TECHNICAL
REPORT

An Economic Development Architecture for New Orleans

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Summary

In August 2005, Hurricane Katrina, followed by multiple levee failures, devastated New Orleans and other parts of the U.S. Gulf Coast, inflicting major damage to commercial property, infrastructure, and housing. The failure of the levees and the flooding of New Orleans caused enormous damage and disruption to the city, its people, and its economy. Recovering from a disaster of this magnitude poses a major challenge to the city, the state, and the nation. The complexity of this challenge is compounded by the fact that New Orleans's population and economy had been lagging for several decades before Katrina. Although recovery is under way, it has been proceeding more slowly than the city's residents, local public and private leaders, and other stakeholders had hoped.

In response to this situation, the Horizon Initiative, a private-sector organization, formed to expedite the city's recovery, asked the RAND Gulf States Policy Institute (RGSPI) to provide recommendations as to the most effective organizational and strategic approaches to revitalizing the city's economy. Specifically, RGSPI was asked, first, to identify the best practices that other cities have used to foster economic development (in terms of both how they organize their efforts and the approaches they use); second, to describe how these practices might be applied to New Orleans; and third, to recommend actions that might be needed to facilitate the application of those practices in New Orleans. Consistent with the request by the Horizon Initiative, the overall architecture reflected in our recommendations addresses both how the organizational structure should be configured and how it should strategically focus its efforts.

The study that produced this report was conducted in three phases. The first was an examination of the development experiences of 17 other cities; the second was a review of studies of New Orleans's pre- and post-Katrina economic infrastructure and its prior development efforts; and the third involved interviews with a range of individuals from the city's public and private sectors.

Lessons from Other Cities

Our review of the economic development efforts of other cities revealed several important lessons:

- A successful economic development program requires a comprehensive design, an appropriate organization, and an effective implementation plan.
- A clear and comprehensive design starts with a vision of what the development authority and community are trying to accomplish, and includes both an appropriate plan or

approach to achieve that vision, including the identification of a set of industries to target with the strategy, and a commitment to make the required improvements to the area's economic infrastructure that will promote the growth of those target industries.
- Organizing for success is as important as the strategy used to achieve it. An effective organization requires coordination of the activities of the parties involved in the effort, with a clear division of roles and responsibilities among those parties.
- An effective division of labor is best served by establishing separate bodies to perform three key functions: a governing board to set policy, an executive staff to carry out that policy and coordinate activities, and a resource group to provide expertise as needed.
- The implementation of the strategy requires setting priorities and goals, as well as identifying metrics to evaluate progress in meeting those goals.

Overall Architecture

This review of the experience of a range of different metropolitan regions leads to our first recommendation for the overall architecture of New Orleans's development effort.

Recommendation One: New Orleans should build its economic development program in three phases: a design phase, an organizational phase, and an implementation phase.

Given critiques of New Orleans's prior development efforts, the controversy that surrounding the various neighborhood redevelopment plans, and the city's reputation for cronyism, we make a second recommendation for the overall architecture of New Orleans's development effort.

Recommendation Two: The process of developing and implementing the city's economic development program should be both transparent (open to public scrutiny) and inclusive (incorporating input from a diverse range of stakeholders).

Design Phase

The design phase of an economic development program typically includes four basic elements: first, a vision statement articulating the desired characteristics of the future economy; second, an assessment of the city's economic infrastructure that highlights its strengths and weaknesses; third, a description of the strategic focus of the effort, including its principal goals and targets; and, finally, a list of specific improvements to that infrastructure that are viewed as central to the plan.

Although vision statements are often cast in very general terms, the process of drafting them is important as a mechanism to publicize the development effort, involve a wide range of community stakeholders, and develop support for the economic development program. This leads to our third recommendation.

Recommendation Three: The vision statement for a New Orleans economic development effort should involve consultation with a wide range of stakeholders to reflect the diversity of their views and to make them aware of and vested in the development effort.

Our review of New Orleans's economic base and its current assets revealed that the city's industrial base has been concentrated around four industrial clusters: a maritime cluster, consisting of shipping (the port) and shipbuilding and repair; an oil and gas cluster, including production services and the petrochemical industry; a tourism cluster related to the city's unique facilities, festivals, and attractions; and a biomedical cluster that consists of health services and biomedical research industries. These clusters reflect the city's unique comparative advantages, most of which (e.g., its location on the Mississippi River, the nation's major north-south water artery; its extensive port facilities; its proximity to the nation's major oil and gas reserves in the Gulf of Mexico; its unique tourist attractions) will remain major advantages for New Orleans despite Katrina. On the other hand, the city's biomedical cluster, while based on a particularly strong set of facilities and a dominant position in the U.S. Gulf Coast region before Katrina, suffered major damage in the aftermath of the hurricane, as well as a substantial loss of its critical professional staff, and it will need to be repaired if it is to return to pre-Katrina capacity.

In addition, New Orleans has notable strengths in food processing, aerospace (the NASA Michaud facility), arts and entertainment (music and film production), and higher education, as well as promising clusters in such high-technology areas as information, biotech, and alternative energy. Finally, although devastated by Katrina, the small-business sector was a critical element of the city's economic infrastructure that provided 40 percent of the city's total employment before the storm and significant opportunities for minority entrepreneurs.

The review of city's economic base leads to our next recommendation.

Recommendation Four: The city's economic development efforts should be targeted at three groups of industrial clusters. The first group consists of three core industries that have made or are making significant recovery post-Katrina, namely the maritime, oil and gas, and tourism industries. The second group consists of three groups of industries or sectors that are vital to the city's economy but have been slower to recover from the damage caused by the storm—namely, the biomedical and food-processing industries and the city's small-business sector. These will require case-by-case evaluation. The third group consists of three clusters with solid pre-Katrina bases in the city and promising growth potential—namely, the arts and entertainment, information technology, and energy technology clusters.

New Orleans's economic infrastructure has several weaknesses, many of which predated Katrina but have been exacerbated by the damage done by the storm and its aftermath. Probably the single most important physical infrastructure problem is the uncertain state of the levees and the flood-control system protecting the city from future storms. Despite the repairs that have been made, the uncertainty surrounding the city's protection from future storms discourages much-needed investment, both by the city's existing businesses and residents and by potential new businesses and residents. In addition, the city's physical infrastructure needs major upgrading and repair, not just to such basic facilities as streets, transportation networks, and utilities, but especially to the port and the city's biomedical facilities.

Other major problems for the city's economic infrastructure include the quantity and quality of its labor force and the city's relationship with the business sector. Members of the city's business community whom we interviewed repeatedly complained about the difficulties they faced in dealing with city government, primarily the complexity of and delays in the permitting and licensing processes and the lack of a service orientation among city employees. This situation will pose special problems for the small businesses that will need special assistance to get reestablished.

Finally, the city must upgrade the quality of life for its residents and refurbish New Orleans's image. Despite its many charms, post-Katrina New Orleans is not an easy place to live. To remedy this situation, the city will need to address a rising crime problem, upgrade the quality of its schools and health facilities, provide a sufficient supply of safe and affordable housing, and restore basic services to its rebuilding neighborhoods. The New Orleans brand (the city's national image), which suffered pre-Katrina from perceptions of corruption and cronyism, has been further tarnished by the slow pace of recovery and additional indictments of city officials. Restoring the city's image is essential to securing the additional federal aid that the city needs and encouraging investment by business.

These weaknesses lead to our next recommendation.

Recommendation Five: New Orleans needs to recognize the importance of beginning its economic development programming by addressing the weaknesses in its economic infrastructure. Priority should be given to repairing and upgrading the city's infrastructure (e.g., water and sewers, public transportation), expanding the supply and improving the quality of the city's labor force, improving the quality of the interaction between the city and the business community, upgrading the quality of life for the city's residents, and refurbishing the city's national image.

Other cities typically choose among three different general strategic approaches to economic development—each with a distinct target, selling points, and marketing technique. The first approach aims to recruit new industries by emphasizing low costs, tax incentives and rebates, and a business-friendly environment. It aggressively markets these advantages to firms located in other areas. The second approach focuses on retaining and supporting the growth of industries and firms already located in the area by highlighting an improved physical infrastructure, an abundant supply of qualified labor, and government policies that are supportive of local industries. It then focuses on making the needed internal improvements to the city's economic infrastructure. The third approach targets new potential growth industries, with a particular focus on high-tech industries. Its major selling points are strong education and research sectors and a quality of life that attracts highly skilled, relatively "footloose" workers. It then focuses on building up its educational and research capabilities and a quality of life that will attract a highly skilled labor force on the assumption that, if the area can attract such labor, the target industries will follow. The priorities that cities attach to these alternatives are typically based on the assessment of the area's economic infrastructure. These observations lead to our next recommendation.

Recommendation Six: New Orleans should attach the highest priority to the "retain-and-grow" approach and the second-highest priority to attracting high-tech growth industries.

Organizational Phase

A major evaluation of New Orleans's prior development efforts (Bureau of Governmental Research, 2004) highlighted several problems. First, the city's prior efforts lacked an overall strategy and comprehensive development plan and relied instead on an ad hoc approach that created the perception that decisions were based on political rather than economic considerations. Second, there was no single individual or organization in charge of decisionmaking. Instead, decisionmaking was spread among multiple organizations, with the result that there were no clear priorities among alternatives. Third, no cost-benefit evaluation was conducted of individual projects or investments, so there was no way to determine whether they had met their objectives. Fourth, no attempt was made to assess the cumulative effects of individual decisions and their contribution to overall economic development.

Although there is a diverse range of public and private organizations at the state, regional, and local levels involved in economic development activities, many of the same problems remain. Specifically, these different organizations appear to have different emphases and agendas, represent diverse interests, and perform a wide range of functions. Although, in sum, they represent a valuable combination of resources and expertise, their efforts are not coordinated, reflect different priorities, lack continuity of personnel, and fail to follow a common strategy or plan.

In combination, these observations lead to our next three recommendations, relating to the structure, roles, and funding of the proposed economic development agency. Based on the experience of other cities, we suggest that New Orleans's economic revitalization program should have the following functional features: a comprehensive plan that is followed by all involved, a clear division of responsibility (e.g., for policy, implementation, resources), continuity of leadership commensurate with the term of the effort, and coordination of the activities involved in implementing the plan.

Correspondingly, we make the following recommendation.

Recommendation Seven: New Orleans's development agency should be led by a public-private partnership that consists of the following three components:

- A governing council comprised of leaders of the relevant public- and private-sector stakeholder organizations; the governing council should have direct responsibility for setting policy for the development effort and raising funds for that effort.
- A professional executive staff led by the director of economic development, who would be appointed by the development council for a five-year term and would report to the development council; the executive director would be responsible for implementing the plan and ensuring coordination of the development program's activities.
- A resource group drawn from the various organizations and individuals currently involved in development that would provide needed resources and expertise; the resource group would carry out specific tasks at the direction of the executive director.

The executive director's ability to ensure cooperation from the organizations in the resource group and to coordinate the development agency's activities would be enhanced by requiring him or her to specifically approve expenditures of funds that are directly related to the economic development activities.

Recommendation Eight: The funding for New Orleans's public-private economic revitalization partnership should be provided by both the public and private sectors.

Assuming that the costs of operating the agency will approximate the costs of running the city's Office of Recovery and Development Administration, the operating costs of the New Orleans economic revitalization partnership will be between $2 million and $3 million annually. Currently, the city is spending between $900,000 and $1.2 million per year on economic development activities. In addition, the city's economic development fund raised $5 million in fiscal year 2007 and is projected to raise more than $8 million in 2008. A significant share of the proceeds from this fund should be dedicated to the new agency, with a like amount provided by the private sector.

Recommendation Nine: The development council, in conjunction with the development executive, should consider appointing task forces that would be responsible for developing plans and implementation strategies for each of the target industry clusters.

Implementation Phase

Other cities place considerable importance on key implementation issues before embarking on their efforts. The criticism of New Orleans's prior efforts for failing to evaluate its programs' effectiveness, either individually or collectively, underscores the importance of such implementation issues. There are three specific questions that need to be addressed in the implementation phase. First, should the development effort concentrate on economic development at the city or the regional level? Second, what criteria should be used in setting priorities among the multiple goals of the effort? Finally, how will the effort measure progress, and will its plans be revised accordingly?

Most cities have adopted a regional approach for their development programs in the belief that their major competitors were other regions rather than other communities within their own region. Indeed, when considering a new location, prospective firms are likely to focus initially on the metropolitan area as a whole and only later consider in which specific communities they might choose to place their facilities. However, some of our interviewees in New Orleans told us that there was often competition between Orleans and the surrounding parishes and that prospective employers were sometimes drawn to the state by the attractions of New Orleans but ended up locating elsewhere in Louisiana. Our review of the evidence suggests that both the city and the region would both benefit in the form of increased employment opportunities and business for suppliers from growth and the entry of new firms, whether that occurs in the city or surrounding areas. This leads to our next recommendation.

Recommendation Ten: The focus of New Orleans's development efforts should be the metropolitan region rather than the city exclusively.

A successful development effort takes time and involves a wide range of activities. The list of improvements to the city's economic infrastructure discussed earlier, for example, included changes along several different dimensions, each of which will require a range of different actions. Moreover, the resources available to make those changes are limited. Correspondingly, a central issue for the development effort will involve setting priorities among competing goals. Thus, the development effort will need to determine what criteria to use to set those priorities. A variety of different criteria might be used. What is of paramount importance, however, is that criteria be chosen, that they be made public, and that their application be transparent. Following this guideline will go a long way to gaining credibility for the effort and gaining public acceptance for its actions. This leads to our next recommendation.

Recommendation Eleven: The development effort should set clear criteria for determining priorities among competing goals and actions, make those criteria public, and apply them in a transparent way. In particular, it should place highest priority on "the deal breakers"—that is, the actions and goals that are most critical to the success of the effort.

The final element of the implementation phase is to establish a means to assess the progress of the development effort. As we have noted, one of the criticisms of the city's past development program was its failure to assess the success of its efforts, either individually or collectively. As the experiences of other cities demonstrate, remedying this problem requires benchmarks against which to assess the progress and effects of a development program. This involves translating priorities into goals, incorporating those goals into schedules, and developing metrics to measure performance in meeting those goals. Based on the progress made in achieving these goals, modifications can be made, as needed, to the implementation plan. This leads to our final recommendation.

Recommendation Twelve: The development plan should include a process for assessing progress. This will require setting goals, establishing schedules, and developing metrics for determining the progress and success of its efforts.