

OUR COMMON Future

*A newsletter of the Laguna Madre
Bínational Initiative*

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The Laguna Madre Binational Initiative is a project of the Texas Center for Policy Studies (TCPS) and Pronatura Noreste A.C. TCPS is a public interest environmental research and policy development organization. Pronatura Noreste, A.C. is a leading Mexican conservation organization. Our mutual project goal, which we are pursuing in both the Lower Rio Grande Valley and Northeastern Tamaulipas, is to encourage sustainable development practices in the binational Laguna Madre region.

As part of our outreach for the project, we will produce a series of newsletters—this is the first one. The intent of the newsletters is to provide useful information to a cross-section of community leaders and practitioners of economic development. We welcome your input and comments regarding this newsletter. If you have suggestions, please contact Karen Chapman by phone, (512) 474-0811, or e-mail: kc@texascenter.org.

First, the million-dollar question: just what is sustainable economic development? The term *sustainable development* first received widespread recognition when it was used in the 1987 Brundtland Commission Report – named for the Norwegian Prime Minister who chaired the commission. The impetus for the commission's report arose from a general concern that traditional economic development policies were not elevating the prosperity of low-income groups and, in many cases, had had unintended, harmful consequences for both low-income people and the environment.

The report defined sustainable development as *the ability to satisfy current needs without compromising the ability of future generations to meet their needs*. In the discussion that followed, confusion arose about the term "needs", and what could be considered a legitimate need.

Today, there are over 60 definitions of sustainable development in use in the world. Most have generally the same principle in mind – that we cannot deplete

the world's natural resources at such a rate there are none left for the future. So, sustainability first implies protection for the environment and natural resources.

Sustainability also implies economic equity. When there are people unable to meet their basic human needs, we've not achieved sustainability. A policy brief from the Center for a Sustainable Economy states: *...despite our successes, we have cause for concern. If certain environmental and social trends continue, today's economy cannot be sustained over the long term. Growing problems like rapidly declining biodiversity and inadequate education and job training for large segments of the population could have far-reaching impacts on the economy and our society as a whole. In the long term, economic prosperity is inextricably linked to maintaining the health of our environment and achieving a rising standard of living for all.*

A third element of sustainable development is the extent to which communities foster establishment of locally-owned businesses. Nation-wide, many practitioners of sustainable development have focused, in some cases almost exclusively, on supporting locally-owned and operated business. Locally-owned businesses strengthen economies in several ways:

- (1) by building community assets and individual wealth through local ownership of businesses, land and financial institutions;
- (2) by circulating local dollars locally so a city builds resistance against volatility in the national economy;
- (3) by encouraging community cooperation and allowing for the potential to build economies of scale that can survive the onslaught of national corporations.

What models or practices are considered sustainable? In this issue we will focus on how these principles are—or are not—being incorporated into local economic development policies.

Economic development corporations in

	Time tax in place	Total collected/expended	Type of abatement or program	Jobs promised/created	Other benefits accrued	Ramp-up time (if industry)	School district participation?	Types of businesses supported	Locally- v. non-locally owned
Brownsville 4(a) Corp.	Since 1992	\$33 million/ \$20 million	Job creation, lease assistance, relocation expense	4,600 promised 3,800 created	Better infrastructure, quality of life, diversification	Partial up front, for job creation up to 2 years	No	80% Manufacturing & industry, 20% local parks/other	Primarily non locally-owned
Los Fresnos 4(b) Corp.	1995	\$445,482/ \$390,162	Building renovations at incubator site	49 jobs created at incubator	Nearby property values increased	Five years (for incubator business)	No	17% professional/light manufacturing/retail	All locally-owned
McAllen 4(b) Corp.	May 1997	\$22.5 million/3.08 million	Job creation credit	unknown	Answer not provided	Answer not provided	No, (some incentives pay property tax)	Industry	0% local 100% non
Mercedes 4(a) Corp.	87 to 97 (inactive until after 97)	\$1.2 million/900,000	Sales tax rebates, infrastructure	300 promised 300 created		One year	No	75% distribution/ 25% retail	90% local 10% non
Pharr 4(a) Corp.	Since 1990	\$10,128,556/ \$6,317,608	Job creation credit	3,100 promised 2,115 created	\$42 million in local revenue generated	2 to 5 years	No	80% commercial/20% industrial	80% local 20% non
Raymondville 4(a) Corp.	Since May 12, 1992	\$1,464,495/ 716,424	City property tax abatements	400 promised 250 created	40 to 45% increase in local revenues	N/A	No	State prison	0% local
South Padre Island 4(a) Corp.	Since 1994	\$2,168,677/ \$2,060,697	100% spent on local infrastructure	N/A	Beach renourishment	N/A	No	Tourism	N/A

other support groups can help implement and sustain the project.

CEI also screens for such practices as low-wage jobs and environmentally unsafe work places as obviously unsustainable. An example of a project funded by CEI is Coast of Maine Organic Products, a company that manufactures organic compost from fish wastes in Maine's poorest county. For more information on CEI and its programs, visit www.ceimaine.org/sustainable.

The state of Texas set up the Texas Development Corporation Act of 1979.

Through this Act, municipalities may apply to the Comptroller's office for authority to collect and use a portion of sales taxes generated locally for economic development purposes, and to register with the Secretary of State to create non-profit corporations to administer these funds. Subsequent amendments to the act (passed in 1989 and 1991), established two categories of corporations and allowed for adoption of the tax at a rate not to exceed one-half of one percent. This tax is commonly referred to as the "half-cent sales tax".

The two categories of corporations are known as 4(a) and 4(b), after the section of the tax code that describes them. According to the Texas Comptroller's office, 4(a) tax use is primarily for funding industry recruitment, manufacturing, port facilities, warehousing and distribution centers, and for "targeted infrastructure" that is related to one of these projects, among other permitted uses. The 4(b) tax expands the list of "projects" that may receive funding assistance to include, among others, sports facilities, parks, tourism and affordable housing. In 1997, an amendment to the state's Development Corporation Act required cities or economic development corporations to disclose how they were spending the sales tax revenues. Prior to that time, the state had no way of monitoring accountability of these funds, and it was up to local taxpayers to investigate whether tax dollars were being spent appropriately.

TCPS conducted a survey of Laguna Madre-region economic development corporations (EDCs), of different types to see how the tax is used locally. Of 11 entities polled, 7 responded (please see chart at right). Harlingen, Port Isabel, San Benito, and Weslaco declined to participate. However, this information is a matter of public record. Any citizen can request full disclosure of how tax dollars are spent through such incentives programs. Any economic development corporation is obliged to supply this information, and should be able to supply it on short notice.

Among the respondents, Pharr, Mercedes and Los Fresnos seem to be leading the way in fostering locally-owned small businesses—Los Fresnos solely through its incubator. Pharr has managed to supply a significant number of local jobs through this strategy.

Clearly, Brownsville and McAllen lead in aggressive use of the sales tax (at least among the respondents) for business incentives. However, Brownsville and McAllen appear to be aiming their incentives primarily toward attracting corporations and industries from outside the region.

Raymondville was the only one among those responding to report use of property tax abatements as part of its incentives package (for a state prison), though McAllen reportedly uses some of its incentives money for payment of property taxes as well. South Padre is a different case. It uses its economic development monies to fund primarily beach renourishment, since their economy reportedly is almost 100% reliant on tourism for its survival.

In subsequent issues of this newsletter, we will examine living wages, local planning processes, and natural resource protection policies as elements of sustainable economic development for the Laguna Madre region.

Texas and other communities around the nation commonly use public tax dollars to fund economic development operations and improve local infrastructure. In many cities around the U.S., the public is holding businesses, and economic development interests, more accountable for expenditures of these public monies.

A few examples show why this is true. These examples are taken from the Corporation for Enterprise Development's Business Incentives Clearinghouse newsletter, *Accountability*, (available on line at www.cfed.org/sustainable_economies/business_incentives/BI_newsletters).

The town of Rio Rancho, New Mexico became very successful in attracting industries to its area, largely as a result of generous property tax abatements. Intel, a large Rio Rancho chip manufacturer, for years paid virtually no local taxes. In 1994, the Rio Rancho school district found itself in need of five new schools, but discovered that its property tax base was insufficient to support the additions. While Intel was not the sole cause of the city's rapid growth, it contributed to the strain on local services when it brought an additional 2000 employees to the area. The fact that the company was not obligated to contribute to the local tax base exacerbated the stress on infrastructure. In addition, since microchip manufacturing is a water-intensive process, Intel placed heavy environmental stress on this water scarce region. Only recently did the company agree to begin implementing water recycling.

In North Carolina, the sales tax is the states' largest revenue generator. A study by the North Carolina Budget and Tax Center showed that over half the state's counties have a wage standard that is too low to enable families to meet their basic needs. This may mean that North Carolina is giving tax credits to firms that are not paying living wages.

North Carolina Republican gubernatorial candidate, Richard Vinroot, has gone so

far as to pledge in his campaign to abolish tax breaks and large incentives packages altogether that have commonly been used to lure firms to North Carolina in recent years. His Republican rivals have also called for pared-down incentives, likely reflecting public sentiment that tax breaks to industry haven't sufficiently increased quality of life or prosperity in the state.

In order to be considered truly sustainable, the use of tax incentives as part of an economic development plan should include public review and should be part of an overall community planning process.

Coastal Enterprises, Inc. (CEI) is a community development corporation in Maine, established, according to its mission statement, *for the purpose of helping people and communities, particularly those with low incomes, achieve an equitable standard of living, working and learning, in balance with the natural environment*. CEI serves primarily the rural population. CEI has established, through practice, a set of six environmental, economic, and institutional sustainability criteria that it uses to informally screen potential sectors or projects. These criteria might be useful to other communities:

- **Added value:** The project creates potential for more income and economic value to accrue to local communities.
- **Available local products:** The project provides goods and services for local needs and basic necessities.
- **Equitable distribution:** The project generates increased economic activity that benefits Maine people and communities, especially those with low incomes.
- **Low environmental impact:** The project reduces wastes, energy costs, and pollution and conserves natural resources.
- **Local ownership:** Because of the project, economic activity is more likely to stay in local communities.
- **Institutional capacity:** Existing businesses, trade organizations, or