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NEW REALITIES for Funding Economic Development Organizations EXECUTIVE SUMMARY

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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.

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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.

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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.