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## **City of Gainesville Policy Program Preliminary Research & Analysis**

**TOPIC:** Economic Development Corporations  
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**REQUESTED BY:** Commissioner Hayes-Santos

### **EXECUTIVE SUMMARY**

An economic development corporation (EDC) is a private, non-profit organization designed to expand and diversify a municipality's economy through job creation. Throughout the country, approximately 76% of communities give primary responsibility for economic development to a public agency, while around 23% give responsibility for coordinating economic development to a nonprofit development corporation.

There are both advantages and disadvantages to removing economic development operations from municipal governments and transferring them to an EDC. Those in favor of economic development corporations believe that the private industry knows the market best, and that EDCs are more successful at investing into companies looking to move or expand into the city than traditional governmental economic development departments are.<sup>1</sup> Further, EDCs are able to operate with fewer bureaucratic requirements, such as transparency and hiring obligations, than local governments do, enabling them to raise funds and discuss development plans with more ease and flexibility than local governments.

However, open government advocates argue that public-private economic development corporations have historically lacked transparency and usually aren't subject to state open-record laws, which can

<sup>1</sup> [https://www.thecentersquare.com/national/critics-question-lack-of-transparency-in-public-private-economic-development/article\\_2bacc814-730c-11e8-9ec5-d7e1ed849844.html](https://www.thecentersquare.com/national/critics-question-lack-of-transparency-in-public-private-economic-development/article_2bacc814-730c-11e8-9ec5-d7e1ed849844.html)

keep the public from knowing what goes into decisions.<sup>2</sup> Thus, concerns over transparency and accountability are the most frequent complaint against EDCs. Further, under an EDC the local government can be fairly removed from economic development operations, which can result in operations which run counter to the City's vision.

Economic development corporations can be organized in a variety of manners, with the degree of oversight held by the municipal government varying. EDCs can be structured as either a fully private organization, or as a public-private partnership with their local municipality. In EDCs where the municipality is more involved, the EDC is often able to use resources from both the public and private sector to promote economic growth in a city or region, and members of the municipal government either sit on or approve members of the Board of Directors. In cases in which municipalities have less oversight over EDCs, however, the EDCs are able to operate with fewer bureaucratic and operational requirements.<sup>3</sup>

Ultimately, there is a great deal of flexibility as to how an EDC can be structured and the degree of oversight over which a municipal government has on an EDC.

## HISTORY/BACKGROUND INFORMATION

### Introduction

Economic development corporations provide a variety of services, and their basic mission is to increase economic development in a region. This works in a variety of ways, but the ultimate goal of an EDC is to attract and keep businesses in a region through a variety of services. These services including making loans to private businesses to make it easier for them to come to or remain in the region, helping to finance improvement programs which make a region more attractive to businesses, attracting businesses to the community, and providing marketing for the community at large in order to encourage more businesses to move to the community.<sup>4</sup> These economic development operations all serve to create more jobs and strengthen the economy of a region. EDCs differ from other economic organizations such as a Chamber of Commerce due to the fact that Chambers of Commerce represent specific business interests, while economic development corporations focus on economic growth and public interest.

Generally, an EDC is a private, non-profit organization which often acts as an arm of government by helping to finance improvement programs, give out loans to private businesses, and encourage general economic development within the municipality. EDCs can fall under 501(c)(4) status as a civic organization, 501(c)(6) status as a business association, or 501(c)(3) status as a charitable organization.<sup>5</sup> In order to be a tax-exempt non-profit, any EDC must meet the "public benefit test", in that private

<sup>2</sup> [https://www.thecentersquare.com/national/critics-question-lack-of-transparency-in-public-private-economic-development/article\\_2bacc814-730c-11e8-9ec5-d7e1ed849844.html](https://www.thecentersquare.com/national/critics-question-lack-of-transparency-in-public-private-economic-development/article_2bacc814-730c-11e8-9ec5-d7e1ed849844.html)

<sup>3</sup> <https://www.jpna.org/index.php/jpna/article/view/134>

<sup>4</sup> <https://www.useful-community-development.org/definition-of-economic-development-corporation.html>

<sup>5</sup> <https://www.cga.ct.gov/2008/rpt/2008-R-0594.htm>

benefits to private businesses must be incidental and the public benefit of assisting disadvantaged communities and individuals must be met.<sup>6</sup>

While the State of Florida's Economic Development Corporation is structured as a 501(c)(3), most municipal EDCs in Florida seem to be structured as a 501(c)(6). It is significantly more difficult to create a 501(c)(3) organization than other non-profits, as they come with more privileges in regards to raising funds from private foundations. Similarly, 501(c)(6) organizations have fewer restrictions under which they need to operate, and are often able to "self-declare" their tax exempt status, which is likely why municipalities have chosen that route.<sup>7</sup>

Economic development corporations are overseen by a Board of Directors made up of community and/or business leaders. This Board of Directors can be appointed in a private or public manner, either through the EDC itself or with approval by the city government. EDCs also have full time staff who oversee day to day operations. In certain instances, EDCs can act as arms of local government, and the degree of oversight over which city officials have over an EDC varies upon locality.

Benefits of having economic development operations privatized include the ability to take in private funding for economic development operations, less stringent bureaucratic/hiring requirements, and fewer transparency requirements, all of which may foster better relations with private businesses. Drawbacks include having less government oversight over economic development operations, and potential public transparency concerns regarding economic development operations.

### **State of Florida**

Florida's economic development initiatives are currently run through the economic development corporation Enterprise Florida (EFI), which is a 501(c)(3) public private partnership with the state. This is the first example of a state government utilizing an economic development corporation, and in 2011 the state created the Department of Economic Opportunity, which was tied together with Enterprise Florida, as EFI's president was given the title of Secretary of Commerce.<sup>8</sup>

Enterprise Florida is run by a board of directors, made up of 59 voting members. 14 of those members are appointed by various levels of the Florida government, and every member of the Florida Cabinet holds a position on the board. The remaining positions are filled by corporate investors, who must pay \$50,000 into the EDC in order to obtain their seat. Enterprise Florida's performance goals are set through a combination of contracts with the state government and through its own internal operations plan, and EFI's budget similarly comes from both state funding and private sector investors.<sup>9</sup>

Enterprise Florida follows a series of transparency requirements, including posting board meeting materials on their website and streaming their board meetings.<sup>10</sup>

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<sup>6</sup> <https://www.irs.gov/pub/irs-tege/eotopicg92.pdf>

<sup>7</sup> <https://www.raffa.com/newsandresources/publications/501c3-versus-501c6-organizations-examined.html>

<sup>8</sup> <https://www.enterpriseflorida.com/about-efi/>

<sup>9</sup> <https://www.enterpriseflorida.com/about-efi/board-of-directors/>

<sup>10</sup> <https://www.enterpriseflorida.com/about-efi/>

There are several cities and counties throughout the state of Florida which utilize EDCs, including Plant City, Lakeland, Orlando, the Tampa-Hillsborough region, Manatee County, and Sarasota County, among others. The economic development corporations found in Florida appear to be arranged in a manner which prioritizes the separation of the municipal government from the EDC.

### **Gainesville/Alachua County**

Currently, Gainesville's economic development work is done through a single employee, who serves as the Director of Economic Development and Innovation.<sup>11</sup> Alachua County does have a Department of Business Development, along with a specific Economic Development Coordinator.<sup>12</sup>

There are a variety of organizations throughout Gainesville, outside of the city government, which take on economic development roles, including the Greater Gainesville Area Chamber of Commerce and the North Florida Economic Development Partnership, which acts as an EDC for North Florida at large. While none of these organizations do the exact work that a Gainesville EDC would do, their work supplements any economic development that takes place in Gainesville.<sup>131415</sup>

The North Florida Economic Development Partnership is the regional EDC of which Gainesville is a member, and it offers services including incentives and financing to businesses located in North Florida, workforce development training, project data and research regarding businesses and industry in the region, and marketing and promotion for the region. While these services do include the Gainesville region, an EDC specific to Gainesville or Alachua County would be able to offer more specialized resources to businesses located in the municipality, and would be able to hire and work with leaders specific to our area.<sup>16</sup> A more local EDC could ultimately serve to complement the work of the North Florida Economic Development Partnership, and would likely work closely with the regional partnership.

## **PRELIMINARY RESEARCH AND FINDINGS**

There are several steps the City of Gainesville would need to take in order to create an EDC. The first would be to decide whether the City would create their own independent EDC or whether they would work with Alachua County. There are several instances of city and county governments working together to create an EDC, however these largely function as regional partnerships, which Gainesville is already a member of through the North Florida Economic Development Partnership. For instance, the Tampa Hillsborough Economic Development Corporation is a regional EDC, and larger cities within the region, such as Plant City, have chosen to create their own individual EDC, as noted below. However, an EDC in partnership with Alachua County would still allow for a more specialized EDC than simply remaining in the North Florida Economic Development Partnership.

<sup>11</sup> <https://www.cityofgainesville.org/EconomicDevelopmentandInnovation.aspx>

<sup>12</sup> <https://alachuacounty.us/Businesses/BusinessDevelopment/Pages/BusinessDevelopment.aspx>

<sup>13</sup> <https://gainesvillechamber.com/>

<sup>14</sup> <https://gainesvillecra.com/>

<sup>15</sup> <https://nflp.org/>

<sup>16</sup> <https://nflp.org/About-Us/Programs-Services>

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The second step would be to decide what type of organization to create (i.e. what non-profit categorization), and deciding how to fund the organization. Generally, EDCs receive a combination of public and private funds, with private funds coming from private investors and membership dues.

The next key step will be to decide how much influence the City of Gainesville would have over the EDC, and whether the EDC would function entirely separate from the City or whether it would be a public private partnership. In order to set up a Gainesville EDC, the City Commission could either appoint all the Board of Directors members to their positions, or an executive committee made up of 3 to 5 members could be created who would set up the corporation and appoint additional members. Different municipalities structure the appointment process to the EDC's Board of Directors in different ways, where some believe the government should be very involved in the process and some believe the government should be removed. The benefits of the City Commission being more involved in the appointment process include more government oversight, regulation, and influence over the EDC. However, the City Commission being further removed from the appointment process would be likely to prompt more acceptance by the business community and allow for more members with more technical expertise.

The following sections provide case studies which exemplify how an EDC could be organized.

Lakeland, Florida

The Lakeland Economic Development Council (LEDC) was created in 2012 to help create jobs and capital investment by attracting new companies as well as facilitating the expansion of existing companies in the Lakeland area. LEDC is a private, non-profit organization with a budget of just over \$1 million, which is nearly entirely funded by the private sector, as it charges annual dues for membership. Annual dues range from \$2,500 to \$50,000, with General Membership costing \$2,500 annually and Founders paying \$50,000 annually. The LEDC is staffed by five full-time employees, and its Board of Directors is made up of volunteer community leaders. Originally, the Lakeland Economic Development Council was part of the Lakeland Chamber of Commerce, however they separated from the Chamber in 2012, as the LEDC wanted to separate themselves from the more partisan and political aspects of the Chamber of Commerce.

The LEDC operates as a 501(c)(6) organization, and is distinct from many other EDCs in that it is an entirely private organization, not a public-private partnership, which does not receive significant funding from the City of Lakeland. Their Board of Directors is not appointed or approved by the City of Lakeland due to this separation, and is currently composed of 9 members. These members serve for a ten year period, however throughout this period they rotate positions every two years.

Due to the fact that the LEDC is a completely private organization, and not a public-private partnership, they do not have to abide by any ethics or disclosure requirements that government organizations must abide by. However, the City of Lakeland does maintain their own economic development employee

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within the Office of Community and Economic Development, and the LEDC operates very closely with this office to ensure that Lakeland is able to promote economic development.<sup>17</sup>

The LEDC represents one EDC option, which is an entirely private route. The benefits of this option are that it would not require any additional duties of the Gainesville City Commission, such as the appointment of the Board of Directors, and it would likely prompt more acceptance from the private business community. However, this entirely private option would likely bring up concerns of transparency, as the LEDC does not have to abide by any public ethics requirements. Further, the City of Lakeland still maintains an Office of Community and Economic Development, which shows that an entirely private EDC would not remove all governmental responsibilities over economic development.

### Plant City, Florida

The Plant City Economic Development Corporation (PCEDC) is a 501(c)(6) which was created in 2015 to recruit new companies while facilitating expansions of local companies, ensuring that Plant City grows in a sustainable fashion.<sup>18</sup> Due to the fact that Plant City does not have its own economic development department, the PCEDC acts as the city's economic development arm, as it conducts functions such as marketing for the city and conducting economic impact analyses. Originally, Plant City's economic development operations were run through the Tampa Hillsborough Economic Development Corporation, however they ultimately decided their own individual EDC would allow them to more successfully market Plant City.

The PCEDC is run by an executive committee made up of a combination of local business leaders and city officials. While the Plant City mayor and city manager sit on the PCEDC Board of Directors as ex-officio, non-voting members, the City of Plant City has no additional oversight over the PCEDC Board of Directors. Further, the PCEDC does not have to follow any Sunshine laws, making it easier to conduct conversations with private businesses. Approximately 30% of PCEDC's budget comes from local government funding, while the remaining budget comes from private organizations.

The PCEDC does not follow any open meeting or public information requirements set by the State of Florida or City of Plant City, although they have made their own public information requirements in their bylaws.

The PCEDC represents a middle ground between a fully privatized and fully public economic development organization, as the PCEDC works very closely with and represents the City of Plant City in their daily operations. However, the City of Plant City does not have direct oversight over the Board of Directors and the PCEDC does not have to follow the same transparency requirements as a governmental organization.

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<sup>17</sup> <http://www.lakelandedc.com/ledc/>

<sup>18</sup> <https://www.plantcityedc.com/>

### New York City, New York

The New York City Economic Development Corporation's (NYCEDC) mission is to create shared prosperity across New York City by strengthening neighborhoods and growing jobs. NYCEDC is a nonprofit organization that serves as New York City's primary entity for promoting and implementing economic development. NYCEDC has been charged with a variety of roles, including negotiating firm-specific tax incentives with businesses as encourage to relocate to or remain in NYC (as an alternative to passing tax legislation); developing real estate, providing business and economic advice to the City, in addition to the not-for-profit and for-profit sectors; managing City properties and assets; investing in and providing financial tools to businesses; and conducting research and launching economic development initiatives.<sup>19</sup>

The New York City Economic Development Corporation currently has a Board of Directors with 25 members on it, however this number fluctuates up to 27 members. The Mayor directly appoints seven members, including the Chairperson. Ten additional members are appointed by the Mayor from nominees of the Borough Presidents and the Speaker of the New York City Council. The final members are appointed by the Chairperson from a list of people approved by the Mayor.<sup>20</sup>

In order to ensure accountability, the NYCEDC follows a variety of transparency measures, including publicly releasing the fiscal impact, tax benefits, jobs created, etc. by each project; enabling video and audiocasts of Board Meetings and Public Hearings; posting notices and upcoming project documents prior to each Board Meeting and Public Hearing; and Publishing detailed information for projects covered in Public Hearings. Additionally, the NYC Charter Section 1301(1)(b) requires that NYCEDC makes available an annual report submitted to the city.<sup>21</sup>

New York City's Economic Development Corporation follows more stringent transparency requirements than the case studies above, and additionally the City of New York has more oversight over the NYCEDC Board of Directors, pointing to a path the City of Gainesville could take if the wish to maintain more operational control over an EDC>

### Montgomery County, Maryland

Montgomery County's Economic Development Corporation (MCEDC) is a 501(c)(3) nonprofit organization, created in 2016 to promote economic growth in Montgomery County.<sup>22</sup> MCEDC was created after the county decided to privatize the functions previously performed by the Department of Economic Development. In Montgomery County, the Board of Directors is comprised of business, academic, and research leaders, and all 11 members of the Board of Directors are appointed by the County Executive and confirmed by the County Council. Despite the fact that the MCEDC is a public-private partnership, the MCEDC is not an agency of the Montgomery County government.

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<sup>19</sup> <https://www.nycedc.com/about-nycedc>

<sup>20</sup> <https://www.nycedc.com/press-release/mayor-de-blasio-appoints-new-members-nycedc-board-directors>

<sup>21</sup> <https://www.nycedc.com/about-nycedc/transparency>

<sup>22</sup> <https://thinkmoco.com/about-mcedc/who-we-are>

The Montgomery County Economic Development Council is subject to the Open Meetings Act and the Maryland Public Information Act. However, the members of the Board of Directors are not subject to Montgomery County's ethics law. This shows how EDCs which work as a public-private partnership can find a balance between providing transparency but also ensuring that the EDC can be flexible and specialized.<sup>23</sup>

Montgomery County's Economic Development Council additionally shows a path the City of Gainesville could take in creating an EDC where the government has more oversight over the Board of Directors, and under which the EDC follows more stringent transparency requirements.

## **PRELIMINARY COST/BENEFIT ANALYSIS**

### Costs

- Temporary interruption of service delivery during transition period
- Disruption to current employees
- Less government control/oversight on economic development
- The EDC would not have access to the same government resources or institutional knowledge
- Regulatory agencies could be less responsive to an EDC

### Benefits

- Ability to engage more with the private sector
- Removing political interference from economic development
- More responsive to changes in the economy
- Greater staffing flexibility
- Leadership could have more technical expertise
- Ability to raise private capital
- Procurement/HR/Sunshine requirements wouldn't apply

## **PRELIMINARY AND ILLUSTRATIVE LIST OF POTENTIAL STAKEHOLDERS**

- City of Gainesville, Director of Economic Development and Innovation - Erik Bredfeldt
- Alachua County Economic Development Coordinator – Edgar Campa-Palafox
- Gainesville Council for Economic Outreach
- Gainesville Area Chamber of Commerce
- Gainesville Community Redevelopment Agency
- North Central Florida Regional Planning Council
- North Florida Economic Development Partnership
- Jake Austin – President of Plant City Economic Development Corporation
  - Will provide consulting services if City of Gainesville desires to move forward with forming an EDC
- Laura Taylor – VP of Operations, Lakeland Economic Development Council

<sup>23</sup><https://apps.montgomerycountymd.gov/CCLLIMS/BillDetailsPage?RecordId=975&fullTextSearch=economic%20AND%20development%20AND%20council>



### **RECOMMENDED POINTS FOR FURTHER RESEARCH/DISCUSSION**

- Public-private partnership or fully private
- Degree of City influence over Board of Directors
- Transparency Requirements
  - Whether the EDC would be required to follow open meeting or public information guidelines
- IRS 1024 (501(c)(6)) or 1023 form (501(c)(3))
  - Notes the specific guidelines that non-profits have to follow
  - Form 1024 is much less stringent than Form 1023

### **PROPOSED TIMELINE FOR FURTHER ACTION**

If any Commissioner wishes to advance this subject for discussion at the General Policy Committee, it may be scheduled during the next quarterly planning session.