chapter two

Government Entrepreneurs
Incentivizing Sustainable Businesses as Part of Local Economic Development Strategies

Jonathan Rosenbloom

Introduction

Local governments are suffocating in growing deficits, shrinking revenues, and skyrocketing costs. They are faced with a boundless list of social and economic afflictions, such as high rates of foreclosures and unemployment. Unlike the federal government, local governments must annually balance their budgets and are prohibited from carrying a deficit forward. Some local governments have struggled under the weight of the current crisis, missing bond payments and contemplating bankruptcy. In the midst of this tempest, local governments search for economic development strategies to increase revenues, create jobs, and tap into federal stimulus funding.

Traditional economic development incentives, such as tax abatements and favorable loans, were designed almost 40 years ago. They were a creative attempt to increase employment opportunities and the local tax base during the 1970s recession and stagflation (a stagnant or nondeveloping economy combined with inflation). The incentives provided public funds or reduced taxes to encourage the private sector to locate to a particular area. The incentives sought to attract private sector investment by concentrating on enhancing the financial bottom line by reducing the cost of doing business in

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the area. In return, it was hoped that the private sector would create jobs and increase local government revenues.

While the methods used to attract private sector investment have remained almost the same for the past 40 years, the private sector itself is changing. A small but rapidly growing segment has reconceptualized the purpose of a for-profit business. A new portion of the private sector is no longer narrowly focused on the financial bottom line to the exclusion of other concerns and impacts. An emerging new economic model generates profit, value, and marketability in fostering sustainable business strategies, focusing equally on economic profitability, environmental friendliness, and social responsibility.5

In the face of this evolution, local governments can attempt to force the existing economic development incentives onto a private sector that looks markedly different from the one that spawned the incentives 40 years ago. Alternatively, local governments can rethink the traditional economic development incentives and the manner in which they are employed to better achieve local objectives. They can diversify local economic development strategies to include incentives that are more applicable to sustainable businesses and that more effectively revitalize localities.

The next section of this chapter, Traditional Economic Development Strategies, briefly reviews the creation of economic development incentives and their traditional application today. The section titled Emerging Sustainable Businesses investigates the growing desire and market for sustainable businesses. The following section, titled Economic Development Meeting the Needs of Sustainable Businesses, questions whether local governments can and should redesign economic development strategies to maximize the opportunities presented by the growth in sustainable businesses. In particular, it notes that: (1) sustainable businesses, products, and services are often outpacing their peers; (2) sustainable businesses provide long-term economic, environmental, and social benefits consistent with local government objectives to provide for the health, safety, and welfare of citizens; and (3) the move to sustainable businesses is a fundamental shift in the private sector in which traditional economic development incentives are insufficient. The section continues with steps local governments may take to directly incentivize sustainable businesses by increasing the sustainability of the incentives themselves, including a performance-based economic development strategy, and to indirectly encourage the development of sustainable businesses by helping to facilitate a market for their products.

**Traditional Economic Development Strategies**

The news concerning the economic vitality of local governments has been grim for the past few years.6 As the economic downturn in the private sector unfolded from 2007 to 2009, the public sector, including local governments, experienced the ripple effect. Toward the third and fourth quarters of 2008, local government revenues tied to mar-
markets hit hard by the declining economy, including the real estate and financial markets, nosedived. Simultaneously, local government costs rose abruptly and precipitously. The result was massive local government budget deficits.

Some of the first local governments to realize the enormity of their budget deficits were those hit by the declining housing market. Cities in states such as Arizona, Florida, and Nevada "suffered an epidemic of foreclosures. As prices plunged and buyers disappeared, revenues from sources as diverse as development fees and sales taxes ... dropped." Shortly thereafter, states such as New York, New Jersey, Delaware, and Connecticut also suffered massive drops in revenue, this time tied to Wall Street.

As we emerge from the recession, local governments across the country face the gargantuan and daunting task of reducing budget deficits and costs while increasing revenue and creating jobs. Faced with this financial dilemma, local governments have implemented a variety of approaches, including increasing revenue through raising taxes and user and regulatory fees, and reducing expenses by lowering the number of employees, the types of services, and employee salaries and benefits. While these approaches have led to varying success, positive economic development is essential for most local governments. When successful, economic development may provide higher employment and retention, economic stability, improved public services, and increased property values. When unsuccessful, it may result in larger deficits, economic instability, increased taxes, reduced services, and long-term financial burdens.

The economic development incentives local governments have at their disposal today are a direct extension of those incentives created almost 40 years ago, when the postwar economic development boom ended. Prior to the 1970s, few local governments were providing incentives to attract businesses to their jurisdiction. A confluence of events, including the 1973 oil crisis, the 1973–74 stock market crash, and the rapid loss of manufacturing jobs, hit local economies and governments particularly hard.

With unemployment rates continuing to soar through the 1970s, state governments authorized local governments to use economic development incentives to attract businesses. Some state statutes limited or controlled how local governments could go about attracting businesses, while others gave broad authority to act so long as there was a showing of "economic development," which often translated into job creation and/or revenue generation. Texas, for example, gave broad local authority for one economic development method—favorable loans—so long as it "serve[d] the purpose of promoting state or local economic development by stimulating business and commercial activity within the city." The objective behind these state statutes was clear—local governments were authorized to attract the private sector by enhancing the private sector's financial prospects in the form of direct financial gains. The statutes gave little concern as to how and whether the private sector actually created jobs and generated local government revenue.

Based on these statutes, local governments were authorized to adopt strategies encouraging a narrow definition of economic development. The strategies were
designed to "spend (or forego) some public revenues, directly or indirectly, for the purpose of inducing private firms or entrepreneurs to invest in business undertakings." Local governments developed a series of incentives that involved up-front investments to private businesses in the hopes of corresponding returns. The incentives can be generally categorized as:

- Tax incentives (for example, tax abatements, tax exemptions, and tax credits)
- Revenue incentives (for example, favorable borrowing, grants, direct investments, and real estate transfers, including eminent domain)
- Services incentives (for example, technical assistance such as workforce development or marketing)

The rationale behind boosting the private sector's financial bottom line was that if local governments paid some of the private sector's costs of doing business, those businesses would relocate to their jurisdiction, raising revenues and creating jobs. As one survey of local officials discovered, the "first priority goal" for local economic development [was] 'increasing jobs located in the city' (48 percent of city elected officials), increasing the local tax base (18 percent), and diversifying the local economy (10 percent). In attempting to accomplish these goals, economic development incentives have been used to attract a variety of market segments where "growth" was projected. Initially, incentives were directed at industrial markets. As markets fluctuated, economic development shifted to focus on "growth" markets, such as nanotechnology, biotechnology, telecommunications, and information technology. Although the focus shifted from one market to the next, the methods for incentivizing economic development—tax, revenue, and service incentives—have remained the same.

It is important to acknowledge that the traditional methods of economic development have been criticized for providing up-front public investment that failed to turn into jobs or tax revenues. Several authors have detailed economic development projects that have not produced the projected local revenue and have had little long-lasting economic success. According to those authors, particularly detrimental to the long-term economic viability of local governments have been projects that involved long-term commitments to forego local taxes because the governments are receiving little or no revenue generation from the projects and yet continue to grant the tax abatements. As one scholar stated:

Their efficacy . . . has been strongly disputed. Cities appear not to gain back what they put in, either in the short term or the long term, and there is some evidence that subsidies do not ultimately alter the location decisions of firms. And even if location subsidies do enhance local welfare, they do not improve overall welfare—one city loses what another city gains.
In addition to concerns about economic efficacy, critics have questioned whether the social and environmental impacts of some types of economic development outweigh the gains. Other authors in this book have clearly stated the dire environmental and social conditions local governments face. The traditional economic development incentives did not make accommodations to address these conditions. Environmental and social concerns were ignored or took a back seat as they were outweighed by what was presented as an invaluable opportunity for jobs and revenue. For example, traditional incentives did not require businesses to maintain a certain level of environmental or social benefit beyond the existing law. Overall success was measured by the old paradigm of continuous growth and maximized return on investment.

**Emerging Sustainable Businesses**

While many areas of the economy struggle, sustainable businesses continue to emerge as a bright spot. Flourishing in the wake of the recession and bailout, these businesses gravitate toward a more public service–oriented strategy, focusing equally on profitability, environmental friendliness, and social responsibility. Unlike the traditional business model, they are not narrowly focused on the financial bottom line to the exclusion of other concerns and impacts. Rather, they find profitability and marketability by accommodating environmentally friendly and socially responsible initiatives.

To be sure, sustainable businesses seek to be profitable, but how they achieve that goal is where they differ from the traditional business model. They place significant value on the environment and social responsibility, thereby maximizing the potential of an expanding market segment that seeks sustainable products, processes, services, and manufacturing. According to a recent report that surveyed 593 companies (almost half of which had revenues greater than $1 billion), 83 percent said they will spend more or the same amount in becoming more sustainable this year. In the same report, “four out of five people said they were still buying green products and services, even in the midst of the recession.” Even “green building activity sustained impressive growth during 2009, amid a brutal construction market.” Corporate investment and hiring in sustainable businesses also continued to grow, even as the stock market collapsed.

Sustainable business entrepreneurs are not merely making their businesses or products “green,” but rather they are fundamentally changing the way they operate their businesses. Every decision is made with the long-term social, environmental, and financial impacts in mind. “Their initiatives are usually transformational in nature, bringing a significant but potentially slow rate of return. They are less costly . . . and often result in higher revenues through sales of green products and services.” They create long-term stakeholder value by embracing opportunities and managing risks derived from economic, environmental, and social developments. Economic profitability is achieved in conjunction with promoting social and environmental initiatives. For example:
an energy company’s triple bottom line efforts might focus on renewable energy sources, an automobile company’s efforts might focus on fuel efficiency and hybrid and fuel-cell technologies, and a food company’s efforts might focus on healthful options and reduced packaging. In each of these examples, a company can better its financial bottom line while also bettering its social and environmental bottom lines.42

This new business model has assumed and continues to assume a variety of identities and forms, including triple bottom line, corporate social responsibility,43 B corporations,44 hybrids,45 and others.46 For each new identity and form, there are corresponding criteria to guide the private sector in achieving sustainability. Although distinct, the criteria cover common ground that includes environmental performance and monitoring; employee ownership and compensation; community involvement; production of beneficial products or services and in a legal and beneficial manner; local charitable work; and transparency and accountability in governance.47 In addition, they “consider the needs of all stakeholders—employees, community, suppliers, consumers, and the natural environment, as well as stockholders—when making business decisions.”48 The table on the following page is a portion of a questionnaire used to certify a manufacturing business with 30 or more employees as a B corporation. The questionnaire produces a score gauging the business’s level of commitment to environmental and social issues.

Each of the subsections of the table has a series of questions pertaining to the enterprise’s sustainability. For example, in "Accountability: Governance" the questionnaire asks:

- “Has the company dedicated a staff person or employee working group to oversee the company’s social or environmental performance?”
- “Does your employee training include instruction about your environmental mission and/or social mission?”

Unlike previous changes in the private sector, no single market segment or industry includes all sustainable businesses. Rather, sustainable businesses are found in all market segments and industries. Certified B corporations, for example, are a diverse group ranging from architects to book sellers to energy providers to insurance providers to lawyers to restaurants. As an indication of their broad application, new indices and exchanges, such as the Dow Jones Sustainability index and Goldman Sachs SUSTAIN, are being formed to accommodate sustainable businesses and their application to all industries.49 Accommodating this change requires a fundamental shift in economic development strategies that goes beyond tinkering with the existing tools.

As a practical matter, one of the main hurdles sustainable businesses face is the existing legal structures. The current rules, regulations, and policies, including those
applicable to economic development, were designed around the traditional private sector. As a growing number of environmentally and socially conscious entrepreneurs seek to enter the marketplace, they are confronted with economic development policies that did not envision the shift toward more sustainable businesses. The current government and regulatory strategies put sustainable businesses at a competitive disadvantage because they provide a more “useful” benefit to nonsustainable businesses by accommodating their singular focus on financial profitability. While the traditional economic development strategies may enhance the primary goal of nonsustainable businesses by focusing on bottom-line profitability (putting aside the above-mentioned criticism of whether they are actually doing so), one could argue that they enhance only one-third of sustainable businesses’ goals. The traditional economic development strategies fail to address environmental and social concerns—two of the three primary goals

### B Impact Assessment 2010: Version 2.0

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of sustainable businesses. Despite the current failure of most economic development strategies to recognize them, sustainable businesses continue to grow in popularity, showing remarkable momentum and interest in the marketplace.

**Economic Development Meeting the Needs of Sustainable Businesses**

Local governments will benefit from associating opportunity with the emergence of sustainable businesses and markets and a desire for sustainable products, services, and processes. From the standpoint of localities, the question is: Where will sustainable businesses be located, employing thousands of individuals and increasing local revenues? Furthermore, what proactive steps can and should local governments take in attracting these businesses, which improve the lives of their citizens? Or, at a minimum, what proactive steps can local government take to avoid being an obstacle to the emergence of the new business model that values sustainable business practices and social responsibility? From the standpoint of sustainable businesses, the question is: Which locality provides the best atmosphere for starting, maintaining, and growing a triple-bottom-line business? And which locality best supports the business’s goals of obtaining economic profitability, environmental friendliness, and social responsibility?

This section suggests that local governments include in their economic development strategies incentives to attract sustainable businesses for three reasons: (1) sustainable businesses, products, and services are often outpacing their peers; (2) sustainable businesses provide long-term economic, environmental, and social benefits consistent with local government objectives to provide for the health, safety, and welfare of citizens; and (3) the move to sustainable businesses is a fundamental shift in the private sector in which traditional economic development incentives are insufficient.

This section continues with steps local governments may take to *directly* incentivize sustainable businesses, including a performance-based economic development strategy, and to *indirectly* encourage the development of sustainable businesses. The suggestions are not an attempt to supplant current economic development strategies, but rather to supplement them to provide flexibility and to foster growth and innovation. The suggestions aim to improve the sustainability of economic development strategies themselves, while attracting sustainable businesses.

**Why Incentivize Sustainable Businesses?**

The first reason local governments should diversify economic development strategies to include sustainable businesses is that they are growing. The term “growth” has had many meanings and in the context of economic development has often been narrowly defined as economic growth to the exclusion of environmental and social conditions. While measuring “growth” equally in terms of economic, environmental, and social
concerns would create an atmosphere far more welcoming to sustainable businesses, even under a narrow definition, sustainable businesses are one of the few areas experiencing "growth" in terms of jobs and revenues, often outpacing their peers:

Indeed, in 16 of the 18 industries examined, companies recognized as sustainability-focused outperformed their industry peers over both a three- and six-month period, and were well protected from value erosion. Over three months, the performance differential across the 99 companies in this analysis worked out to 10 percent; over six months, the differential was 15 percent. . . . This performance differential translates to an average $650 million in market capitalization per company.

In addition to experiencing economic growth, sustainable businesses typically offer higher wages than retail positions found in many economic development projects. Higher-paying wages translate into a variety of social and environmental benefits, including better health care and education. Further, higher-paying wages mean more direct and indirect local government revenue through additional consumption and taxes. Local governments seeking to take advantage of this growth could be ahead of the curve, establishing and marketing themselves as welcoming communities.

The second reason local governments should diversify their economic development strategies to include sustainable businesses is that it is more consistent with local government objectives. States have the authority under their police powers to enact laws protecting the "health, safety, and welfare" of their citizens. As an extension of this, most local governments find authority to govern in home rule provisions. "Home rule" provisions are state laws authorizing local governments to establish local charters that function similarly to local constitutions. While home rule provisions may assume a variety of forms, they generally authorize local governments to act in the "health, safety, and welfare" of their citizens.

Because sustainable businesses are concerned with promoting environmental stewardship and social responsibility, as well as economic profitability, they offer a business model that is more consistent with promoting the "health, safety, and welfare" of citizens. Take for example a company that is creating 30 jobs. Is that company always better than a company that creates 20 jobs? What if the first company decreases the air and water quality, as well as the health of citizens? What if these conditions lead to citizens relocating out of the locality? What if the second company offers jobs that are higher paying and include health coverage? What if the second company evinces a dedication to the local community, forming connections to the schools and charities? These are only a few considerations that would clearly fall within the purview of "health, safety, and welfare," but are not necessarily accounted for in the current economic development analysis.

In contrast, attracting sustainable businesses is consistent with local government objectives, as sustainable businesses are directly concerned with the health, safety, and
welfare of their employees and the community. As stated above, almost all definitions and third-party certifications of sustainable businesses require some measure of care for the local community and environment.59 Sustainable businesses evince a devotion to their employees and form partnerships that connect and build communities, as they find economic value in these relationships. For example, of the corporations in one third-party certification (B corporations):

- 82 percent have programs for volunteering in their local community;
- 74 percent are affiliated with local charities;
- they are 30 times more likely to donate at least 10 percent of their profits to charity;
- 9 out of 10 are locally owned60

It is difficult to understate the benefits stemming from sustainable businesses that go beyond job creation and revenues. Sustainable businesses are taking actions that are hand in hand with local government objectives that provide ancillary benefits to cities that cannot be accounted for in a financial bottom-line analysis. The more a business is tied to the community, the less likely it is to relocate when the next best tax abatement is offered.61

The third reason local governments should consider revising economic development strategies to incentivize sustainable businesses is that the traditional methods for economic development are insufficient to meet the needs of sustainable businesses. As mentioned above, the primary focus of the traditional methods is enhancing the financial bottom line. At best, when applied to sustainable businesses, the traditional methods of economic development accomplish only one of three goals. They do not take into account or help achieve environmental or social concerns that are integral parts of sustainable businesses. No doubt, sustainable businesses must be economically profitable; however, they achieve that goal in a manner that is consistent with environmental stewardship and social responsibility. Failing to address environmental or social concerns makes the current tools less effective, as they miss the mark.

Traditional methods of economic development are inadequate to accommodate the broad-based shift in the private sector. Unlike prior areas of growth, sustainable businesses are not confined to one area of the private sector, such as biotechnology. Rather, sustainable businesses are emerging in all areas of the economy. Local economic development methods must be flexible enough to accommodate a diverse group of industries. Diversifying to accommodate sustainable businesses would also foster creativity and innovation, which local governments need to emerge from the financial crisis. Local governments would be better prepared for tomorrow’s economy, societal needs, and the environment because the private sector’s goals would be aligned with the government’s goals. If local governments can harmonize the economic development methods, including corresponding regulatory regimes, with changes in the private sector, meaningful and sustainable economic development may result.
Local Proposals to Incentivize Sustainable Businesses

The following proposals attempt to increase local governments’ sustainability and flexibility in attracting sustainable businesses based on their diversity in the private sector. At the same time, the proposals have a clear directive to provide lasting jobs and revenue while enhancing the environment and society. The proposals cover three areas that focus on strengthening the foundation of sustainable businesses and local governments: (1) direct local incentives, (2) indirect local initiatives focused on creating demand, and (3) related state regulations.

Direct Local Incentives

Local governments should begin by evaluating and then effectively leveraging the assets they control that go beyond financial benefits. Local governments have many assets that could be made more sustainable while simultaneously being used to incentivize sustainable businesses. These incentives can be applied individually, collectively, or as part of a larger plan for sustainable development, such as in a performance-based sustainable economic development strategy discussed below.

While a performance-based sustainable economic development strategy is a holistic approach to local economic development, local governments may take incremental steps to build sustainability into their economic development strategies. The most accessible alternatives leverage the assets each municipality controls, whether or not the assets are associated with financial benefits. The locality’s objective would be to (1) identify an asset, (2) analyze how the asset itself could be made more sustainable, and (3) analyze how the enhanced sustainability of the asset can be used to attract sustainable businesses. Some examples are examined next.

Public transportation. Many localities control or heavily influence the local public transportation systems. Local governments can work with sustainable businesses to help facilitate their employees’ use of public transportation.62 Drake University students, faculty, staff, and retirees, for example, can ride the Des Moines Area Regional Transit Authority buses for free. “The Unlimited Access Program offers many benefits for Drake and the environment... It reduces the demand for parking, helps... recruit and retain students and employees, reduces the cost of commuting, helps protect the environment and relieves traffic congestion.”63

Energy. Many localities operate and maintain energy providers. Local governments can seek to provide lower cost and easier access to renewable energies.64 As discussed further below, this would also spur a market for sustainable products and services in clean energy technologies and manufacturing. Columbia, Missouri, for example, has installed “methane gas recovery wells... Instead of burning off methane... generated by decomposing garbage at the landfill, the city is using it to provide about 1.5
percent of the power consumed in Columbia every day. ... The electricity ... is among the cheapest power in the city utility's portfolio. It costs 3.8 cents per kilowatt-hour, compared with 6.3 cents per kilowatt-hour to burn coal in the city power plant. A local government could direct this energy and these savings to sustainable businesses. Thus, while the city itself lowers costs and improves the environment, it can also seek to attract sustainable businesses.

**Waste.** Local governments generally assume the task of waste removal. This is another asset that can be used to attract sustainable business. One method is to establish a benchmark for waste disposal and pass on savings to companies producing waste under the benchmark and charge those producing waste above the benchmark. Local governments should consider a sliding scale for the disposal of landfill waste. The more landfill waste a business produces, the more it should pay. For example, Fort Collins, Colorado, instituted "a volume-based trash rates system called 'pay-as-you-throw' ... that provides economic rewards for reducing waste. Residents are charged for the amount of trash they generate in the same way [they] get billed for the amount of electricity, gas and other utilities that [they] use. That means 'the less you throw away, the less you pay.' This would reduce costs for local governments, which could pass the savings on to sustainable businesses in the form of reduced rates or grants, loans, or tax abatements for sustainable infrastructure improvements related to waste.

**Water.** Local governments often assume the responsibility of treating runoff and providing drinkable water. Both of these could be adapted to encourage sustainable businesses. Water runoff costs local governments millions of dollars a year to treat and is often free regardless of the amount of runoff from a particular site. Local governments could establish a cost structure that fairly attributes the cost of treating the water to those businesses responsible for putting the water into the system. Philadelphia, for example, has instituted a billing structure to benefit those businesses that control their water runoff, as many sustainable businesses do. The more water runoff a business contributes to the system, the more it pays. In addition to reducing the costs for sustainable businesses, a local government could add an additional benefit by passing the local government savings on to sustainable businesses in the form of reduced rates or grants, loans, or tax abatements for sustainable infrastructure improvements related to water.

These incentives could be applied individually to enhance the sustainability of a local government’s economic development strategy or they could be applied as part of a performance-based sustainable economic development strategy. This strategy would be structured around a sliding scale that would provide more public incentives, such as the individual incentives discussed above, the more sustainable a business is. Performance-based economic development could be built around a point structure that allocates a point value for set sustainable actions, much like performance-based zoning. As illustrated in the chart on the following page, the more points a project accumulates, the more incentives the project would be given.
As many local governments know, performance-based tools and sliding scales provide them with flexibility. They can stress those aspects of sustainability that their communities prefer. A standard in one locality may not be applicable to another—that diversity makes each city wonderful and unique. Examples for establishing criteria for the point allocations can be found in existing mechanisms in the private sector, such as the Global Reporting Initiative (GRI), www.globalreporting.org, or B Lab, www.bcorporation.net. Both of these initiatives have frameworks for identifying sustainability, or as GRI states: “how organizations can disclose their sustainability performance.”

As shown in the partial image of the survey on page 25 certifying B corporations, some of the criteria include corporate accountability (such as transparency and fair trade), employee ownership, community benefits (such as charity or direct services), the environment, beneficial products, and beneficial methods of production.

Incorporating a performance-based economic development strategy would attract sustainable businesses and would encourage them to enhance their sustainability because it increases incentives with more sustainable measures. Similarly, it may also encourage existing businesses to incorporate sustainable initiatives. Performance-based sustainable economic development encourages innovations as local governments can establish benchmarks, tracking, and reporting requirements to ensure accountability and that the triple bottom line is being met. They also offer a wider range of considerations to enter into the discussion.

Performance-based tools have been criticized for both the cost of administration and the steep learning curve needed for start-up. Performance-based tools may involve a higher degree of calculation and consideration. While this criticism should be examined, it is important to note that in the context of economic development, local governments are already making complicated economic forecasts when committing taxpayers to millions of dollars in abatements and loans. This proposal would not necessarily change the level of complexity but rather what is being calculated.
Indirect Local Initiatives Focused on Creating Demand

There are numerous other areas in which cities control assets that they can convert into direct incentives to attract sustainable businesses. This subsection focuses on indirect actions cities can take to help create demand for sustainable goods and services and an atmosphere welcoming to sustainable businesses. As one former executive of a leading manufacturer of sustainable products stated:

Hands down, the incentives that would matter most to me are on the demand side. Sure, it’s nice if someone picks up the tab for my cost of business. But what I really want is for someone to buy my products. That matters for more than the net income effect. Income is worth more than cost savings, and a great market-leading example is crucial.71

Local governments have enormous power to provide a market-leading example. Local governments are often one of the largest market participants in the region. They can exercise this authority to create a demand for sustainable products and services by adopting a sustainable procurement code.72 Overnight local governments could change the demand for local and organic food by requiring it to be served in schools. Local governments can also promulgate rules and regulations pertaining to sustainable building codes, which would also create a demand for these products and services.73 Sustainable building codes could apply to the private sector, and, therefore, create demand on private sector projects, and the public sector (i.e., public buildings), creating demand on public sector projects.74 Similarly, localities can adopt renewable energy standards, which would create demand, jobs, and growth in renewable energies.75

Local governments could also provide clear and easy-to-access information to consumers and citizens on sustainable businesses in the jurisdiction and help market those businesses. Some companies “view sustainability . . . as an opportunity to improve their reputations. They make small efforts such as upgrading an environmental policy or rebranding existing initiatives under the guise of sustainability. The efforts are deemed complete when a sustainability report is published.”76 Local governments need to be wary of which companies are actually sustainable versus which are simply repackaging their current structure in creative marketing methods. Providing clear and easy access to information creates an incentive to sustainable businesses to locate in an area that supports their needs. It also enhances accountability and provides clear consumer information as to who is truly being sustainable—a laudable goal for local governments.77

As more and more state and local entities call for sustainable initiatives, the need for companies to adapt with more efficient and cost-effective mechanisms to comply with these initiatives will grow. Moreover, the initiatives create a consumer marketplace for environmentally friendly and socially responsible products. While there may be a financial benefit to the company itself, there would be a net benefit to the city,
including an increase in the flow of money at all levels. The demand is there and growing. Local governments should take steps to help the private sector to be innovative in meeting that demand while benefiting local governments, society, and the environment.

**State Regulations**
As local governments consider altering economic development incentives to accommodate sustainable businesses, they need to be concerned with state authorization. Local governments should assess whether state statutes authorizing economic development include incentivizing sustainable businesses. Most statutes are broadly written and should not conflict with a desire to diversify economic development strategies because economic development strategies focusing on sustainable businesses are more consistent with a local government’s obligations to improve the health, safety, and welfare of citizens.

If a local government is concerned about its authority to act, it should actively advocate for state law changes and clarifications. State legislatures should provide clear authorization to local governments to creatively draft economic development strategies directed at sustainable businesses. This could include, among other things, authorization to utilize any creative mechanism, within the existing law, to incentivize sustainable businesses, including the examples above. This would allow local governments to go beyond taxing and loaning incentives and allow them to take a deeper look at the assets they have and how they can benefit sustainable businesses’ triple-bottom-line approach.

State governments can also be proactive in assisting local governments’ desire to be sustainable and attract sustainable businesses. Although beyond the purview of this chapter, state governments can help create an atmosphere welcoming to sustainable businesses. For example, state governments maintain the authority to officially and legally recognize sustainable businesses as a new business organization, such as an LLP, LLC, or corporation. Maryland and Vermont have officially recognized a corporate form that promotes environmental and social benefits. When a state officially recognizes sustainable businesses, it promotes investment and marketing opportunities by branding a sustainable business as a company that is helping the state, environment, and society. It also shows the state as a welcoming location for sustainable businesses.

**Conclusion**
Creative and adventurous entrepreneurs are seeking a closer connection between the profits they earn and the positive environmental and social impacts they can have while earning those profits. Confronted with a swelling need to promote economic activity, local governments have an opportunity to rethink the environment in which they seek to lure private sector investment. They can make a transition to attract the
leaders of a new economy who view positive environmental and social performance as an integral part of business.

As this book points out, in almost all jurisdictions there are motivated people proposing and enacting innovative sustainable policies. Another step in this direction is to join together the energies in the private and public sectors to create an economic development policy built on the ideas and fit for the perspective of today.

This chapter does not present sustainable economic development strategies as a single option or as a blanket panacea. Rather, by implementing economic development strategies to accommodate and promote sustainable businesses, local governments enhance their sustainability and diversify their tax base. The strategies also improve environmental and social conditions, while fostering innovation and new technologies, as opposed to the older methods of economic development, which often promoted unnecessary competition and failed to tap into private sector creativity. A welcoming business framework is crucial in driving interest and investments in sustainability to the mutual benefit of local governments and the private sector. As local governments look to support sustainable businesses, they will have a positive impact on communities, economic development, and the environment in a sustainable and lasting manner.

Notes


3. For purposes of this chapter, “economic development” is defined as a government action designed to encourage private investment; see also Matt Kane & Peggy Sand, ECONOMIC DEVELOPMENT: WHAT WORKS AT THE LOCAL LEVEL 4 (National League of Cities 1988) (defining local “economic development” as a “local economy’s capacity to create wealth for local residents”). Also for purposes of this chapter, “government entrepreneurs” is defined as public sector employees working on behalf of a local government and its commercial activities to encourage local economic development; see also Christian Iaione, Local Public Entrepreneurship and Judicial Intervention in a Euro-American and Global Perspective, 7 WASH. U. GLOBAL STUD. L. REV. 215, 218 (2008).
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6. And it appears to be far from good in the future. See The United States Conference of Mayors/Councils for the New American City, Top 100 U.S. Metro Economies (Jan. 2010), http://www.usmayors.org/metroeconomies/0110/charts.pdf (last visited Dec. 28, 2011) (stating that unemployment in the top 100 metro areas will decrease but will continue to be very high over the next several years); Yousuf, supra note 2 (quoting Chris Hoene, director of policy and research at the National League of Cities: “The fiscal stress is severe in cities around the country, and it’s likely to stick around for at least a couple of more years”).

7. Local Zeroes, supra note 1.

8. Id.

9. See, e.g., Brent Begin, City’s Budget Looking Bleak, THE EXAMINER (Feb. 11, 2009) (setting forth San Francisco’s budget woes); Phil Willon, L.A. Budget Gap Could Hit $1 Billion, L.A. TIMES (Feb. 28, 2009), http://articles.latimes.com/2009/feb/28/local/me-la-budget28 (last visited Dec. 28, 2011) (same for Los Angeles); Yousuf, supra note 2 (noting that “Seven U.S. cities recently had their municipal bonds downgraded below investment grade. Their debt is now, junk, considered more worthless than that of the so-called PIIGS.”).

10. Local Zeroes, supra note 1.

11. Id.


14. See, e.g., Wash. Const. art. VIII, §7 (stating “No county, city, town or other municipal corporation shall hereafter give any money, property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm.”).

levy a sales and use tax which can only be used for certain economic development purposes.” (citing Ark. Code Ann. § 14-174-101 et seq.); id. (“Local governments can also issue bonds secured by a local sales and use tax to finance capital improvements of a public nature after approval by an election. Capital improvements of a public nature include streets, water and sewer systems and numerous other capital facilities. These improvements can be used to assist with economic development.”) (citing Ark. Const. Amend. 62; Ark. Code Ann. §14-164-301 et seq.).

16. Jeff Moore, Chapter 380 of the Texas Local Government Code, Texas City Attorneys Association (Feb. 24, 2006) at 2 (citing Tex. Loc. Gov. Code Ann. § 380.001(a)); id. (“Article III, section 52-a of the Texas Constitution authorizes 'the making of loans and grants of public money . . . for the public purposes of development and diversification of the economy of the state, the elimination of unemployment or underemployment in the state . . . or the development or expansion of transportation or commerce in the state.” (citing Tex. Const. Art. III, § 52-a)).

17. See generally Erwin N. Griswold, Production, Jobs and Taxes, 57 Harv. L. Rev. 927, 931 (1944) (stating “The salvation of this country’s economy in the postwar period must be found in increased production and consumption . . . . The answer is clear: America must produce and consume.”).

18. See, e.g., Minn. Stat. §469.109 (“there exists . . . certain rural areas where development and redevelopment should be encouraged. The legislature finds that the powers and facilities of the state government and local communities . . . should assist . . . areas of substantial and chronic unemployment in planning and financing economic redevelopment by private enterprise . . . and to provide new employment opportunities through the development and expansion of new or existing facilities and resources.”).


20. See also Timothy J. Bartik, Upjohn Institute Staff Working Paper No. 03-91 (Jan. 2003) at 3 (stating that "the most common economic development programs supported by local governments are: tax incentives, either citywide or in designated zones (listed by 66 percent of all local governments); job training programs customized to the needs of individual firms or industries (63 percent); community development loan funds for businesses (55 percent); community development corporations (53 percent); and microenterprise programs (27 percent)").

21. Id. at 2 (quoting Phyllis Furdell, Poverty and Economic Development: Views FROM CITY HALL 11 (National League of Cities 1994)).


25. See, e.g., supra and infra notes 24–27.

have not come close to getting their money’s worth . . . [h]undreds of the projects delivered fewer jobs than promised, and some companies actually slashed employment”).


29. Traditional economic development strategies have also been criticized for promoting negative competition among municipalities in which cities compete against each other to give the most economic incentives to the detriment of all cities. See also Schragger, supra note 27, at 331–32 (noting that this competition is “the post-industrial version of smokestack chasing: firms play one city or region against another, generating a subsidy race with dubious welfare effects”).

30. Sustainable businesses have been developing for several years. Considered to be one of the first socially responsible businesses, Ben & Jerry’s had been incorporated for decades and had the goals of being profitable and environmentally friendly. The Social Venture Network and the Business for Social Responsibility, groups that bring sustainable businesses together, were organized in the early 1990s. As others followed suit, businesses began to include social concerns, such as employee benefits and community development. See Alissa Mickels, *Beyond Corporate Social Responsibility: Reconciling the Ideals of a For-Benefit Corporation with Director Fiduciary Duties in the U.S. and Europe*, 32 HASTINGS INT’L & COMP. L. REV. 271 (2009). In 1994, John Elkington brought all of these concerns—economic, environmental and social—together in what he called the triple-bottom-line business model. See Elkington, *Cannibals with Forks*, supra note 5, at 55–56.


34. See Judd F. Sneirson, Green Is Good: Sustainability, Profitability, and a New Paradigm for Corporate Governance, 94 IOWA L. REV. 987, 992 (2009) ("adherents argue that a triple bottom line mindset not only helps the environment and society, it can also help firms’ financial bottom lines. For example, efforts to reduce waste and pollution often result in greater efficiency and the discovery of innovative techniques and materials, all of which in turn can benefit the firm, its workforce, and the environment in both the short and the long runs"); Jim Balow, Green Businesses Can Make Green Too, CHARLESTON GAZETTE, 5A (June 22, 2010) ("Yes, your business can be socially and environmentally responsible and still make money.").


37. Id. at 6.

38. Id. at 9.

39. Id. at 11.


42. See Sneirson, supra note 34, at 5–6.

43. Corporate social responsibility (CSR) is “an ongoing commitment by business to behave ethically and to contribute to economic development while demonstrating respect for people, communities, society at large, and the environment.” JEFFREY HOLLENDER & STEVEN FENICHELL, WHAT MATTERS MOST 29 (2004).

44. See http://www.bcorporation.net/about (last visited Dec. 28, 2011) for a description of B corporations.

45. A hybrid is a legally recognized organizational form structured by combining for-profit and nonprofit ideals. See, e.g., Minnesota Responsible Business Corporation Act, ch. 304A, § 2(2),
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46. Others include microfinance, venture philanthropy, social enterprise, and community development.


48. See Wicks, supra note 31, at 1.


50. See Wicks, supra note 31 at 2 (“Growth can be measured in ways other than physical size—expanding creativity, knowledge, and consciousness, deepening relationships, and increasing happiness and well being.”)

51. See supra notes 32–49 and accompanying text.


54. See United Haulers Ass’n, Inc. v. Oneida-Herkimer Solid Waste Management, 550 U.S. 330, 342 (2007).


57. See N.Y. Mun. Home. Rule § 10 (police powers are extended to local governments to act for the “health, safety and welfare”); see also City and County of Denver v. Qwest Corp., 18 P.3d 748, 755 (Colo. 2001) (stating “If there is a rational basis for legislating to protect the health, safety, or welfare of the citizens of a municipality, a home rule city may constitutionally do so.” (citing United States Disposal Sys., Inc. v. City of Northglenn, 193 Colo. 277, 281, 567 P.2d 365, 368 (1977))).
58. See generally Schragger, supra note 27, at 331–32 (2010) (“As a practical matter, any economic development strategy that shifts money from taxpayers to private firms has to be measured against some other use of taxpayer money—say, building better schools, providing more policing, or producing better health care. And this gets us back to the question of what makes a city do better or worse economically. Providing good municipal services and creating healthy, smart people is something that any city should aspire to. But doing so does not ensure economic success.”).

59. Wicks, supra note 31, at 2 (“[N]ew business models remain human-scaled and locally owned, fostering direct, authentic and meaningful relationships with employees, customers, suppliers, neighbors, and local habitat, which add to the quality of life in our communities.”).


61. See e.g., McGeehan, supra note 29 (after only eight years, Pfizer and 1,400 jobs left New London, which had developed an economic development plan for and around the company and defending the plan in the lawsuit, Kelo v. City of New London, 545 U.S. 469 (2005)).

62. See Green Biz, supra note 60 (noting that 51% of B corporations have public transportation or car-pooling incentives).

63. Students, Employees Get Free Ride on DART Buses (Dec. 6, 2007), http://www.drake.edu/news/db/official/archive.php?article=2485 (last visited Dec. 28, 2011) (“Under the Unlimited Access program, [Des Moines Area Regional Transit Authority (DART)] and an employer establish a set annual payment based on current ridership and/or annual bus pass purchases. In exchange for the set annual payment, all employees of the organization are able to ride all DART bus service for free by simply showing their employee ID.”).

64. See Green Biz, supra note 60 (noting that 72% of B corporations use renewable energies).

65. Rudi Keller, City Powers Ahead on Renewable Energy, COLUMBIA DAILY TRIBUNE (Nov. 28, 2010), http://www.columbiatribune.com/news/2010/nov/28/city-powers-ahead-on-renewable-energy/ (last visited Dec. 28, 2011) (“The electricity—2.1 megawatts or enough to power about 1,500 homes—is among the cheapest power in the city utility’s portfolio. It costs 3.8 cents per kilowatt-hour, compared with 6.3 cents per kilowatt-hour to burn coal in the city power plant”).

66. http://www.fcgov.com/recycling/trash-rates.php (last visited Dec. 28, 2011) (“Pay-as-you-throw programs are good for the environment because they encourage people to reduce, reuse and recycle. Less waste and more recycling mean that fewer natural resources are used, less energy is consumed and less pollution—including greenhouse gases that contribute to global warming—is created from manufacturing. In addition, landfill space is used at a slower rate, reducing the need to site new facilities.”).


68. Notwithstanding the above, traditional methods of tax incentives and revenue incentives could be altered to impact sustainable businesses. See, e.g., Green Biz, supra note 60 (stating that Philadelphia voted to give tax breaks to businesses that pass the B Lab’s corporate rating system for sustainability).

69. See Global Reporting Initiative, http://www.globalreporting.org/ReportingFramework/ReportingFrameworkOverview/ (last visited Dec. 17, 2010) (“The Framework is applicable to organizations of any size, constituency or location, and has been used already by many hundreds of organizations around the world, as the basis of their sustainability reporting. Information-seekers can more accurately interpret disclosed information if it is communicated through the GRI’s credible, comparable framework.”).
70. See B Lab, http://www.bcorporation.net/index.cfm/fuseaction/content.page/nodeID/f6780de0-cf1b-44a3-b8e4-195abbe6fb5 (last visited Dec. 28, 2011).


72. For more information on sustainable procurement, see Danielle M. Conway’s chapter 3 herein.

73. For more information concerning green building codes, see J. Cullen Howe’s chapter 7 herein.

74. These can be straightforward requirements for building codes, such as mandating LEED construction, or they can be renovations to enhance sustainability. See, e.g., Joan Gralla, NYC to Curb Water Runoff with Blue and Green Roofs, Reuters.com (Sept. 28, 2010), http://www.philly .com/philly/blogs/greenliving/City_breaks_ground_on_first_solar_plant.html, (last visited Dec. 15, 2010) (noting New York City’s desire to require blue or green roofs on public buildings to control runoff and save billions of dollars).


76. Kearney, supra note 35, at 1.


78. John D. Sutter, Growing Excitement, Expectations for Green Jobs Corps (Mar. 2, 2009), available at http://www.philly.com/philly/blogs/greenliving/City_breaks_ground_on_first_solar_plant.html (“Government support has rallied excitement for the prospect of a green jobs corps, as President Obama’s stimulus package puts about $20 billion into greening the economy, according to the White House. Video Obama says country will double renewable energy in three years. In his recent speech to Congress, Obama said the U.S. will double its supply of renewable energy in three years. To do so, he’s calling on a new class of workers to be trained in environmental fields. Green jobs training programs will get $500 million from the stimulus.”); Email to Jonathan Rosenbloom, Dec. 14, 2010, on file with author (“Direct purchases for the local gov’ts own facilities; inclusion in the local gov’t promotional programs [including information campaigns and consumer funding or financing] are two good demand pulls.”).

79. See, e.g., Maryland Senate Bill 690 (2010).