

Memorandum

To: Members of the Williamsport, PA City Council

From: Drew Alan Tompkins

Date: May 4, 2015

RE: Economic Development South of Lycoming College Campus

In order to see continued and sustained economic development in Williamsport, the city council and mayor need to rethink their economic development policies. The necessity for change arises from a combination of upcoming budgetary issues and the continued use of policies that do not encourage the highest levels of investment in the community. Williamsport needs to move away from tax breaks and government financing and instead encourage development through a combination of direct and indirect policies. First, the city should establish an Eco-industrial Park south of the Lycoming College campus and develop a collaboratively sponsored internship program for local college students to directly encourage development. Additionally, the city can indirectly encourage long run development through the provision of better services and by creating a reimagined marketing plan for Williamsport.

Over the past decade Williamsport has seen extensive downtown revitalization and economic development. This development resulted from a combination of a consorted effort of local artisans, community and business leaders, government policies, a national shift in preference for downtown revitalization, and an increased demand that resulted from the influx of the natural gas industry. In the early to mid-2000s the city began to redevelop downtown, especially by focusing on an emerging cultural and arts scene. Then, during the natural gas boom between 2010 and 2013, Williamsport faced a huge influx of demand as it became a regional hub for many of the major companies. The employees of these companies, mostly men under 30, occupied downtown hotels, and had a very high propensity to spend, especially at bars and restaurants, which also created a multiplier effect. Although the natural gas industry's influence has diminished recently, downtown businesses are still flourishing through innovation and attracting clientele from the local universities, people from other local towns who previously wouldn't have considered coming to downtown Williamsport, as well as young professionals who are being attracted to Williamsport for the small town feel that still has amenities similar to larger cities.

In recent months there have been talks of trying to extend this development to the area to the south of the Lycoming college campus. This area, which consists of mostly empty lots and underutilized buildings, is the perfect location for continued economic development. The close proximity of the college offers a consistent demand for certain types of goods and services, and can offer a supply of labor for both lower skilled part time employment as well as interns and other low level positions for professional organizations.

Over the past few years, Williamsport has used a combination of government financing and tax breaks for businesses that move into the city. The city currently offers three types of low interest loans to businesses. These loans are all conditional on certain requirements being met, and two of the loans only offer a maximum amount of \$10,000. The third type of loan is larger in scale, but has very specific requirements with regards to who gets hired and how the money must be spent. Additionally the city had the Local Economic Revitalization Tax Assistance Program (LERTA), which is currently suspended, that exempted a percentage of taxes paid by qualifying businesses over the course of 10 years.¹ Even though these policies are politically popular, they are probably not the best method for increasing economic development according to academic studies. Private capital markets are rather efficient and the government offering loans below market rates only creates an unnecessary risk. In addition, tax assistance programs only help if a business is on the margin and otherwise would not operate. In all other cases, tax assistance programs simply act to reduce the revenue generating potential of a city government. One of the few studies that have looked at direct tax assistance was conducted in Detroit and although the results were largely inconclusive, the authors found that manufacturing property values were raised as a result of lower taxes in one year of interest, and thus did not encourage development.² A study in New York found that lower overall property taxes had an incredibly small effect on increased business investment when compared to other services that could be provided by higher taxes.³ So, even though the evidence is not unequivocally conclusive, it appears that encouraging business through tax incentives, especially at the cost of other services, is not a good policy option.

Additionally, in Williamsport, the government's and specifically the mayor's unwillingness to raise taxes during his tenure has created significant budget deficits that have eroded prior surpluses by about 1/3 during 2015 alone (\$2,436,942 beginning balance, \$1,622,264 ending balance). If this revenue issue continues to persist, the current economic development programs are not only inefficient but also unsustainable.⁴ The LERTA has already been suspended, most likely do to revenue issues, and the government financed loan programs are revenue neutral or slightly positive given the very low nominal interest rates (3% or 4% depending on the loan), but only if there is very few to no defaults. Given the studies that show these types of development programs are not a particularly efficient way of spending government money, and the potential for future revenue issues, the city of Williamsport should no longer use them as a major part of their development plan.

The key to sustainable economic development is making the city an attractive place not only to start a business, but also to be operating in the long run. Thankfully, Williamsport has many positive characteristics that can be used as the groundwork for a long term development. In

¹ http://www.cityofwilliamsport.org/Community_Development.php

² Anderson and Wassmer. *Bidding for Business: The Efficacy of Local Economic Development Incentives in a Metropolitan Area*. 2000.

³ Wong. *Maxwell Public Administration Dissertation*. 2008.

⁴ <http://www.cityofwilliamsport.org/Finance.php>

addition to hosting an international sporting event every year and being less than four hours from New York City, Philadelphia, Washington DC, and Pittsburgh, the downtown, as a result of the recent revitalization, is full of high quality bars and restaurants, a department store, boutique shops, multiple entertainment centers, and several hotels that mix the historic and modern aspects of the city. Also, the city has two small colleges that attract a significant amount of young, educated people to the city who are not from the area. Glaeser, a Harvard Economist, suggests that the best local development policy is to increase the educated population, which you do by providing service that young professionals want in a city.⁵ Williamsport is currently on the cusp of attaining this goal, which means the potential for development is extremely high.

In order to encourage development and growth, the city should use a two prong approach that both directly and indirectly encourages businesses to operate in the city. The first direct policy involves creating an Eco-Industrial Park south of the Lycoming College campus. This industrial park will lower the cost of initially opening a business, while also not affecting the tax revenue that can be generated.⁶ Additionally, it should be an “Eco” industrial park not simply because it would be good for the environment and could attract modern businesses, but also because Lycoming College has a vibrant interdisciplinary sustainability committee as well as multiple professors whose research interest relate to sustainability and development. These common goals and interests could easily be taken advantage of, and become a partnership between the college and new businesses that results in mutual benefits for both parties and the city as a whole.

The second direct policy is to create a partnership between the city and both of the local universities to sponsor internships for current students. The students would intern with local businesses, while the city and universities would split the cost of funding the students. One possible arrangement could involve the city providing a small stipend to students, while the colleges provide free housing, specifically during the summer months. This arrangement would be beneficial to all parties involved. Businesses would get to take advantage of free, educated labor, students would be able to gain experience and potentially an opportunity for a career, the colleges would become more integrated to the community, which has a myriad of advantages, and the city would benefit through the encouraged economic development as well as the possibility of students maintaining residence in Williamsport after graduation and becoming taxpaying citizens.

With regards to indirect policies that will encourage long run sustainable growth, Williamsport needs to improve its provision of services, and create a reimagined marketing plan for the city. Although certain areas of the city are quite safe, especially in areas where development is happening or proposed, the overall crime rate may deter some businesses from choosing to locate in the city as opposed to surrounding areas that are much safer. Also the public transportation system needs to be improved, especially in the city proper. A currently missing service is shuttle

⁵ D. Leonhardt, 2011. “A Conversation with Edward L. Glaeser.” *The New York Times*. February 15.

⁶ Chertow, 1999. “The Eco-industrial Park Model Reconsidered.” *Journal of Industrial Ecology*.

systems that can take people, from the two college areas which are on opposite sides of the town into the areas that have been developing. The demand exists for the service exists, especially on nights and weekends, which is shown by the fact that a local bar runs its own bus between the campuses and downtown. If public transportation was expanded even slightly, businesses that are further away will be able to attract clients that they never did before. Finally, the city needs to improve the aesthetics of the area south of the Lycoming College campus, or any other area that they wish to develop. Over the past 10 years or so, the downtown area has undergone significant aesthetic changes that mix Williamsport's historic past with modern and artsy storefronts. These changes need to be extended into other areas of the city that want to develop. Although the historic buildings exist, which can act as the cornerstones of the area, other buildings and lots look uninviting or dilapidated. The city could work in partnership with local businesses, specifically in the Eco-industrial Park to improve the appearance of these areas, which would be inviting to both industry and consumers.

The expansion of services and aesthetic improvement may initially seem expensive and impossible given the current budget situation, but, if successful, will create investment and development, which will actually raise revenue. Since the city will be attracting businesses without using tax incentives that limit revenue generating capabilities, any new business will expand the tax base, both from business taxes and local income tax levied on employees. Additionally, the creation of export jobs generates higher demand, which in turn can create more jobs through a multiplier effect. This effect is especially strong when skilled jobs are created. As a result of these factors, government investment today will result in significantly higher government revenue in the not so far off future.

Additionally, Williamsport needs to market itself differently if it really wants to be seen as a growing, exciting prospect for new businesses. The first thing that identifies Williamsport is being known as the "home of the Little League World Series," which is great exposure for the city, but does not necessarily inspire businesses to move to the city since it only acts as an infusion of revenue for about three weeks every August and September. The city needs to relabel itself to reflect the development that has already happened and the potential for development in the future. In other words, Williamsport needs to be known as a vibrant, culturally relevant, growing city in the heart of Pennsylvania, which also happens to host the Little League World Series. The official marketing plan could be developed as a collaborative effort between students of both schools high quality business programs, the city government, and local businesses.

By implementing these policies, Williamsport can take advantage of their many natural advantages, and become a city full of young educated professionals. Currently, Williamsport is providing a location for people to live while they receive an education, but then forcing them to leave as a result of a lack of jobs that require skilled labor. If the city could increase the amount of these students who choose to begin their career where they went to school, the economic growth potentials are huge. The policies almost all include an aspect of college and community engagement and collaboration, which will encourage students to continue their lives in

Williamsport, but any other steps and policies that encourage this kind of interaction will be good for the city. Young professionals without families would prefer to live in the city close to their employer, as well as entertainment and nightlife opportunities. As a result, attracting businesses to Williamsport could also generate more property tax revenue, which has been a major issue in recent years as most of the skilled workforce of the city has moved to surrounding municipalities.

In conclusion, Williamsport has huge potential for economic development and growth, but the current government policies designed to attract growth need to be changed. The current policies are an inefficient use of resources that can be redirected into more effective policies. The city should use a two prong approach that includes both direct and indirect policies that will encourage long run growth by tapping into the currently underutilized nature advantages the city possesses. To directly encourage investment and development the city government should create an Eco-industrial Park south of the Lycoming College campus and develop an internship program in coordination with the local colleges that would be advantageous to all parties involved. As for indirect policies, the city needs to focus on improving service provision and change the way Williamsport is marketed to the world. Above all else, these policies and any others the city adopts need to be focused on integrating the colleges and the communities in a way that will encourage students to remain in Williamsport after graduation. By increasing the young educated population in Williamsport the potential for long run development is unlimited.