



The
UNIVERSITY
of VERMONT

Vermont Legislative Research Shop

Public-Private Partnerships in Economic Development

Measuring Success

One way of privatizing economic development efforts is through the use of public-private partnerships. This type of partnership implies an advance agreement under which both parties stand to benefit. These partnerships can be used for public-consumption to aid economic development program administration, marketing, operations, outreach, and direct business assistance, including assessment of regional economic strengths and weakness, business retention activities, and targeting industries for attraction. They can also be used for private-investment for private real estate or infrastructure development and investment as well as public-investment such as human capital investment activities, including job-training programs and work force development initiatives (Saiz, pp. 415-44, 2008).

Public-private partnerships (PPP) have no universal measure of success, thus it is difficult to measure. One report from the US Economic Development Administration¹ stated that "conceptually, we might think of considering a PPP 'successful' if it (a) increases the probability of a good economic development effort being successful and/or (b) it increases the net benefits to one or more of the partners, without decreasing that of any partner" (Mullin, p. vi, 2002).

Although PPPs may result in efficiency gains, trends show that it is the public sector, not the private, that might be taking on the most risks and costs in a partnership. Some particularly relevant characteristics that have emerged in successful PPPs are:

- Receptive and supportive public sector to a partnership approach
- Clear objective(s), with well-defined, limited, and measurable objectives
- Clearly delineated (via fair negotiation) roles, responsibilities, and shared risks
- Active and meaningful participation of all partners
- Satisfactory accountability and openness with the public (Mullin, p. vi, 2002).

Still, as put by one expert on state and local economies in his review of the extant literature on the subject

If we have learned anything about economic growth, it is certainly that it is the result of many market and collective forces acting simultaneously, which makes measurement of

¹ An organization within the US Department of Commerce

particular components, and hence identification and evaluation of marginal impacts, problematic (Mullin, 8, 2002).

Instances of Public-Private Partnerships

Public service partnerships were created by legislatures with governors as chairpersons or co-chairpersons in Florida, Indiana, Kansas, Michigan, Virginia, and Wyoming, with a “belief that a business-like organization could respond faster than traditional state agencies to businesses and communities seeking economic development aid” (Rappa, p. 2, 2006).

Florida

Florida’s non-profit public-private partnership Enterprise Florida, Inc. (EFI) was created by Florida’s legislature in 1992 to replace its chamber of commerce. Its original goal was to promote high technology industry and jobs in Florida. The Governor’s Office for Tourism, Trade, and Economic Development oversees EFI’s development activities and the state of Florida provides most of the funding. In fiscal year 2003-2004, the state of Florida provided \$10.5 million, as opposed to \$1.6 million in private revenue. EFI

markets and promotes the state to life science, information technology, aerospace, homeland security, and financial service businesses. It also prepares strategic plans, helps businesses export their goods and services, and recruits businesses to distressed areas (Rappa, p. 2, 2006).

EFI has not attracted as many businesses to Florida’s more needy areas as mandated by the legislature. One of the issues that has arisen with EFI is that it has been disproportionately providing services to those counties that already benefit from existing economic development organizations, as opposed to those in more “economically distressed rural and urban communities” (Rappa, p. 3, 2006). EFI has had trouble coordinating with existing economic development organizations, and has also had little success increasing venture capital investments in businesses in Florida (Rappa, pp. 2-4, 2006).

Indiana

Indiana’s economic development agency, the Indiana Economic Development Corporation (IEDC), was established in 2005 to replace the Indiana Department of Commerce. It was developed to be more efficient and business-like than a traditional government agency and “to respond quickly to the needs of businesses” (Rappa, p. 4, 2006). Indiana Economic Development Corporation (IEDC)’s role is to help businesses get licenses and permits, as well as help them locate new sites and facilities. IEDC is controlled by the governor’s office and the governor appoints members, but does not receive as much state funding as Florida. It can request state funds for administrative and program costs and it can legally receive private funds. Critics of the IEDC are concerned about concentration of power in the organization’s board (Rappa, pp. 4-5, 2006).

Kansas

Kansas, Inc. was created by the Kansas legislature in 1986 as their main economic development resource headed by the governor. Its board consists of government officials and governor appointed members representing “business, labor, and universities” (Rappa, p. 6, 2006). The state provides 60 percent of the funding for Kansas, Inc., the other 40 percent comes from private sources. Kansas, Inc. has had problems filling the role it was assigned: “it has not ‘emerged as the strong coordinator and evaluator of economic development programs the statutes seem to envision,’ the Legislative Post Audit Committee concluded in 2001” (Rappa, p. 6, 2006). Reports indicate that Kansas, Inc. and Kansas’s two other economic development institutions— the Department of Commerce and Housing and the Kansas Technology Enterprise Corporation— do not coordinate and therefore duplicate efforts and compete for funds (Rappa, p. 6, 2006).

Michigan

The Michigan Economic Development Corporation (MEDC) (<http://www.themedc.org/>) was created in 1999 by Michigan and its local communities to provide centralized business resources. The Michigan Economic Development Corporation (MEDC)

has a private sector board of directors comprised of business people, local economic developers and educators... A corporation, not a bureaucracy, the MEDC can bring together supply and demand, matching up resources and services with the needs of [their] business customers (www.themedc.org/About-the-MEDC/).

In 2003 Michigan's Governor placed MEDC under the state department of Labor and Economic Growth, forcing the president of MEDC to report to the department director, essentially bringing the MEDC back under the state bureaucracy (Rappa, pp. 7-8, 2006).

Virginia

The Virginia Economic Development Partnership (VEDP) supplies resources for focused small groups, such as the Virginia Leaders in Export Trade (VALET) program. Recognized in 2008 by NASBITE International² and through the President’s “E Star” Award for Export Service as one of the most innovative state programs in the nation, VEDP’s Division of International Trade provides international business expertise to promote Virginia's products and services in world markets. Export counseling, marketing assistance, educational seminars, international market information, and market planning programs are among the services provided to Virginia businesses that are interested in pursuing foreign sales opportunities (<http://www.exportvirginia.org/>). The Virginia Leaders in Export Trade (VALET) program helps businesses that have established domestic operations to expand to international exporting. The program uses services from VALET’s 23 Program Partners,

² National Association of Small Business International Trade Educators, <http://nasbite.org/>.

a team of experienced international professional service providers who assist the VALET companies with their international goals. Services providers such as attorneys, web designers, bankers, translators and freight-forwarders contribute essential skills for expansion into international markets (<http://www.ncppp.org/cases/vedp.shtml>) (Rappa, pp. 9-10, 2006).

The average VALET company has \$24.8 million in annual sales, 113 Virginia based employees, and 30 years in business. For every \$1 in state funds in the VALET program, there is \$3 in private sector funds. VEDP gives \$10,000 in reimbursements for export related expenditures to each company. Each private sector professional service firm is contracted to provide up to \$10,000 worth of pro bono services to the VALET companies. Virginia companies must meet minimum thresholds for years in business, annual sales, employees and commit to a \$20,000 export budget (<http://www.ncppp.org/cases/vedp.shtml>) (Rappa, pp. 9-10, 2006).

Virginia benefits from the VALET programs because economic development funds are multiplied by the private sector professional service firms, exports are accelerated through the application of intensive resources, and private sector professional service firms have new business opportunities that showcase their skills instead of advertising messages (<http://www.ncppp.org/cases/vedp.shtml>) (Rappa, pp. 9-10, 2006).

Delaware

The Delaware Innovation Fund (DIF) is a private non-profit organization that has partnered with the state government to provide capital, networking, and consulting resources for high technology businesses and entrepreneurs in Delaware. The Delaware Innovation Fund (DIF) claims to provide "operational, technical, and business assistance" in planning, structure, marketing, operations, systems, finance, education, human resources, and technology. The organization's initial funding came from the state of Delaware and includes investors such as Bank of America and First USA Bank (<http://www.difonline.com/index.htm>).

Works Cited

Delaware Innovation Fund. Accessed 10 Feb. 2009. <http://www.difonline.com/index.htm>

The Michigan Economic Development Corporation. 2009. <http://www.themedc.org/>, accessed 10 Feb. 2009.

The Michigan Economic Development Corporation. "Welcome to the MEDC - About the MEDC." <http://www.themedc.org/About-the-MEDC/>, accessed 10 Feb. 2009.

Mohr, Robert D., Steven Deller, and John Halstead. *Private Partnerships, Cooperative*

Agreements, and the Production of Public Services in Small and Rural Municipalities. Working paper. New England Public Policy Center at the Federal Reserve Bank of Boston, 2008. <http://www.bos.frb.org/economic/neppc/wp/2008/neppcwp0804.htm>, accessed 18 February 2009.

Mullin, Stephen P. *Public-Private Partnerships*. Publication no. 16. U.S. Economic Development Administration. 2002. http://www.eda.gov/ImageCache/EDAPublic/documents/pdfdocs/econsult_5ffinal_2epdf/v1/econsult_5ffinal.pdf, accessed 17 February 2009.

National Council for Public-Private Partnerships. "Virginia Leaders in Export Trade (VALET) Program." <http://www.ncppp.org/cases/vedp.shtml>, accessed 10 Feb. 2009.

Rappa, John. "Public-Private Economic Development," Rep. no. 2006-R-0019. OLR Research Report, 2006. <http://www.cga.ct.gov/2006/rpt/2006-R-0019.htm>, accessed 17 February 2009.

Saiz, Martin, and Susan E. Clarke. "Economic Development and Infrastructure Policy." In *Politics in the American State : A Comparative Analysis*, 9th ed., Virginia Gray and Russell Hanson (editors). (New York: Congressional Quarterly Press, 2008). Pp. 415-44.

Mohr, Robert, Steven Deller, and John Halstead. 2008. "Public-Private Partnerships, Cooperative Agreements, and the Production of Public Services in Small and Rural Municipalities." New England Public Policy Center, US. Federal Reserve Bank of Boston. <http://www.bos.frb.org/economic/neppc/wp/2008/neppcwp0804.htm>, accessed 17 February 2009.

Virginia Economic Development Partnership - International Trade Division. Accessed 10 Feb. 2009. <http://www.exportvirginia.org/>

This report prepared in response to a request from Senator Hinda Miller by Emelie Bailey, Anna Isaacson, and Laura Eddy under the supervision of Professor Anthony Gierzynski on February 18, 2009.

Disclaimer: This report has been compiled by undergraduate students at the University of Vermont under the supervision of Professor Anthony Gierzynski. The material contained in the report does not reflect the official policy of the University of Vermont.