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# TESTIMONY

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## Evaluating Alternative Organizational Structures to Revitalize the Economy of New Orleans

KEVIN F. MCCARTHY

CT-295

November 2007

Testimony presented before the New Orleans City Council on November 28,  
2007

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**The RAND Corporation**

***Evaluating Alternative Organizational Structures  
to Revitalize the Economy of New Orleans<sup>2</sup>***

**Before the New Orleans City Council**

**November 28, 2007**

Mr. President and distinguished Council Members: Thank you for inviting me to speak on the issue of strategies to revitalize the economy of New Orleans in the aftermath of the devastation wrought by Hurricane Katrina in August 2005. Today's remarks are drawn from a recently completed RAND Gulf States Policy Institute (RGSPI)<sup>3</sup> study that provides an organizational architecture for New Orleans's economic development<sup>4</sup>, along with an assessment of how the architecture should be configured and how it should strategically focus its efforts.<sup>5</sup> By architecture, I mean a plan for the overall structure and mission of the effort but not a detailed blueprint for how to accomplish it. Although the content and approach of a specific economic plan or strategy are essential for putting an approach into action, creating that plan was beyond the scope of our research.

The study was funded by the Horizon Initiative—a private-sector organization formed in 2006 that, in collaboration with the New Orleans City Council, has been evaluating alternative organizational structures and strategies to revitalize the city's economy.

I want to stress upfront that the goal of our efforts was not to provide a plan for New Orleans' economic recovery. Rather, our goal was to lay out a plan for the city's economic revitalization.

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<sup>1</sup>The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of RAND or any of the sponsors of its research. This product is part of the RAND Corporation testimony series. The series records testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

<sup>2</sup>This testimony is available for free download at <http://www.rand.org/pubs/testimonies/CT295/>.

<sup>3</sup>The RGSPI is a collaboration among RAND and seven universities (Jackson State University, Tulane University, Tuskegee University, University of New Orleans, University of South Alabama, University of Southern Mississippi, and Xavier University) to develop a long-term vision and strategy to help build a better future for Louisiana, Mississippi, and Alabama in the wake of hurricanes Katrina and Rita.

<sup>4</sup>In discussing the revitalization of New Orleans, it is important to distinguish between economic development and urban redevelopment programs. Economic development programs are designed to stimulate the economy by increasing the growth of employment and income in the city/region as a whole. Urban redevelopment programs are designed to improve the physical, social, and economic status of neighborhoods within the city. Although both sets of efforts are important (and at times related since urban redevelopment is often an important component of increasing an area's attraction to new employers and residents), they have distinct goals and methods. Much of the planning effort undertaken in New Orleans since Katrina has focused more on urban redevelopment than economic development.

<sup>5</sup>The results of this research effort have been published in the following document: *An Economic Development Architecture for New Orleans*, TR-547-HI.

New Orleans' population and economy had been lagging for several decades before Katrina struck and to simply return the city's economy to its pre-Katrina status could shortchange the city and its residents. The city's goal should be to point the way to a revitalization of the city's economy and of the well-being of all the city's residents for the future.

Having said that, let me turn to providing some brief context. As all of you know, Hurricane Katrina and the multiple levee failures that followed devastated New Orleans and other parts of the U.S. Gulf Coast, inflicting major damage to commercial property, infrastructure, and housing—all of which caused enormous damage and disruption to New Orleans, its people, and its economy. Recovering from a disaster of this magnitude poses a major challenge to the city, the state, and the nation. Although recovery is now under way, it has been proceeding more slowly than the city's residents, local public and private leaders, and other stakeholders had hoped.

Given these circumstances, the study we conducted was designed to provide recommendations about the most effective organizational and strategic approaches to revitalizing the city's economy by, first, identifying the best practices other cities have used to foster economic development (both in terms of how they organize their efforts and the approaches they use), second, describing how these practices might be applied to New Orleans, and, third, recommending actions that might be needed to facilitate the application of those practices in New Orleans. To do this, we examined the development experiences of 17 other cities<sup>6</sup>, reviewed the studies of New Orleans' pre- and post-Katrina economic infrastructure and its prior development efforts, and interviewed a range of individuals from the city's public and private sectors.

### **What Do We Learn from Other Cities About the Keys to Economic Development?**

As I mentioned above, we looked at what 17 other cities have done when it comes to economic development. We chose a range of cities and then focused on two sets of them. First, we discovered that in most cities there are too many—rather than too few—organizations involved in economic development. Consequently, we focused on cities that had been most successful in building an effective economic development organization. Second, we compared those cities in terms of their levels of income and economic development compared to New Orleans. Based on our review, we identified five key lessons that are applicable to New Orleans:

- First, we found that a successful economic development program requires a comprehensive design, an appropriate organization, and an effective implementation plan.

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<sup>6</sup>The 17 comparison cities are as follows: Asheville, NC; Jackson, MS; Nashville, TN; Orlando, FL; Winston-Salem, NC; Atlanta, GA; Houston, TX; Albuquerque, NM; Birmingham, AL; Charleston, SC; Miami, FL; San Antonio, TX; Savannah, GA; Jacksonville, FL; Richmond, VA; San Diego, CA; Virginia Beach-Norfolk, VA.

- Second, a clear and comprehensive design starts with a vision of what the development authority and community are trying to accomplish. This includes an appropriate plan/approach to achieve that vision, which, in turn, includes identifying a set of industries upon which to target that strategy and a commitment to make the improvements to the area's economic infrastructure needed to promote the growth of those target industries.
- A third lesson learned from examining other cities is that organizing for success is as important as the strategy used to achieve it. An effective organization means that the activities of the different parties involved in the effort must be coordinated, with a clear division of roles and responsibilities among those parties.
- Fourth, 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 the expertise to the effort as needed.
- The final lesson is that the implementation of the strategy requires setting priorities and goals, as well as identifying metrics to evaluate progress in meeting those goals.

### **Given These Lessons, How Should New Orleans Proceed in Economic Development?**

The review of what other cities have done identified lessons learned or “best practices” when it comes to economic development. In the remainder of this testimony, I will describe how these best practices might be applied to New Orleans. I will do this by summarizing a series of twelve recommendations for New Orleans, starting first with our assessment of what New Orleans should do in terms of an overall architecture for economic development and then turning to what it should do in terms of the three key components of that architecture: design, organization, and implementation.

#### **Overall Architecture**

Starting first with the overall architecture for economic development, our review of the experience of a range of different metropolitan regions leads to our first recommendation for the overall architecture of New Orleans' 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.**

Moreover, given critiques of New Orleans' prior development efforts, the controversy that surrounds the various neighborhood redevelopment plans for the city, and the city's reputation for cronyism, we make a second recommendation for the overall architecture of New Orleans' 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 a diverse range of stakeholders' input).**

### **Design Phase**

Turning first to the design phase of the economic development program, we find, based on the lessons learned, that this phase typically includes four basic elements: first, a vision statement laying out 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. We turn to our assessment of each element, followed by recommendations.

Although vision statements are often cast in very general terms, the process of drafting them is an important mechanism to publicize the development effort, one that involves a wide range of community stakeholders in the effort and develops their support for the economic development program.

This observation leads to our third recommendation for New Orleans.

**Recommendation Three: The vision statement for a New Orleans economic development effort should be developed through 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.**

Turning now to our review of New Orleans' economic base and its current strengths, we found that the city's industrial base has been concentrated around four industrial clusters: a maritime cluster consisting of shipping (the port) and shipbuilding and ship repair; an oil and gas cluster, including both 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 these advantages—such as city's location on the Mississippi River (the nation's major North-South water artery), its extensive port facilities, its unique nexus of railroads, its proximity to the nation's major oil and gas reserves in the Gulf of Mexico, and its unique tourist attractions—still remain major advantages for New Orleans, despite the damage wrought by Katrina. However, although the city's biomedical cluster was based on a particularly strong set of facilities and a dominant position in the Gulf Coast region before Katrina, that cluster suffered major damage in the aftermath of Katrina, including a substantial loss of its critical professional manpower; as a result, the biomedical cluster will need to be repaired if it is to return to pre-Katrina capacity and continue to be one of the city's unique comparative advantages.

In addition, New Orleans has notable strengths in food processing, aerospace (e.g., the NASA Michoud facility), arts and entertainment (e.g., music and film production), and higher education, as well as promising clusters in such high-technology areas as information, biotechnology, and alternative energy.

Finally, although devastated by Katrina, the small business sector was a critical element of the city's economic infrastructure—one that provided 40 percent of the city's total employment before the storm and offered significant opportunities for minority entrepreneurs. Restoring these opportunities is critical to the city's long-term economic future.

This review of the city's economic base and current strengths leads to our next recommendation for New Orleans.

**Recommendation Four: The city's economic development efforts should target three groups of industrial clusters. The first group consists of three core industries that have or are making significant recovery post-Katrina—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—the biomedical and food processing industries and the city's small business sector. Development efforts devoted to the industries in this second group will require case-by-case evaluation to determine the merits of development and what specific steps must be taken to remedy these problems.**



**The third group consists of three clusters with solid pre-Katrina bases in the city and with promising growth potential—the arts and entertainment cluster and the information and energy technology industries—including sustainable construction technology.**

Beyond examining New Orleans' economic infrastructure and its numerous strengths, we also examined weaknesses in its economic base, many of which pre-dated Katrina but which 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. The recent controversy spawned by conflicting estimates from the Army Corps of Engineers about how much protection the restored levees will provide in a future storm underscores the uncertainty here.

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; this includes upgrading and repair not just to such basic facilities as streets, transportation networks, and utilities but especially to the city's port and biomedical facilities.

Other major problems for the city's economic infrastructure include the quantity and quality of its labor and the city's relations with the business sector. When we interviewed members of the city's business community as part of our study, they complained repeatedly about the difficulties they faced in dealing with city government—difficulties that stemmed from the complexity and delays in the permitting and licensing process and from the lack of a service orientation. This situation will pose special problems for the small business sector, which will need special assistance to get back on its feet.

Finally, the city must upgrade the quality of life for its residents and refurbish New Orleans' image. Despite its many charms, post-Katrina New Orleans is not an easy place to live in at the moment. To remedy this situation, the city will need to address a rising violent 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"—its national image—was suffering before Katrina hit. That brand has been further tarnished by the slow pace of recovery. Restoring the city's image is essential to securing the additional federal aid the city needs and to encourage investment by business.

The weaknesses we have identified lead to our next recommendation for New Orleans.

**Recommendation Five: New Orleans needs to recognize the importance of beginning its economic development program by addressing the weaknesses in its economic infrastructure. Priority should be given in this effort 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.**

When we examined the other cities and looked at what they have done in terms of economic development, we discovered that these other cities typically chose 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. As such, cities that use this approach aggressively market these advantages to persuade firms to relocate from other areas.

The second approach cities use focuses on retaining and supporting the growth of industries and firms already located in the area by highlighting a supportive physical infrastructure, an abundant supply of qualified labor, and government policies that are supportive of local industries. Cities using this approach then focus on making the needed internal improvements to the city's economic infrastructure.

The third approach targets new potential growth industries, focusing in particular on high-technology industries. The major selling points for cities using this approach are strong education and research sectors and a quality of life that attracts high-skilled, relatively mobile workers. Cities using this approach focus on building up their educational and research capabilities and a quality of life that will attract a high-skilled labor force, based on the assumption that if the area can attract such labor, the target industries will follow.

The priorities cities attach to these alternatives are typically based on the assessment of the area's economic infrastructure. Our previous assessment of New Orleans' economic infrastructure leads to the following recommendation.

**Recommendation Six: New Orleans should attach the highest priority to the second—"retain and grow"—approach and next priority to the third approach of attracting high-technology growth industries.**

## **Organizational Phase**

As I noted earlier, an appropriate organizational structure is just as important as the strategy used. To this end, I recommended that the overall organizational architecture should have three phases. After the design phase would come the organizational phase, which we turn to here.

A major evaluation of New Orleans' prior development efforts highlighted several organization-related problems with those efforts.<sup>7</sup> 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 if such projects or investments had met their objectives. Fourth, no attempt was made to assess the cumulative effects of individual decisions and their contribution to overall economic development.

Currently, there is a diverse range of public and private organizations involved in economic development activities at the state, regional, and local levels. Taken together, these organizations represent a valuable combination of resources and expertise. But many of the same problems noted above remain problems today, because these organizations' efforts are not coordinated, reflect different agendas and priorities, lack continuity of personnel, and fail to follow a common strategy or plan.

In combination, these observations lead to our next set of 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' economic revitalization program should have the following functional features: a comprehensive plan that all groups involved follow; a clear division of responsibility for major functions (e.g., policy, implementation, and 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 for New Orleans.

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<sup>7</sup>See Bureau of Government Research, *On the Right Track? New Orleans Economic Development in Perspective*, New Orleans, November, 2004.

**Recommendation Seven: The New Orleans' 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 for 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 who would report to the development council. The executive director would be responsible for implementing the plan and for ensuring coordination for 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 economic development activities.

This leads to the following recommendation.

**Recommendation Eight: The funding for the public-private partnership for New Orleans' 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 Management 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 over \$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.

This leads to the final organization-related recommendation.

**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**

The final phase of the overall architecture is the implementation phase. The other cities we examined placed considerable importance on key implementation issues before embarking on their economic development efforts. The criticism that New Orleans' prior efforts failed to evaluate the effectiveness of the city's programs, either individually or collectively, underscores the importance of such implementation issues.

Three specific questions must 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? And, finally, how will the effort measure progress and revise its plans accordingly?

Turning to the first question, most cities we studied adopted a regional approach for their development programs because they believed 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 the specific communities within the region where they might choose to locate their facilities.

However, some of our interviewees in New Orleans told us that there was often competition between New Orleans and the surrounding parishes and that this competition may well have increased after Katrina. As a result, prospective employers were sometimes drawn to the state by the attractions of New Orleans but ended up locating in other parishes.

Nonetheless, our review of the evidence suggests that both the city and the region would benefit in the form of increased employment opportunities and business for suppliers from growth and the entry of new firms, regardless of whether that occurs in the city proper or in the surrounding areas.

This leads to our next recommendation.

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

Turning now to the second implementation question I raised—that of priorities—it is clear that a successful development effort takes time and involves a wide range of different activities. The list of improvements to the city’s economic infrastructure discussed above, 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. Thus, the city’s economic development effort will need to set priorities among competing goals and determine what criteria to use to set those priorities.

While the city can use a variety of different criteria, it is paramount that the criteria chosen be made public and that the application of those criteria 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 for New Orleans.

**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 I 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 experience of other cities demonstrates, remedying this problem requires benchmarks against which to assess the progress and effects of its development programs. This, in turn, involves translating priorities into goals, incorporating those goals into schedules, and developing metrics to measure performance in meeting these 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 develop a process for assessing the progress of the effort. This will require setting goals, establishing schedules, and developing metrics for determining the progress and success of its efforts.**

## Conclusions

In conclusion, based on our research, today's testimony argues that New Orleans should build a transparent and inclusive economic development program that follows design, organizational, and implementation phases.

In terms of design, that program should target three groups of industrial clusters, with a focus on addressing the weaknesses identified in the city's economic infrastructure, such as repairing and upgrading the city's water and sewer, transportation, and other critical physical infrastructure; 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 and international image. Given the potential strategies the city could use in designing the program, we recommend that New Orleans attach the highest priority to an approach that retains and supports the growth of industries and firms already located in the area by highlighting a supportive physical infrastructure, an abundant supply of qualified labor, and government policies that are supportive of local industries—and then focus on making the needed internal improvements to the city's physical infrastructure.

From an organizational perspective, we recommend that the New Orleans' development agency be led by a public-private partnership that is funded by both the public and private sectors and that consists of a governing council, a professional executive staff led by the director of economic development, and a resource group drawn from the various organizations and individuals currently involved in development that would provide needed resources and expertise. 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.

Finally, when it comes to implementation, the focus of the New Orleans development efforts should be on the metropolitan region rather than the city exclusively; should set clear criteria for determining priorities among competing goals and actions, make those criteria public, and apply them in a transparent way; and should develop a process for assessing the progress of the effort.

In conclusion, I would like to add a personal note. Since I have been involved in New Orleans, I have been struck by the efforts the city and its residents are making not just to recover from Katrina but to revitalize the city and its economy for the future.

I would like to thank you again for the opportunity to address the City Council on this important topic and for the opportunity you have provided RGSPI to offer assistance to the city on this challenging and vital task. I look forward to answering any questions you may have.