurposing an inactive IRS designation and tying it to the regional partnership, it saved them time and resources in developing the fund.

The fund is fully funded through charitable investments from foundations. Initially, the fund had narrow purposes such as third party vendor data and charitable research. Eventually, the fund expanded its services to include educational forums and strategic initiatives. The fund also provides grants to local economic development organizations within the region. A list of projects completed can be found at [http://www.neindiana.com/about-us/northeast-indiana-fund](http://www.neindiana.com/about-us/northeast-indiana-fund). All uses of investments in the fund must be used for capacity building. NIRP continues to focus on maintaining 30 percent of their funding from foundation grants, which are directed through the fund.

**Fee-for-Service Contracts and Management Fees**

Like the name suggests, fee-for-service contracts allow EDOs to charge a nominal fee for services provided. They typically work for organizations that have the staff resources to administer additional services and programs.
**Survey Findings**

- About a quarter of the respondents reported using such funding mechanisms for their EDOs.
- For close to 70 percent of such organizations, less than 20 percent of their budget is attributed to these additional services (Figure 16).
- Over one-third of the respondents indicated an increase in fee-for-service contracts and management fees over the past five years and two years. EDOs are trying new and creative ways to support their economic development activities.

**Figure 16: Distribution of Management Fees as a Percent of EDO Budgets**

According to the *Understanding Fee-for-Service Models* white paper, sponsored by the U.S. Department of Health and Human Services, there are four major types of fee-for-service models: mandatory fees, voluntary donations and requested fees, membership programs, and hybrid approaches.\(^1\) Each of these is described below in further detail.

- **Mandatory fees** – These are predetermined fees that an EDO charges for services provided. When an EDO acts as an administrator or manager for another organization, facility, or program, they may be referred to as management fees. Such fees may be charged for managing programs such as:

---

Loan programs (e.g., revolving loan funds, small business loans, equity investment funds),

Industrial bond financing programs,

Community Development Block Grants (CDBG),

Tax abatement programs, and

Other organizations or programs in the community, such as the downtown business association or industry-focused groups.

- **Voluntary donations and requested fees** – As a segue into charging for services – especially new services or programs in which demand may be untested – EDOs can start by offering services on a voluntary payment basis. Customers are informed of the costs related to the delivery of the service or program and a donation or fee is requested, but payment is not mandatory. Relatively few examples exist of EDOs taking such an approach.

- **Membership programs** – Services and programs are tiered and fees are charged based on those categories of service. Membership dues structures are discussed in detail earlier in this paper.

- **Hybrid approaches** – This blends two or more of the approaches mentioned above.

Fee-for-service contracts are increasing in use among EDOs. Examples include:

- Providing market research services to local entrepreneurs to help them grow their business as part of an economic gardening strategy;

- Grant-writing support to community organizations that may not have the resources or capacity to undertake such work;

- Business consultation; and

- Marketing and advertising support to local businesses.

Many EDOs subsidize costs related to the delivery of these services by seeking grant funding or supplementing with public funding.

Perhaps the most common example of fee-for-service contracts in economic development is when local governments contract with a nonprofit economic alliance or a chamber of commerce to perform economic development services. The contracts for these services usually are approved by the local governing body (e.g., city council or county commission). These contracts are typically short-term and must be renewed annually or with a change of elected officials.
Adapting to Thrive: Southwest Michigan First

Southwest Michigan First (SMF), the regional economic development agency for eight counties comprising the southwest Michigan region, was established in 1999 to help create wealth and jobs in the community. SMF originally depended heavily on public funding. Recognizing a number of shifts happening all around, ranging from overall decline in public funding to lower foundation revenues and weak economic situation of the State of Michigan, the organization leadership realized that it was no longer feasible to be dependent on public funding. The recession further pushed SMF to look for other models to reinvent their organization.

The organization viewed one such opportunity to be in the funding models created by high growth church associations such as the Willow Creek Association based in the Chicago suburb of South Barrington, Illinois. The subject of a Harvard Business School case study, Willow Creek's strategies include being consultants and service providers to both faith based groups as well as other companies. It now serves as the model for similar faith-based groups around the globe.

SMF saw an opportunity in providing affordable consulting services, which would leverage skills and capacity already in house. In a mid-tier, small metro region, it is often not easy to find an affordable consultant. Local businesses and organizations across the region faced this challenge. There are few consultants in the region and the costs to bring an outside consultant can be prohibitively high. In response to the demand, SMF started offering consulting services at competitive rates. These services include developing marketing materials and other creative services; diversity training; growing, consulting and mentoring small businesses; developing and offering training for leadership development; and helping companies acquire research data on specific areas. Many of the services are offered for a fee in addition to the traditional economic development services.

The profits from the services are reinvested into the organization. As a result, the organization has managed to reduce their dependence on public funding to less than one percent. SMF has chosen not to geographically restrict these services. Staff provides consulting services and speeches across the nation.

Showing Return on Investment: Fee-for-Service Contracts in Laramie, Wyoming

Laramie, Wyoming (pop. 30,816) is the county seat for Albany County and home to the University of Wyoming. Laramie Economic Development Corporation (LEDC) is a nonprofit organization responsible for economic development initiatives for the city of Laramie and
Albany County. LEDC is funded through contributions and sponsorships from local businesses, grants, and fee-for-service contracts.

Like many organizations, LEDC’s public funding depended on annual renewals, with separate negotiations with each major investor. Public investors – the City of Laramie, Invinson Memorial Hospital, and the University of Wyoming – demanded accountability and transparency for their investments.

In 2009, after several years of working with the city manager, the city and LEDC signed a contract to recognize LEDC as the economic development arm for the city. The contract outlines that LEDC is responsible for encouraging economic development activities within the city, market the city and region to attract and retain businesses, maintain generally accepted accounting procedures and practices for the funds, and provide an annual written financial and transaction report of the uses made of the funds received. This annually reviewed contract allows LEDC to work closely with the city’s planning and administrative departments. In order to allay concerns about accountability and transparency, the organization provides an annual report and regular financial reports to the city council.

When Invinson Memorial Hospital heard about the contract between LEDC and the City of Laramie, the board of directors started exploring ideas of developing a separate contract. The hospital knew that some of its administration and medical staff did not understand marketing and investment. Through a three year contract, LEDC conducts return on investment modeling and provides other business services to the hospital.

Lastly, LEDC created a memorandum of understanding (MOU) with the University of Wyoming after the university showed interest. LEDC helps recruit and support business for the university operated incubator, helps businesses who graduate from the incubator find spaces to locate locally, and assist business directly with finding employees. In exchange, LEDC charges the University for its Services. LEDC in becoming more engaged with the university and participates on board of directors and other panels. The MOU is valid for three years and is not guaranteed to be renewed.

Currently, LEDC does not have any private fee-for-service contracts. LEDC does not want to create any exclusive agreements with private sector members that can potentially exclude or compete with other members.
**Contract Services for Research: Anchorage Economic Development Corporation**

Anchorage Economic Development Corporation (AEDC) is an economic development membership organization in Anchorage, Alaska (pop: 300,000). The organization has relied on municipal government funding for up to 45 percent of its budget in the past. Today, less than 18 percent of their budget comes from the local government and less than five percent from the state.

In 2011, the City of Anchorage approved a grant to provide seed money for AEDC to hire a researcher to update the city’s demographic information. As part of the contract, AEDC was required to find additional funding to sustain the position in the long-term as well as annually update the city’s demographics for no cost.

In January, 2012, AEDC began to offer research services on a contract basis as a strategy to (1) provide an additional service for their members; (2) meet a broad range of internal needs, and (3) increase private revenues while not competing with members through a niche service. The organization hired a recent graduate with a master’s degree in urban planning who wanted to return to Anchorage to work as the research coordinator. It is important that the organization has the right tools in place before offering such services.

The coordinator completes general research for free for members and prospective companies. More in-depth research is completed for the hourly rate of $100 an hour for a maximum of 50 hours worth of research as AEDC does not want to compete with local members who provide specialized research services.

Once the research demands exceed that threshold, the coordinator contracts the research out to local firms to competitively bid on the project. The coordinator manages the research on behalf of the client for a management fee and ensures the work provided by the research firms is efficient and a high quality product.

It was important to build a relationship with the research firms and reassure them that AEDC was not trying to compete; rather, it was providing new opportunities to contract.

In the first year, in addition to the City of Anchorage, AEDC received contracts from Alaska International Airport and some local companies. For the second year, AEDC is working on finalizing some larger projects. AEDC is on track to generate the revenues needed to sustain and grow the position.
Real Estate
Economic development organizations can leverage opportunities in real estate to simultaneously drive job creation, revitalize abandoned and/or blighted areas, and finance their operations.

Survey Findings
- Almost 25 percent of the respondents utilize real estate as a funding mechanism for their organizational budget.
- Nearly 35 percent of the organizations indicate that 80-100 percent of their budget comes from real estate (Figure 17). Several EDOs are structured solely around real estate activity in their communities and are heavily involved in all stages of the real estate process from land development to project/development management, construction management, and leasing/rental management.

Figure 17: Distribution of Real Estate as a Percent of EDO Budgets

Although the real estate market was severely impacted during the Great Recession, survey results indicate that income from real estate investments either increased or stayed the same for the majority of the respondents both before and after the economic downturn. Less than 20 percent of the organizations indicate a decline in real estate income before and after the most recent recession.

Land can be acquired in a variety of ways including donation, purchase, eminent donation, and condemnation. Organizations can sell the land for a profit to benefit local economic development or can develop the land for a return on investment. In case of latter, organizations can charge fees to manage the design, construction, lease, or sale of the property.
Some communities benefit from a turnkey building available for sale to potential companies looking to relocate or expand. This model is often seen in industrial parks. Other organizations can earn a better return on investment by retaining, leasing, and managing the development. This model is often seen in incubators and commercial centers. The extent to which the EDO is involved in the real estate process is determined by local factors.

Many EDOs are involved in the development and management of public facilities such as convention centers, performing arts centers, arenas, and stadiums. As job generators, economic development organizations may manage, lease, or be affiliated with the facility. This role may lead to additional revenue to fund economic development initiatives.

**Addressing Challenges, Gaining Revenue: Union County Development Association**

Union County, Iowa is centrally located between Omaha, Nebraska and Des Moines, Iowa. It is a small community with a population of just over 12,500. Union County Development Association (UCDA), a 501(c)(6) organization, manages the economic development efforts for the county. Their budget is comprised of three main sources of revenues: one third public funding, one third from private investors, and one third from real estate assets generating revenue.

The umbrella of services offered by UCDA (formerly the Creston Development Company – CDC) is a response to local conditions, a story that is common in many rural communities around the country. In addition to performing the traditional economic development functions, UCDA also serves as a developer of public housing and leases industrial properties. Being a small community, and the nearest urban center (Des Moines) located over an hour away, Union County faced significant challenges in attracting real estate developers to build decent housing for middle management in existing businesses. Options for low-income housing were also limited. Inadequate housing stock could have severely impacted their ability to retain talent and hinder local business growth.

Recognizing this challenge, the CDC started purchasing and assembling land to be developed into housing for local businesses. This resulted in a housing development with 54 lots, of which only ten remain for sale. When UCDA was established in 1997, the land was transferred to them and became an asset for the organization, as the sale of land has generated significant revenues.

Even though UCDA owned the land, gathering funds to pay for public housing was not an easy task. A tax increment finance district was created to pay for the development. Additionally, in partnership with the local utility, a deal was agreed upon for the local utility to lay the infrastructure in return for a percentage of the profit when the land is sold – an example of their
outside-the-box thinking. UCDA is now working with the local carpentry program at the community college to build the houses on the vacant lots.

After witnessing the success of this housing development, the City of Creston, Iowa is working on a similar development with 72 lots with assistance and support from UCDA. For the new development, the plan is that UCDA will collect a service fee on the sale of each lot and in return will provide all marketing efforts and act as the covenant review committee for the new subdivision.

UCDA also owns and leases industrial properties. It served as the landlord when two local were unable to purchase their building. The businesses now occupy the building through long term leases with UCDA. Similar models can be found in Lenox and Fairfield, Iowa.

How a Redevelopment Authority Became Self-Sufficient: City of Corry and Erie County, Pennsylvania

Corry is a small community with a population just under 6,000 in northwest Pennsylvania. It is the second largest city in Erie County. There are currently four organizations that work together on economic development efforts within Corry and more broadly, Erie County: the Erie County Redevelopment Authority (ECRDA), the Redevelopment Authority of the City of Corry (RACC), the Corry Area Industrial Development Corporation (CAIDC), and the Corry Industrial Benefit Association (CIBA). CIBA was established as a 501(c)(3) to receive donations for the organizations. All four organizations are fully self-sufficient.

In 1990, Corry Industrial Center opened as a full-service incubator within an industrial park. The industrial park was part of an enterprise zone, which made the incubator eligible for grants from the state and federal government to create a revolving loan fund, which were provided through RACC. The organization used the grants to make loans and received interest payments from the loans. Upon repayment, the funds are repurposed to make new loans. The fund grew with interest payments on the loans. Eventually, the redevelopment authority of the City of Corry stopped requesting grants from the state and federal government. In 2003, ECRDA applied and was approved to expand the enterprise zone to cover all industrial and commercially zoned areas in Erie County excluding the cities of Corry and Erie. As a result, a new revolving loan fund was created through grants from the state and federal government. The county redevelopment fund also uses the interest from the revolving loan to pay for organizational operations. Through an industrial bond, the county provided a onetime payment of $8 million towards the revolving loan fund. Interest rates for the loans are set by the current market. The community has a less
than one percent default rate. As part of the loan process, RACC works with the company to help ensure they do not default on the loan, even if that means providing a grace period or working together to develop a plan that enables the business to repay.

Another source of revenues for the redevelopment organizations is the leasing of real estate. As the companies within the Corry Industrial Center grew, it quickly became time for the first businesses to graduate from the incubator. In an effort to help them relocate locally, RACC obtained a vacant building. The property was leased to a manufacturing tenant for a period of ten years at market rate, and after ten years, it sold for one million dollars. As part of the contract to purchase the building, the owners were asked to donate ten percent of the sales price back to the CIBA. After the first building, RACC has obtained, leased, managed, and sold several other properties, gradually building a real estate portfolio exceeding 500,000 square feet. The organization typically requests the buildings as a donation to the community whenever possible though has paid up to the appraised value for a building. In return, RACC provides to local businesses triple net leases at market rate. For some businesses, this provides an opportunity to make improvements to the building as a tax write-off rather than amortize depreciation. Real estate has shown a direct link to the revolving loans, which in turn provides revenues for the organization. RACC receives a majority of its funding from interest on loans than on real estate sales and leases. In less than 20 years, the organizations have grown from an asset value of $1 million to just over $30 million, while keeping a small staff of five people extremely busy.

**Interest on Investments**

Much like the concept of using the collection of equity shares as a funding source, economic development organizations use interest collected from financial institutions and lending mechanisms to fund their budgets. When depositing money into a checking account or putting reserves into a Certificate of Deposit (CD), money market, or pension account, organizations are taking advantage of the interest rates provided by the financial institution.

**Survey Findings**

- Almost 30 percent of the respondents gain interest on their investments that is channeled back into their budget.
- Although not a significant source of funding for most EDOs – 80 percent of the organizations reported that interest constitutes less than 20 percent of their budget – it provides precious funds that the organization can utilized in any way (Figure 18). Grants,
loans, and several other types of funding typically need to be dedicated towards specific programs and services, but interest on investments are much more flexible.

- Interest on investment income started declining deeply even before the onset of the recent recession and has not bounced back in the past two years.

Figure 18: Distribution of Interest on Investment as a Percent of EDO Budgets

Organizations can also get creative to maximize their income from such sources. In response to the survey, the Development Corporation of Abilene, Inc. in Abilene, Texas noted that the organization pools its reserves with other municipal reserves to obtain a higher interest rate. By strategically investing their funds, organizations are able to secure a considerable return on investment to finance their operations.

When economic development organizations become lenders themselves through revolving loan funds and other small business financing programs, they receive interest payments with repayment of loans. These interest payments are then being used to finance the operations of processing the loan program. Federal community development block grants can be set up with repayment to ensure a small interest rate is included in most transactions. The Greenville Area Development Corporation in Greenville, South Carolina delayed the disbursement of pass-through grants to earn interest payments to support their budget.

Other Sources of Revenue

Other sources of revenue for EDOs include:

- Application fees for programs such as a facade improvement programs.
• Special events like fundraising campaigns for economic development efforts. These events such as a wine tasting, golf outing, and lunch with an elected official provide registration fees that provide revenues to the organization. Along with registration fees, a number of organizations receive sponsorships for the events that contribute to their budgets.

• Workshops, classes, and training programs are also providing additional funds through registration fees and sponsorships.

---

**Creating a Revenue Generation Cycle: Kahnawake Economic Development Commission**

In many instances, EDOs need to be managed like a business with an acute focus on revenue streams. Kahnawake is home to approximately 8,000 aboriginal people, who are part of the Mohawk Nation, located south of Montreal in Québec. The Kahnawake Economic Development Commission’s (KEDC) success comes from developing a revenue generation cycle such that revenues from one project are invested into future projects, while supporting the overall economic development strategy on the reservation.

The initial challenge in creating a revenue generation cycle was obtaining the startup capital. The tribe transferred 50 percent of their data center to KEDC along with the responsibility to manage the business. KEDC used the income generated from this operation to invest into two commercial buildings. A portion is currently being invested in a wind farm. They also lease two cell towers and three billboards, which generate close to $90,000 annually, and help pay for internships for college students along with scholarships. KEDC created a virtuous cycle to develop new products. With an entrepreneurial mindset, their success has been based on not trying to do too many projects at one time; rather building up each project one at a time.

In summary, below is advice from consultants and experts on using different types of private funding streams.

---

**Expert Advice on Private Funding Sources**

• Organizations should seek in-kind contributions for costs or services already included in their budgets, such as requesting an engineering firm to provide some services for free if the services will be undertaken in the next fiscal year. Items that can benefit from in-kind
contributions should be identified and included in fundraising campaigns from the beginning.

- Develop local industry councils where members of the local industry (ex. manufacturing) have to pay to play.
- Organizations that have highly qualified research staff can charge for research projects and data.
- Make sure the foundation grants match the organization’s mission.
- Those organizations that rely on sale of real estate property for income should make sure that it comprises only a small portion of their budget. Once the asset is depleted through sale, the organization is left to either look for other resources or purchase more.
- For cash-strapped city councils and communities, fee-for-service contracts allow them to offer economic development programs and services locally by outsourcing key components to other EDOs on a contract basis. Such arrangements tend to be more common at the county and city levels.
- Corporate giving is often now managed through a foundation arm that is setup to manage grants. In many cases, such foundations give out grants only to 501(c)(3) organizations, and EDOs are changing their legal status in order to be eligible for these funds. EDOs should also consider partnering with other community organizations or economic alliances that may have a 501(c)(3) status already.
Conclusions

Funding for economic development organizations is changing and impacting EDO business practices. Nimble EDOs are experimenting with various ways of maintaining budgets and thereby offering lessons for others who follow. The main conclusions from the study are discussed below.

One Size Does Not Fit All
Local, regional, and state laws and regulations limit an EDO’s ability to utilize different types of funding. The organizational structure (public, private, or public-private partnership) further impacts their ability. What works in one community may not necessarily work in other communities.

Local Relationships are Vital to Success
Whether EDOs receive local government funding or not, local-level relationships with a variety of other organizations, institutions, and businesses are very important. In-kind contributions and charitable donations can have tangible impact on EDOs’ budgets, and organizations are more likely to benefit from these funding streams at the local and regional level. The Northeast Indiana Regional Partnership raised $2 million and worked with local foundations to find ways for them to contribute to the region’s economic growth.

Accountability in the Use of Funds is Increasing
Both public and private-sector investors are attaching performance metrics to their funding for specific projects and programs. EDOs need to spend adequate time and effort tracking the impact of their work in order to secure future funding. Laramie Economic Development Corporation in Wyoming risked losing major public sector investors over concerns of accountability and transparency in the use of funds. They were able to retain them by signing separate contracts with each investor that required more frequent and regular reporting as well as feedback from the investors.

Funds are tied to Projects and Programs
More and more economic development funding is tied to projects and programs with specific outcomes or deliverables. This is true for funding from public, private, and nonprofit sectors.

Fundraising Activities Are Important for All EDOs
Nearly all EDOs need to devote a portion of their time to fundraising activities. Even for those that are fully financed through public funds, it is important to educate investors and keep them apprised of the importance of EDOs and the need for continued public funding. When it comes to engaging the private sector, EDOs should be able to identify and build mutually beneficial
relationships with a wide variety of potential investors. In some cases this means developing
good proposals and grant requests for competitive funding. In other cases this can be
identifying opportunities for fee-for-service-contracts or other partnering agreements.

**Understand All Possible Funding Sources**

It is important that EDOs are aware of and understand different funding streams in their
community and beyond. EDOs can work with partner organizations and stakeholders to develop
creative ways of accessing funds that may not seem like options. The McAllen (Texas) Economic
Development Council worked with partners to bring in additional revenues when the new FTZ
entities were established.

**Raising Funds is a Never-Ending Job**

Whether the organizations are funded privately or publicly, they cannot rest on the
achievements of the past decades or even the last few months. Funding streams can change
quickly and EDOs need to adapt to these changes with equal agility. EDOs always need to be the
lookout for new opportunities for funding, projects, and partnerships and assess their skills and
resources regularly in order to be successful at taking advantage of new opportunities.

Southwest Michigan First found a gap in the services delivered in the community and built a
consulting program to fill that gap, while bringing in a new revenue stream to their organization.

**Not Many Unique Funding Sources Exist**

The survey asked respondents for examples of new or unique funding sources that they have
started using in recent years. Interestingly, the results show that EDOs are not implementing
many completely new funding mechanisms. A funding mechanism might be new to an individual
organization, but it is likely not new to the economic development industry.
Appendix A – Survey Questionnaire

What size population does your organization represent?

- Population less than 25,000
- Population between 25,000 and 200,000
- Population between 200,000 and 500,000
- Population greater than 500,000

Please select the category that best describes your organization

- State or Provincial
- County, Parish, Regional/Municipal District (Canada)
- Municipality
- Regional
- Multiple states or provinces
- Sub-local (ex. Downtown organizations, business improvement districts, neighborhood development organizations)

Please select the category that best describes your community

- Mostly urban
- Mostly suburban
- Mostly rural
- Combination of urban and suburban
- Combination of urban and rural
- Combination of rural and suburban
- Combination urban, suburban and rural
- Native American or Aboriginal Tribe

How is your organization structured?

- Public entity
- Private organization
- Public-private partnership
Has your organization’s structure changed in the past five years?

- Yes
- No

Please explain

Does your organization receive revenue from public sources?
(Public funding includes all sources of federal, state/provincial, and local government funding including grants, loans, allocations, etc.)

- Yes
- No

What methodology is used to determine the amount of public funding received by your organization? Check all that apply.

- Per capita allocation
- Ratio to private funding
- Competitive grant process
- Other, please specify

What percentage of your budget is from federal sources?

<table>
<thead>
<tr>
<th></th>
<th>1-20%</th>
<th>21-40%</th>
<th>41-60%</th>
<th>61-80%</th>
<th>81-100%</th>
<th>N/A</th>
<th>Please list programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
</tr>
<tr>
<td>Grants</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
</tr>
<tr>
<td>Allocations</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
</tr>
<tr>
<td>Others</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
</tr>
</tbody>
</table>

What percentage of your budget is from state/provincial sources?

<table>
<thead>
<tr>
<th></th>
<th>1-20%</th>
<th>21-40%</th>
<th>41-60%</th>
<th>61-80%</th>
<th>81-100%</th>
<th>N/A</th>
<th>Please list programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
</tr>
<tr>
<td>Grants</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
<td>o</td>
</tr>
</tbody>
</table>
What percentage of your budget is from local sources?

<table>
<thead>
<tr>
<th>Source</th>
<th>1-20%</th>
<th>21-40%</th>
<th>41-60%</th>
<th>61-80%</th>
<th>81-100%</th>
<th>N/A</th>
<th>Please list programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development Income Tax (EDIT)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Sales taxes</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>General Fund Allocations</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Taxing districts</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Other</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

How has the level of public revenue changed in the past five years?

<table>
<thead>
<tr>
<th>Source</th>
<th>Increased</th>
<th>Decreased</th>
<th>Stayed the Same</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal grants</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Federal loans</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Federal allocations</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>State/Provincial grants</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>State/provincial loans</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>State/provincial allocations</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Local economic development income tax</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Local sales tax</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Local general fund allocation</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Local taxing district</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Other sources of public funding</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
How has the level of public revenue changed in the past two years?

<table>
<thead>
<tr>
<th></th>
<th>Increased</th>
<th>Decreased</th>
<th>Stayed the Same</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal allocations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State/Provincial grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State/provincial loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State/provincial allocations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local economic development income tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local sales tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local general fund allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local taxing district</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other sources of public funding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Does your organization receive revenue from private sources?
(Private funding includes in-kind contributions, membership dues, foundation grants, charitable donations, management fees, real estate transaction fees, interest on investment, and other private sources)

- Yes
- No

What methodology is used to determine the amount of private sector funding received by your organization? Check all that apply.

- Pre-set investment levels
- Ratio to public funding
- Fundraising campaigns
- Other, please specify
What percentage of your budget is from private sources?

<table>
<thead>
<tr>
<th></th>
<th>1-20%</th>
<th>21-40%</th>
<th>41-60%</th>
<th>61-80%</th>
<th>81-100%</th>
<th>N/A</th>
<th>Please list programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-kind contributions</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Membership dues</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Foundation grants</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Charitable donations</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Management fees</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Real estate</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Others</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

How has the level of private revenue changed in the past five years?

<table>
<thead>
<tr>
<th></th>
<th>Increased</th>
<th>Decreased</th>
<th>Stayed the Same</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-kind contributions</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Membership dues</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Foundation grants</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Charitable donations</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Management fees</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Real estate</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Others</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>
How has the level of private revenue changed in the past two years?

<table>
<thead>
<tr>
<th></th>
<th>Increased</th>
<th>Decreased</th>
<th>Stayed the Same</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-kind contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership dues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charitable donations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Does your organization receive other types of revenue?

- ○ Yes, please explain
- ○ No

Please provide your organization’s information

Name
Company
City/Town
State/Province
Country
Phone
Email Address

May we contact you for additional information or a case study?

- ○ Yes
- ○ No
Appendix B – Descriptions of Funding Streams

Grants from Federal, State and Local Government Agencies
Grants are monies provided by government agencies in support of a public purpose. They do not need to be repaid to the granting agency. Most agencies provide grants for specific projects. While grants are typically not available for operational expenses, most agencies allow a portion of the grant to be used for administration, including general and administrative expenses.

There are currently 26 federal agencies that provide grants. In 2002, as part of President Bush’s Fiscal Year Management Agenda, an E-Grants Initiative was created as a central clearinghouse of all federal grants available at www.grants.gov. Most state governments provide grants for economic development purposes too.

Loans from Federal, State and Local Government Agencies
Loans are funds that need to be repaid within a certain amount of time and may require some interest payment as well. Government agencies have two roles in providing loans – as the lender and as the guarantor. As the lender, the government will provide a short term loan directly to the organization or business. In the role of the guarantor, the government provides its full faith and credit guarantee for the loan from a private or non-profit lender. State and local governments’ credit worthiness is measured by credit ratings from major credit rating agencies. For the federal government, it is generally accepted that the U.S. government will not default on a loan.

Allocations from Federal, State and Local Government Agencies
Allocations are mostly formula based budgetary allocations to organizations for specific public purposes. Not all government agencies provide allocations anymore, especially at the federal and state level. At the federal level, the U.S. Economic Development Administration (EDA) is among the few federal agencies that provide allocations for economic development purposes.

Earmarks
Earmarks are funds appropriated by the legislature for specific projects. According to the Office of Management and Budget, earmarks are "funds provided by the [U.S.] Congress for projects, programs, or grants where the purported congressional direction (whether in statutory text, report language, or other communication) circumvents otherwise applicable merit-based or competitive allocation processes, or specifies the location or recipient, or otherwise curtails the
ability of the executive branch to manage its statutory and constitutional responsibilities pertaining to the funds allocation process.”

The use of federal earmarks by legislators has become increasingly controversial. In 2010, a moratorium was established on earmarks, which has been extended to 2013.

**Business Improvement Districts**

A Business Improvement District (BIDs) is a private organization funded by a publicly authorized assessment on businesses and/or property owners located within set geographically defined area. The revenue generated by the assessment is used for operating the organization and supporting programs and projects within the district. Neighborhood Improvement Districts, Community Improvement Districts and Public Improvement Districts similarly provide funding through assessments.

**Joint Economic Development Districts**

In 1993, the state of Ohio passed legislation allowing for Joint Economic Development Districts (JEDD) to be formed. A JEDD is created in a situation when a township either has run out of industrial land or infrastructure capability and a neighboring (contiguous) city, village or another township has readily available either industrial land or infrastructure capability. An agreement is made between the two entities to share the benefits of commercial and industrial development within the district. As an additional benefit, townships under Ohio law are traditionally not allowed to collect income tax. However, within a JEDD, the township may receive a share of the revenues obtained from income taxes. The Ohio State University Extension created a fact sheet on JEDDs at [http://ohioline.osu.edu/cdfact/1560.html](http://ohioline.osu.edu/cdfact/1560.html).

**Tax Increment Financing Districts**

Tax Increment Financing (TIF) is a mechanism to capture the future tax benefits of real estate improvements to pay the present cost of those improvements. It is perhaps the best financing tool available for area redevelopment because it can be used to channel funding, or tax increment, toward improvements in targeted districts where development would not otherwise occur. Forty-nine states and the District of Columbia allow tax increment financing districts—a set geographically defined area that is outlined in local legislation that includes a period for incremented financing.

There are two strategies for making improvements—either the EDOs pay for improvements directly as they go from incremented tax revenues or the municipality issues general obligation

---

funds. Organizations can designate a portion of theincremented tax revenues for operational expenses such as staffing, facilities and indirect costs. It is important to note that TIF districts are known as community reinvestment areas (CRA) in Florida; tax allocation districts (TAD) in Georgia; revenue allocation districts (RAD) in New Jersey; and tax increment reinvestment zone (TIRZ) in Texas.