Main Street IS Sustainable Economic Development
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Thank you. Regardless of how I get introduced, I often find it necessary to begin by telling people the business I'm in – a consultant in economic development who focuses on downtowns. What I would like to do this afternoon is begin by defining economic development and then make the case of why downtown revitalization in general and Main Street in particular is, in fact, economic development.

I don't know how many of you have ever been to a full-blown economic development conference, but if you have, or even if you've just looked at the programs for such conferences, you'll see that 70 or 80 percent of the sessions are about infrastructure. And for many of the attendees to those conferences, "infrastructure" means water lines, sewer lines, streets and sidewalks." And that's fair. But that's also where I want to begin my case of downtown revitalization being economic development. First, downtown has a concentration of those items we generally think of as infrastructure – water and sewer lines, sidewalks, streets, curb and gutter, utilities, parking lots, etc. And even in the smallest community that downtown infrastructure represents a taxpayer investment in the hundreds of thousands and usually millions of dollars. Second, I would argue that infrastructure is not just physical infrastructure but economic and human infrastructure as well. Downtown is the nexus of all three of these types of infrastructure.

One of the major reasons that communities are concerned about their infrastructure is that it is necessary for successful economic development.

As I said, I'm a consultant in economic development, but for the last several years I've been teaching a class each spring up at the University of Pennsylvania in Philadelphia. And I love doing it, and I learn far more from the students than they ever learn from me. They make me think and rethink about what I thought I knew.

A couple of years ago, I got an email from Jen Gates, one of the graduate students who took my class the year before. She was working on an article with one of her other professors. As part of the research for that article Jen sent out a questionnaire to a number of people involved in economic development including me. And the first question in the survey was this: "How do you define *Economic Development*?" And to tell you the trust it was a question I had to think long and hard about. But here's what I finally responded:

Economic development is the conscious, organized effort to improve a local economy.

But I decided that that definition didn't tell one much. So I expanded the definition I sent Jen. And it was this:

> Economic development is the conscious, organized effort to improve a local economy. But effective, sustainable economic development meets eight tests:
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> 1. There are positive, measurable benefits
> 2. Benefits extent beyond the short term
> 3. The public benefits are significantly greater than the public costs

4. The economic benefits are primarily local and broadly distributed
5. There are significant qualitative as well as quantitative benefits
6. Incentivized economic development activities serve as a catalyst to additional primarily market driven economic activities
7. Economic incentives are not used merely as a bribe to choose one location over another but meet the "but for" test. That is "but for this incentive, the economic development activity will not take place."
8. The “carrots” of incentives are paired with the “sticks” which advance broader public policy ends.

I would like to argue that downtown revitalization not only meets the first definition of economic development, but also the eight tests of effective, sustainable economic development. So I’ll spend my time identifying 30 or so reasons why I believe that’s the case

Often at the top of the list for economic development measurements are jobs created and increased local household income. Downtown revitalization is about creating jobs and keeping jobs. But central to downtown revitalization for Main Street communities is that job creation is done within the context of older and historic buildings, and that means building rehabilitation. As most of you probably know, as a rule of thumb, new construction will be half materials and half labor. Rehabilitation, on the other hand, will be sixty to seventy percent labor with the balance being materials. Since the end of the recession in June of 2009 New Mexico Main Street communities have seen more than $80 million invested in the rehabilitation of some 832 buildings. Downtown creates jobs in the businesses on Main Street and in rehabilitating the buildings that house those buildings.

But those just aren't jobs. Downtown revitalization is building jobs at every level – entry level jobs for store clerk and waiters; high paid jobs in the professional services sector; growth sector jobs in the innovative sector; and high skilled jobs in the rehabilitation industry – one of the few areas where good paying jobs exist for those without advanced formal education.

Downtown revitalization creates primarily local jobs. That clerk, that waitress, that bank teller, that barber, those are jobs for people from your community. Since the end of the recession Main Street districts in New Mexico have seen the creation of 3100 net new jobs.

The effect of a new business in downtown isn't that business alone, and its payroll and taxes and jobs, but the impact that new business has on the prosperity of existing businesses and the ability to attract more new businesses. Likewise the rehabilitation of one building often spurs the rehabilitation of other buildings. This catalytic economic development impact is evident in most Main Street communities. When we did the economic impact analysis of the New Mexico Main Street program a couple of years ago, we looked specifically at this catalytic impact the Capital Outlay Fund had. We found that these projects spurred new business openings, additional investment in nearby buildings, reduced vacancy and even increased event attendance.

Earlier I said that the jobs created downtown weren't just any jobs, but primarily local jobs. The same holds true for businesses. The vast majority of new businesses and expanded businesses downtown are local businesses. I am not one who says that national chains are bad and we don't want them in our community. But the reality is that twice as much of every dollar spent in a locally owned business stays in the community than a dollar spent at a national chain store.

Furthermore, the businesses that are retained, expanded, and recruited to Main Street aren't just primarily local businesses but they are small businesses. If you read the *Wall Street Journal* or listen to MSNBC you might reach the conclusion that the American economy ewes its success to the Fortune 500. That's an out and out lie. This is a nation of small business. Ninety percent of all businesses in America and 88% here in New Mexico employ fewer than 20 people. One in two job holders in New Mexico work for a firm with fewer than 50 employees.

Why do we care? Here's why. During the Great Recession and in the six years of the anemic recovery small businesses are the unrecognized and vastly underappreciated heroes. Nationally since the end of the recession firms employing fewer than 20 people have added 2.5 million jobs, nearly a million more than firms employing more than 1000 people. Times are not great for small businesses but they have done a vastly better job of creating new jobs than have the giants.

Over the past 10 years, businesses employing fewer than 20 workers have added a total of 3.4 million jobs. Firms with more than 500 employees? They are employing 167,000 fewer than a decade ago.

Now you might say, "OK, but when the economy gets moving again the big guys will be doing the hiring." Another illusion. Prior to the Great Recession we had 72 months of economic expansion. And small business did its part by adding almost 5 million jobs. And the big guys during that same period? They got rid of nearly 800,000 jobs. Six years of economic growth and the big guys shed 2500 jobs every week. Why on earth would we think that economic development is about trying paying to attract those guys?

The next of my list of reasons is firmly in the infrastructure category. In the utility industry there is a concept called *stranded investment*. Think about an electric power company. To sell one kilowatt of electricity they have to spend millions of dollars on generation facilities and millions more on distribution systems. Then when they have power lines put in place but that little disk in the electric meter isn't turning, they view that as a stranded investment. Those lines are there but the electricity flowing through them is far less than their capacity. That's how we need to view the infrastructure of our downtowns. Millions of dollars of taxpayers' money has been spent on water lines, sewer lines, curbs, gutters, sidewalks, streets, parking lots. When we have a declining downtown that means that every day we area literally wasting taxpayers' money because we're stuck with the stranded investment of underutilized infrastructure. You cannot be a mayor or city council member and claim to be for fiscal responsibility and not have downtown revitalization near the top of your priorities.

Not just in New Mexico, not just in the United States but around the world there is an acknowledgement of the need to leverage public resources by attracting private investment. You should know that in America today there is no form of economic development of any kind, anywhere that has more effectively leveraged scarce resources than has Main Street. Nationally the leverage of public to private resources is nearly 30 to 1. Here in New Mexico the ratio is even better, with $44 of local investment for every dollar the State of New Mexico puts into running the program. No other economic development approach is anywhere close to that.

Market economies have ups and downs. There are periods of growth and periods of decline and periods of stagnation. In up periods the marketplace will provide much of our economic development naturally. One of the real strengths of downtown revitalization is that because it is small scale, local, and incremental it is an effective counter cyclical economic development approach. For three years at the height of the recession the State of New Mexico had net job losses. In each of those years there was a net job gain in New Mexico Main Street districts.

This issue of incrementalism is much more than another entry in downtown revitalization dogma. Effective, sustainable economic development is trickle up, not trickle down. Downtown revitalization is not an incremental approach to economic development just because that's the way it works in the short-term, but because that's the way it is sustainable over the long term.

Downtown revitalization is economic development in part because downtown serves as a natural incubator for small business. One of the few costs that small, independently owned, growing businesses can control is occupancy cost – rent. It's not an accident that these small businesses aren't starting up at the regional shopping mall or the corporate office park.

Related to small business incubation is rental rate diversity. The rent spread from top to bottom at the shopping mall might be 100%, and only then because Sears is paying less than it costs to house them because the developer wants them for an anchor. The office park? The spread from highest to lowest rent won't be more than 50%. But it is very common that the rent spread in downtown is 500%. This rental rate diversity leads to business diversity. Why is that? Downtown there is a wide variety of space by age, condition, size, style, and property owners' sophistication and capitalization.

Often when I'm working in downtowns, particularly the smaller ones, I'll ask the program manager "What are the rent levels here?" The answer – almost always given apologetically and with embarrassment – is "All over the board."

No, that's not bad, that's good! Having rents all over the board means there will be a diversity of businesses. There will be options for affordability for start-up, creative, imaginative businesses. It is the "rents all over the board" that allows downtown to be a natural business incubator.

Most downtowns are made up of older and historic buildings – some of them seen as White Elephant buildings. But maybe the greatest underappreciated asset of older buildings is their adaptability to new uses. I would be hard pressed to identify a single economic activity in America that somewhere isn't located in an historic building. Don't tell me "well that old building won't meet the needs of today's economy" because I'll give you an example where it is. There is an appraisal term that some of you are probably familiar with and it is often applied to historic buildings – "functional obsolescence". And often the response is, "that building is functionally obsolete so we need to tear it down." But there is another response to functional obsolescence – a term that all of you are familiar with – "adaptive reuse." Adaptive reuse isn't just a catch phrase – it is the economically rational, environmentally sensitive and sustainable response to functional obsolescence.

And speaking of environmentally sensitive let's look at another way downtown revitalization is economic development. Good economics, keep in mind, is not just about generating income, it is also about limiting expenses. One of those expenses that is increasingly expensive in both dollars and the environment is solid waste landfill. So we all diligently recycle our Coke cans. It's a pain in the neck, but we do it because it's good for the environment. Now even though a quarter of everything dumped at the landfill is from construction debris, we don't often think about the environment in relation to the demolition of historic buildings. But let me put it in context for you. Let's say that today we tear down one small building in your Main Street district. We have now wiped out the entire environmental benefit from the last 1,344,000 aluminum cans that were recycled. We've not only wasted an historic building, we've wasted months of diligent recycling by the good people of your community. Now why doesn't every environmentalist have a bumper sticker saying "Recycle your aluminum cans AND your historic buildings." Either that or let us off the hook from having to sort those Coke cans every week.

In our system we often look to some level of government to provide incentives of some type. But when incentives are used for economic development – and I for one think that is often appropriate – those incentives ought to be cost effective. That is to say the public benefit significantly outweighs the public cost. Most Main Street programs have relatively small incentives to offer – maybe a bit of design assistance, maybe small matching grants for signs, perhaps a low interest loan pool from the local banks. But think of the impact of those incentives. You give a $100 sign grant and the property owner spends another $400. The banks knock a couple of points off the interest rate and building owners spend hundreds of thousands of dollars. A property owner gets some design assistance – maybe a half days' worth of an architect's time, paid for the Main Street program, and that owner not only spends thousands of dollars of her own money, but spends it right; spends it in such a fashion that not only is her property improved but the values of the surrounding properties are enhanced.

Unlike many in the downtown revitalization business, and perhaps unlike many of you, I am not against Wal-Mart. But let's be honest. Incentives provided so that Wal-Mart will locate in our town instead of the town down the road are not based on need. With $473 Billion in sales last year Wal-Mart isn't exactly going broke. That kind of incentive is not because there was a gap to fill, but as a bribe to choose your town instead of the next town. But the incentives in downtown are need-based incentives. Not only is there often the gap between cost and value – particularly in the early years – but those incentives most often meet the "but for" test. But for the incentive the reinvestment would not have taken place.

Related to that, consider the difference between providing incentives downtown and out at the edge of town. Incentives in the downtown do not require the extension of public services, and more intensively utilize the infrastructure already in place. Incentives provided at the edge of town nearly always necessitate the expansion of and extension of public infrastructure. And that bill is going to be paid for by two generations of taxpayers.

There is no movement in America today that enjoys a more broad based support across political, ideological, and geographical boundaries than does *Smart Growth.* Democrats support it for environmental reasons, Republicans for fiscal reasons, big city mayors, rural county commissioner, there are Smart Growth supporters everywhere. The increasing public volume and political expenditures of Smart Growth's opponents is in direct relationship to Smart Growth's broad and growing support. To have effective, sustainable economic development, Smart Growth needs to be a key element of the strategy.

And the Smart Growth movement has a clear statement of principles, and here it is:

- Create range of housing opportunities and choices
- Create walkable neighborhoods
- Encourage community and stakeholder collaboration
- Foster distinctive, attractive places with a Sense of Place
- Make development decisions predictable, fair, and cost effective
- Mix land uses
- Preserve open space, farmland, natural beauty and critical environmental area
- Provide variety of transportation choices
- Strengthen and direct development toward existing communities

- Take advantage of compact built design.

But you know what? If a community did nothing but protect its downtowns and its historic neighborhoods it will have advanced every Smart Growth principle. In fact, any Smart Growth strategy that doesn't have downtown revitalization and historic preservation at its core is stupid growth, period.

Almost apart from the Smart Growth movement is the issue of sprawl. Let me put is as simply as possible: sprawl is ugly, downtown revitalization is beautiful; sprawl adversely affects the environment, downtown revitalization positively affects the environment; sprawl increases automobile dependency, healthy downtowns decrease automobile dependence; sprawl increases traffic congestion, downtown revitalization reduces traffic congestion; sprawl separates users from uses, good downtowns mix users and uses; sprawl reduces differentiation, downtown revitalization increases differentiation; sprawl diminishes quality of life, healthy downtowns enhance quality of life; sprawl is hideously expensive; downtown revitalization is extraordinarily cost effective. Downtown revitalization is the polar opposite of sprawl on every measure.

This issue of the economic prosperity of a community is an important one. Often City Hall gets interested in downtown because someone makes the calculation of how dramatically the percentage of local tax revenues generated by the downtown has declined in the in recent years. And, in fairness, nearly always it is necessary for local government to make new investments in the downtown and sometimes improve services there. But nearly always the rapid improvement in the tax base in downtown is disproportionate to the cost of additional services. New Mexico Main Street communities have recognized that with $106 million in public sector investment since the end of the recession.

Economic development does not mean only one employer or one industry or even one industry focus. Successful, sustainable economic development means a variety of economic activities. A successful downtown is certainly the center of the community but it is a multifunctional center. Practitioners in downtown revitalization have identified twelve centers that downtown can be: business center, government center, arts and cultural center, entertainment center, housing center, tourism and convention center, education center, medical center, special events center, sports center, retail center serving those other markets, and heritage center. A community's size will affect how many of those central roles it may play, but successful downtowns serve as many as the community can support.

All too often economic development efforts are separate and apart from any broader public policy focus. The attitude is "We'll take whatever we can drag, kicking and screaming, to our community." Downtown revitalization, on the other hand is an appropriate focus of public policy, certainly including but not remotely limited to the public policy of economic development. I would argue that downtown revitalization combined with historic preservation is the one form of economic development that is simultaneously community development. And I don't know of another form of economic development that can make that claim.

Which is related to the next item on my long list – the sense of ownership. The critical assets for most growth sector businesses today are not its plant or equipment or even its proprietary patents. The most important asset is its employees. When most business functions were such that if one guy quit another guy could quickly be found to replace him; when the work was all brawn and little brain; when the real decisions were made at the top and no input sought or wanted from lower level employees, the workforce was viewed as interchangeable bodies. But that is not business today, at least not in growth sector businesses. Employees really are the critical asset. But most employees work 35 or 40 hours a week. This means that over twice as many waking hours are spent somewhere other than the workplace – most of them spent in the employee's community. And if there is going to be an ongoing commitment to the company there also needs to be an ongoing commitment to the community. There needs to be a sense of ownership of the community independent of who the deed holders happen to be. And where is the one place in a community where there is a broad sense of ownership? Downtown.

We all have our favorite shopping center, but none of us thinks of that shopping center as ours – it belongs to some real estate investment trust somewhere. But when downtown is healthy, when downtown differentiates our community, when a downtown has a successful revitalization program, people really do think of the downtown as theirs.

I frankly have a difficult time separating the concepts of downtown revitalization and historic preservation and here's why. I cannot identify a single example of a sustained success story in downtown revitalization where historic preservation wasn't a key component of that strategy. Not a one. Conversely the examples of very expensive failures in downtown revitalization have nearly all had the destruction of historic buildings as a major element. That doesn't mean, I suppose, that it's not theoretically possible to have downtown revitalization and no historic preservation, but I haven't seen it, I haven't read of it, I haven't heard of it. Now the relative importance of preservation as part of the downtown revitalization effort will vary some, depending on the local resources, the age of the city, the strength of the local preservation advocacy groups, and the enlightenment of the leadership. Main Street is certainly the model of downtown revitalization in the context of historic preservation, but that aspect is far wider than Main Street. Successful revitalization and no historic preservation? It ain't happening.

I'm really lucky in that I often get invited to events like this – the annual Main Street Awards program. They vary a lot from one state to another of course. But when they have it, my favorite category is always "Best rehab for under $10,000". These are incredible stories. So this is another way that downtown revitalization is economic development – that very minor reinvestment can have a major impact. Go spend $10,000 on something at the industrial park and no one will know the difference. Spend $10,000 on paint and some façade repairs downtown and everyone notices the difference.

Which again brings up another aspect of downtown revitalization – design standards. I truly believe that most people want to do the right thing. With design issues, however, often the typical building owner simply doesn't know what the right thing is. In the 100 or so towns and cities I go to every hear I see dozens of examples of people reinvesting in their buildings, often with incentives to do so, but are doing the wrong thing, both for the building and for their business. And not infrequently spending way more money than they would have needed to spend. Design standards raise the qualitative level of building reinvestment and encourage property owners not just to reinvest, but to reinvest in the right way.

Pioneer Square in Seattle is one of the great historic commercial neighborhoods in America and a concentration of cutting edge businesses. The business management association there did a survey of why Pioneer Square businesses chose that neighborhood. The most common answer? That it was a historic district. The second most common answer? The cost of occupancy. Neither of those responses is accidental.

Of course the cutting edge businesses need to be technologically connected. Who knows what will be the evolution after we all have DSL connections or high capacity digital access but I'm certain it will be amazing. And importantly as technology advances the number of us who can live anywhere increases. So is technological connectivity critical for economic competitiveness in the 21st century? Of course it is. But let me digress again for a moment on this issue. Barely a month after September 11th, I was in Saudi Arabia at a conference on the Future of the City put on by the Arab Urban Development Institute. One of the few other Americans was John Eger. John holds an endowed chair at the University of California in San Diego but is also CEO of the World Foundation for Smart Cities. His presentation was about cities and technology and the importance of being connected. But during the question and answer period John was asked some technical details about the Smart City. And he said, “Well, yes, high speed internet access is important. But you know what? That’s not that hard to get, but that isn’t what is going to make Smart Cities. Smart Cities are those that value their local culture, that preserve their historic buildings, that revitalize their downtowns.” So technology is an important tool, but it is an approach like Main Street that makes an economically competitive community.

So is downtown revitalization economic development? Let me put it this way – anyone who doesn’t understand downtown revitalization is economic development either doesn’t understand economic development or doesn’t understand downtown revitalization. Downtown revitalization is not about making buildings cute and adding flower pots. Downtown revitalization is about jobs, investment, new and expanded businesses, increasing the tax base, making frugal but effective use of scarce public resources.

In short downtown revitalization is the conscious, organized effort to improve a local economy. But Main Street is also effective, sustainable economic development because:

1. There are positive, measurable benefits;
2. Benefits extent beyond the short term;
3. The public benefits are significantly greater than the public costs;
4. The economic benefits are primarily local and broadly distributed;
5. There are significant qualitative as well as quantitative benefits;
6. Incentivized economic development activities serve as a catalyst to additional primarily market driven economic activities;
7. Economic incentives are not used merely as a bribe to choose one location over another; and
8. The “carrots” of incentives are paired with the “sticks” which advance broader public policy ends.

You all know we are approaching an election year and lots of words are thrown around. And each side is supported by hundreds of advocacy movements. And most of them are “rights” movements: animal rights, abortion rights, right to life, right to die, states rights, gun rights, gay rights, property rights, women’s’ rights, and on and on and on. And I’m for all of those things – rights are good. But I would suggest to you that any claim for rights that is not balanced with responsibilities removes the civility from civilization, and gives us an entitlement mentality as a nation of mere consumers of public services rather than a nation of citizens. A consumer has rights; a citizen has responsibilities that accompany those rights. Downtown revitalization and historic preservation are responsibility movements rather than rights movements. They are movements that urge us toward the responsibility of stewardship, not merely the right of ownership. Stewardship of our downtowns and our historic built environment, certainly; but stewardship of the meaning and memory of our communities manifested in those buildings as well.

The widely admired American author Eudora Welty in her collection of essays entitled *The Eye of the Story* wrote, "it is our describable outside that defines us, willy-nilly, to others, that may save us, or destroy us, in the world; it may be our shield against chaos, our mask against exposure; but whatever it is, the move we make in the place we live has to signify our intent and meaning."

I conclude with the Welty quotation because her last line ought to be our guidepost for how we act toward our own communities – "…the move we make in the place we live has to signify our intent and meaning." Our communities – the places we live – ought to be strong, vigorous, in good health. The places we live ought to be valuable places, places with significance, places with meaning.

Downtown adds significance, adds meaning, and importantly adds value. That's why downtown revitalization is economic development; but it is far, far more than that. Thank you very much for having me here today.

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