Annex

OECD
Territorial Reviews

Montreal, Canada

Comparison Regions:
Minneapolis Saint-Paul, US
Stuttgart, Germany
Philadelphia, US

OECD

ACKNOWLEDGEMENT

This Annex is a complement to the OECD Territorial Review of Montreal. It includes three case studies, two of which focus on issues of metropolitan governance (Minneapolis Saint-Paul/US and Stuttgart/Germany), and one on metropolitan competitiveness (Philadelphia/US).

Individual contributions were provided by Marsha Ann Blumenthal, University of St.Thomas, St. Paul, Minnesota (the case of Minneapolis Saint-Paul*)*, Werner Bächle, Jürgen Guilliard, Jürgen Ludwig and Suzan Ünver from Verband Region Stuttgart (the case of Stuttgart), and Stephen P. Mullin, John Del Roccili, David Crawford and Kevin Babyak of Econsult Corporation (the case of Philadelphia).

At the OECD, Tim Goodspeed, Erin Haddock, Lina Kee and Soo-Jin Kim have contributed to the final drafts of the case studies.

The Territorial Review of Montreal and its Annex was co-ordinated by Mrs. Lamia Kamal-Chaoui, Administrator, under the direction of Mr. Mario Pezzini, Head of the OECD Territorial Reviews and Governance Division. Georgina Regnier prepared this annex for publication.

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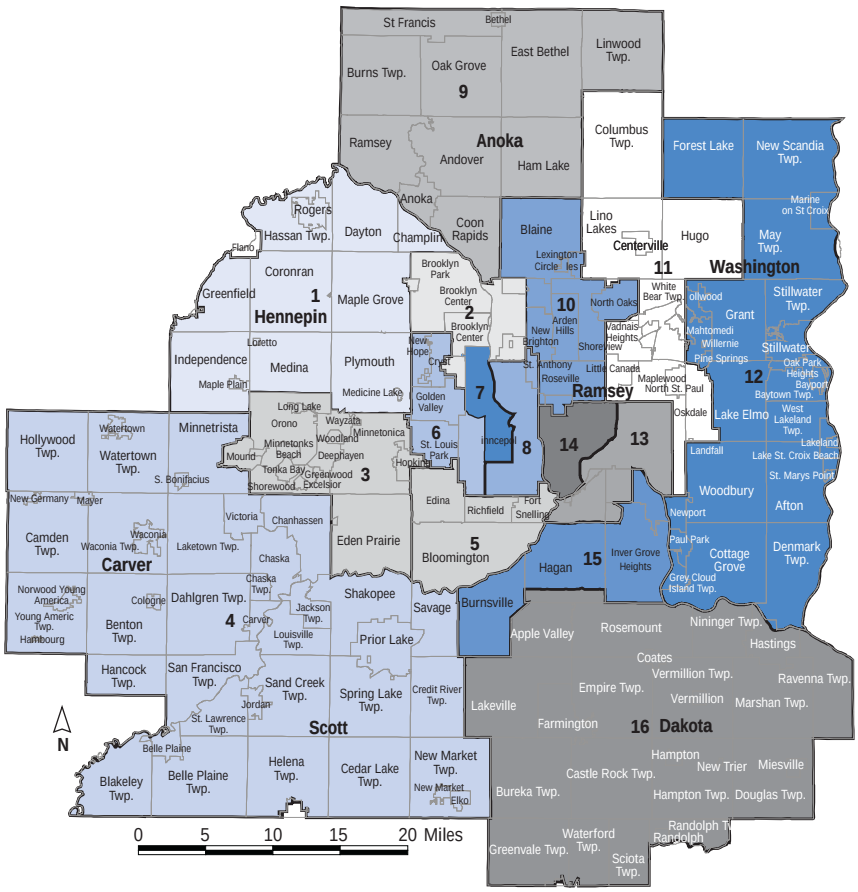
ANNEX 1. MINNEAPOLIS-SAINT PAUL

Portrait of the metropolitan region

Definition of the Minneapolis-Saint Paul metropolitan area

The metropolitan area can be defined in several ways. The narrowest definition would include only the municipal boundaries of the two adjacent cities. A widely-used, broader definition consists of the 7 counties that include and surround that urban core: Anoka, Hennepin, Carver, Ramsey, Dakota, Scott and Washington. The broadest definition would be the 13-county area known as the Minneapolis-St. Paul-Bloomington, MN-WI metropolitan statistical area (MSA)[1]. In 2000, the Twin Cities 7-county region had a population of 2.6 million people, ranking 13th of the 25 largest metropolitan areas in the U.S[2]. (Figure 1.1)

Figure 1.1. **Map of the Minneapolis Saint Paul metropolitan area**



Council Members

1. Roger Scherer
2. Tony Pistilli
3. Mary Hill Smith
4. Julius C. Smith
5. Russ Susag
6. Peggy Leppik
7. Annette Meeks
8. Lynette Wittsack
9. Natalie Haas Steffen
10. Marcel Eibensteiner
11. Georgeanne Hilker
12. Chris Georgacas
13. Rick Aguilar
14. Song Lo Fawcett
15. Thomas Egan
16. Brian McDaniel

Demography

Demographic trends are positive for the region. The 2000 Census figures revealed that the Twin Cities 7 county Metro Area experienced its largest population growth in any decade in its history (Table 1.1). It growth rate was at 15.4% from previous decade. Almost all of this unanticipated growth was due to in-migration of people under age 35. Metropolitan Council population forecasts show some increase in the ratio of net migration to natural increase over the period 2000-2020 and slowdown in growth will only occur after 2020 due to ageing population[3].

Table 1.1 **Population growth, 1940-2000**

Year	Population	Population change	Growth rate (%)
1940	1 000 558		
1950	1 185 694	185 136	18.5
1960	1 525 297	339 306	28.7
1970	1 874 612	349 315	22.9
1980	1 985 873	111 261	5.9
1990	2 288 729	302 856	15.3
2000	2 642 056	353 327	15.4

Source: Metropolitan Council and U.S. Census.

Output and income

The metropolitan region, which is a leading contributor of the US and the Minnesota State economy, has registered an increase of income. Gross domestic product for the 13-county metropolitan region stood at USD 128.06 billion in 2001, the 12th largest economy among U.S. metropolitan areas (DRI-WEFA, 2002). The metropolitan statistical area, although it includes two Wisconsin counties, thus accounts for roughly 64% of the state of Minnesota's GDP. In 2001, per capita income in the 13-county area was USD 38 131, 25% above the national average of USD 30 413 and ranking 18th in the United States (US Department of Commerce, 2001). An exceptional long period of economic expansion in the 1990s combined with a tight labour market and productivity gains boosted median income. In 1999, median household income reached USD 54 304 in the Twin Cities (nearly 30% higher than the nation's), ranking third among the 25th largest US metropolitan areas. The Twin Cities' 14.4% rise in median household income from 1989 to 1999 far exceeded nation's gain of 7.7% after adjustment for inflation. Median household income in the 13-county area climbed from a sixth-place ranking in 1989. In terms of per capita income, the Twin Cities ranks 5th among the largest US metropolitan areas (Table 1.2).

Table 1.2. **Per capita income in the 25 largest US metropolitan areas (1999)**

	Per Capita Income	Rank
San Francisco--Oakland--San Jose, CA CMSA	30 769	1
Washington--Baltimore, DC--MD--VA--WV CMSA	28 175	2
Boston--Worcester--Lawerence, MA--NH--ME--CT CMSA	26 856	3
New York--Northern New Jersy--Long Island, NY--NJ--CT--PA CMSA	26 604	4
Minneapolis--St Paul, MN--WI MSA	**26 219**	**5**
Denver--Boulder--Greeley, CO CMSA	26 011	6

Table 1.2. (continued)		
Seattle--Tacoma--Bremerton, WA CMSA	25 744	7
Atlanta, GA MSA	25 033	8
Chicago--Gary--Kenosha, IL--IN--WI CMSA	24 581	9
Detroit--Ann Arbor--Flint, MI CMSA	24 275	10
Philadelphia--Wilmington--Atlantic City, PA--NJ--DE--MD CMSA	23 699	11
Dallas--Fort Worth, TX CMSA	23 616	12
Kansas City, MO--KS MSA	23 326	13
Cincinnati--Hamilton, OH--KY--IN CMSA	22 947	14
San Diego, CA MSA	22 926	15
St Louis, MO--IL MSA	22 698	16
Portland--Salem, OR--WA CMSA	22 592	17
Cleveland--Akron, OH CMSA	22 319	18
Sacramento--Yolo, CA CMSA	22 302	19
Phoenix--Mesa, AZ MSA	21 907	20
Tampa--St. Petersburg--Clearwater, FL MSA	21 784	21
Houston--Galveston--Brazoria, TX CMSA	21 701	22
Los Angeles--Riverside--Orange County, CA CMSA	21 170	23
Pittsburgh, PA MSA	20 935	24
Miami--Fort Lauderdale, FL CMSA	20 454	25
United States	21 587	

Source: U.S. Census Bureau

Poverty and income disparities

Economic growth in the 1990s was accompanied with a redistribution of incomes upward and a reduction of poverty levels (Table 1.3). Between 1989 and 1999, median income expanded in all seven counties. Economic prosperity brought higher median household incomes to many census tracts surrounding the central cities and older suburbs: the number of census tracts with at least 40% of people in poverty fell to a total of 15 in 1999 from a total of 33 in 1989 and the number of census tracts with extremely high poverty rates fell in 1999 to less half the number in 1989[4]. In 1999, households in Ramsey and Hennepin counties had the lowest median incomes while those in Washington and Scott counties had the highest. The 1999 census data revealed that between 1979 and 1989, there was a spreading and intensification of poverty rates in the core of the Twin Cities metropolitan region. The 2000 census data show that while poverty rates were still much higher in the core than in the suburbs, they declined during that decade, from 18.5% in 1989 to 16.9% in 1999 for Minneapolis, and from 16.7% in 1989 to 15% in 1990 for St. Paul. Particularly noteworthy is the fact that poverty rates decreased for both majority and minority populations (Metropolitan Council, 2000*a*). Compared to the largest 25th metropolitan areas, Minneapolis Saint-Paul had the lowest poverty rates in 1999 (Table 1.4).

Table 1.3. **Distribution of Households by Income Group Twin Cities Seven County Metro Area**

	1999	1989
0 - less than USD 25 000	18.6%	31.5%
USD 25 000 - less than USD 50 000	26.7%	37.0%
USD 50 000 - less than USD 75 000	22.9%	19.8%
USD 75 000 - less than USD 150 000	25.7%	9.8%
USD 150 000 and over	6.2%	1.9%

Note: The metropolitan area includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington Counties.

Source: Data from the Metropolitan Council

Table 1.4 **Poverty levels in the 25 largest US metropolitan areas (1999)**

	All families	**All Individuals**
Atlanta, GA MSA	6.9%	9.4%
Boston--Worcester--Lawrence, MA--NH--ME--CT CMSA	6.0%	8.6%
Chicago--Gary--Kenosha, IL--IN--WI CMSA	7.9%	10.5%
Cincinnati--Hamilton, OH--KY--IN CMSA	6.9%	9.5%
Cleveland--Akron, OH CMSA	8.0%	10.6%
Dallas--Fort Worth, TX CMSA	8.1%	10.8%
Denver--Boulder--Greeley, CO CMSA	5.6%	8.6%
Detroit--Ann Arbor--Flint, MI CMSA	7.7%	10.6%
Houston--Galveston--Brazoria, TX CMSA	10.9%	13.7%
Kansas City, MO--KS MSA	6.1%	8.5%
Los Angeles--Riverside--Orange County, CA CMSA	12.2%	15.6%
Miami--Fort Lauderdale, FL CMSA	12.0%	15.3%
Minneapolis--St. Paul, MN--WI MSA	**4.2%**	**6.7%**
New York--Northern New Jersey--Long Island, NY--NJ--CT--PA CMSA	10.2%	12.9%
Philadelphia--Wilmington--Atlantic City, PA--NJ--DE--MD CMSA	7.9%	10.9%
Phoenix--Mesa, AZ MSA	8.2%	12.0%
Pittsburgh, PA MSA	7.8%	10.8%
Portland--Salem, OR--WA CMSA	6.8%	10.0%
Sacramento--Yolo, CA CMSA	8.7%	12.7%
San Diego, CA MSA	8.9%	12.4%
San Francisco--Oakland--San Jose, CA CMSA	5.7%	8.7%
Seattle--Tacoma--Bremerton, WA CMSA	5.8%	8.5%
St. Louis, MO--IL MSA	7.4%	9.9%
Tampa--St. Petersburg--Clearwater, FL MSA	7.8%	11.2%
Washington--Baltimore, DC--MD--VA--WV CMSA	5.9%	8.3%
Median	7.8%	10.6%

Note: Ranks are based on descending values

Source: US Census 2000

Labour market

Participation rates are typically higher in the Twin Cities than in Minnesota and higher in Minnesota than nationally (Table 1.5). Indeed, except for 1997, Minnesota had the highest labour force participation rate among all of the states between 1994 and 2001 (and it was second highest in 1997). In 1999, the Twin Cities had the highest participation rate and the lowest unemployment rate among the 25th largest US metropolitan regions (Table 1.6). Metro unemployment rates have consistently been below those of both the state and the nation. These statistics however mask a mismatch between the residential location of

many entry-level workers in the central core and many suitable jobs in the suburbs. An absence of good transit service exacerbates the problem. Putting the GDP and labour market measures together, overall productivity in 2001, calculated as output per worker was USD 72 637.88[5].

Table 1.5**. Labour market status, 1990-2002**

Year	Labour force participation rate			Unemployment rate		
	13-County Metro	State of Minnesota	U.S.	13-County Metro	State of Minnesota	U.S.
1990	77	73	66.5	4.2	4.9	5.6
1991	76.9	73.2	66.2	4.6	5.1	6.8
1992	75.4	72.7	66.4	4.6	5.2	7.5
1993	77	73.6	66.3	4.4	5.1	6.9
1994	78.5	75.7	66.6	3.2	4	6.1
1995	76.9	75.3	66.6	2.9	3.7	5.6
1996	75.2	74.7	66.8	3.1	4	5.4
1997	75.5	74.5	67.1	2.5	3.3	4.9
1998	77.9	75.4	67.1	2	2.5	4.5
1999	78.3	75.1	67.1	2.2	2.8	4.2
2000	77.6	74.8	67.1	2.6	3.3	4
2001	78.3	75.9	66.8	3.2	3.7	4.7
2002	-------	75.7	66.6	4.3	4.4	5.8

Source: Krolik (2003) and Minnesota Department of Employment and Economic Development.

Table 1.6. **Participation and unemployment rates in the 25 largest US metropolitan areas (1999)**

	Labour force participation	Unemployment rate
Atlanta, GA MSA	70.6%	5.0%
Boston--Worcester--Lawrence, MA--NH--ME--CT CMSA	67.6%	4.3%
Chicago--Gary--Kenosha, IL--IN--WI CMSA	66.0%	6.3%
Cincinnati--Hamilton, OH--KY--IN CMSA	66.9%	4.3%
Cleveland--Akron, OH CMSA	64.8%	5.2%
Dallas--Fort Worth, TX CMSA	69.2%	4.8%
Denver--Boulder--Greeley, CO CMSA	71.7%	4.1%
Detroit--Ann Arbor--Flint, MI CMSA	64.6%	5.8%
Houston--Galveston--Brazoria, TX CMSA	65.4%	6.2%
Kansas City, MO--KS MSA	68.9%	4.3%
Los Angeles--Riverside--Orange County, CA CMSA	61.5%	7.4%
Miami--Fort Lauderdale, FL CMSA	59.7%	7.2%
Minneapolis--St. Paul, MN--WI MSA	**74.3%**	**3.5%**
New York--Northern New Jersey--Long Island, NY--NJ--CT--PA CMSA	61.9%	6.7%
Philadelphia--Wilmington--Atlantic City, PA--NJ--DE--MD CMSA	64.0%	6.3%
Phoenix--Mesa, AZ MSA	63.7%	4.9%
Pittsburgh, PA MSA	60.3%	5.8%
Portland--Salem, OR--WA CMSA	68.4%	5.9%
Sacramento--Yolo, CA CMSA	64.0%	6.2%

Table 1.6. (continued)		
San Diego, CA MSA	65.0%	5.9%
San Francisco--Oakland--San Jose, CA CMSA	66.1%	4.5%
Seattle--Tacoma--Bremerton, WA CMSA	68.8%	5.1%
St. Louis, MO--IL MSA	66.7%	5.5%
Tampa--St. Petersburg--Clearwater, FL MSA	59.2%	5.0%
Washington--Baltimore, DC--MD--VA--WV CMSA	69.4%	4.5%
Median	66.0%	5.2%

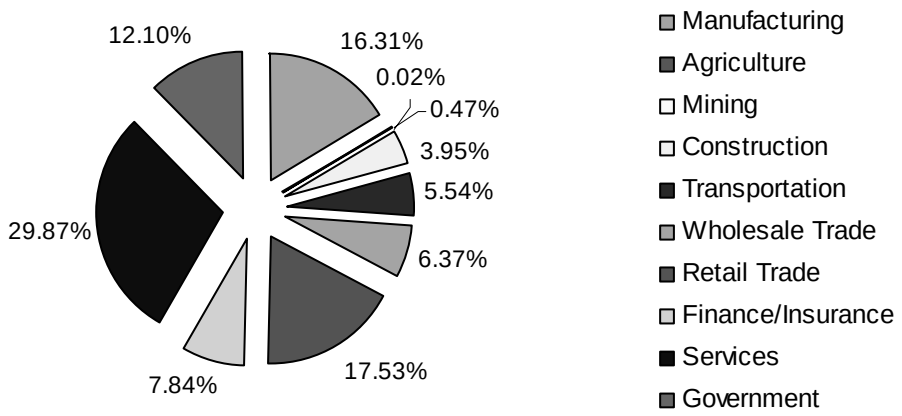
Note: Ranks are based on descending values

Source: US Census 2000

Industrial mix

Breakdown of employment in the 7-county metropolitan area in 2000 shows a heavily concentration in services (29.8%), followed by retail trade (17.5%), manufacturing (16.3%), government (12.1%), finance/insurance (7.8%), wholesale trade (6.4%), transportation (5.5%) and construction (3.9%) (Figure 1.2). Agriculture and mining each accounted for less than 1% of total employment. The major manufacturing industries are food products, computers, printing and publishing and medical instruments. Employment in the service sector was dominated by health care and education.

Figure 1.2. **Distribution of employment in 7-county Twin Cities, 2000**



Source: Metropolitan Council.

Exports

The Twin Cities metro area's contribution to external trade, mostly in manufacturing, has fluctuated in recent years, growing more rapidly than the national average between 1997 and 1998, and more slowly

between 1999 and 2000 (Metropolitan Council, 2000*b*). In 2001 international exports from Minnesota's manufacturing, agricultural and service sectors totalled more than USD 17 billion, dominated by manufacturing (USD 9.7 billion). The greatest share of Minnesota exports (35%) are bound for the Asia/Pacific region. Another 30% are sent to the countries in the European Union, with North American markets accounting for the next 28%. In terms of single countries, Minnesota's largest export customer is Canada, followed by Japan, Ireland and China. The most prominently exported goods in 2001 were computers and electronic products (USD 3.9 billion), non-electrical machinery (USD 1.4 billion), transportation equipment (cars and snowmobiles, USD 844 million), food products (breads, baked goods and pasta, USD 666 million), chemical products (USD 447 million), electrical machinery (USD 361 million) and fabricated metal products (USD 312 million) (Minnesota Department of Trade and Economic Development, 2001).

Innovation, research and development

In 1998, the Twin Cities were ranked 5th in the number of utility patents per capita, among the 25 largest U.S. metropolitan areas. The number of patents granted also grew faster in the region than nationally between 1998 and 1999 (7.2% versus 4.5%) (U.S. Patent & Trademark Office and Metropolitan Council). The University of Minnesota is arguably the major single source of innovation activity. Between 1998 and 2002, 236 patents were issued to the University. Over the same period, a total of 380 new licenses transferred University-developed technology to private companies[6]. Of 13 high-tech states in 1997, Minnesota ranked only 10th in institution-based research and development expenditures (mostly at universities) and 9th in industrial (company-based) research and development expenditures (National Science Foundation and Metropolitan Council "Regional Indicators") (PriceWaterhouseCoopers LLP and Metropolitan Council, 2000). Another indicator of innovation is so-called "seed" investment in new, unproven companies, sometimes referred to as venture capital investment. In 1997, among 13 high-tech states, Minnesota ranked 5th in the amount of venture capital invested as a percentage of gross state product. Since then, venture capital investment in Minnesota has slowed, relative to the nation as a whole.

While the Twin Cities do have a "presence" in high technology, ranking within the top 25 in terms of producing high-tech goods, the region needs continuing attention to protect and build on its achievements. In 1998, the region ranked 13th out of the 25 US largest metros in the number of high-tech workers, after raising the number of high-tech jobs by 26% between 1993 and 1998. Measuring the number of high-tech workers relative to the total number of private sector employees, the Twin Cities looked better in 1998: 61 high-tech workers for every 1 000 private sector workers, in 6th place among the 25 largest U.S. metro areas.

Entrepreneurship and foreign investments

Although new business creation has slowed down in recent year, the Twin Cities remains an attractive location for investors. As a measure of new business, one can look at initial public offerings (IPO). IPOs have declined in recent years, both in the metropolitan region and in the state. While the volume of investment grew from USD 125 million in 1998 to USD 401 million in 1999, the Twin Cities ranked at the bottom of the 20 economic growth areas in the nation in 1998. (Metropolitan Council regional indicators). On the other hand, in their annual ranking of best cities for entrepreneurs, *Entrepreneur* and Dun and Bradstreet ranked Minneapolis-St. Paul 12th in 2001 and 15th in 2002, in a field of 61 U.S. cities[7].

In 1997, 555 non-bank affiliates of foreign firms employed 96 600 workers in Minnesota. Together, these affiliates had invested capital with a gross book value of USD 10 billion. Primarily, investors were from the United Kingdom, Germany, Japan and Canada. Interestingly, while the number of Canadian affiliates was only half the number from Asia, the Canadian affiliates employed more than three times as

many workers. The largest shares of this employment were in manufacturing and information (US Department of Commerce, 1999).

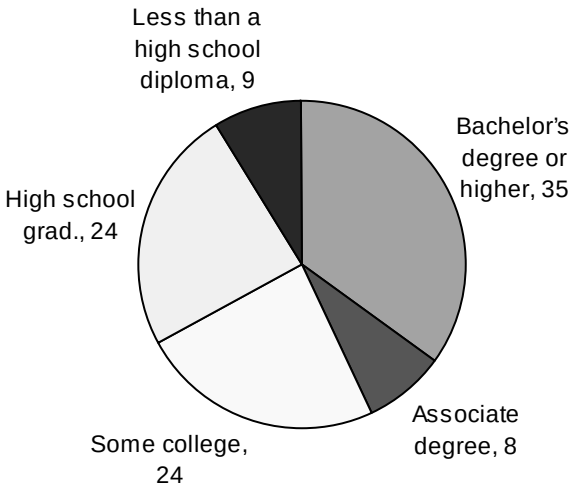
Human capital

Minnesota has long taken pride in the quality of its public education institutions and in the achievements of their students. The Twin Cities metro area is indeed well-endowed with schools, colleges and universities. Primary and secondary school-age children are served by more than 40 public school districts (with multiple schools in most districts) and 29 private schools. There are 12 public, post-secondary institutions in the region, the largest of which is the University of Minnesota. In addition, 21 private post-secondary institutions offer both traditional and non-traditional educational programs. Finally, exclusively professional educational programmes are offered by 6 private institutions.

As regards, educational attainment, in 1996, the state ranked first among 13 so-called "high-tech" states in terms of 8th graders' average proficiency in science and mathematics[8]. Among the 25 largest U.S. metropolitan areas in 2000, the Twin Cities had the 4th highest proportion of adults with college degrees. Ninety-one percent of Twin Cities residents over 25 are high school graduates and 35% of Twin cities residents over 25 have a bachelor's degree or higher (Figure 1.3). As one might expect, given the level of educational attainment, executive, professional and technical jobs make up a higher than average proportion of positions: 41.7%, as compared to the average of 36.8% for the 25 largest U.S. metro areas in 2000[9].

Figure 1.3. **Educational attainment in the Twin Cities Region**

% population 25 years and older



Source: Minnesota Department of Economic Security.

Table 1.7. **Educational attainment in the 25 largest US metropolitan areas (1999)**

	High school grad or higher	Bachelor's degree or higher
Atlanta, GA MSA	84.0%	32.0%
Boston--Worcester--Lawrence, MA--NH--ME--CT CMSA	85.7%	34.4%
Chicago--Gary--Kenosha, IL--IN--WI CMSA	81.1%	28.9%
Cincinnati--Hamilton, OH--KY--IN CMSA	82.6%	25.0%
Cleveland--Akron, OH CMSA	83.5%	23.5%
Dallas--Fort Worth, TX CMSA	79.9%	28.4%
Denver--Boulder--Greeley, CO CMSA	86.6%	35.5%
Detroit--Ann Arbor--Flint, MI CMSA	83.0%	23.7%
Houston--Galveston--Brazoria, TX CMSA	76.4%	26.5%
Kansas City, MO--KS MSA	86.7%	28.5%
Los Angeles--Riverside--Orange County, CA CMSA	73.0%	24.4%
Miami--Fort Lauderdale, FL CMSA	73.9%	22.9%
Minneapolis--St. Paul, MN--WI MSA	**90.6%**	**33.3%**
New York--Northern New Jersey--Long Island, NY--NJ--CT--PA CMSA	79.4%	30.5%
Philadelphia--Wilmington--Atlantic City, PA--NJ--DE--MD CMSA	81.9%	26.9%
Phoenix--Mesa, AZ MSA	81.9%	25.1%
Pittsburgh, PA MSA	85.1%	23.8%
Portland--Salem, OR--WA CMSA	86.2%	27.7%
Sacramento--Yolo, CA CMSA	84.6%	26.5%
San Diego, CA MSA	82.6%	29.5%
San Francisco--Oakland--San Jose, CA CMSA	83.9%	37.3%
Seattle--Tacoma--Bremerton, WA CMSA	89.5%	32.0%
St. Louis, MO--IL MSA	83.4%	25.3%
Tampa--St. Petersburg--Clearwater, FL MSA	81.5%	21.7%
Washington--Baltimore, DC--MD--VA--WV CMSA	84.9%	37.1%
Median	83.4%	27.7%

Note: Ranks are based on descending values

Source: US Census 2000

Transportation

The region's congested roadways and the lack of support for public transit are recognised obstacles to the productivity of business enterprises[10]. Road congestion in the Twin Cities is worsening. Between 1990 and 1998, travel by residents grew nearly three times faster than did the population. As a result, the number of freeway miles that were "congested" (defined as operating below 45 mph) doubled between 1990 and 1997, reaching 25% in 1998. Among U.S. metropolitan areas, only Atlanta had a larger increase in congestion. Increasing congestion has been partly caused by growing travel originations outside the metropolitan area, as the exurban population has grown and many residents commute to jobs within the metropolitan region. Ridership for the bus system (Metro Transit) increased sharply in the late 1990s. Operating costs per revenue service hour in the system rank below the average of its 12 peers, but have been rising faster than the inflation rate. Compared with other metropolitan regions, funding for the Twin Cities transit system is low – per capita spending is 9th in the peer group. Put another way, spending on

public transit in the Twin Cities would need to double to meet the peer average (Metropolitan Council, 2000*b*).

Institutional framework

The State of Minnesota is the 21st largest US State in terms of populations and remains rather fragmented with more than 3 450 local units. Counties and municipalities represent the two kinds of general purpose local units of government in Minnesota. There are 87 *counties*, most governed by a five- or seven-member elected board of county commissioners. The state has 854 *cities*, of two types. The more common, statutory cities (747) are organised and operated under options provided by Minnesota's statutory code. A second type, home rule charter cities (107) operate according to their own individual charters. The number of *towns* in the state is 1 792, each of which holds an annual meeting where electors exercise the powers granted in the law, such as setting the tax levy. The state is divided into 343 *school districts*, most of which are governed by an elected board.

Local governments in Minnesota have no inherent powers but have only such powers as are expressly conferred by statute or are implied as necessary in aid of those powers which are expressly conferred.

- Municipalities (including school districts) are generally responsible for primary and secondary education, roads, public works, housing, emergency services, parks, libraries, economic development and welfare. The two major modifications the Minnesota legislature has made to the rule are the authority for cities to adopt home rule charters and the broad grant of authority to legislate for the general welfare. Legislating for the general welfare is a broad grant of authority for a local government to exercise any power not enumerated specifically that contributes to the protection of the health, morals, peace, and good order of the community, promotes its welfare in trade, commerce, and manufacture, or aids in carrying out all appropriate objects contemplated in the creation of a city. All statutory Minnesota cities have this authority. Home rule charter cities simply include a general welfare clause in their charters.

- Counties have similar competencies as municipalities, except for education, but they can also be responsible for property value assessment, tax collection, court, sewerage and solid waste. Counties do not have explicit general welfare authority, although implicitly their ability to protect public health is fairly broad (Dyson, 2002).

- Special districts are local units of government, other than a municipality, county or school district, authorized by law to perform a single function or a limited number of functions. Some districts have autonomous governing boards, but their funding may depend on approval by the county legislative body. Local government districts exist in Minnesota for certain special purposes, such as drainage, conservancy, hospitals, sanitary, parks, watersheds, housing authorities and municipal power.

In addition to local governments, the State of Minnesota has established a supra-local structure for the Twin Cities, the Metropolitan Council, which has functions of public transportation, wastewater treatment, community planning, regional forecasts on population and household growth, social housing, parks and trails funding. The Metro Council also co-ordinates the decisions of other metropolitan agencies and the implementation of regional services.

Metropolitan governance

The Metropolitan Council

Legislation in 1967 established the Metropolitan Council, then unique in the U.S., "to coordinate the planning and development of the metropolitan area" (Minnesota Session Laws 1967, Section 1). In the 1950s and 1960s, local officials, business leaders, state legislators, and public-interest groups recognised that there were problems and issues that affected the entire metro area and that they could not be adequately addressed with existing governmental arrangements[11]. Additional legislative acts in 1974, 1976 and 1994 strengthened the Council's planning and policy roles. But the main evolution came in the 1994, when the Metropolitan Reorganisation Act of 1994 merged the functions of three agencies (the Metropolitan Transit Commission, the Regional Transit Board and the Metropolitan Waste Control Commission) into the Council. The merger meant that the regional services and investments that are key to the region's growth and development — especially wastewater treatment and regular-route transit — would now be carried out consistent with the Council's overall policies and plans for the region

The Metropolitan Council in the Twin Cities area is an agency unique by its functions and size (the Metro has more than 3 180 employees). But unlike other metropolitan bodies in Montreal and Portland that covers almost entirely the actual functional region, the Metropolitan Council covers only 49.5% of the territory of the Census Metropolitan Statistical Area. However, population of 7 counties covered by the Metro Council represent approximately 90% (2 642 056 in 188 municipalities) of the actual Metropolitan Statistical Area (MSA) population of 2 968 806 inhabitants.

The Metro Council is the regional planning agency for the 7-county Twin Cities, 7 770 km^2 core area. It operates the regional bus system, collects and treats wastewater, manages regional water resources, provides forecasts of the region's population and household growth, plans regional parks, administers funds that provide housing opportunities for low-and moderate-income individuals and families, and provides planning, acquisitions and funding for regional services including aviation, transportation, parks and open space, water quality and water management.

The Council is appointed by and serves at the pleasure of the Minnesota Governor. It is composed of 16 members who each represent a geographic district and a chair who serves at-large. If the metro somewhat suffers from the Council's lack of accountability, unlike the Montreal CMM, the members are not local electives and thus are not inclined to set local commitments above metropolitan priorities. The Council is organised into four operating divisions: Regional Administration, Community Development, Transportation, and Environmental Services. As a State agency, the Metro has mandates directly attributed by the State of Minnesota government. The Metro Council also has the mandate to supervise long term planning of other agencies within the metropolitan area.

The Council relies on a number of sources of funding. In 2003, 42% of the Council's budget comes from user fees such as wastewater treatment charges and transit fares, and 53% from state and federal funds. About 3% is from a 7-county property tax, and 2% is from other sources. The amended 2003 budget is USD 395 million, primarily directed to wastewater collection and treatment, transit service, and grants to communities for transportation and community development projects. This total reflects a USD 17 million reduction from the budget adopted late last year, in response to the state's current fiscal crisis. Given that Metropolitan Council members serve at the pleasure of the Governor, the vigour with which the body pursues its portfolio (especially regional planning) varies with the Governor's interpretation of its scope of authority.

The Metro Council plans and delivers regional services through its divisions. The Community Assistance division provides regional planning, assistance to local governments, funds to clean polluted

sites for redevelopment, affordable housing programs, and other support to communities and residents. Through the Community Assistance division, the Council also manages the Metro Housing and Regional Redevelopment Authority (HRA) responsible for the administration of federal program on affordable housing and makes sure that affordable housing opportunities are well distributed in the metropolitan region. The Council's Environmental Services division protects the public health and environment, and provides customers with efficient and effective water resources management. This is also the division responsible water supply planning and protection and for the management of existing water resources. The Transportation division is responsible for regional transportation planning including aviation, highway, and transit systems as well as transit operations. The Metro transit also operates the most important regional bus system (Collin, 2000).

Other metropolitan authorities.

The Metropolitan Council directs the work of two other agencies. It appoints the members of the Metropolitan Parks and Open Space Commission, to advise and assist in planning the region's parks and open spaces. The Metropolitan Council also appoints the chair of a Transit Advisory Board, made up of a mix of local elected officials, citizens, and modal and agency representatives. This body is responsible for governing federally-funded transportation projects in the metro area. By virtue of these powers of appointment, the Metropolitan Council wields authority for parks and open spaces and for transit. Besides the Metropolitan Council, two other governmental agencies have metropolitan portfolios. The first of these is the Metropolitan Airports Commission (MAC)[12]. Appointed by the governor, its members own and operate Minneapolis-St. Paul International Airport and six other airports in region. The second is the Metropolitan Mosquito Control Commission (MMCC), a group of 17 all of whom are county commissioners. The commission monitors and controls mosquitoes, disease-vectoring ticks and black gnats in the 7-county area[13]. Political considerations aside, whether bringing the MAC and the MMCC under Metropolitan Council control would be desirable turns on the extent to which their ongoing policy discussions overlap. However, even if there were sufficient overlap to rationalize consolidation, political considerations might well trump the potential efficiency. Finally, there is also a metropolitan Housing and Redevelopment Authority that administers a federally-funded rent assistance programme, along with home improvement loans.

In addition to metropolitan-wide authorities mentioned, other special purpose districts manage important services at the scale of the counties. This the case of the *Three rivers Park* district that is responsible for more than 27 000 acres of parks, reserves and special use facilities in the large county of Hennepin. The Greater Minneapolis Chamber of Commerce which represents more than 500 home based companies in 68 communities is said to have a metropolitan-wide focus for economic development[14].

Participation of the civic society in metropolitan governance

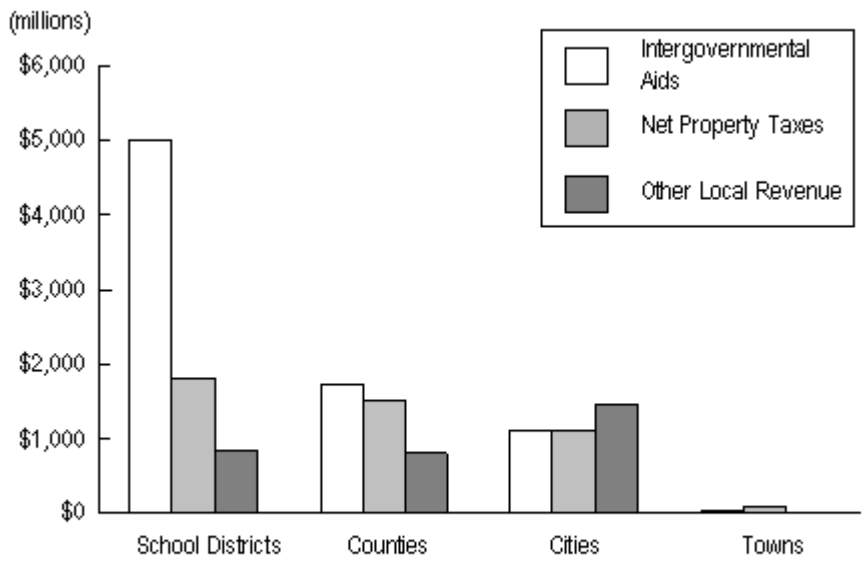
The most actively-engaged civic groups in metropolitan governance are the League of Women Voters and The Citizens League. The League of Women Voters is a multi-issue, grassroots volunteer organization of concerned women and men working to better understand and influence policy issues. While political, the organization is strictly non-partisan, dedicating itself to researching complex issues from all viewpoints. The League participates in voter registration drives, organizes debates among candidates for public office, hosts educational issue forums and publishes studies on public policy topics. The Citizen's League, based in Minneapolis, was created in 1952 as a part of the post-WWII revival and reform of public life that occurred around Hubert Humphrey's time as mayor of the city. In the beginning, the Citizen's League focused on Minneapolis city government and charter reform. During the 1960s, the Citizen's League expanded its membership and program of study to the metropolitan level, playing a role in the creation of the Metropolitan Council and proposing a number of ideas unique to the Twin Cities, such as tax-base sharing, financing sanitary sewers, acquiring regional park land and establishing Metro State

University. The importance of redesigning public service delivery took centre stage in the 1970s as the Citizen's League became particularly interested in shifting functions to the private sector. In its "Issues of the 1980s" report, the Citizen's League urged the state to focus on using incentives, choice, competition and decentralization to improve public services. A 1990s report on the state's budget problems offered a blueprint for reforming Minnesota's major spending systems. Currently, the organization is focusing on issues that redefine a regional sense of community.

Local financial and fiscal arrangements

In Minnesota, local governments collect revenue from a number of sources, primarily property taxes, intergovernmental grants (from the state and the federal government), user fees and, in a small number of cases, sales taxes[15]. Figure 1.4 shows the distribution of the USD 15 615 million in total local government revenues for 2000 across intergovernmental aids, property taxes and other local revenue sources, separately for school districts, counties, cities, and towns. The property tax revenues include tax-increment financing. The other local revenue sources include, besides user fees, interest earnings, special assessments, licenses and permits, and fines and forfeitures (but not sales taxes). Note that school districts depend heavily on aid from the state and the federal government, followed in importance by property tax revenue. Cities, on the other hand, depend most on other sources, such as user fees and licenses.

Figure 1.4. **Distribution of local government revenue**



Source: Minnesota House of Representatives.

County budgets

Table 1.8 shows 1999 per capita expenditures in each of the 7 counties of Twin Cities metropolitan area, by function, along with per capita revenues from the property tax and grants from the state[16]. On average, 18% of county expenditures were allocated to general government services, 24% to health and public safety, and 48% to welfare, with smaller amounts for highways and culture/recreation. The innermost counties (Hennepin and Ramsey) spent the most. On the revenue side, about 38% of county revenues flowed from property taxes, with another 26% coming from the state.

Table 1.8. **Per capita revenue and expenditures by county, 1999**

County	Gen. govt	Health & public safety	Highways	Public welfare	Cult. & recr.	Misc.	Total current expend.	Current exp. rank	Prop. tax levy	State grants	% of total rev. from prop. tax	% of total rev. from state aid
Average	$106.37	143.26	$21.06	$258.02	$30.30	$7.94	$593.95	_	$271.04	$185.78	37.57	25.75
ANOKA	94.34	106.86	24.02	193.64	40.08	23.71	482.65	5	163.96	194.89	27.00	32.09
CARVER	166.36	141.87	45.58	198.62	54.43	0.08	606.97	3	315.69	229.01	39.63	28.75
DAKOTA	109.33	67.33	14.00	173.15	39.15	14.91	417.87	7	200.89	137.48	34.70	23.74
HENNEPIN	77.51	188.24	18.18	365.30	22.85	1.38	673.46	2	339.47	161.61	43.45	20.69
RAMSEY	148.66	138.67	20.89	334.80	31.31	12.05	686.38	1	257.17	267.09	31.49	32.71
SCOTT	170.39	96.29	40.27	146.83	26.33	8.24	488.35	4	259.62	209.67	39.51	31.91
WASHINGTON	125.16	115.21	29.09	138.13	32.08	0.29	439.96	6	203.61	161.10	35.36	27.98

Source: Minnesota Office of the State Auditor (www.osa.state.mn.us) and Minnesota Taxpayers Association (http://www.mntax.org).

City budgets

Table 1.9 shows 1999 per capita expenditures data, by function, for cities in the metropolitan area, along with per capita revenues from the property tax and state grants. Of particular interest, 39% of city revenues are raised through the property tax while another 18% flow from the state. Both the county and the city data reported here highlight the pain local governments are likely to feel as a result of the Minnesota legislature's budget balancing actions in 2003.

Table 1.9. **Per capita expenditures and revenue, 1999**

1999 Per Capita Expenditures and Revenue, Seven County Metro Area Cities												
								Per Capita			Percent of Revenues from:	
City	General Government	Health & Public Safety	Street Maint-tenance	Culture and Rec.	Housing & Econ. Develop	Miscel-laneous Expend.	Six Category Total	Prop. Tax	State Grants		Prop. Tax	State Grants
Seven County Metro Area, Cities with Population 20,000 to 50,000 (24 cities)												
Average	**60.82**	**145.69**	**54.72**	**55.18**	**27.11**	**59.53**	**403.03**	**--**	**273.2154**	**130.585**	**38.68%**	**18.49%**
Andover	69.22	78.30	58.75	22.13	4.62	63.07	296.08	23	177.68	40.93	33.73%	7.77%
Apple Valley	52.64	121.46	60.99	61.04	5.16	72.53	373.82	14	245.41	86.57	38.60	13.62
Blaine	59.11	99.53	35.80	30.00	20.31	54.70	299.44	22	178.62	105.51	35.49%	20.96%
Brooklyn Center	68.88	183.87	73.34	77.53	93.18	48.53	545.34	3	372.17	294.92	41.15%	32.61%
Champlin	46.19	130.52	49.18	40.19	10.29	61.92	338.29	17	260.94	114.65	47.07%	20.68%
Cottage Grove	56.08	125.82	33.05	47.12	3.14	36.77	301.97	21	182.79	107.91	37.00%	21.84%
Crystal	82.39	150.34	34.80	63.03	25.83	43.55	399.94	12	224.96	211.31	31.42%	29.51%

Table 1.9. (continued)												
Edina	53.47	176.74	79.20	52.32	15.32	85.89	462.94	7	465.27	60.04	62.97%	8.13%
Fridley	84.90	167.91	99.87	28.97	48.39	42.64	472.69	6	248.07	160.27	41.21%	26.62%
Golden Valley	92.18	183.77	90.83	59.51	23.45	108.44	558.18	2	618.24	93.10	60.52%	9.11%
Inver Grove Heights	53.70	129.75	58.78	20.36	0.00	68.30	330.89	18	251.07	60.76	47.78%	11.56%
Lakeville	44.92	120.64	53.90	37.64	3.08	65.06	325.24	19	160.65	73.71	25.65%	11.77%
Maple Grove	58.82	123.69	47.14	54.70	28.22	66.30	378.87	13	301.56	81.52	27.65%	7.47%
Maplewood	80.55	181.02	51.97	47.87	12.19	49.83	423.44	8	222.20	136.02	39.85%	24.39%
New Brighton	73.46	103.05	31.35	66.63	16.39	74.95	365.84	16	244.10	103.97	35.44%	15.09%
New Hope	62.39	186.26	45.61	61.15	12.64	38.25	406.31	11	280.33	120.03	38.63%	16.54%
Oakdale	80.30	123.07	28.94	33.33	0.00	46.55	312.19	20	235.65	94.54	42.37%	17.00%
Richfield	59.36	232.38	51.43	67.49	176.71	21.18	608.55	1	316.11	482.23	30.44%	46.44%
Roseville	39.01	131.13	42.20	86.08	30.36	91.43	420.21	9	368.81	95.61	51.20%	13.27%
Shoreview	49.14	75.58	35.43	118.65	43.82	43.40	366.02	15	207.30	87.14	35.66%	14.99%
South St. Paul	54.21	228.54	70.96	95.61	0.00	49.70	499.01	5	249.65	280.26	33.38%	37.47%
St. Louis Park	76.82	189.71	68.62	92.59	28.35	48.64	504.72	4	315.96	131.56	46.96%	19.55%
White Bear Lake	30.55	131.35	36.52	11.76	27.22	25.88	263.28	24	137.92	109.17	31.26%	24.75%
Woodbury	53.95	142.23	64.32	54.76	14.27	90.34	419.87	10	273.41	113.09	27.24%	11.27%
Seven County Metro Area, Cities with Population 50,000 to 100,000 (8 cities)												
Average	**68.27**	**142.91**	**51.55**	**52.89**	**41.98**	**46.13**	**403.73**	**--**	**307.0401**	**105.74**	**46.48%**	**16.01%**
Bloomington	64.97	214.27	51.78	78.05	91.00	71.58	571.65	1	437.76	184.60	44.40%	18.72%
Brooklyn Park	59.33	150.84	67.00	62.03	95.30	51.94	486.43	2	360.73	106.51	50.95%	15.04%
Burnsville	63.16	172.84	41.79	35.44	3.62	73.31	390.14	4	332.22	90.81	52.58%	14.37%
Coon Rapids	36.96	119.20	58.07	31.15	30.16	25.50	301.04	6	185.28	118.26	36.44%	23.26%
Eagan	69.95	118.37	39.37	36.28	0.11	19.01	283.09	8	222.83	71.86	42.59%	13.73%
Eden Prairie	151.70	117.05	68.75	67.47	0.99	71.35	477.30	3	378.64	45.55	52.58%	6.32%
Minnetonka	62.48	117.74	40.69	50.57	42.16	41.88	355.51	5	304.75	74.99	56.05%	13.79%
Plymouth	52.83	98.39	44.98	52.56	40.88	9.58	299.22	7	194.05	105.64	37.06%	20.17%
Seven County Metro. Area, Cities with Population 100,000 and Over (2 cities)												
Average	**126.55**	**420.00**	**103.41**	**161.45**	**113.60**	**77.01**	**1002.02**	**--**	**405.9112**	**378.595**	**27.98%**	**26.10%**
Minneapolis	131.10	444.12	123.51	177.79	90.61	35.86	1 003.01	1	497.37	371.31	30.44%	22.72%
St. Paul	120.44	387.59	76.41	139.48	144.47	132.30	1 000.69	2	283.03	388.38	23.51%	32.26%

Source: Minnesota Office of the State Auditor (www.osa.state.mn.us) and Minnesota Taxpayers Association (http://www.mntax.org)

Both Minneapolis and St. Paul levy small sales taxes beyond those collected by the State of Minnesota. In both cities, a 0.5% sales tax applies to all goods and services in the state sales tax base. Additionally, in Minneapolis, a 3% sales tax applies to downtown purchases of liquor, entertainment, restaurant meals and lodging. These taxes offer both cities a dependable source of revenue and a means of diversifying away from reliance on property tax revenues. Some might argue that consumers will avoid paying the tax by taking their shopping and recreational demand to the suburbs. Proponents of the arrangement however argue that the tax is designed to fall predominantly on visitors and convention-goers, whose demand is less elastic and who consequently do pay the tax.

Borrowing

The level and composition of borrowing at the state level is under the control of the Minnesota legislature, set in the biennial "capital budget". This document provides recommendations for capital expenditures not financed in regular state agency operating budgets. Items funded in capital budgets often include land acquisition, construction and repair of state buildings, state infrastructure, higher education facilities, and capital grants to schools and local governments. Capital budgets are typically funded through the issuance of state general obligation bonds. The state constitution limits the term of these bonds to twenty years and significantly restricts how these funds may be spent. Principal and interest costs of the bonds are included in the state's general fund operating budget. In 2000, the capital budget bonding bill included items totalling USD 610.4 million[17].

Under Minnesota state law[18], local units of government (counties, cities and towns) are empowered to issue *public* purpose tax-exempt bonds, subject to an upper bound on net debt of 2% of the market value of

the local governmental unit's taxable property. A separate provision limits the net debt of school districts to 15% of each district's taxable market value. The 1986 federal income tax reform included a provision requiring that states "allocate" the ability of local governments to issue private purpose, tax-exempt bonds. The purpose of the 1986 reform was to limit the federal subsidy of municipal bonds for private (as opposed to public) projects. As examples, a private purpose, tax-exempt industrial revenue bond might be issued to an expanding manufacturing company, or tax-exempt single-family home mortgage bonds might be issued to first-time home buyers. In Minnesota, that allocation takes place in the Department of Finance, subject to an overall cap and functional distribution guidelines.

Property tax

Although the property tax in Minnesota is directly linked to the level of expenditures, Minnesota's property tax code introduces distortions that have important impacts regarding urban sprawl and the cost of property. As documented above, local units of government (predominantly cities, counties and school districts) levy property taxes that amount to a significant share of local government revenues. As a tax base, property is appealing because it is stable and reliable, is visible and can reach broad sectors of the population in order to spread the costs of government services. In Minnesota, the property tax is a "tax of last resort" in local government finance. This is so because the property tax levy is determined only after accounting for all other non-property tax revenue sources (*e.g.*, state aid and user fees). As a result, local property taxes are closely connected to state spending on services such as education, local government aid and economic development. For example, in 2001 the state of Minnesota decided to take on a larger share of general education expenses and to eliminate an important aid to cities. For most taxpayers, this meant that the school district share of their property tax bill fell, the city share rose and on net, the total bill declined (League of Minnesota Cities, 2001). The capacity of a local unit of government to tax property is also limited by a schedule of classification rates that is set by the state legislature. Therefore, each property owner's tax is a complicated function of (a) the type of property, since the state mandates that commercial and industrial property owners pay a higher rate than residential property owners, (b) the property's market value, since the state mandates a two-bracket progressive rate schedule, (c) spending decisions of the various taxing authorities, including city, county, and school board, and (d) the property owner's eligibility for several kinds of preferential treatment.

A simple property tax would take the amount of local government revenue needed to finance the services desired (net of all other revenue sources), divide by the total assessed market value to determine a tax rate, and apply that rate to all properties equally. If all property owners receive benefits from public services in proportion to property value, this sort of property tax would be efficient in that all property owners would pay taxes commensurate with the benefits received from public services. Minnesota's differential property tax system alters property developers' decisions in certain ways:

- *Classification*. Different types of property are taxed at different rates. Preferential treatment is given to residential and agricultural property. This encourages property development for these uses.

- *Preferential valuations*. In some cases, property assessment is deferred, or takes place on the basis of current use rather than "highest and best use." This is particularly applied to open space land, and would tend to discourage land development. Another preference is a "circuit-breaker" provision that reduces the taxes of some lower-income homeowners. This has a mainly redistributive impact.

These tax differences favour residential and agricultural properties, and larger lots with some undeveloped land, to the detriment of commercial and industrial properties, whose taxes must increase to compensate. Municipalities rely more heavily on their commercial and industrial tax base, compete with

each other to attract such busniesses, and commercial and industrial taxpayers have an incentive to locate outside of the urban core in search of lower property tax levies. One way this is evident is that the residential property tax in the Twin Cities ranks 26th among the largest metro areas of each of the 50 states, 11.8% below the average. Apartment, commercial and industrial property taxes rank, on the other hand, third, third and fifth in the same comparison (Minnesota Taxpayers Association, 2000). Ironically, local governments then respond by attempting to "fix" these results with policies that create further distortions (*e.g.*, subsidies for rental housing developments).

In addition to these distortions, both land and buildings are taxed at the same rate, in spite of the fact that land and capital improvements (buildings) have different characteristics and that taxing them yields different results.

- Land value is partly created by government investment (roads, sewer systems), by the quality of surrounding properties and by nature (lakes, forests). In contrast, the value of a building is created by private investment.

- The supply of land is fixed while that of buildings is not.

- A tax on buildings reduces the quantity of investment in buildings, and causes price adjustments for both buyers and sellers, the relative price apportionment depending on the price elasticities of demand and supply. A tax on land has no impact on the quantity of land and imposes all of the price adjustment on sellers.

The impacts of this policy are several. First, taxes on a given building-land bundle rise less than proportionately with lot size (i.e. a homeowner will pay less than twice as much tax for a given house on a double lot since part of the original tax is on the dwelling), possibly contributing to urban sprawl. Secondly, relatively low property taxes on fast-appreciating, underutilised land may lead owners to hold onto the property longer than they otherwise would before selling to a developer. In addition to these particular features of the property tax in Minnesota, federal and state income tax codes provide preferential treatment of home ownership that further distort household choice (Haveman, 2000). In the 2001 legislative session, several important changes were made to the Minnesota property tax, largely in response to state-wide complaints of inequity. The package included an overhaul of the classification system, reducing the number of property classes and lowering some rates, and a new *state* property tax on commercial, industrial and cabin property.

Tax base disparities

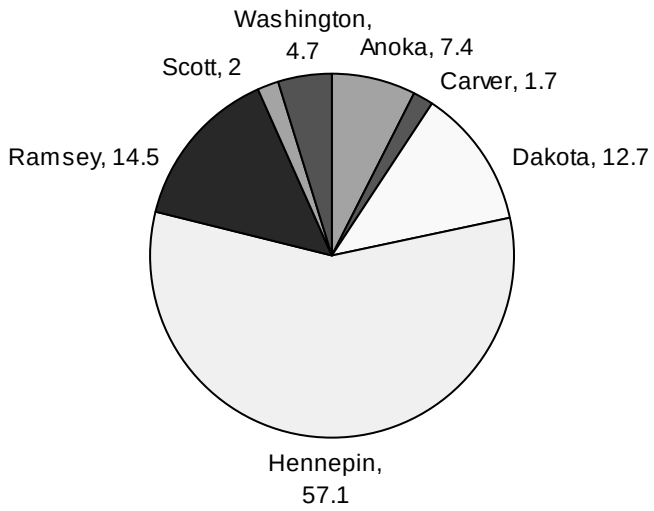
Since 1975, an unusual Minnesota law provides that a portion of the commercial/industrial tax base[19] in each metropolitan Twin Cities community be shared. Using 1971 as the base year, each community is required to contribute 40% of the post-1971 growth in its commercial/industrial tax base to a metro-wide pool, from which distributions are made, based on relative fiscal capacity. The provision has two purposes. The first is to improve equity in the distribution of fiscal resources. Tax base sharing reduces the imbalance between some communities' public service needs and financial resources. The uneven distribution of commercial and industrial properties is thought to be a major cause of imbalance. Communities with low tax bases must impose higher tax rates to deliver the same services as communities with higher tax bases. Then the higher tax rates make the communities less attractive locations for businesses. Communities also then compete by offering special concessions to attract businesses, believing that these businesses will contribute more in taxes than they require in services. Tax base sharing enables the benefit of regional developments (large shopping centres, sports stadiums, freeway interchanges) to be spread. The second purpose is to promote regional planning. Communities may be willing to accept low

tax yield regional facilities (*e.g.*, parks) when they know they will share the benefits of other communities' commercial development.

Distribution from the fiscal disparities pool is determined by each community's share of the metro population and its relative fiscal capacity index (the ratio of average fiscal capacity in the region and the community's fiscal capacity). Communities with below-average fiscal capacity have an index greater than 1 and receive a distribution share that exceeds their share of the area's population (are net recipients). Communities with above-average fiscal capacity have an index less than 1 and receive a distribution share that is smaller than their share of area population (are net contributors). Figures 1.8 and 1.9 show the redistributive effect of the fiscal disparities programme in 2000, for each of the seven metro counties. In 2000, Hennepin County, the only net contributor, contributed over half the net tax capacity in the pool and received about 39% as its distribution. By contrast, Anoka County contributed 7% and got back 13% and Ramsey County contributed 14.5% and got back 23.5%[20].

Figure 1.5. **Contributions of counties to fiscal disparities programme, 2000**

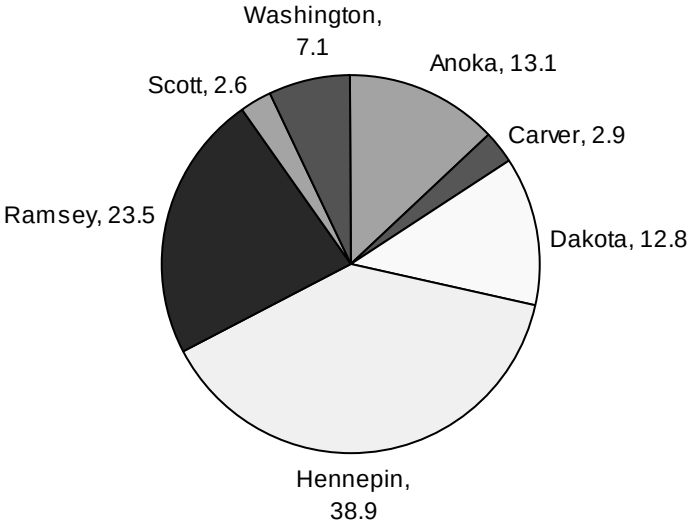
Percentage of pool net tax capacity (USD 278 million)



Source: Hinze and Baker (2000).

Figure 1.6. **Distribution of fiscal disparities programme to counties, 2000**

Percentage of pool net tax capacity (USD 278 million)



Source: Hinze and Baker (2000).

Local government grants

State-funded grants to local governments in Minnesota are aimed at ensuring that all cities can provide average levels of services at average property tax rates. A pool of funding is appropriated in the state's biennial budget for allocation among local governments according to a formula. The formula calculates each city's expenditure need, taking into account the age of the city's infrastructure, any decline in population, necessary street maintenance, average household size, and location (metropolitan or non-metropolitan). A city's expenditure need is then compared to its revenue-raising capacity (net tax capacity times the state-wide average city tax rate). A city's grant is calculated as the difference between the city's expenditure need and its revenue-raising capacity, adjusted so that the total amount distributed to all cities equals the current appropriation. In 2003, the grant appropriation was substantially reduced, relative to its historical trend, in response to the state's budget crisis. The formula was also adjusted to eliminate a grandfathering provision that had existed since 1993. The impact of these legislated changes is that non-metropolitan cities will receive a greater share of the grant pool, rising from 56.9% to 63.7%, while metropolitan cities will see a decline in their distribution shares (from 43.1% to 36.3%). (Willette, 2003).

Government growth

In Minnesota, as elsewhere, there is continuing debate about the appropriate size and role of government. Some have expressed concern that the rate of growth in Minnesota government is unsustainable; others worry that Minnesota will not be competitive in the global economy unless the state continues to commit to critical public investments. A consortium of eight local Minnesota governments (the cities of Duluth, Minneapolis and St. Paul, the counties of Hennepin, Ramsey and St. Louis, and the Minneapolis and St. Paul school districts) and the Minnesota Council of Nonprofits undertook a study

in 2002 of trends in the state's spending (Van Wychen and Madden, 2002). Using revenue data from the U.S. Census Bureau's Census of Governments between 1987 and 1997, the report finds[21]:

- Over two-thirds of the growth in Minnesota state and local government spending was necessary to keep up with inflation and population growth.

- As a percentage of Minnesota personal income, total state and local government expenditures in Minnesota declined slightly from 22.2% in 1987 to 21.9% in 1997.

- Government spending in Minnesota has grown less rapidly than the national average. From 1987 to 1997, state and local government spending for all fifty states and the District of Columbia in real dollars per capita grew by an average of 2.4% annually, significantly higher than Minnesota's annual average of 1.8%. However, the level of state and local spending per capita in Minnesota is 10.3% above the national level.

- In terms of primary and secondary education spending per pupil, Minnesota was 6.6% above the national average. One measure of the return on that investment is the state's top ranking in basic skills proficiency.

In terms of transportation, Minnesota spends above the per capita national average on highways (driven at least in part by climate) but below average for transit. In comparison to another northern state, Wisconsin, Minnesota spent 9.6% more per capita on highways, but also had more miles per capita, in better physical shape. One measure of the return on that investment is the significantly lower traffic deaths per vehicle mile of travel in Minnesota than in Wisconsin.

Intergovernmental co-ordination

Vertical co-ordination

Co-ordination across state agencies and between state and local governmental units in Minnesota is vested first in the Office of Strategic and Long-Range Planning, in the state's Department of Administration. Created by the state legislature in 1991, the Office is charged with developing an integrated long-range plan for the state and co-ordinating activities among all levels of government. Staff members focus on six functional goals[22]. A description and some examples of operations within each goal follow.

1. *Data and tools*. Gathering, creating, organising and providing access to data; providing analytical tools to use data and co-ordinating data across state agencies. A centre for criminal justice statistics tracks crime, including juvenile offences, and researches the state's justice system. The state demographic centre, Minnesota's liaison with the U.S. Census Bureau, estimates, forecasts and investigates changes in the state's population, and analyzes and distributes census data.

2. *Information*. Providing an appropriate context for interpreting data. The Land Management Information Center offers data, software, and project consultation services that promote the effective use of geographic information and technology.

3. *Strategic advice*. Identifying emerging short-term and long-term issues and developing strategic plans; providing grants and technical assistance. A critical issues team provides analyses and reports that equip policy-makers to respond effectively to key challenges facing the state.

4. *Co-ordination*. Promoting effective and efficient delivery of government services by providing co-ordination among state agencies, other levels of government and the private sector. The Local Planning Assistance Center offers a variety of technical services that help communities develop comprehensive plans.

5. *Mandated operations*. Performing important statutory functions, such as adjusting municipal boundaries, co-ordinating and regulating activity that affects the environment, producing population estimates and projections, co-ordinating the use of geographic and criminal justice information, and providing planning assistance to local governments. The Environmental Quality Board develops policy and reviews proposed projects that could significantly affect the environment. The Municipal Boundary Adjustments Team reviews and adjudicates municipal boundary changes in response to requests from cities, townships and property owners.

6. *Support Executive Initiatives*. Providing administrative support and technical assistance to executive branch policy makers for special studies[23].

Revenues for the agency's budget come from the state's general fund (76%), dedicated revenues (21%, for example, power plant sitting assessment and project fees), the Environmental Trust Fund (2%) and the Federal government (1%)[24].

Additional vertical co-ordination between the state and local governments is formalized in services to disabled children and in disease prevention and control. A State Interagency Committee (SIC) oversees the development and implementation of a comprehensive, co-ordinated system in which every child with a disability (birth through age 21) undergoes a multi-disciplinary evaluation, resulting in a standardised, written plan. A joint effort of the Minnesota Department of Health and local public health agencies enhances the prevention and control of communicable diseases.

Vertical co-ordination also exists between local governmental units and the Twin Cities' Metropolitan Council. Minnesota law provides that, at the request of a local governmental unit, the Metropolitan Council may enter into contracts to provide services and assistance regarding comprehensive community planning, including intergovernmental co-ordination[25]. One example of the co-ordination role played by the Metropolitan Council is a program, funded by the *Livable Communities Act* (LCA), in which communities receive grants to help them either to clean up polluted land for redevelopment, or to create a new development, provided that the project uses land and infrastructure efficiently, offers units of affordable housing, and provides easy access to transit and open space. Since the Liveable Communities Act was created by the Minnesota Legislature in 1995, the Metropolitan Council has approved:

- USD 42 million to clean up 940 acres of polluted land for redevelopment. The investment will result in an expected USD 1.5 billion in private investment, more than 11 400 new or retained jobs, and an increase in net tax capacity of USD 28 million. The Council administers funds in this Tax Base Revitalization Account jointly with the Minnesota Department of Trade and Economic Development.

- USD 14 million to help develop 1 791 new rental units, rehabilitate 539 affordable rental units, build 464 new affordable ownership units and rehabilitate or improve more than 1 300 affordable ownership units. The funding will generate a total investment of USD 350 million. The Council administers these Local Housing Incentive Account funds in concert with the Minnesota Housing Finance Agency.

- USD 42 million to revitalise older communities and to establish new neighbourhoods in developing communities by creating a mix of housing, jobs and services linked together with a

variety of transportation choices. The funds are expected to leverage more than USD 994 million in private investment and USD 396 million in other public investment. Funded projects include 6 860 new and 400 rehabilitated housing units. There are two types of grants: development grants to fund construction costs for projects ready to be built and opportunity grants to fund proposals in the predevelopment phase that show the potential to become on-the-ground projects.

Horizontal co-ordination

Co-operation between similar governmental structures in the Twin Cities metropolitan region occurs along a number of different dimensions. One example is the Metropolitan Mosquito Control District that surveys and controls mosquitoes, monitors deer tick populations and provides public education regarding Lyme and other tick-borne diseases in the 7-county metropolitan area. MMCD is governed by a board of elected county commissioners and its activities are reviewed for technical competence and environmental safety by a technical advisory board, composed of scientists, representatives from other public agencies, and other technical experts. Its work is funded by property taxes.

Other metropolitan examples would include the Association of Metropolitan Municipalities and the Association of Metropolitan School Districts. The Association of Metropolitan Municipalities serves as the primary representative of the collective interests of cities on metropolitan issues. The agency monitors the Metropolitan Council and its activities, alerts member cities of pending decisions or actions, and reacts as appropriate to protect the metropolitan cities' interests. The Association of Metropolitan School Districts seeks to represent public education interests in the Twin Cities metropolitan area, taking positions on such issues as special education funding, the use of vouchers and full-day kindergarten. Both associations serve as umbrella organizations, lobbying on behalf of their constituencies at the legislature, in state government and at the Metropolitan Council.

Across the state, two other co-ordinating organisations are the League of Minnesota Cities and the Association of Minnesota Counties. The League of Minnesota Cities was founded by the legislature in 1913, initially as part of the Extension Division of the University of Minnesota. In 1974, it became an independent organisation of cities and their elected and appointed officials. The League has a research staff, available to answer city officials' questions, as well as codification and charter services. It represents the interests of cities at the legislature. The Association of Minnesota Counties staff develops a legislative platform and works with state agencies on issues that impact county budgets around the state.

Public-private partnerships

This section offers four examples of the variety of public-private partnerships that are found in the Twin Cities metropolitan area. To date, these have not undergone any formal evaluation. The first of these, *Connecting Minnesota*, was initiated by the Minnesota Departments of Transportation and Administration as a means of extending the Information Superhighway to more of Minnesota. In exchange for one-time access to Interstate highway rights-of-way, ICS/UCN, a private sector developer, is financing, building and maintaining a USD 195 million fiber-optic backbone along 2 000 miles of freeway and state highway, connecting the urbanised and rural areas of the state[26].

Friends of the Minnesota Valley has been working with private landowners, city leaders and water planners to instil a sense of appreciation for and connection to the Minnesota Valley National Wildlife Refuge and the Minnesota River, in the face of increasing development in the Twin Cities area. One goal is to promote private investment in resource conservation efforts. Other goals include promoting community watershed clean-up and negotiating cooperative agreements between the Refuge and municipalities to identify joint resource management opportunities and facilitate communication[27].

In the late 1990s, a series of violent crimes in Minneapolis led some observers to nickname the city "Murderapolis". In response, *HEALS* (Hope, Education And Law and Safety) developed as a multi-sector collaborative effort to improve the criminal justice system and end violence, co-ordinated by the Minnesota Business Partnership[28], five of the area's largest companies (Honeywell, Allina, General Mills, 3M, and Medtronic), the Minneapolis Foundation and the city of Minneapolis. HEALS formed two tracks. One track focused on immediate law enforcement issues, with the goal of reducing homicides. The second track focused on prevention and longer-term goals, such as improving the quality of life for neighbourhood residents and keeping people out of the criminal justice system[29]. The prevention track of Minnesota HEALS has focused on housing, job, training, and after-school programs. Honeywell, The Minneapolis Foundation, the City of Minneapolis and Fannie Mae worked to develop a 52-unit homeowner development in a troubled Minneapolis neighbourhood. Another HEALS partner, the Allina Foundation, took the lead in creating an initiative that will improve housing in an eight-block area where the Foundation also developed "train-to-work," a programme to help neighbourhood residents become health care workers at two local hospitals. Funding came from several different sources and provided new jobs for neighbourhood residents, including a strong training component for the new hires. HEALS has also helped encourage the development of after-school programs, collaborations between the public schools and social service organisations to provide services in school buildings after hours. Several HEALS members have funded the programs[30].

A publicly-funded agency advancing the fine arts has existed in Minnesota since 1903. Since 1975 the agency has been known as the *Minnesota State Arts Board*. In that year, generous corporate support for the arts was institutionalised with the formation of the "5% Club," a group of corporations who pledged annually to donate 5% of their profits. In 1982, the State Arts Board began to work with philanthropic leaders from several area foundations to serve the needs of Minnesota artists, arts groups, and audiences. Two years later, the Minnesota State Arts Board received a special letter of commendation from President Reagan recognising its exemplary partnerships with the private sector[31].

Case study : Economic development

In the Twin Cities metropolitan area, several actors are involved in economic development. Some offer financial incentives while others offer information, advice or co-ordination services. The main actors are the federal government, the state of Minnesota, the Metropolitan Council, the cities of Minneapolis and St. Paul and the Chambers of Commerce.

Federal government

The U.S. Small Business Administration (SBA) assists small businesses to start, grow and prosper by providing counselling and technical assistance, pre-business and business planning workshops and information on starting and managing a small business. Financial assistance is provided in the form of two loan programs. The SBA-7A programme offers loan guarantees – SBA guarantees up to 90% of the principle and interest on loans made by private lenders to industrial, commercial or retail businesses that are unable to obtain conventional financing. These loans may be for development, business construction, expansion, and the purchase of equipment, facilities, machinery, supplies, materials, working capital or an existing business. The SBA 504 loan programme provides long-term, fixed-rate financing for up to 90% of necessary capital to retail, commercial or industrial businesses. Loan equity requirements are as low as 10% and the interest rate is tied to the current treasury-bill rate.

State of Minnesota.

The Minnesota Department of Trade and Economic Development (merged into the Department of Employment and Economic Development as of July 1, 2003) offers several programmes to help attract and

maintain business development in the state. Among those for which metropolitan businesses would qualify are the following[32].

- *Capital Access Program*. This programme encourages loans from private lending institutions to businesses, particularly small-and medium sized-businesses. When loans are enrolled in the programme by participating lending institutions, the lender obtains additional financial protection through a special fund created by the lender, the borrower and the State. Loans may be made by any lending institution in Minnesota for industrial, commercial or agricultural purposes.

- *Minnesota Investment Fund*. The fund awards grants of up to USD 500 000 to local units of government (cities, counties, townships and recognised Indian tribal governments) that then provide loans to assist businesses acquiring fixed assets (such as equipment, buildings or land) and adding sufficient new workers. Loans for working capital, retail business or industrial park development are ineligible. At least 50% of total project costs must be privately financed through owner equity and other lending sources. Most applications selected for funding have at least 70% private financing.

- *Small Business Development Loan Program*. The Minnesota Agricultural and Economic Development Board (MAEDB) makes small business loans through the issuance of industrial development bonds backed by a state-funded reserve of 25%. Eligible recipients are manufacturing and industrial businesses located or intending to locate in Minnesota, as defined by federal Small Business Administration size and eligibility standards; generally, those with 500 or fewer employees. Loans of between USD 500 000 and USD 6 million may be made for acquiring land, building, machinery and equipment; for building construction and renovations; and for development costs such as engineering, legal and financial fees. Working capital and refinancing are not eligible. Generally, 20% of the project costs must be privately financed through equity or other sources; 25% is required on equipment transactions. A market rate of interest (as on similar securities at the time the bonds are sold) applies; the rate is fixed for the term of the loan. Loans for real estate have a maximum term of 20 years while for equipment the maximum term is 10 years or 80% of useful life. Some collateral requirements apply.

- *Urban Initiative Loan Program*. An Urban Initiative Board, in partnership with local non-profit organisations, provides loans and technical assistance to start-up and expanding minority-owned and operated businesses in Minneapolis, St. Paul and inner ring metro suburbs. An eligible project must demonstrate potential to create jobs for low income people, must not be able to obtain sufficient capital from traditional private lenders; and must be able to demonstrate the potential to succeed. Financing up to a maximum of USD 300 000 is available for normal expenses such as machinery and equipment, inventory and receivables, working capital, new construction, renovation and site acquisition. Financing of existing debt is not permitted. Each dollar of state funds must be matched by at least an equal amount of private funds. Generally, this match is provided in loans through the participating non-profit partner. The interest rate is between 2% and 10% and terms of loans are generally consistent with other financing sources.

Metropolitan Council

Perhaps the most important contribution of the Metropolitan Council to economic development in the Twin Cities is the role it plays in co-ordinating regional system plans with the comprehensive land use plans adopted by local governments. In particular, the Council publishes a Local Planning Handbook to aid communities that wish to create economic development departments. The handbook suggests a set of issues that a community would need to address in order to become more proactive in retaining and supporting businesses and in avoiding attempts to raid businesses from neighbouring communities.

The City of Minneapolis

The key office charged with promoting economic development in the city is the Minneapolis Community Development Agency (MCDA). The agency provides several types of assistance to businesses and arts organisations:

- BusinessLink, a service that helps businesses navigate the city's regulatory requirements (licensing, zoning, permits), locate affordable financing and office space and access business information.

- Low-interest, long-term, fixed-rate loans to commercial and industrial businesses of all sizes for expansion, upgrading, demolition, new construction and purchase of sites and equipment.

- Revenue-bond financing to large commercial, industrial, health-care and nursing-home facilities and other non-profits for expansion and/or relocation

- Site-search assistance for industrial businesses looking to expand and relocate

- Technical assistance to put businesses in touch with financing, job training and management assistance

- Sale or lease of centrally located industrial sites to businesses seeking to expand or relocate (land parcels range from less than one to more than 18 acres)

- Brokerage participation, encouraging real-estate brokers to work with companies to redevelop MCDA-owned properties

- Development and financial assistance to promote the historic Mississippi Riverfront, including historic preservation, economic development, and housing.

- Financial and technical assistance to help Minneapolis theatres, artists and arts organisations expand and/or relocate their facilities.

Most MCDA projects are completed in partnership with others: neighbourhood groups, businesses, other public or private agencies, developers, banks or non-profit organisations. Typically the MCDA provides part of the financing, the private lender another portion and the business or non-profit itself some amount of equity. The MCDA may guaranty a loan in cooperation with a lender or serve as the conduit for funding from the federal government or the state. The MCDA generates revenues for its projects by issuing revenue bonds, selling and leasing its own properties, and by using repayments of loans made earlier and tax-increment financing (TIF).

In the case of revenue bonds, the MCDA works with bond companies as a broker, administering bond sales and providing security to enhance the bonds' value, reduce their interest rate and make them more appealing to investors. Bonds are sold to private institutional investors (insurance companies, banks, pension funds, etc.) or to the general public, and the MCDA collects administrative fees for monitoring and related staff costs. Revenue bonds can finance commercial and industrial businesses, nursing-home and medical-facility expansion, rental-housing renovation, and mortgage and home improvement loans. Projects are approved based on their financial strength, credit worthiness and the nature of their public purpose, such as creating or preserving jobs, or increasing the tax base.

Tax increment financing (TIF) is a statutory tool for promoting economic development, redevelopment, and housing in areas where it would not otherwise occur. MCDA, as a TIF authority, creates a TIF district by first freezing the tax value (capacity) of all property located within the district. Property owners continue to pay property tax on this frozen value to the usual taxing jurisdictions (city, county, school district). As development occurs, taxes on the additional property value created are paid to the MCDA during the life of the district, generally 10-25 years. These tax payments revert to the usual jurisdictions thereafter. In this way, MCDA recoups the upfront expenditures it makes to acquire, clean, and develop sites. As discussed earlier, property tax reform in Minnesota in 2001 revamped the property classification schedule. A result of this was that tax rates for commercial and industrial property were compressed, reducing the tax capacity of TIF districts, and also placing downward pressure on TIF taxes. In the 7-county metro area, total (net) capacity fell an average of 28.71% and total (net) taxes fell an average of 26.51% between 2001 and 2002. Such a decrease in revenues might be problematic if it resulted in a negative financial margin for a district(s). To address a shortfall in one district, a municipality may either transfer excess revenue from another district, increase the tax rate, or request a reduction in its contribution to the state fiscal disparities pool. While it is too early to know whether Minneapolis TIF districts will remain intact financially, one early indication one can look at is the percentage of the total tax base tied up in TIF districts. Among the top 20 metro cities with TIF districts in 2002, Minneapolis ranked 11th, with their TIF districts accounting for just over 15% of the total tax base. TIF districts in the other top 20 municipalities accounted for between 12% and 40% of the tax base (McMahon, 2003).

Businesses that receive MCDA assistance are required to participate in at least one of two job programmes run by the agency. Businesses deemed to have received a sufficiently large financial assistance (a business subsidy) must comply with the city's Living Wage Policy. That policy requires businesses to create at least one full-time living wage job per USD 25 000 of subsidy. Living wage means a wage equivalent to at least 110% of the federal poverty level for a family of four (without employer-paid health insurance, and 100% with basic health insurance). Any business receiving financial assistance is asked to sign a Job Linkage agreement. Under this agreement, businesses establish five-year job creation and retention goals, hire Minneapolis residents and provide living-wage jobs[33].

An innovative effort to bring residents into the process of setting priorities for the city exists in the form of the Minneapolis Neighbourhood Revitalization Program. This program was established by the Minnesota legislature and the Minneapolis City Council in 1990. Residents and other stakeholders in each neighbourhood identify revitalization targets and then develop a neighbourhood action plan. Action plans are submitted to an elected policy board for review. The Minneapolis Community Development Agency provides USD 20 million annually in start-up funds to finance approved projects. Implementing a project then becomes the responsibility of the neighbourhood from which the idea emerged.

City of St. Paul

In order to facilitate retail and service business development, the city's Department of Planning and Economic Development created a central, one-stop location for information and assistance – the Business Resource Center. The Center, in concert with city and state regulatory agencies, neighbourhood business associations, private lenders, neighbourhood and community development corporations and the commercial real estate community, provides information, technical assistance, financing, site searches and even job training.

The St. Paul Port Authority focuses on industrial and high-tech service businesses wishing to locate in the city, the east metro area more generally, or in the authority's industrial parks. Together with the city's Department of Planning and Economic Development, the Community Reinvestment Fund, and private lenders, the Port Authority administers a Small Business Expansion Programme providing up to 90%

financing for commercial and industrial acquisition projects. Through its Employer Solutions subsidiary, the port authority also offers customised job training to client firms.

Assistance to women and minority-owned businesses is available from Contract and Analysis Services of the city and from a Ramsey county program. The city's Department of Planning and Economic Development also makes business financing and technical assistance available through a Minority Business Development and Retention Initiative[34].

Chambers of commerce

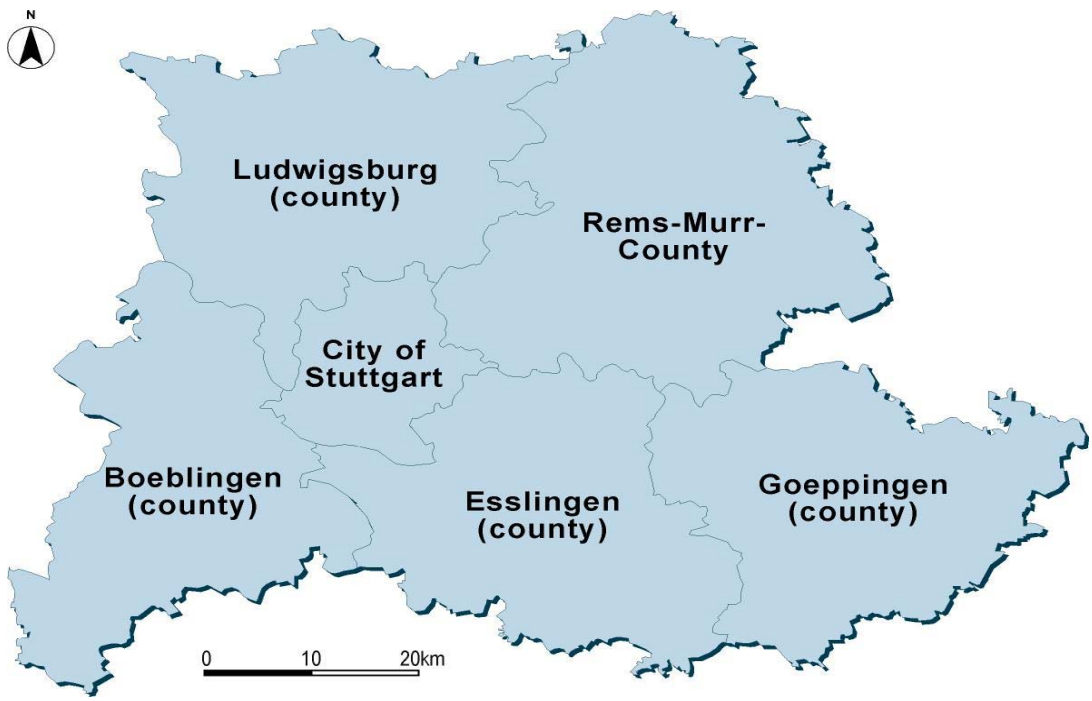
The cities of both Minneapolis and St. Paul have "regional" chambers of commerce. The Minneapolis chamber draws members primarily from that city and its southern and western suburbs, while the St. Paul chamber's members are primarily from that city and its eastern suburbs. Both strive to promote economic growth, focusing on recruiting businesses and qualified workers, marketing the region, and addressing regional policy issues. For example, the Minneapolis Regional Chamber publishes *The Guide to Starting a Business in Minnesota* that covers choosing a form of organisation, obtaining business licenses and permits, developing a business plan, financing, employing workers, and business taxes. It also connects start-up businesses with community organisations that offer planning and management assistance. While there is some cooperation between the chambers (for example, the two co-sponsored a leadership trip to Seattle in September of 2003 for 110 leaders from both cities), the two groups have also been known to compete fairly fiercely, most recently over the location of a new major league baseball park. Two supra-city organisations with ties to the interests of businesses are the Minnesota Business Partnership and the Coalition of Minnesota Businesses.

ANNEX 2. THE STUTTGART METROPOLITAN REGION

Defining the metropolitan area of the Stuttgart Region

The Stuttgart Region is located in south-west Germany and acts as the seat of the Baden-Württemberg State Government. It has a population of 2.6 million and covers an area of 3 654 square kilometres. With a population density of 722 inhabitants per square kilometre (German average is 230), the Stuttgart Region is one of the most densely populated agglomerations in Germany. It consists of 179 municipalities, comprising the City of Stuttgart (the state capital of Baden-Württemberg) and five counties (Böblingen, Esslingen, Göppingen, Ludwigsburg, Rems-Murr-Kreis). Four of these counties share a border with the City of Stuttgart (Figure 2.1). Göppingen is situated about 40 km east of Stuttgart. In the central parts of the Region, many residential and commercial areas in individual municipalities have now merged together with their neighbours. More than 750 000 people, about three quarters of the workforce, commute to work crossing municipal borders. Functional interdependencies (e.g. commuting) exist with surrounding counties and towns. The larger functional "Metropolregion Stuttgart" comprises parts of the administrative neighbouring regions: Franken to the north with its core city Heilbronn and Neckar-Alb to the south with its core cities Tübingen and Reutlingen. In this analysis however the focus will be on the Stuttgart Region.

Figure 2.1. **The Stuttgart Region**



Source: Verband Region Stuttgart

From 1990-2002, the Stuttgart Region experienced a 6.8% growth in its population (Table 2.1). Immigration has been an important element to population growth in the Stuttgart Region. In 2002, foreigners comprised 16.9 % of the resident population of the Stuttgart Region. In the City of Stuttgart, nearly one-fourth of the population had foreign nationality[35]. Immigrants came mainly from Turkey, the former Yugoslavia, former Soviet Union and the Eastern German states (Neue Bundesländer), former GDR. Whereas immigrants are attracted to the Region for its economic strength and regional labour market with comparatively low unemployment rates, out migration from the core to the fringe is driven by the search for better housing, affordable real estate and suitable family residences as well as business expansion. Stuttgart loses population, especially young families aged 25 to 40, when they migrate to its Umland, the surrounding counties. As shown by Figure 2.2, housing development rates are higher than population and workforce development.

Table 2.1**. Population growth, 1990-2002**

	1990	1996	2002	1990-2002, % in growth
City of Stuttgart	579 004	585 572	588 751	1.7
Esslingen County	479 311	492 507	508 806	6.2
Goeppingen County	242 555	255 699	258 464	6.6
Ludwigsburg County	463 935	487 748	506 267	9.1
Rems-Murr County	379 378	401 112	415 101	9.4
Boeblingen County	333 514	354 056	369 904	10.9
Stuttgart Region	2 477 697	2 576 694	2 647 293	6.8

Source: Statistisches Landesamt Baden-Wuerttemberg

Figure 2.2. **Development of housing, population and employees in the Stuttgart Region, 1990 – 2002**

Source: Verband Region Stuttgart

Indicators of socio-economic performance

Output and economic growth

Although the Stuttgart Region accounts for 10 % of the landmass of Baden-Württemberg, it comprises 20 % of its population and 30 % of its GDP. With approximately 1.1 million jobs, the Stuttgart Region is one of the economically strongest regions in Europe. From 1991 to 2000, the economic growth rate in the City of Stuttgart was lower than its surrounding region, while the average growth rate in Baden-Württemberg was stronger than that in the Stuttgart region (Table 2.2). One of the reasons is that jobs have been relocated and inhabitants have moved to the neighbouring areas of the Stuttgart Region as a result of spill-over effects. Another reason is that some regions of Baden-Württemberg that used to be in an economically weak position have experienced high growth rates in recent years. This is true, for example, for the regions situated on the French border.

Table 2.2. **GDP in market prices 1991-2000**

In millions €

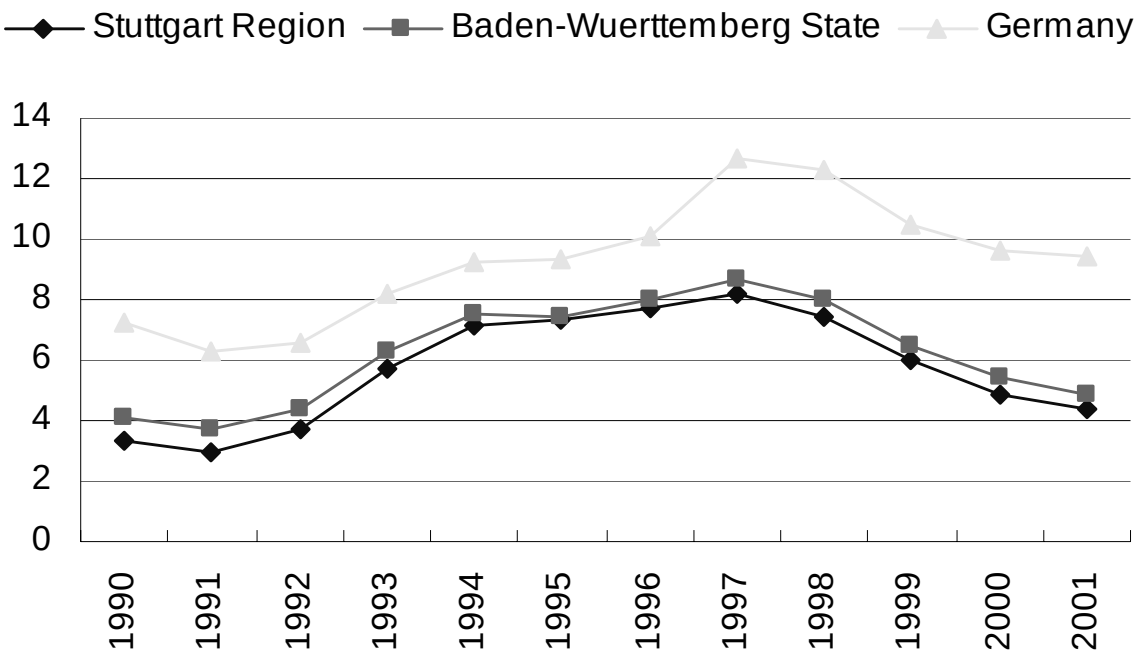
	1991	2000	1991-2000, % in increase
City of Stuttgart	25 161	30 425	20.9
Boeblingen County	10 279	14 357	39.7
Esslingen County	11 278	14 100	25.0
Goeppingen County	4 543	5 837	28.5
Ludwigsburg County	9 900	12 500	26.3
Rems-Murr County	7 690	9 730	26.5
Stuttgart Region	68 851	86 772	26.0

Source: Statistisches Landesamt Baden-Wuerttemberg

Unemployment

Compared with other German metropolitan regions and with the federal state of Baden-Württemberg, the average unemployment rate is relatively low in the Stuttgart Region (Figure 2.3). However, it rose in the 1990s, causing job losses that were never fully offset during subsequent recovery phases. In the first half of the 1990s, for example, more than 100 000 jobs were lost, primarily in industry. Although the number of jobs in the service sector has grown, the overall job balance for the period 1990 to 2002 is still negative. Furthermore, the number of long-term unemployed persons has risen. Job seekers over 50 years old have a hard time finding a new job. At the same time, there is a steadily growing demand for highly qualified labour force, engineers, technicians and skilled workers, the Stuttgart Region having an above-average proportion of unskilled workers. As a result of a disproportionately high reduction of jobs only requiring low qualifications, unskilled workers are particularly hit by unemployment since the early 1990s. Finally, the employment situation has developed differently in the various areas of the Stuttgart Region. As a result of intra-regional relocation of companies, the City of Stuttgart has been losing jobs, primarily in industry, to the neighbouring counties of Böblingen, Ludwigsburg and Esslingen. In the Stuttgart Region, the suburbanisation process entails the urban exodus of inhabitants and the transfer of jobs in industry to the Stuttgart hinterland. Only in the core area of the region, *i.e.* the City of Stuttgart and the adjacent municipalities, have jobs lost in industry been partially replaced by new jobs in the service sector.

Figure 2.3. **Unemployment rate, 1990 – 2001**



Source: Data Statistisches Landesamt Baden-Wuerttemberg / Federal Labour Agency

Structural mix

Like many OECD metropolitan regions, the Stuttgart Region's industrial mix is characterised by a shift towards the services sector, with significant development in business services. In the Stuttgart Region, 55.6% of the economically active population work in the service industry, compared to 44.9% in 1990. This ratio is much higher in other German agglomerations. The statistics, however, are misleading because the large companies in the Stuttgart Region are classified as engineering companies, while 70% of the active population actually work in a service job in terms of the content of their work (inner-company structural change). The annual rate of change from industry to the service sector is almost 1%. Business-related services are experiencing the strongest growth rates. Roughly 100 000 out of 400 000 people working in the manufacturing sector are employed in the automotive industry (manufacturers and ancillary suppliers), approximately 76 000 in the electronics/office equipment industry and 74 000 in the mechanical engineering industry. Out of approximately 585 000 people who were employed in the service industry in 2000, 161 000 worked in the area of personal services, 138 000 in trade and 112 000 in business-related services. From 1998 to 2000, the number of people working in business-related services increased by 25 000 (just under 25%) (Table 2.3).

Table 2.3. **Employment by sector in the Stuttgart Region, 2001**

Sector	Employees
Agriculture, forestry	6 801
Mining	941
Manufacturing	402 291
Energy, water	6 999
Construction	58 785
Trade	141 063
Hotel/restaurant services	22 669
Traffic, news	49 177
Banking, insurance	55 058
Real estate, business services	130 502
Public administration	53 839
Total	1 071 793

Source: Statistisches Landesamt Baden-Wuerttemnerg

With DaimlerChrysler and Porsche, the Region is world renown as a major location for the car building industry[36]. In addition, there is a large number of automotive suppliers (*e.g.* Bosch, TRW, Behr), machinery (e.g. Trumpf, Dürr, Schuler, Märklin, Stihl), electric and electronic industry (*e.g.* Hewlett Packard, Alcatel SEL, IBM). A specific mix of international operating global players and a large number of interlaced small and medium size enterprises forms the economic strength of the region, particularly in the mechanical and electrical engineering industries. Many of the small and medium sized enterprises are highly specialised. Therefore business relations of even small enterprises are international and worldwide.

Innovation and R&D

In terms of public and private R & D investment and expenditure, the Stuttgart Region and the federal state of Baden-Württemberg are well ahead of most other European regions. Research and development are pursued by private companies, universities and other higher-education institutes and a large number of non-university research institutes. In 1999, the companies based in the Stuttgart Region spent a total of € 4.8 billion for research and development. This accounts for 50% of all research expenditures incurred by companies in the state of Baden-Württemberg. In the Stuttgart Region, 35 000 people work in R & D companies (compared to 69 000 in Baden-Württemberg as a whole). In 1999, the universities based in the Stuttgart Region spent € 262 million for R & D, compared to € 1.156 billion in Baden-Württemberg as a whole. There were 3,000 full-time jobs in R & D at universities in the Stuttgart Region, while there was a total of 15 000 R & D jobs at Baden-Württemberg's universities. The Stuttgart Region also takes a leading role among European metropolitan areas as far as the number of patent applications is concerned.

Close inter-relationships between private companies and the local universities and other higher-education and research institutes are another phenomenon typical of the Stuttgart Region. The Fraunhofer-Gesellschaft with its various institutes and the Steinbeis transfer centres engage in practice-oriented research and development together with private companies. The competitive strength of the Stuttgart Region is also a result of numerous informal networks. Graduates of technical and scientific study courses often stay in touch with their former university department when they take up a job, which is benefited by the geographical proximity of companies and universities. A large number of scientific associations and societies give evidence of these inter-relationships. A number of federations under public and private law complement the existing networks and promote their members' interests. The Chamber of Industry and Commerce, the Chamber of Crafts, trade unions, political parties and associations,

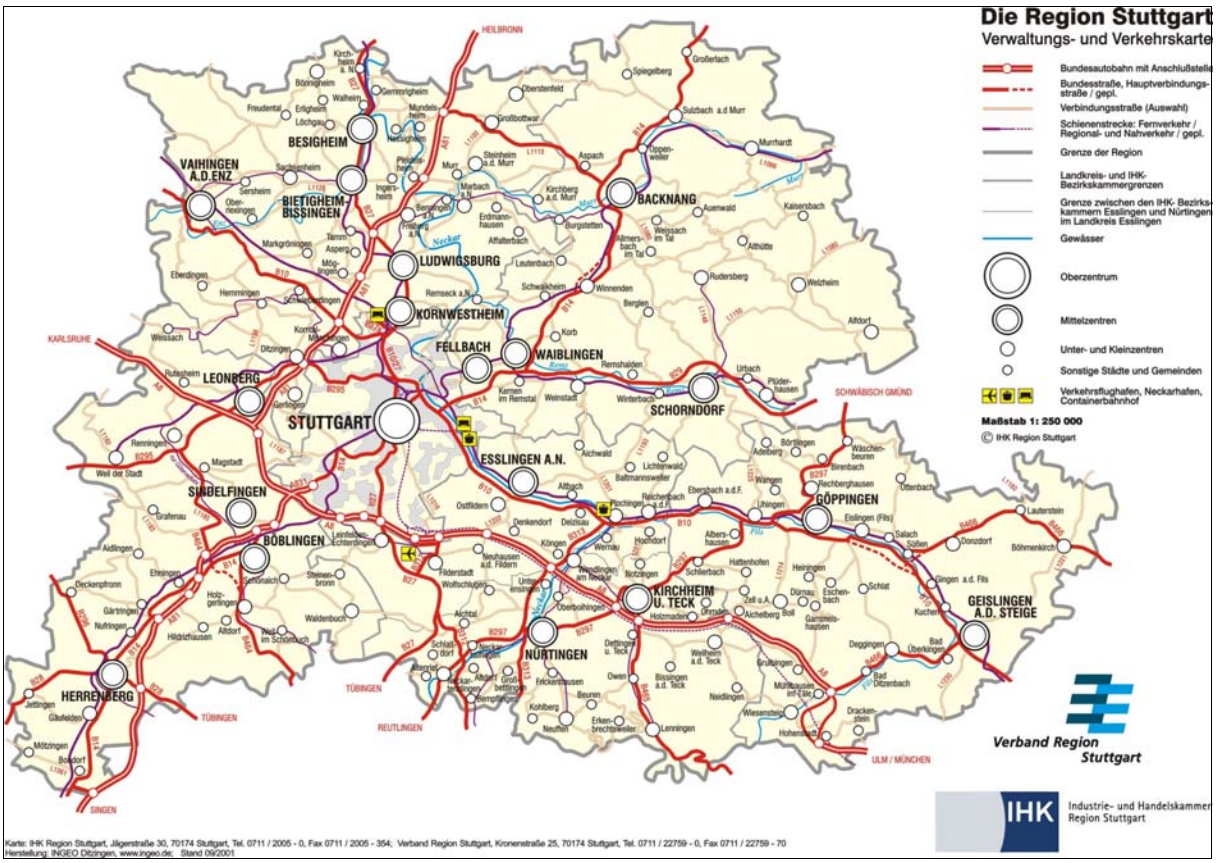
e.g. environmental organisations or associations for the preservation of nature, as well as the Churches are organised on a regional basis.

Companies, in particular manufacturers and suppliers, have established closely interwoven networks which foster product and process innovation. Large companies, such as DaimlerChrysler, Bosch or IBM, have several production and research sites that are spread all over the region. Many of the ancillary suppliers have progressed from being parts suppliers to being system developers, especially in the automotive industry. The market power of the automotive manufacturers, in turn, results in concentration processes on the side of the suppliers to the automotive industry.

Accessibility

The Stuttgart Region's dual capacity as a European transit area and an economically strong and densely populated region sometimes causes heavy congestion that places pressure on the regional highway network. The A 8 and A 81(E7) motorways, running in east-west and north-south and direction respectively, connect the region with the European network of motorways. In addition, there are a number of highways that are of interregional and regional importance. Stuttgart is also a railway node and therefore plays an important role in German and European long-distance rail transport. At the same time, the City of Stuttgart is the region's light-rail public transport hub. This hub is primarily served by six urban railway lines (so-called 'diameter' lines that cross the City of Stuttgart). The Verband Region Stuttgart, as the responsible body, is currently in the process of planning new light-railway lines following tangential routes in order to relieve Stuttgart as a transport hub (Figure 2.4). Unless local passenger rail services improve, it is estimated that congestion costs will double between 1995 and 2010. In the freight sector such costs would even treble, and the damage caused to the economy would be immense.

Figure. 2.4. **Transport system in the Stuttgart Region**



Source: Verband Region Stuttgart and Stuttgart Region Chamber of Industry and Commerce

Institutional framework

The German Constitution or Basic Law (*Grundgesetz*) enshrines the federal government (*Bund*) and the federal *Länder* (the two levels of state government) as well as the municipalities (*Gemeinden*) (the level of local government). The federal *Länder* are entrusted with their own sovereign powers and responsibilities, including responsibility for education and the police. Municipal law and the boundaries of municipalities and associations of municipalities are also matters determined by the *Länder*. However, there are many areas where both the *Länder* and municipalities carry out tasks on behalf of the federal government. Municipalities' self-governing powers in respect of all local government matters are guaranteed by the Constitution. This constitutional right to self-government is an important part of the German political system and is often discussed during debates about responsibilities, organisational arrangements, funding, and the complex links between the various territorial authorities.

The State of Baden-Württemberg (Land) is divided into four administrative districts, nine urban counties and 35 counties, comprising a total of 1 110 municipalities. Most of the municipalities are attached to one of the 35 counties while nine cities of over 100 000 inhabitants form their own separate urban county and have responsibilities both as municipalities and as county. The administrative structure of the *Land* of Baden-Württemberg comprises four parts:

a) A ***government*** (*Landesregierung*) with specialised ministries.

b) An intermediate level of state composed of four ***administrative district presidencies*** (*Regierungspräsidien*) which have a coordination role as the intermediate authority, between the ministries and the lower authorities. They have powers of both approval and execution, for example with respect to major infrastructure projects or funding requests. Their executive authority is exercised primarily with regard to construction, regional development, supervision of the municipalities, trade, transport, the road network, the environment and health.

c) ***Counties*** (*Landkreise*). The counties perform a dual function. On the one hand, they are the lower level of state of the *Land* of Baden-Württemberg, and on the other hand, they act as an entity that unites their component municipalities. The administrative authority of a county is the county's office (*Landratsamt)*, headed by the county administrator (*Landrat*). In accordance with the county's dual function as both the lower level of state and an entity uniting the municipalities, the county administrator is, on the one hand, elected by the county assembly and, on the other hand, the head of the lower state authority of Baden-Württemberg and as such accountable to the *Land* rather than the county assembly.

The county take over from the municipalities those tasks which can be better dealt with on a larger scale. At the same time, due to their dual function, they are the lowest tier of government at the level of the *Land*. Important responsibilities at county level include: waste management; health service, particularly responsibility for county hospitals; welfare and youth assistance; vocational and special schools; local public transport (insofar as responsibility does not lie with the region of Stuttgart or – as in other regions – the *Land*); nature and environmental protection; veterinary activities; and the county road network. Counties and urban counties can also take on other non-mandatory responsibilities (*e.g.* business promotion or cultural promotion or the provision of elderly homes), subject to the approval of the municipalities and county assembly.

d) ***Municipalities*** (Gemeinden). Competencies found at the municipal level can fall into three categories—statutory responsibilities, non-mandatory responsibilities and those carried out on behalf of the state. Important *statutory responsibilities* include: urban land use planning; local landscape planning (landscape and green structures plans); school administration (responsibility for infrastructure); transport infrastructure; water supply; sewage disposal; and welfare. In terms of *non-mandatory responsibilities*, they comprise: the establishment and maintenance of cultural facilities, community centres and parks and gardens; business promotion; support for clubs and associations; partnerships between towns; and adult education courses. Lastly, the municipalities also carry out duties for the state (*i.e.* Land of Baden-Württemberg). They are building inspections and approval; road transport (insofar as responsibility has not been transferred to the county); registration rules/public order; matters relating to foreigners; and civil defence.

Besides the administrative structure, in 11 of the 12 regions of Baden-Württemberg ***regional organisations*** are responsible mainly for drawing up the regional and landscape framework plans. The organisations are public bodies, whose assembly members are elected by the county assemblies, or the municipal councils in the case of cities not attached to a county (*kreisfreie Städte*), rather than directly by the population. The growing importance of regions as a suitable level for developing cooperation has been acknowledged by Baden-Württemberg, insofar as the *Land* has entrusted its regional organisations with a limited number of extra responsibilities. These responsibilities consist in:

- Drawing up the regional plan and drafting sectoral plans in a few restricted areas (*e.g.* windpower, securing of raw materials);
- Drawing up the landscape framework plan;

- Helping to draw up and develop the regional development plan and the technical development plans at the level of the Land; assisting with the regional planning procedure;
- Offering advice to urban land use planners and other actors involved in the planning process;
- Carrying out the local search procedure in respect of major infrastructure plans;
- Developing international cooperation (particularly in the context of INTERREG-projects);
- Setting up and participating in initiatives to promote regional development, for example by devising regional development concepts;
- Participating in activities of regional significance, particularly business and tourism promotion, and;
- Being members of certain relevant institutions; providing further services to municipalities and counties in return for payment.

The ***Stuttgart Regional Organisation*** is distinct from the other regional organisations in that its scope of responsibilities is broader and the regional assembly is directly elected[37]. In the early 1990s, the necessity for co-ordinating future residential, commercial, and traffic developments between the local councils and communities in the Region became increasingly clear. This resulted in the passage of the state law for strengthening co-operation in the Stuttgart Region in 1994 and the establishment of the Stuttgart Region Association. The list of tasks that has been passed down by the federal state of Baden-Württemberg includes: regional planning and infrastructure; regional economic development and tourism marketing; traffic and public transport; environment; culture and sport; and trade fairs.

The Association's main mission is to co-ordinate future residential development within the Region through regional and landscape planning (Box 2.1). It also took on responsibility of strengthening the Region as a business location and to promote regional economic development, *e.g.* by means of funding for projects. The task of regional economic promotion has been transferred by the VRS to a private development company. In response to the problems in the traffic and transport field, the Verband Region Stuttgart was also put in charge of the Region's suburban electric railway network, and given the job of drawing up a regional traffic plan. It has also been given authority to manage certain aspects of waste management.

The Verband Region Stuttgart has a democratically legitimised Regional Assembly, the 80 members of which are elected at 5-year intervals directly by the citizens of the Region. The regional assembly lays down the principles governing how the organisation is run and defines its activities insofar as this is not the responsibility of the honorary president (Regional president) of the organisation or the full-time Executive Director (Regional director).

Box 2.1. Spatial planning in the Stuttgart Region

In addition to the *administrative hierarchy* explained above, there is a separate hierarchy in the *planning sphere*. At the national level, the legal basis for spatial planning and planning at the level of the *Länder* is defined by the Regional Planning Act. The specific regulations governing such planning spheres, however, are defined by the individual *Länder* in their own planning laws. Consequently, spatial and regional planning and planning at the level of the *Länder* are administered very differently from one *Land* to the next. Under the Planning Act of Baden-Württemberg, the highest spatial planning authority is:

The *Land* (Ministry of Economics), as the authority in charge of supervising the intermediate planning level, namely regional planning, in accordance with its special planning instrument, the Development Plan.

Box 2.1. Continued

At the intermediate planning level, in 11 of the 12 regions, the regional organisations are responsible for spatial planning. The region of Stuttgart, however, has developed a different approach, insofar as its regional organisation (*Verband Region Stuttgart*) has much broader responsibilities and powers than those of the other organisations. This may be explained by the region's special status as a conurbation, and by the fact that so many of its tasks have to be carried out on the basis of regional cooperation (see below).

The municipalities (cities and municipalities) are responsible for the lower level of spatial planning. They draw up a) zoning plans defining the basic structure of building in the municipalities over a planning period of ten to fifteen years ("preparatory urban land use planning") and b) local development plans ("binding urban land use planning"), which identify the land available and not available for development and lay down rules governing the use of such land (dwellings, businesses, transport, etc) which are binding for the individuals concerned (promoters, investors). Until about 1990 local development plans were drawn up by the municipalities alone. Since then, however, there has been an increase in the number of possibilities that exist for having urban land use plans drawn up on a contract basis, and various forms of private-public partnership have been developed that enable municipalities to draw up local development plans together with private investors.

Regional plans, zoning plans and local development plans are drawn up on the basis of specific landscape framework plans (regional plans), landscape plans (zoning plans), and green structures plans (local development plans). Objectives with respect to landscape planning and nature and environmental protection are thus taken into account in the regional plans and urban land use plans. For major infrastructure projects such as airports, motorways and trade fairs, there are two planning phases:

- the first phase is often a regional planning procedure that consists in assessing whether or not a project is acceptable in a given location. At this stage, it is still possible to consider planning alternatives and substitute locations. In Baden-Württemberg, regional planning procedures are carried out by the administrative district presidencies;

- in the second phase, detailed plans are set out in the context of a planning approval procedure. The interests of all relevant authorities (*e.g.* road building authority, pollution protection body, nature and environmental protection body) are taken into account insofar as the specialist planning body (in charge of the planning approval procedure) consults the other specialist bodies concerned by the project. The result of the planning approval procedure is a decision (*Planfeststellungsbeschluss*) favourable to the construction and use of a given installation or building.

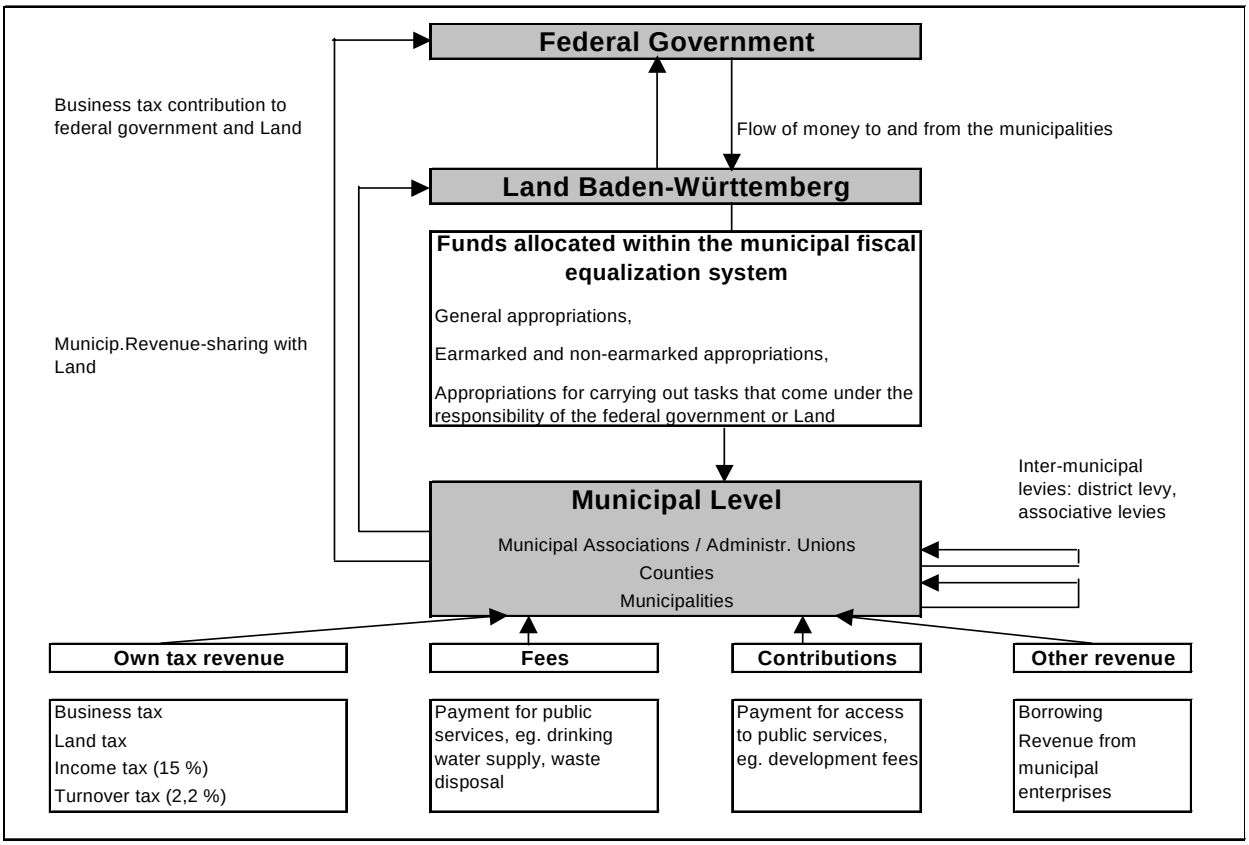
During both phases, namely the regional planning and the planning approval procedures, environmental impact assessments have to be carried out in accordance with EU regulations that have been transposed into German law. In the future, environmental impact assessments will also have to be carried out in connection with regional and local development plans. It is on the basis of these plans that individual major projects are planned and approved.

Local public finance and fiscal arrangements

Municipal finance

The system of municipal finances is a mixed system, composed of own revenue, a share of federal taxes, and revenue from the particular State (*Land)* (Figure 2.5). It is a system which aims to achieve two main goals: equalisation between financially strong and financially weak municipalities and a reduction in municipalities' dependency on own tax. On the revenue side, municipal finances are heavily dependent on business profits and are highly sensitive to business fluctuations. In addition, the raising of tax allowances and the different permutations possible mean that the business tax is borne mainly by large companies. On the expenditure side, the problem is made worse by increasing responsibilities, changes in the provision of basic municipal services, and changes in the composition of expenditures. For example, welfare expenditure rose by 30% between 1992 and 1995, owing to an increase in the number of long-term unemployed and a shifting of responsibilities as well as costs from the federal government and the *Länder* to the municipalities.

Figure 2.5. **System of municipal finances**



Source: Verband Region Stuttgart

Against the background of an obvious need for investment, the drop in investment expenditure in West German municipalities of 25% in real terms is a major problem that has been exacerbated by a fall in business tax revenue resulting in part from a general economic decline and a reduction in income and corporate tax rates over the past two years as a result of a major tax reform (Table 2.4). According to a study conducted by the *Deutsche Institut für Urbanistik*, the leading institute specialising in municipal affairs, approximately €500 billion needs to be spent on municipal infrastructure over the period 2000-2009, a doubling of current investment spending. At the same time, revenues are falling as a result of measures taken in connection with the 2000 tax reform, which led to tax cuts for both private households and firms, and a declining economy.

Table 2.4. **Net rate of municipal and county per capita investment in Baden-Württemberg, 1997-2001**

	1997 EUR/residents	1998 EUR/residents	1999 EUR/residents	2000 EUR/residents	2001 EUR/residents
Urban counties	61	107	212	223	54
Municipalities in total	58	156	198	180	117
> 50 000 residents	-19	163	171	129	73
20 000 – 50 000	39	161	177	188	119
10 000 – 20 000	73	148	224	162	117
5 000 – 10 000	83	160	209	205	123
3 000 – 5 000	87	149	202	204	147
< 3 000	76	150	191	185	116
Counties	-4	13	21	31	25

Source: Gemeindeprüfungsanstalt Baden-Wuerttemberg, Geschäftsbericht 2002, Dates 2001, Geschäftsbericht 2003.

The most important own source of revenue for the municipalities, the business tax has been transformed in recent years into a tax on large concerns. This is due to a new basis of assessment and higher tax allowances so that less and less firms realize a tax liability. The assignment of municipal responsibilities and the safeguarding or establishment of a sound, economical, and stable financial base for municipalities needs to take account of long-term structural changes in the economic and social sphere. A committee was set up by the federal government last year to review municipal finances. It is now in the process of drawing up reform proposals.

Table 2.5. **Revenues and expenditures of the municipalities, municipal associations and local administration unions in Baden-Wüttemberg, 1990 and 1996-2002**

Income/expenditure	1990	1996	1997	1998	1999	2000	2001
	1 000 Euro						
Current account income	14 651 712	17 428 190	17 019 636	18 218 488	19 075 736	19 536 432	18 640 284
of which							
Land tax A and B	621 566	1 024 429	1 069 233	1 119 674	1 155 555	1 176 712	1 194 204
Business tax (net)[2)]	2 827 915	2 723 053	2 849 126	2 867 026	3 195 607	3 095 126	2 812 741
Municipal share of community taxes	2 789 851	3 172 789	3 018 333	3 648 077	3 917 945	4 134 264	3 988 175
Rate support grants	2 245 872	2 701 673	2 474 104	2 665 332	2 812 591	3 197 047	2 851 477
Other grants [3)]	699 729	818 156	788 133	1 038 093	1 103 061	1 066 309	1 046 448
Charges, earmarked taxes	2 071 159	2 367 293	2 211 515	2 196 079	2 136 540	2 070 821	1 944 045
Capital account income	2 590 283	2 866 547	3 209 406	2 813 300	2 660 967	2 767 409	3 123 563
of which							
Investment grants and subsidies and investment incentives from the Land	829 637	856 595	842 032	756 687	641 460	692 339	759 862

Table 2.5. (continued)							
Adjusted income	17 241 995	20 294 737	20 229 041	21 031 788	21 736 703	22 303 841	21 763 826
Current account expenditure	12 165 061	15 903 331	15 719 297	15 621 048	15 823 793	16 478 991	16 741 676
of which							
Staff costs	3 983 723	5 093 058	5 051 626	5 081 631	5 217 518	5 368 167	5 447 325
Real administrative and operating expenditure	3 235 674	3 780 745	3 847 224	3 731 930	3 864 189	4 114 943	4 137 043
Social services	2 111 187	3 248 958	2 970 119	2 882 332	2 927 192	2 900 162	2 909 755
Interest paid	526 835	591 462	555 751	528 753	482 791	466 129	465 662
Capital account expenditure	4 836 371	4 356 560	4 553 155	4 236 509	4 569 727	4 868 701	5 524 832
of which							
Investment grants and subsidies	345 585	430 440	420 740	344 411	406 329	429 578	430 006
Acquisition of property	1 197 348	1 066 986	1 280 965	1 237 300	1 409 630	1 392 000	2 060 398
Construction measures	3 128 681	2 795 970	2 743 348	2 578 829	2 668 661	2 902 632	3 003 351
Adjusted expenditure	17 001 432	20 259 890	20 272 452	19 857 558	20 393 521	21 347 691	22 266 513
Special financing arrangements							
Income	1 168 368	1 518 784	1 548 537	1 159 548	1 199 678	1 138 125	2 392 027
Of which							
Money market borrowing	798 348	1 121 507	1 133 876	898 105	891 982	597 957	945 796
Transfers out of reserves	357 594	376 562	376 437	221 801	298 717	516 342	1 213 772
Expenditure	1 236 751	1 419 298	1 733 949	2 156 710	2 417 130	1 947 168	1 751 551
of which							
Money market amortization	719 604	825 666	1 080 898	1 047 442	1 005 074	478 303	562 992
Appropriations to reserves	420 481	484 464	531 536	861 347	1 335 465	1 062 156	840 551
Balance of budgetary set-offs	-1 156	0	-238	-1 553	8	3	4
Net financial investment[4)]	240 563	34 847	-43 410	1 174 230	1 343 182	956 150	-502 683

Source: Statistisches Landesamt Baden-Württemberg

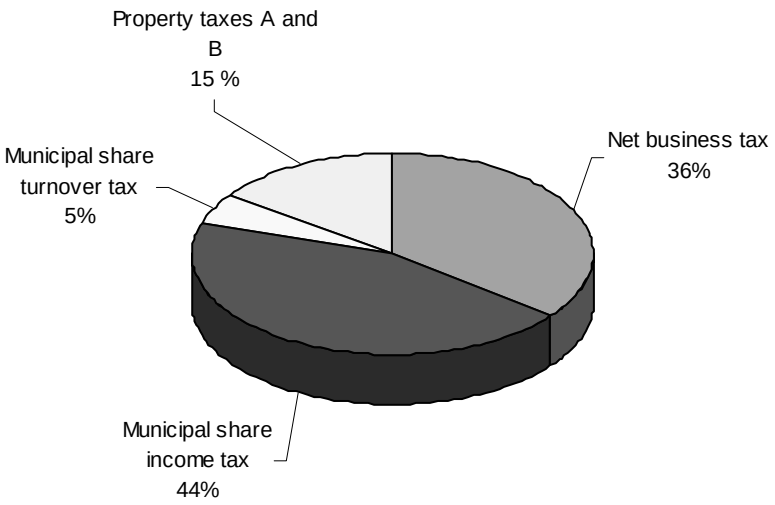
1) In the aggregate presentation, no account is taken of budgetary set-offs, special financing arrangements, payments from the same level, or the business tax contribution.
2) Business tax after deduction of the business tax contribution.
3) Including family-based compensation payment.
4) Adjusted income/adjusted expenditure.

Municipal revenues

Like their right to self-government, the financial autonomy of the municipalities is guaranteed by the constitutions at the federal level and the level of the *Länder*. On the revenue side, their autonomy is reflected in the fact that they have their own sources of taxation and are entitled to levy local taxes on

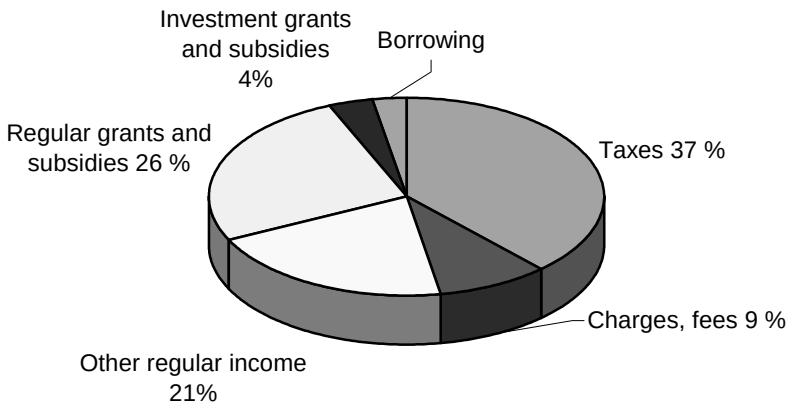
consumption and expenditure. They are entitled to the revenue from property and business taxes as well as any local taxes on consumption and expenditure (Figure 2.6).

Figure 2.6. **Breakdown of Baden-Württemberg municipal and county tax revenue, 2001**



Source: Gemeindeprüfungsanstalt Baden-Württemberg, Geschäftsbericht 2002

Figure 2.7. **Breakdown of Baden-Württemberg municipal and county revenue by type of revenue, 2000**



Source: Statistisches Landesamt Baden-Württemberg

In accordance with the country's federal structure, revenue from the different taxes levied in Germany is basically assigned to the federal government, the *Länder*, or the municipalities. Municipalities participate, either directly or through a sharing of tax revenues, in the most important sources of fiscal revenue, however, namely the personal income tax, the corporate tax and indirect taxes (other than mineral oil tax which goes to the federal government, namely the turnover tax/VAT). The result is that revenue is spread among all three levels. The degree of interdependency of the different levels (in terms not only of the distribution and execution of tasks but also their finances) is manifested in a complex vertical system of transfers for specific tasks performed by the municipalities on behalf of the federal government or the *Land*. This is coupled with a horizontal system of equalisation transfers (equalising tax bases between the *Länder* and between the municipalities).

Business tax. All businesses are required to pay business tax, a municipal corporate tax a municipal corporate tax. The self-employed, however, such as doctors or lawyers, are not subject to this business tax. The basis on which the tax calculated is business profit. The actual amount of tax collected depends on the collection rate of individual municipalities. Stuttgart, the capital city of the *Land*, has a much higher collection rate than that of the other municipalities. The collection of taxes by municipalities is consistent with the idea of local competition and the principle of their local financial autonomy. In practice, and compared with other local factors, the collection rate is of only secondary importance for firms setting up in a given place or transferring their business from one place to another.

Since 1970 the municipalities have passed on some of their business tax revenue to the federal government and the *Land* as financial compensation for the stabilising effect of their share of the proceeds from the individual income tax. The business tax contribution paid by the individual municipalities is calculated in such a way that the actual amount they have to pay remains unaffected by any increases or reductions in the collection rate (collection rate neutrality). Consequently, they are able to keep surplus business tax revenue resulting from an increase in tax collections.

Property tax. The property tax is levied by the municipalities on real estate property within their boundaries. In Germany, the assessed real estate value has not been updated since 1964 and is currently significantly below the market value of plots of land and real estate. In 2001 national proceeds from the land tax totalled €9 billion. In 2000 and 2001 proceeds for Baden-Württemberg alone totalled approximately €1.2 billion.

Income tax. Income tax revenues are shared between the federal government (42.5%), *Länder* (42.5%), and municipalities (15%) as required by the German Constitution, also called the Basic Law. Each municipality's share of the total is calculated by applying an apportionment formula based on how much its inhabitants contributed to the tax. However, the system only takes into account incomes below a certain threshold, which means that municipalities with a high proportion of high-income taxpayers receive a disproportionately small share of total income tax revenue. The method used to calculate the basic revenue therefore incorporates a levelling factor to compensate for the differences between financially strong and financially weak municipalities. The municipalities' share of income tax (3.7 billion € for Baden-Württemberg alone in 2000) constitutes one of their most important tax sources. In 2001, the national total was approximately 207 billion €. As a result of the tax reform and economic climate, revenue in 2001 (3.5 billion €) was down from the previous year.

Value-Added Tax. Since 1998 municipalities have received 2.2% of the proceeds from the VAT. This share is divided between the individual municipalities according to an apportionment formula based on their business tax revenue for the period 1990-1997 and the number of employed persons liable to pay social security contributions for the period 1990-1998.

Financial equalisation at the level of the municipalities

Germany has a transfer system that adjusts the financial strength of the different *Länder*, attempting to achieve financial equalisation at the level of the *Länder* and a similar system for each of the *Länder* that adjusts the financial strength of their municipalities. Both systems are highly complex and to some extent, linked. The financial situation of the *Länder* varies considerably, depending on their economic structure and efficiency. Together with Hessen, Bavaria and North Rhine-Westphalia, Baden-Württemberg is financially one of the strongest of the *Länder*.

In connection with the equalisation system at the municipal level, it is the responsibility of the *Länder* to ensure that their municipalities have sufficient resources to match their needs. The system is governed by laws enacted by the individual *Länder*. The aim of this highly complex system is to compensate for the differences between the municipalities in terms of their financial strength so that they are reasonably equal. This system of financial equalisation at the municipal level comprises elements that result in revenue adjustments between municipalities (a horizontal dimension), as well as adjustments in the grants they receive from the *Land* (a vertical dimension) in the form of specific investment grants and non-specific, lump-sum grants based on their tax capacity. In addition, there are specific areas of responsibility, such as the funding of schools and kindergartens and the transport system, where links between the municipalities and the *Land* are closely interwoven and where other equalisation payments come into play. The municipalities are also entitled to a certain percentage of the *Land*'s share of community taxes, in addition to their municipal share.

Municipal borrowing

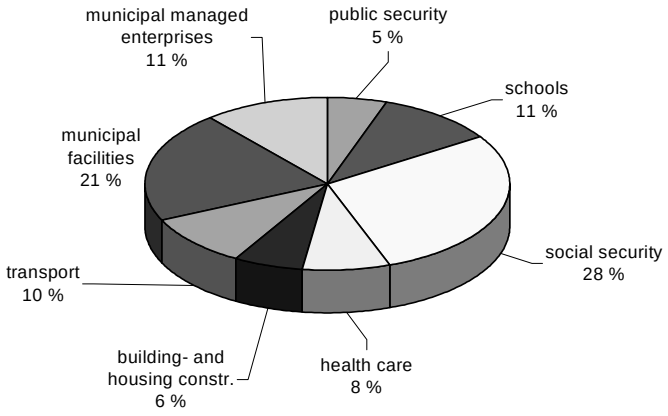
Municipal borrowing is subject to severe limitations. Loans may only be contracted by municipalities to pay for investments and investment promotion and for a limited number of other purposes. Deficit spending and debt service borrowing are not allowed. There is no precise limit on debt, but the cost of servicing the debt must not jeopardise the financing of fixed expenditure in future years and must not cause municipal finances to be placed under undue strain. These principles serve as guidelines which are applied according to the different municipal structures.

In 2001, average per capita indebtedness of the cities and municipalities in Baden-Württemberg was 1 104 €. However, there are marked differences between the municipalities in terms of their per capita debt. In 2001, in Baden-Württemberg, the average debt of municipalities attached to a county was 890 € per inhabitant compared with 2 061 € for municipalities not attached to a county. During the same year, the average per capita debt of the counties was 163 €. The only city in the region of Stuttgart that is not attached to a county, namely Stuttgart itself, had a per capita debt of 2 076 €. The indebtedness of the counties is rather low because most of their expenditure can be covered out of the county levy raised on the municipalities.

Municipal expenditures

The main expenditures are for the social security system and services provided by municipal bodies and public or public/private enterprises operating on behalf of the municipalities. The other areas of expenditure reflect the range of municipal responsibilities: schools, healthcare, transport, construction and housing, and maintaining law and order (Figure 2.8).

Figure 2.8. **Expenditure of municipalities and associations of municipalities in Baden-Württemberg, 2000**

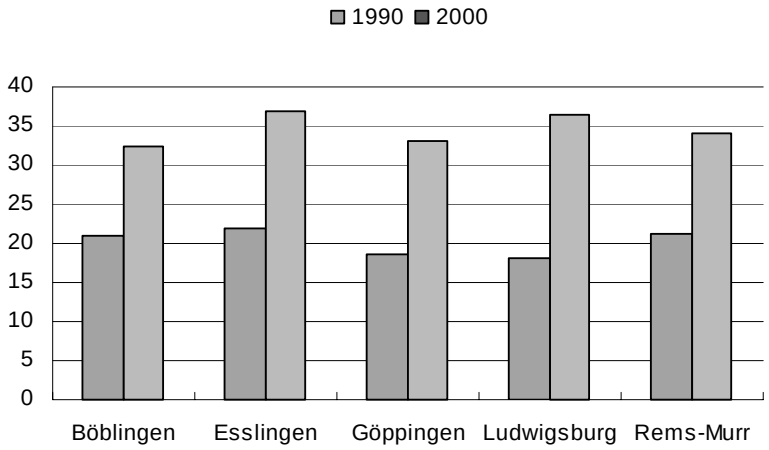


Source: Statistisches Landesamt Baden-Wuerttemberg

County finances

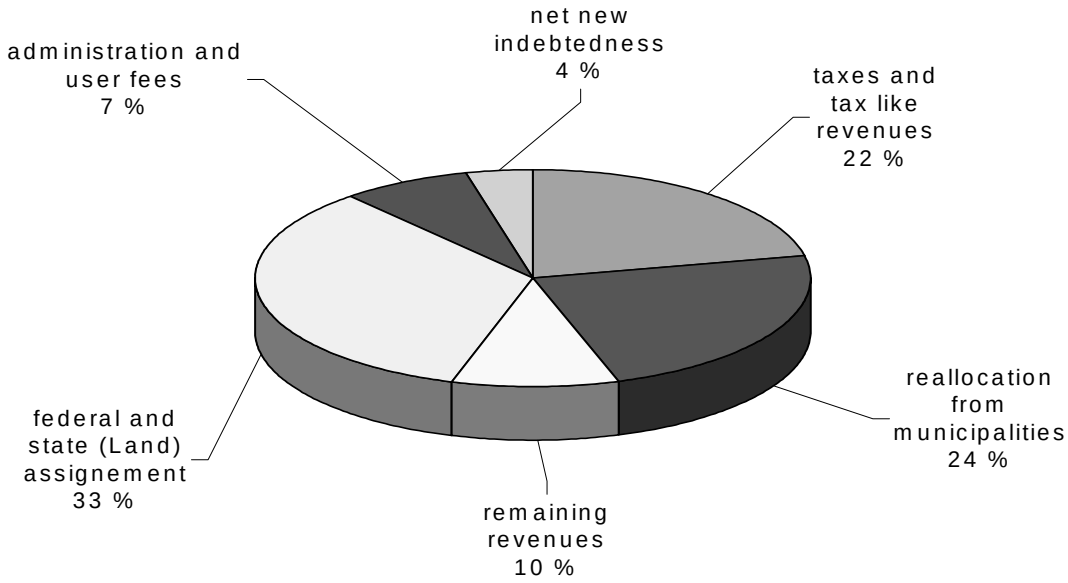
As in the case of the municipalities, the financial autonomy of the counties is also guaranteed by the Constitution. The breakdown of their income and expenditure, however, is different from that of the municipalities. For counties, the most important source of income is the county levy levied on the municipalities. The counties can adjust the levy each year. In 2000, the county levy rates for the region of Stuttgart ranged from 32.5 to 37% (average for the *Land* was 30.23%) (Figure 2.9). The basis for payment depends on municipalities' tax capacity, in other words financially strong municipalities pay a higher county levy. With revenue from the tax totalling 2 billion €, the county levy accounts for nearly a quarter of the counties' total income.

Figure 2.9. **Rates levied by counties from municipalities in the region of Stuttgart, 1990 and 2000**



Source: Statistisches Landesamt Baden-Wuerttemberg

Figure 2.10. **Revenues of the counties in Baden-Wuerttemberg, 2001**

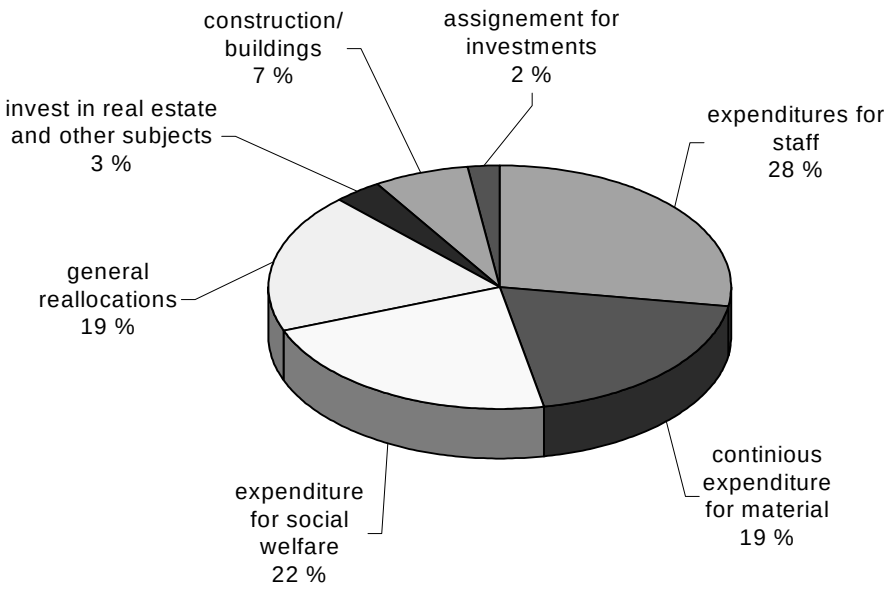


Source: Statistisches Landesamt Baden-Wuerttemberg.

Borrowing plays only a minor role in funding county budgets. A high proportion of their income is in the form of grants assigned to them in the context of financial equalisation at the level of the municipalities. In addition to general, non-specific grants and those the counties receive in their capacity as the lowest level of state, there are many specific grants to cover school costs, above-average welfare costs, and the cost of providing school transport. Fifty-five per cent of the proceeds from the tax levied on the purchase of land or real estate (*Grunderwerbsteuer*) is also transferred from the *Land* to the urban counties.

The expenditure side is dominated by welfare expenditure. County contributions go towards the municipal financial equalisation system and to the organisations responsible for welfare facilities. In 2000, the contribution paid by the counties in the region of Stuttgart to the welfare organisation in charge of Baden-Württemberg's facilities for the disabled and young people and hospitals totalled 156.6 million €. A much smaller amount goes to the Stuttgart Regional Organisation (see below). Priority uses for current resources and grants include road transport and local public transport, vocational schools and cultural activities as well as waste management (Figure 2.11).

Figure 2.11. **County expenditures in Baden-Wuerttemberg, 2001**



Source: Statistisches Landesamt Baden-Wuerttemberg

Compared with municipalities that are attached to a county, urban counties have a number of different features. Although legally they are municipalities with the same responsibilities and sources of income, they also carry out some of the responsibilities of the lowest level of state (*i.e.* tasks entrusted to them by the *Land*). Consequently, in the context of municipal financial equalisation, they receive the same appropriations as counties, but the lump-sum grant that they receive to cover their general expenses is calculated in a different way than the grant paid to municipalities and counties. This is an attempt to take into account the services provided by large cities for the benefit of their inhabitants and surrounding area.

Local taxation and economic development

The German tax system allows for hardly any possibility of geographical differentiation. Income tax rates are the same throughout the country. Of the taxes of concern to companies, only the business tax and the property tax are subject to a rate fixed by the municipality. Under German law, all businesses are liable for the business tax, the only exception being the self-employed (doctors, architects, solicitors, journalists, etc) who are exempt from the tax. In the case of natural persons and private companies, the business tax is based on a tax-free amount (24 500 €), after which the rates of taxation are staggered between 1 % and 5 %. Municipalities multiply this rate by a factor to arrive at a municipal tax rate. This local business tax is second only to the municipalities' share of income tax as a source of municipal revenue.

The fact that far fewer businesses now pay business tax is currently the subject of serious debate in Germany, and has also led to problems at the level of municipal budgets. Suggested ways of reforming the system range from abolishing business tax altogether to extending the base of firms liable to pay the new business tax to include the self-employed. However, experience acquired in the Stuttgart region from business promotion activities and also from the results of surveys carried out to assess local factors considered to be important for new businesses shows that a municipality's individual rate of collection in respect of business tax is not a determining factor for a firm's choice of location. Low rates of collection

are seen rather as having a merely psychological impact, as a sign that a municipality is generally friendly towards business.

The property tax for residential and commercial buildings is based on the tax office's assessment of the value of the building, which is much less than its actual market value (as is common in many OECD countries). The municipalities then set a tax rate to be applied to the assessed value. Property tax revenues are not the main source of municipal revenue in Germany, unlike in the USA or Canada. The property tax is not a significant cost factor for firms in the country because property tax liability is normally low.

The Stuttgart Regional Organisation

Representation

Stuttgart is one of the few examples of an OECD metropolitan region that has set up a directly elected body. The regional orientation associated with a directly elected political body implies that the metropolitan region's political, economic and social players will also think and act in terms of the political and administrative boundaries that delimit the regional unit. In the Stuttgart Region, this has been the case for political parties, trade associations, environmental and nature conservation bodies, and with regional initiatives (*e.g.*, Forum Region Stuttgart, SportRegion Stuttgart, KulturRegion Stuttgart). This social representation of the administrative delimitation of the region leads first to the emergence of "regional" players, who implement specific projects by setting up networks on the basis of informal participation and cooperation ("Interactive Governance"). The "region", as an area in which to live and do business, and a level at which decisions are taken, becomes an area with which citizens are increasingly able to identify, and the practical reference framework for the organisational structures and activities of many political, economic and social players.

At the same time, however, there are many policy areas and activities where the political and administrative delimitations of the region are still not taken into account. This can either cause problems (*e.g.*, the county of Göppingen is not part of the Stuttgart Transport Association) or imply that regional boundaries are not obstacles to cooperation (*e.g.*, BioRegioSTERN Gmbh has associates from both the Stuttgart region and the neighbouring region of Neackar-Alb; RegioStuttgart Marketing GmbH also has members from outside the region of Stuttgart).

The Organisation has the legal competency to assign itself tasks in the fields of trade fairs, congresses, cultural and sporting events subject to obtaining a 2/3 majority in the regional assembly. Based on its experience of pursuing a stable regional policy, the Organisation would like to see this statutory provision amended so that in the future, it can decide to organise project-related congresses, trade fairs, cultural and sporting events subject to obtaining a *simple* majority in the regional assembly.

Finances of the Stuttgart Regional Organisation

The Stuttgart Regional Organisation is currently funded by contributions levied on the municipalities (*e.g.* for regional business promotion, tourism marketing, infrastructure investment), the four counties around Stuttgart (for costs relating to local public transport at the level of the Stuttgart Transport Association), and by grants awarded by the *Land* (for regional planning or federal government funds for developing the suburban express train network). The Organisation does not collect taxes from firms or individual citizens. In 2002, it had a total budget of 141 million €, rising to 160 million € in 2003 to pay for necessary investments in local public rail transport.

The levy-based financing system consists of two separate contributions: the transport levy and the organisation levy. Financial requirements for the local public transport at the level of the Stuttgart Transport Association are met via the *transport levy* decided each year by the Organisation's general assembly. The share of the transport levy earmarked for ongoing transport operations is collected from the counties and the urban county of Stuttgart according to the number of inhabitants based on a reference date (30 June) of the previous year, whereas the share earmarked for investment is divided between the counties according to a fixed apportionment formula (Table 2.6).

Table 2.6. **Organisation and transport levies, 1995-2002**

In thousand €

Year	Organisation levy	Transport levy (ongoing transport operations)	Transport levy (public transport investment)	Total transport levy
1995	3 922	31 510	542	32 052
1996	7 087	34 801	901	35 702
1997	7 373	43 132	1 391	44 523
1998	7 536	43 096	2 119	45 215
1999	7 138	43 091	3 477	46 568
2000	7 726	43 470	4 085	47 555
2001	9 334	44 341	3 750	48 091
2002	11 169	45 897	4 190	50 087

Source: Verband Region Stuttgart.

The other sectors of activity (*e.g.* regional planning, landscape planning, business promotion) are funded mainly out of the organisation levy on the municipalities in the Stuttgart region, which is fixed annually in the context of budget negotiations and split between the municipalities according to their tax capacity. The amount they have to pay ranges between approximately 1 175 € (Drackenstein) and 3 million € (City of Stuttgart). In 2002, the levies accounted for 43% of total revenue (Table 2.7).

Table 2.7. **Regional Organisation levy collected from the municipalities by county, 1997-2002**

In thousand €

	Stuttgart	Esslingen	Böblingen	Ludwigsburg	Rems-Murr	Göppingen
1997	2 424	1 211	948	1 224	970	595
1998	2 431	1 252	979	1 264	1 011	600
1999	2 370	1 188	922	1 179	915	564
2000	2 474	1 284	999	1 348	1 013	606
2001	3 022	1 554	1 210	1 582	1 236	731
2002	3 390	1 888	1 621	1 900	1 472	899

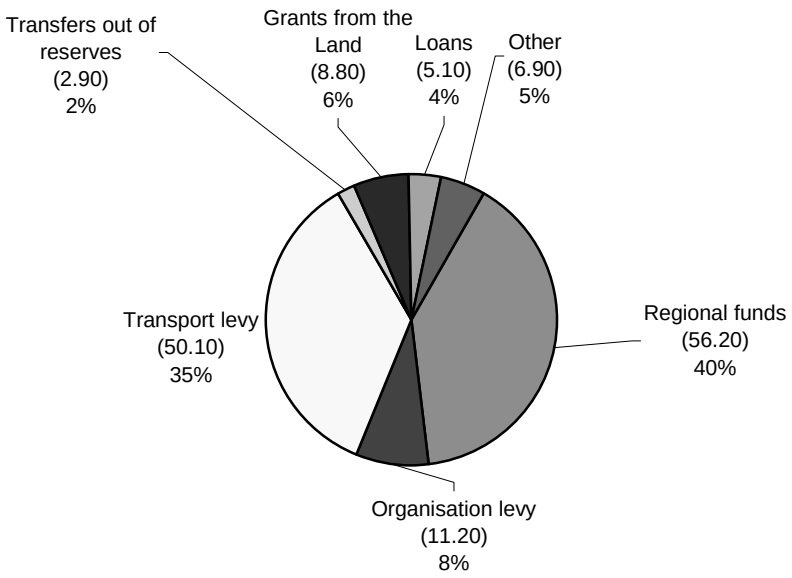
Source: Verband Region Stuttgart.

These resources are supplemented by grants awarded by the *Land* in accordance with federal law and the law of the *Land*. The main grant consists of federal funds transferred to the *Länder* to finance local

public rail transport that are distributed on a regional basis by the *Länder* (regionalisation funds). This grant makes up 40% of the total budget of the Stuttgart Regional Organisation. Taken together with the other grants awarded by the *Land*, 46% of the Organisation's total revenue comes from the *Land*. Other sources of funding are currently being developed, including third-party funding for specific projects (*e.g.* EU funding), and competitive processes at the federal level in the fields of biotechnology and entrepreneurship. They currently account for approximately 5% of revenue. In addition, there are loans and surpluses carried over from previous years (Figure 2.12).

Figure 2.12. **Total revenue of the Stuttgart Regional Organisation, 2002**

In million €



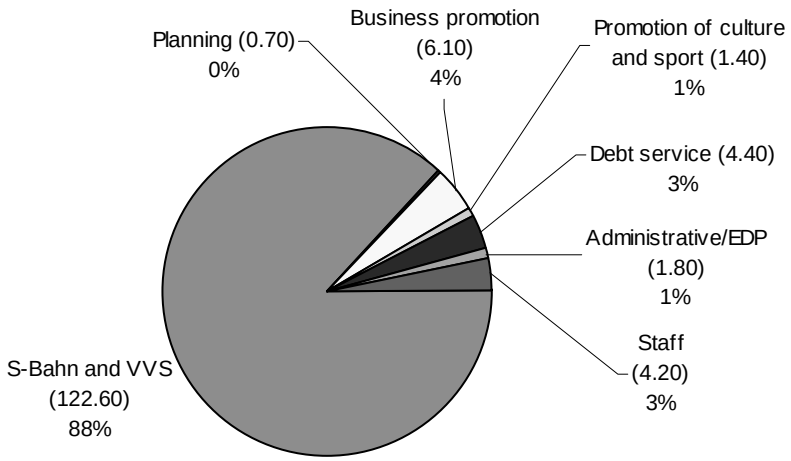
Source: Verband Region Stuttgart

The breakdown of expenditure for the Stuttgart Regional Organisation shows that local public transport spending at the level of the Stuttgart Transport Association is by far the largest share of total expenditure (Figure 2.13). Many other competencies (regional planning, landscape planning, business promotion, advice to municipalities, etc) account for a comparatively small share of total expenditure. Staff and EDP costs are relatively low. The Stuttgart Regional Organisation currently employs 66 people, 26 of whom are assigned to the area of local public transport. A further thirty people working for the region's business promotion firm, Wirtschaftsförderung Region Stuttgart GmbH, are paid out of the business promotion budget. Of the 6.2 million € earmarked for business promotion in 2002, 4.3 million € went to the regional business promotion firm in which the Organisation has a 51% stake. Important projects developed by the firm have involved the communications system for making available local information about trade parks and industrial real estate, European activities, environmental technology networks, the media and entrepreneurship, and a model project in favour of poorly qualified women. The rest of the funds went to another firm in charge of promoting tourism in the region or were used to promote

inter-municipal industrial parks and individual projects such as the one set up to develop a system of reporting on regional infrastructure.

Figure 2.13. **Stuttgart Regional Organisation expenditure, 2002**

In million €



Source::Verband Region Stuttgart

The Stuttgart Regional Organisation attaches great importance to developing its own sources of revenues. Since 1994 the Organisation and its business promotion firm have therefore collected approximately 146.5 million € in grants and third-party funding. Examples in this context include the MOBILIST and BioRegio projects. Wirtschaftsförderung Region Stuttgart GmbH uses its income to cover approximately half of its budget. However, the Organisation's scope for developing its own sources of revenues are limited. Other than being able to levy charges in accordance with the Municipal Taxation Act, it has no other source of funding.

The Stuttgart Regional Organisation needs a financial basis that will enable it to carry out the responsibilities entrusted to it. Since transfers from the State are insufficient to do this satisfactorily, many activities have to be funded through charges levied on the municipalities and counties. However, the municipalities and counties feel that the Organisation's dependency on such charges has reached the limits of what they are prepared to accept, not least because of the growing burden placed on them by their own responsibilities and by other levies (*e.g.* to counties and welfare associations at the level of the *Land*). In this context, the Stuttgart Regional Organisation is asking the Land for statutory provisions for a non levy-based source of funding, such as a share of the mineral oil tax, and a stake in municipal finances in places where it does the same job as the rural counties or municipalities in other parts of the *Land*.

Participation of local authorities

As a metropolitan body, the Stuttgart Regional Organisation promotes horizontal collaboration. Moreover, local authorities are also directly involved in regional horizontal collaboration. The *Kommunale Pool*, a registered association grouping together the region's municipalities and counties, is the second largest stakeholder in the region's business promotion firm, *Wirtschaftsförderung Region Stuttgart*. In *RegioMarketing*, the firm in charge of promoting tourism in the region, 90 % of the firm's capital is owned by the public sector. In Stuttgart's Transport Association (*Verkehrs-und Tarifverbund Stuttga – VVS)*, the Organisation owns 20% of the shares and is the biggest player and stakeholder. Other large stakeholders are the City of Stuttgart and the *Land* (7.5%) and the four counties around Stuttgart which each have a 3.75% stake in the company. The other half of the company is owned by the region's transport operators.

The Stuttgart Regional Organisation also promotes inter-municipal commercial areas and the re-utilisation of wasteland of regional importance by awarding grants for conducting market research and management studies and through the use of interest-rate subsidies for loans to finance implementation. By taking part in extensive consultation rounds, the Organisation involves local authorities when drawing up plans such as a regional plan or a regional transport plan.

Participation of the private sector and the civic society

For cooperation with different corporate and social groups, the Organisation practices two different approaches: cooperation anchored in institutions and project-related networks. In setting up its business promotion company *Wirtschaftsförderung Region Stuttgart GmbH (WRS),* the regional assembly chose not simply to entrust the tasks of promoting business and tourism to a department of the administration in charge of Stuttgart Regional Organisation, but also to invite other players to engage in lasting cooperation within a company they helped to create. In addition to Stuttgart Regional Organisation as the majority stakeholder, there are a number of other co-associates from the region. The task of promoting tourism in the region is carried out by *Regio Stuttgart Marketing GmbH*, in which Stuttgart Regional Organisation has a 30% share. The Organisation's partners in this context are the City of Stuttgart (StadtMarketing GmbH), the Regio registered association which groups together 23 municipalities, IHK and Incoming Pool. The Stuttgart Regional Organisation has also worked closely with associations, sometimes as a full member, and has developed a variety of projects (Box 2.2).

Box 2.2. Regional organisations and initiatives

Participating in activities of civic and corporate associations

Stuttgart Regional Organisation favours regional structures set up by economic and social groups. A whole series of social and municipal initiatives that promote regional concepts and implement individual projects have developed around the Organisation, which works closely with all the parties concerned:

Forum Region Stuttgart, an association that develops all-party initiatives for the region of Stuttgart set up by distinguished personalities from the economic, political, social, religious, sport and cultural spheres etc. Events have included a Regional Day, a promotional competition, a regional award, and a university forum;

KulturRegion Stuttgart, an association set up in 1991 to promote the cultural identity of the region of Stuttgart and now comprising nearly 40 members (municipalities and associations) who develop important cultural projects and events at an inter-municipal level. Stuttgart Regional Organisation joined in 2001;

SportRegion Stuttgart, an association of municipalities, specialist sports associations and sports clubs set up in 1996 to develop inter-municipal cooperation in the areas of procurement, and the preparation and organisation of joint fixtures. Stuttgart Regional Organisation joined in 2001;

Dialogforum der Kirchen, a study group of evangelical and catholic churches that supports regional development;

Box 2.2 Continued.

FrauenRatschlag Region Stuttgart, a feminist network of female experts and politicians set up to make sure women's interests are taken into account in regional policy. Stuttgart Regional Organisation has produced a joint study together with this association on the defence of women's interests in regional transport planning. The study's findings with regard to specific requirements in relation to transport planning have been taken into account in the Organisation's regional transport plan. Specific proposals have been submitted for fare structures at the level of the Transport Association (VVS) that take account of the networked transport patterns of women who combine family responsibilities with part-time employment;

Initiative MedienRegion Stuttgart: This media association set up by WRS is currently working on 4 projects involving some 400 participants;

JugendRegion Stuttgart: originally an inter-party working group of regional advisors, this association re-established itself in the summer of 2000 as a cooperation structure bringing together the region's associations of youth organisations in order to ensure that the concerns of children and young people are taken into account in regional policy.

Promoting project networks

BioRegio Stuttgart/Neckar Alb is a network set up to transcend geographical barriers as well, by extending cooperation in the field of biotechnology to the area of Reutlingen, Tübingen, and Balingen outside the Stuttgart region. When BioRegio was first set up, 75 scientific institutes, 50 SMEs and more than 24 service providers (municipalities, associations, authorities, banks) competed with each other in a nationwide competition. Since then 12 new firms have been established, and the network has been turned into a public limited company, Bio-RegioSTERN GmbH.

New businesses are important for creating new jobs. By organising a business plan competition and two contests to reward interesting ideas, the WRS gave would-be entrepreneurs an opportunity to present their plans and ideas to investors. Contestants submitted approximately 200 project outlines. The competitions were funded to a large extent by sponsors and marked an important step towards developing a venture capital scene in the region, the high point of which is currently the South West Technology Fund (TFS) for particularly innovative business projects.

One of the main building blocks is the *PUSH!* partnership network for business projects originating in Stuttgart's universities and research institutes. Such projects are very important for a high-tech region like Stuttgart. The winner of a nationwide competition in 1998, since its creation PUSH! has successfully helped set up 250 new businesses. By the time the funding period expires in 2004, approximately six million € of federal funds will have been injected into this network of firms and institutions.

With its *Mobilist* project, the region of Stuttgart won a nationwide competition for the development of new transport technologies. Under the responsibility of Stuttgart Regional Organisation, a consortium of 44 partners was set up in 1998. World-famous firms such as DaimlerChrylser, Bosch, Siemens, Hewlett Packard, the scientific institutes of the universities of Stuttgart und Tübingen, Heilbronn technical college, municipalities in the region, and one county have all worked together to develop new solutions for traffic avoidance and optimisation, and new transport services.

The *Structural Report* gives up-to-date information on the structure of the economy, identifies development trends, and focuses in each edition on a key theme of great relevance for the region. In the 2001/2002 report, for example, the key theme was the employment situation of older workers, their skills, opportunities for further and continuing training, and organisational changes in the workplace. The report and key theme are designed to stimulate discussion among the general public and in the different bodies about projects to develop regional competitiveness and innovation and improve the situation on the labour market. It is the first time in Germany that a report has been published jointly by the region, the trade corporation IHK, the chamber of handicraft and the metal workers union IG Metal.

Main challenges for the regional body

The Stuttgart Regional Organisation has had to face a certain number of challenges. First, there have been frequent conflicts in the region in recent years. In the context of a survey carried out across the region by the Ministry of Economics to find out how Stuttgart Regional Organisation was perceived, the

counties, and some of the municipalities, were critical, *inter alia*, of decisions taken by the regional assembly with regard to large-scale retail outlets and financial participation in the New Trade Fair to be funded by the municipalities via a regional levy. There are also conflicts of interests whenever the Organisation decides to re-negotiate the main contracts regarding local public transport funding in the Stuttgart region with the transport operators concerned. Less obvious but more persistent are the conflicts about where cooperation starts and the need for structural change begins. Moreover, the Stuttgart Regional Organisation has to face institutional conflicts due to unclear delineated competencies and/or vested local interests. Finally, there are still some regional competencies that could be handled by the Stuttgart Regional Organisation.

Transport funding

Funding of public transport is a constant source of conflict between the subsidised transport operators on the one hand and the region as the entity responsible for financing VVS Phase 2 on the other hand. It can therefore be expected that the steady upward trend with regard to revenue from fares will level out over the next few years. If left unchecked, this trend would lead to an increase in the region's equalisation payments. Once the current cooperation contracts have expired, negotiations must therefore be started with the transport operators with a view to obtaining a reduction in the equalisation paid with respect to former revenue. One consequence of this may be that some transport services offered today will be no longer available in future for cost reasons.

The planned purchase of new rolling stock in anticipation of the opening up of suburban express rail services to tender and further efforts to optimise services are leading to conflicts with the counties required to pay the transport levy. Because of the growing burden placed on those paying levies in other areas, it is not possible to keep on raising the regional transport levy, and because the region lacks its own funding sources, there is less and less freedom for manoeuvre, including in local public transport. The ongoing discussion about increasing the responsibilities entrusted to the region has triggered intense political debate between regional policymakers and the counties. The decision to step up the region's role in the transport sector has to be taken by the legislator at the level of the *Land* and would result in a lasting re-organisation of the flows of funding within the region.

Localisation of the new trade fair

The *Landtag* (parliament of the *Land*), regional assembly and Stuttgart city council have called for the Trade Fair be transferred from its present location of Killesberg in the centre of Stuttgart to the airport in Leinfelden-Echterdingen south of Stuttgart. Their argument is that a new trade fair is an essential business promotion tool for coping with structural change. In Leinfelden-Echterdingen itself, a town bordering directly on Stuttgart, there is opposition to the transfer both at the level of the town council and among local inhabitants. In December 2000, in the context of a case brought by the town before the Mannheim administrative court of Baden-Württemberg, the court found that it was not against the law to stipulate the trade fair's location in the regional plan. This landmark ruling is the first time one of Germany's administrative court has confirmed that the location for a major infrastructure investment project can be laid down in a regional plan. A recent ruling by the federal administrative court in Leipzig rejected the appeal lodged against the decision by Leinfelden-Echterdingen. Stuttgart Regional Organisation, which is responsible for the regional planning procedure in respect of this town, found itself caught up in a court case that had to be settled to allow structural change to take place in the region.

Large-scale retail outlets

The municipalities in the region of Stuttgart currently have land use plans at various stages of completion, to devote more than 450 000 m² of additional land to large-scale retail outlets. If free rein

were to be given to these plans over the next few years, considerable damage would be done to the attractiveness of the region's city centres, and vast sums of public and private money spent on making the city centres more attractive would be wasted. The massive draining off of purchasing power from central locations to locations a long way from the centre, frequently in the greenbelt, would rob many city centres of their vitality. Stuttgart Regional Organisation is committed to resolving the conflict with individual municipalities by regional planning in order to preserve a structure of high-quality city life considered to be worth preserving.

Institutional conflicts

The creation of the Stuttgart Regional Organisation has aroused the suspicion of many long-standing players (i.e. the counties and the administrative district presidency), which is further heightened by the ongoing debate concerning the establishment of a regional county in the conurbation of Stuttgart. There is further scope for conflict insofar as the law governing Stuttgart Regional Organisation is not always consistent. One example is the power-sharing arrangements in the areas of local public transport, where there are a total of eight different players in the region (*Land* of Baden-Württemberg, the city of Stuttgart, Stuttgart Regional Organisation and 5 counties), and waste management, where Stuttgart Regional Organisation has only very limited responsibilities in respect of Category II mineral waste and contaminated excavated material. Such power-sharing leads to friction and rivalry.

Extending regional competencies?

In the context of the *regional planning procedures*, planning interests have to be seen in their broader context, rated, and weighed against each other. Such assessment, weighing-up and participation procedures need to be carried out for every plan that is drawn up. Particularly when they are concerned with the approval of energy supply routes and individual projects of great importance for the region (Stuttgart 21) or large-scale retail projects, such procedures should be carried out by the higher regional planning authorities in order to ensure even better coordination of all the most important plans. Similar regions, like the region of Hanover, have been doing this for years already.

The *landscape planning* department of Stuttgart Regional Organisation has devised a regional concept for protecting and enhancing undeveloped open spaces. Open space management will continue to be very important for securing a living and working environment that remains attractive in the long term. To date responsibility for landscape design and planning rests with Stuttgart Regional Organisation, but official responsibility for implementing such plans has not been assigned to any body in particular. Insofar as open spaces tend to be located between municipalities and include larger areas of countryside, with the result that the landscape parks extend beyond municipal and county boundaries, it is clear that no one body is in a position to implement all the plans. Like the urban regions of Hanover, the Ruhr area, or Frankfurt, Stuttgart Regional Organisation will need wider powers before it can implement plans for landscape parks. Insofar as it already has an obligation to design and plan such parks, some way must be found of making sure it has the financial resources it needs for purchasing land or implementing plans. One solution could be earmarked grants from the equalisation payments in accordance with the Nature Protection Act. Alternatively, it might be possible to obtain funding by setting up a special fund to promote landscape projects in densely-populated areas.

Although Stuttgart Regional Organisation is only responsible for a small part of *waste management*, since 1994 it has achieved significant improvements in the disposal of mineral waste (centralised disposal authority, lower charges, simple handling). However, despite these improvements, other waste disposal authorities in the region have so far not been prepared to transfer the model to the other areas of waste management. Consequently, it is still not possible to speak of a regional waste management concept.

Case study 1: Public transport in the Stuttgart region

For the polycentric region of Stuttgart, which is home to approximately 2.6 million people, efficient transport services are essential. Local public transport by bus or by train has an important role to play in this context. According to the results of a survey carried out in connection with the transport plan for the region of Stuttgart, the number of passenger journeys in the region every day totals approximately 8.65 million, of which approximately 17 % (approximately 1.4 million journeys) involve local public transport. In order to improve this percentage in future, when the volume of traffic is expected to rise and the number of daily journeys looks set to reach approximately 9.45 million, the different players involved in local public transport will have to combine forces.

Competent bodies

The following bodies are currently responsible, in one way or another, for local public transport:

- The Land of Baden-Württemberg (local trains entering and leaving the region of Stuttgart);
- The city of Stuttgart (Stuttgart bus, tram and city rail services);
- Stuttgart Regional Organisation (suburban express trains and different branch line services which have their origin and destination in the region, and rail replacement services (e.g. regional night bus));
- The counties of Böblingen, Esslingen, Ludwigsburg and the county of Rems-Murr (bus, tram and city rail services in their area).

These bodies also have stakes in the Stuttgart Transport Association (VVS). The county of Göppingen, which is also in the region of Stuttgart, is responsible for bus services in the county. Because the county cannot be accessed by suburban express train and does not contribute to the basic funding of local public transport, it is also not a member of the Transport Association. As part of their responsibility for local public transport, the city of Stuttgart and the counties regularly draw up local transport plans based on the plans for their area contained in the regional transport plan. They must coordinate their plans with the private and municipal transport operators (*e.g.* bus companies), and insofar as services that are politically desirable are not able to fund themselves they must also help pay for them (deficit coverage).

The regional transport plan

A regional transport plan was presented for the region of Stuttgart for the first time in March 2001 and adopted by a large majority by the regional assembly. It was the first time ever that a transport plan in Baden-Württemberg had also taken town and country planning issues into consideration. Comprising over 200 pages, the plan is very broad in its perspective, covering all the different modes of transport and looking at the region as a whole. The result, after six years of working on the plan, is a sound concept for further development of the roads, railways, and main cycle paths in the period leading up to 2010. The plan serves a dual purpose. On the one hand, it defines the regional plans of the federal and *Land* authorities and therefore serves as a guideline for the counties and municipalities. On the other hand, it expresses the region's need for large-scale infrastructure and as such has an important lobbying role. It also contains plans for the region, which uses the transport plan as a basis for developing its own projects (e.g. extension of suburban rail network, night buses). In order to be able to formulate transport policy recommendations for the future, the plan relies on an extensive database including traffic statistics, figures from the transport plans drawn up at federal and *Land* level, studies covering only parts of the region, a special study on the mobility of women, and scientific analyses. In addition, three separate "scenarios" study the impact of different sets of measures. Depending on the scenario, the emphasis was on merely maintaining the status quo, incorporating as many development wishes as possible, or a mixture of

infrastructure development, use of technology, and traffic avoidance. On this basis of these scenarios, the plan compiles mobility forecasts for 2010 and compares them with 1995.

The regional transport plan includes an assessment of all the region's road building projects – from motorways through federal highways, trunk roads and county roads to future projects – according to their necessity and degree of urgency. However, it is the authorities that meet the cost of road building, ie the federal government, *Land*, counties, and municipalities, that have the responsibility for implementing the individual projects. There is currently no rule stipulating that the importance of the regional transport plan must be taken into account with regard to the implementation of individual road building projects. If the claim of having developed a uniform, global transport plan for the whole region is to be taken seriously, there is an urgent need for more rules, including a binding obligation for at least the *Land*, counties and municipalities to take account of the priorities identified in the regional transport plan when allocating funds for road building projects. In the context of grant decisions taken by the *Land* with respect to trunk roads or projects in accordance with the Municipal Transport Finances Act (GVFG), priorities identified in the regional transport plan should be taken into account.

The role of the Stuttgart Regional Organisation

The Stuttgart Regional Organisation has two main responsibilities with respect to local public transport, namely funding suburban express train operations in the region of Stuttgart and further developing the suburban express train network. To cover the costs associated with local public transport sector, the Organisation collects a transport levy from the city of Stuttgart and the four counties in the Transport Association. In 2002 revenue from the levy, which is based mainly on the number of inhabitants, totalled approximately 50 million €.

In 2002, the Organisation spent approximately 61 million € on operating suburban express trains over 6 lines into Stuttgart totalling an annual 8.3 million train-kilometres. Of this, 56 million € were covered by federal regionalisation funds transferred to the region from the *Land.* The regionalisation funds are awarded to the *Länder* by the federal authorities as compensation for rail transport costs which prior to privatisation of Deutsche Bahn AG were borne by the federal authorities alone. Stuttgart Regional Organisation has spent 5 million € from its own budget on further operational improvements to the suburban rail services.

In April 2003, the Organisation concluded a new 10-year agreement with Deutsche Bahn AG concerning suburban express operations. It is worth approximately 1.2 billion €. The full "basic service" costs of operating suburban express services (2001 timetable) will be covered in this context by the *Land* out of regionalisation funds. From 2003 onwards, therefore, the Organisation will no longer have to use its own funds to pay for providing these basic services. It is currently preparing for the 2006 European invitation to tender with regard to suburban express services, and a let-out clause has been agreed with Deutsche Bahn AG in this respect.

Currently, the Organisation is planning and implementing seven investment projects costing 456 million € to develop the suburban express services (network extensions and optimisation). This total includes the regional contribution to the Stuttgart 21 project to rebuild Stuttgart station to include an airport connection and to link it up to the new Stuttgart-Ulm-Augsburg line. The Organisation's net share of the cost of these projects is approximately 102 million €, which it is expected to have to cover out of its own budgets up to 2010.

The single fare for local public transport covers the city of Stuttgart and the four counties in the Transport Association, Böblingen, Esslingen, Ludwigsburg and Rems-Murr, which means that it is now possible to travel anywhere in the part of the region area covered by the Transport Association on the same

ticket. The price of the combined ticket is cheaper than the sum of the individual tickets sold in the past. Stuttgart Regional Organisation took over this mandatory responsibility in 1996 from a joint authority involving the city of Stuttgart and the four urban counties bordering on the city. Since then it has successfully extended the single fare, and covered the costs involved, and is working hard to extend it further. The single fare had applied in Stuttgart and on the suburban rail routes (in other words only in parts of the counties) since 1978 and is still funded and managed by a subsidiary of the city of Stuttgart, Stuttgarter Straßenbahnen AG (SSB), and Deutsche Bahn AG. The two transport operators met the basic cost of developing this first phase according to the terms of a contract, and with financial contributions from the *Land* and the four counties bordering on Stuttgart. Since 1993 the single fare also applies throughout the four neighbouring counties of Stuttgart (but not Göppingen). Under this agreement, Stuttgart Regional Organisation undertakes to compensate the 40 or so (private and municipal) transport operators, as well as the Deutsche Bahn AG in the case of services extending beyond the suburban express network (ie regional and regional express services), for "former revenue" to the tune of approximately 111 million €. In return, Stuttgart Regional Organisation receives approximately 56 million € from the Transport Association's fares pool, representing its share of income. The rest is funded out of its own budget.

Stuttgart Transport Association

To deal with organisational matters relating to the single fare, the bodies responsible for local public transport and the transport operators taking part in the scheme in the region of Stuttgart founded the Stuttgart Transport Association (VVS). It is a public/private venture, funded for 50 % by the transport operators (Deutsche Bahn AG, Stuttgarter Straßenbahnen AG und approximately 40 regional transport operators) and for the other 50 % by the competent authorities (not including Göppingen). Its role is to help the partners plan and coordinate the operational side to their services, integrate their fare systems by developing a combined ticket for all the transport operators in the Transport Association, sharing out revenue between the partners in accordance with the revenue-sharing agreements, managing activities relating to advertising, passenger information and customer service.

Financing of local public transport

Local public transport is characterised by an interwoven system of financing and counter-financing involving the seven entities responsible for local public transport in the region (the *Land* of Baden-Württemberg, the city of Stuttgart Regional Organisation and four counties in the Transport Association), two major transport operators (DB AG and SSB AG relating to VVS Phase 1) and approximately 40 regional transport operators (relating to VVS Phase 2) as well as the Transport Association as the entity responsible for revenue-sharing (Box 2.3).

Box 2.3. Financing of local public transport

2002 financing of local public transport in the region can be summed up as follows:

The *Land* awarded :

-- 20.1 million € to the city of Stuttgart to offset expenses associated with the Transport Association
-- approximately 45 million € out of federal regionalisation funds to Deutsche Bahn AG to operate its rail services through the region (not including suburban express services)
-- approximately 56 million € out of regionalisation funds to Stuttgart Regional Organisation to operate suburban express services and,
-- a further 8 million € to cover the costs associated with implementing VVS Phase 2;

The Stuttgart Regional Organisation pays:

--61 million € to Deutsche Bahn AG to cover the cost of suburban express services
-- compensation totalling 101 million € to approximately 40 regional transport operators in the context of VVS Phase 2 for "former revenue", on the basis of cooperation agreements,
-- 10 million € to Deutsche Bahn AG in revenue from open-line services.
-- a fares-based equalisation payment at the rate of 14.5 % of gross costs for transport improvements initiated by the counties, cities and municipalities in the context of VVS Phase 2 (In 2002 this payment amounted to approximately 4 million €).

The four counties in the Transport Association:

-- pay Stuttgart Regional Organisation a regional transport levy totalling 39 million €,
-- cover the cost of implementing the political decision in favour of local public transport equalisation between the city of Stuttgart and its surrounding area (equalisation in terms of transport costs and Phase 2 costs) and,
-- pay back 31.3 million € to the city of Stuttgart,
-- pay 5.6 million € to the regional undertakings to finance transport improvements in connection with its responsibility for bus services.

The city of Stuttgart

-- pays Stuttgart Regional Organisation a regional transport levy of 11 million €, and
-- shoulders the SSB AG's deficit of approximately 40 million €, which, however, is cancelled out as a result of the integrated tax system involving its own utility companies (gas, water, electricity).

The cities and municipalities pay approximately 10 million € to the regional transport operators to finance their own improvement measures (inner-city services).

The Transport Association's revenue-sharing pool, which totals approximately 280 million €, is divided between the partners according to the rules of the revenue-sharing agreement, according to which Deutsche Bahn AG receives 92 million €, SSB AG 132 million € and Stuttgart Regional Organisation 56 million €.

The Stuttgart Regional Organisation, the region's counties and representatives of trade corporations have solicited regionalisation funds from the Land to develop local public transport services. The Environment and Transport Ministry had signalled that it was willing to enter into negotiations, and a compromise has now been reached, whereby the Land has agreed to take on the cost of basic suburban rail services, to pay an annual 1.6 million € towards infrastructure costs as of 2003, and to bear one third of the cost of planned improvements to the suburban rail network. A needs-based share of regionalisation funds must however continue to be a permanent part of regional policy.

Medium prospects

The current debate about whether or not full responsibility for local public transport should be entrusted to a single regional body originated in the fact that responsibility is currently spread over 8 different entities and in the complex financing arrangements. Following a decision taken by its regional assembly in autumn 2002, Stuttgart Regional Organisation would like to have full responsibility for local public transport in the Stuttgart region. It sees centralised responsibility as a way of harmonising service quality in the different parts of the region and of achieving considerable cost benefits in the medium term by centralising decision-making and the awarding of contracts for when the market is opened up to competition. In 2003, in the context of an administrative reform also currently being discussed which is likely to mean more administrative responsibility being handed over to the counties, a decision will be taken as to whether, and to what extent, responsibilities for local public transport can be grouped together at the level of Stuttgart Regional Organisation.

The deregulation efforts of the European Commission and the changes these are likely to entail in terms of the European legal framework in the passenger sector will also affect both the structure and funding of local public transport in the Stuttgart region. In the medium term, questions surround the user rights currently enjoyed by the regional transport operators and Stuttgarter Straßenbahnen AG on the basis of franchise services. As is already the case on the railways, tram and bus services are also likely to be opened up to competition. The existing system whereby companies are guaranteed compensation for "former revenue" on the basis of cooperation agreements in the context of Phase 2 is therefore brought into question. Questions also surround the system of cross-taxation. Most proprietors of municipal transport firms currently benefit from the system, which enables them to offset any losses they incur with their local public transport services against profits made by municipal utility companies (gas, water, electricity). The city of Stuttgart, for example, uses the system to cancel out losses totalling 40 million € that are incurred each year by its tram company, the Stuttgart Straßenbahnen AG. Doing away with this possibility of setting off losses would have a lasting impact on municipal finances and consequently on existing transport services. The structure of the Transport Association as a mixed public/private venture is also brought into question. Currently funded on an equal footing by transport operators and the competent authorities, the Association only has a future in a competitive environment if it succeeds in modifying its responsibilities. The participation of the transport operators in the annual process to fix the Association's fares will not be possible in future in its existing form. The extent to which an association merely of transport authorities is possible for the region of Stuttgart will depend on how the new European and national legal framework unfolds.

Case study 2 : Regional economic development

There are several bodies that actively promote regional and municipal economic development. They operate in different sectors and to varying degrees of intensity. They include public institutions, various chambers and associations, as well as private bodies. Many projects involve cooperation between a number of institutions. Project-based public/private partnerships are common. An important feature is the work done in networks. Insofar as the people concerned may be involved in more than one network, the networks are sometimes informally linked. The responsibility for regional business promotion has been transferred to Stuttgart Regional Organisation by law. Other bodies (*e.g.* chambers of trade and industry, trade corporations, firms, trade unions, research institutes, and municipalities) also get involved in business promotion projects in the context of their other activities.

Municipal business promotion.

Municipal business promotion is a voluntary activity for the municipalities. Municipal business promotion is carried out to varying degrees of intensity, depending on the municipality. In smaller towns and municipalities with up to approximately 20 000 inhabitants responsibility for business promotion rests with either the mayor or a municipal official. In towns and cities with 20 000 inhabitants or more there is often an official employed full-time to promote business in the municipality. The city of Stuttgart has its own business promotion department employing several members of staff. Municipal business promotion includes:

- *looking after local firms*. Their concerns with regard, for example, to better transport connections, disputes with their neighbours about emissions (noise, smell, exhaust), or the need for more land need to be detected and addressed as quickly as possible;

- *engaging in marketing activities with the aim of attracting new businesses*. Recourse to urban land use planning to ensure the availability of commercial zones is regarded by municipalities as an important part of their work. In the Stuttgart region certain municipalities have come up against limits in this respect. Development areas that sometimes account for over 30 per cent of total land within the municipal boundary, transport connections and conflicts with residential areas or conservation areas and zones protected under the regional plan all limit municipalities' scope for extending the area set aside for commercial businesses. In cases such as these Stuttgart Regional Organisation encourages municipalities to identify shared, inter-municipal commercial zones in more suitable locations. The Organisation's support in this context takes the form of consultation and coordination. Subject to certain conditions (intermunicipal cooperation), it also meets up to a third of the interest payments for costs of purchasing suitable land and transforming it into an inter-municipal trade park;

- engaging in marketing activities on behalf of the local retail trade. Above all, marketing concepts are needed to improve the attractiveness of inner-cities. In this context, local authorities often take part in local initiatives set up by traders, particularly retail traders;

- managing the stock of existing commercial zones. In the Stuttgart region, as in other urban regions of Germany, management of the stock of available commercial zones is becoming increasingly important. Municipalities are increasingly aware that they have an active role to play in the re-cycling of land used for commercial purposes. Stuttgart Regional Organisation helps the municipalities to devise concepts for re-utilising large areas of urban wasteland. The Organisation's business promotion firm, Wirtschaftsförderung Region Stuttgart GmbH, helps to market the land.

Regional business promotion

In 1994 a law passed by the *Land* of Baden-Württemberg entrusted Stuttgart Regional Organisation with responsibility for promoting regional business and regional tourism. In 1994 it was decided that regional business promotion would be carried out more efficiently by a private company, and the decision led in 1995 to the establishment of a company specialising in business promotion, Wirtschaftsförderung Region Stuttgart GmbH, or WRS for short. Stuttgart Regional Organisation has a majority stake (51 %) in the company, with the other 49 % of the voting rights shared between the other corporate members. The region's municipalities and counties are represented in the form of a registered association, the Kommunale Pool Region Stuttgart[38]. The major stakeholders of WRS are the Stuttgart Regional Organisation (51%) and the Kommunale Pool Region Stuttgart (24.6%)[39].

WRS has a staff of about 30 and a budget of approximately 8 million € (2002). To a large extent, it is self-financing, insofar as it participates in projects subsidised by grants awarded by the EU, the federal government or the *Land*. Any remaining expenses not covered by income are covered by a grant from Stuttgart Regional Organisation. The main responsibilities of WRS are to: i) look after and advise firms established in the region ii) look after and advise the municipalities and counties iii) manage the region's industrial space iv) stimulate innovation, and promote and support cooperation initiatives v) attract new businesses to the region vi) promote the region via advertising channels, and promote regional tourism.

State Business promotion

In the case of big firms or multinational companies looking to open a new plant either in Europe or anywhere in Germany WRS frequently works together with GWZ (*Gesellschaft für internationale wirtschaftliche Zusammenarbeit*), the business promotion company at the level of Baden-Württemberg, which is responsible for promoting locations on behalf of the *Land*. It also helps companies in Baden-Württemberg access foreign markets, via representations abroad and, above all, by organising trade fairs and foreign visits by entrepreneurs and politicians. With regard to trade promotion, advice on technology, and tourism promotion Baden-Württemberg offers support and funding to several different institutions. Responsibility for trade promotion, advice on EU projects and the use of renewable energies rests with Baden-Württemberg's trade office. Advising firms on technology and managing the transfer from universities to firms are tasks mainly carried out by one of the many transfer centres set up by the Steinbeis Foundation or by private consultancy firms. Tourism in the *Land* is promoted by Baden-Württemberg's tourist board on behalf of the Ministry of Economics.

ANNEX 3. THE PHILADELPHIA METROPOLITAN AREA

Definition of the metropolitan area

With a population of 6.2 million, the Philadelphia Metropolitan Area is situated in the Mid-Atlantic region of the U.S., in the middle of the East Coast megalopolis running from Boston south to Washington, D.C. and Northern Virginia. The exact geographic boundaries of the Philadelphia Metro Area are subject to some debate (and some overlap), but this report uses the standard definitions established by the U.S. Census Bureau. While economic activity continues to spread out in metro areas throughout the U.S. and Canada, the U.S. Census Bureau's definition of the Philadelphia Metropolitan area has changed only slightly over the past 50 years. The Philadelphia Metropolitan Statistical Area (MSA) contained 3 550 square miles in 1950, increasing by only 305 square miles (less than 10%), to 3 855 square miles in 2000. The Philadelphia Consolidated Metropolitan Statistical Area (CMSA) today covers south-eastern Pennsylvania, the northern part of Delaware, the far north-eastern part of Maryland and the southern third of New Jersey, to the shore. The metro area borders the country's largest metro area, New York City, to the north, and Baltimore-Washington to the south. Philadelphia's proximity to New York City and Baltimore-Washington has to a large extent influenced Philadelphia's economic growth over the decades, as have sectoral and geographic shifts in the overall U.S. economy. The result has been far slower economic and population growth for the Philadelphia Metropolitan Area than that experienced by many other metro areas, especially since 1970. Internationally renowned and admired two centuries ago as the premier city in the new world, and one century ago as the "industrial giant" of the world, Philadelphia has seen its relative importance decline precipitously in the past half century.

Demography

The Philadelphia Metropolitan Area is the 6th largest in the U.S. with a 2000 Census of 6 188 463 inhabitants, representing a 5.0% increase over the 1990 population. This population growth rate was the lowest among the 15 largest cities of the U.S. during the decade, and compares unfavourably to Montreal's 8.5% growth over the period. In addition, the central city of Philadelphia suffered the second largest absolute population loss of any city in the U.S. (68 000 vs. Detroit's net loss of 76 000 residents). The other "top ten" U.S. cities all experienced population increases during the 1990s. Unfortunately, Philadelphia's population decline has not abated; recently released Census data shows Philadelphia City's population declining by an additional 22 000 residents from July 1, 2000 to July 1, 2002. Compared with other U.S. Metropolitan areas in the 1990s, Philadelphia exhibited: a lower natural population growth rate; a typical net domestic out-migration rate (for older Northeast cities, due to regional competition and majors shifts to the south and west); and a relatively low rate of foreign immigration compared with other major U.S. cities.

Philadelphia's population density has declined both in the city and the metro area. The city's density has declined from 15 164 persons/sq. mile in 1970 to 11 233 persons/sq. mile in 2000. The entire decrease is due to population loss, since the land area has not increased since 1854. The metro area's population density has declined at a slower rate than the city, as aggregate geographic growth of settled (urbanised) areas has exceeded the population growth. This phenomenon, recently referred to as "sprawl" has been the focus of much public policy research and attention.

Regarding population change, Philadelphia and Montreal are least similar in terms of foreign immigration. As a major international gateway for Canada, a large portion of Montreal's population growth comes from foreign immigrants. The city is one of Canada's key immigration centres. Philadelphia experiences very little foreign immigration, although the immigration rates have been rising in recent years. Currently, more than 100% of the net population growth in Philadelphia's metropolitan area results from foreign immigration, but only because its domestic out-migration was so high and natural growth was so low.

With regard to the populations of the cities themselves, there are several similarities. First, while Montreal experienced some overall growth in the 1990s, Philadelphia city continued its decades-long pattern of population loss, albeit at a slower rate than in previous decades. Interestingly, Philadelphia Metropolitan Area's annual population growth rate since 2000 has risen to nearly 0.5% (or about half the nation's rate) compared with only about 0.25% per year during the 1970-2000 period. Whether this is a short-term phenomenon or a structural shift remains to be seen. Similar to Montreal, Philadelphia has witnessed a gradual decline in average household size, reflecting to a large extent overall demographic and behavioural changes. Out-migration from the central cities, especially in the form of suburbanisation, is driven in part by families with school-aged children, as they seek jurisdictions with quality schools outside of the cities. Older, "empty-nesters" represent a growing portion of the domestic in-migrants to the city.

Indicators of socio-economic performance

The socio-economic conditions of Philadelphia's citizens are similar to those of Montreal, and vary significantly depending upon specific location within each metropolitan area. Inside the central city, and in a few parts of the suburbs, conditions are significantly worse than in most of the metropolitan area's suburbs. As noted above, the central city residents in both places tend to be at a lower socio-economic level than their suburban counterparts.

Output and recent economic trends

Standard & Poor's DRI estimates the Philadelphia region's current dollar GMP increased from 149 billion USD in 1997 to 182 billion USD in 2000, an increase of 22% over the period; slightly higher than the overall U.S. GDP growth rate, but 3rd lowest among the top ten U.S. metro areas. Philadelphia's economy, though larger than all but the 24 largest national economies, is still a small portion (less than 2%) of the U.S. GDP. Montreal's 2001 GMP was 95 billion USD in constant 1997 dollars, or 10.5% of Canada's GDP. Montreal's GMP increased by 26% since 1991. How much of the large increase in GDP and GMP of the late 1990s was due to true growth and productivity improvements and how much was artificially inflated by the tech bubble is uncertain. Philadelphia handled the recent recession better than many other metro areas, and its economy is relatively better off than in 1999. This is primarily due to its relatively smaller portion of high tech related growth in the late 1990s.

Real estate markets (commercial, industrial and multi-family housing) reflect the changes in supply and demand, the latter being a direct function of business conditions and income. Philadelphia's real estate markets rebounded strongly in the last half of the 1990s, continuing somewhat through today. The satisfactory (although not spectacular) performance of the region's economy (especially now relative to the national economy) has resulted in a market without serious over-supply conditions. This appears to be similar to Montreal's recent history and current situation.

Industrial mix

According to recent estimates, the Philadelphia Primary Metropolitan Statistical Area (PMSA)[40] is a major economic force in the state of Pennsylvania, accounting for: 33.7 of Pennsylvania output, 33.3 of

total employment and 31.3% of the population. As in Montreal and many other older North American cities, Philadelphia's industrial structure has changed significantly over the past 30 years, shifting from a manufacturing-based to a service-based economy. The manufacturing share of total employment has fallen from approximately 25% in the 1970s to approximately 10% today. This pattern is consistent with overall trends in the U.S. as a whole, in which there has been a continued steady, long-term decline in manufacturing. Furthermore, in contrast to Montreal, manufacturing activity within the Philadelphia Metropolitan Area is increasingly oriented toward servicing local demand.

The Philadelphia Metropolitan Area had 124 703 establishments in 2000: less than 0.15% in the primary sector; 5.1% in manufacturing, and, approximately 94.7% in non-manufacturing. The distribution in terms of employment is somewhat different with 9.9% of employees in manufacturing and 90.1% (of non-farm employment) in non-manufacturing. The metropolitan area has undergone a major structural transformation, which has been both industrial and geographic. The proportion of jobs in manufacturing fell from the post World War II period, while that in non-manufacturing, particularly in services, increased. The proportion of employment in the city of Philadelphia also declined, while that in the suburban ring increased.

Agglomerations, clusters and industry networks

Researchers and policy makers have identified, discussed and debated the policy implications of agglomerations, clusters and industry networks throughout the 1990s. Education and knowledge creation are a significant cluster in Philadelphia, providing over 106 300 jobs in the region, more than its proportional share of U.S. employment. By one count, the Philadelphia Metropolitan Area is home to around 80 academic institutions of higher education. Current marketing campaigns advertise Philadelphia's college/student enrolment as "greater than Boston and Baltimore, combined". These institutions of higher learning include renowned research universities, liberal arts colleges and technical schools. The primary "outputs" of these schools are their graduates, and the educational services purchased by the students represent one of the region's largest attractions. A secondary, but still quite important output is research and development. Universities in the region attracted 422 million USD for research and development in 1995, and the figure grew to nearly 600 million USD by 2000, keeping Philadelphia amongst the top academic R&D centres in the nation.

Together, health care and life sciences represent a large and important cluster. Building on its experience in life and biological sciences, Philadelphia continues to have a substantial employment base in pharmaceuticals, chemicals, and medicine and health services. As a significant component of the region's life sciences industry, the pharmaceuticals sector alone provides approximately 22 000 jobs in the Philadelphia area. Since 1993, this cluster has added 4 200 jobs, an increase of 22.6%. While Philadelphia has more than its proportional share of this sector, the growth of pharmaceuticals has been slower than that of the nation as a whole.

Philadelphia also has notable clusters in the finance sector, information services and communications as well as travel and tourism. Although Philadelphia was eclipsed by New York as the financial capital of the U.S. in the 1830s, the financial services cluster remains to be large and important to the region. It is strongly supported by the location of the Philadelphia Stock Exchange, by the numerous money-management and mutual fund companies, and by a number of large insurance companies. With regards to information services and communications, Philadelphia is home to one of the nation's largest cable companies (Comcast) and is considered the second most important cable city in the country. In addition, computer technology and communications are also large industry clusters. Travel and tourism, and professional services (including legal and real estate) also exhibit substantial economic strength. In conclusion, the clusters identified by researchers as important to Philadelphia are for the most part similar

to those identified for Montreal, and in some areas, Philadelphia's relationship with New York has similarities to Montreal's relationship with Toronto.

Labour market

One of the most striking features of the recent history of the Philadelphia PMSA labour market is that it ranks 19th in job growth among the 20 largest U.S. metropolitan areas over the period 1970 to 2000. It also ranked 33rd over the 1990–2000 period in comparison with other large MSAs that have populations of over one million. From 1990 to 2000, employment in the Philadelphia MSA grew by 0.8% compared to 1.7% for all MSAs.

Since 1993, the Philadelphia PMSA has lost over 42 000 manufacturing jobs, an average annual decrease of 1.8%. This represents an overall decrease of 15.1%. The key manufacturing sectors in the Philadelphia area are computers and electronics, food processing, chemicals and pharmaceuticals. The construction and mining sectors have been growing at the average rate of 3.1% per year since 1993, adding nearly 24 000 jobs over the period. In 2002, these industries employed over 100 000 persons. Employment in service-providing industries has also increased at the rate of 1.7% since 1993. This sector provides nearly 86% of the jobs in the Philadelphia area. Health care is the largest sector in the region with 336 000 employees in 2002. This sector has grown at a rate of 1.9% since 1993. Professional and business services follow with an increase of 13.6%. Retail trade and wholesale trade accounted for 11.2 and 4.9% respectively, of Philadelphia's workers in 2002. Additional large sectors include the public sector (12.7), financial activities (7.4) and leisure and hospitality (7.3%). The fastest growing sectors in Philadelphia are securities and related services, professional scientific and professional services, educational services and transportation equipment. These sectors reflect the strength of Philadelphia's "knowledge industry". Finally, The primary sector of Philadelphia mirrors that of the nation as a whole with employment in forestry, fishing, hunting, and agricultural support and mining accounting for approximately two-thirds of 1% of total employment. There are approximately 14 628 people employed in these sectors (over 81% in mining). The manufacturing sector employs 237 800 people in the metropolitan area (*i.e.* 9.9% of total employment in the region).

The occupational distribution of the PMSA labour force differs in some important ways from the national labour force as of 2001. It is interesting to note several differences between the two distributions. Compared with the national labour force, the PMSA labour force has relatively more people in the management, education, healthcare practitioner, and office and administrative occupations and relatively fewer people in the food preparation, construction, production, and transportation occupations. Manufacturing, retail, other services, and government are relatively under-represented in the PMSA, while professional and business services, education and health services, and leisure and hospitality are substantially overrepresented. Reflecting the shift in industry, employment share in Philadelphia's manufacturing sector declined from 25.7 in 1970 to 10.6% in 2000, while services sector employment share grew from 20.4 to 37.9% and public sector from 17.7 to 30.6% over the same period. This appears similar to Montreal's experience during the period, as Philadelphia witnessed a shift of employment out of primary and secondary industries and into tertiary industries (as defined through industry lists in the Montreal report). Professional, technical and management employment along with health care and culture/recreation/tourism-related employment all grew in both cities. Financial services (FIRE) employment growth lagged in both metro areas, and part of this could be due to the proximity of international financial centres (New York and Toronto). A very interesting exception is public sector (government) employment: Montreal's public administration employment declined in the 1990s while Philadelphia's increased significantly during the 1970-2000 period.

The six fastest growing areas, all in the "sun belt", grew by more than 200%, and the migration of jobs and people from the "rust belt" to the "sun belt" is certainly part of the Philadelphia story, but not the

whole story. Classic "rust belt" areas such as Chicago and Detroit also grew significantly faster than Philadelphia, as did nearby Baltimore and Washington, D.C. Within the metro area, the City of Philadelphia witnessed virtually no employment growth during the 1990s, and its significant employment decline during the 1970-2000 period negatively weighs the metro area job performance statistics. Recent trends of employment growth in the City of Philadelphia and surrounding suburbs in Pennsylvania and New Jersey, contrast with those of the entire U.S. While national employment has grown almost 20% since 1990, employment in the Philadelphia PMSA has grown just over 3%. An examination of the city and the suburbs reveals a substantial difference. Suburban employment has grown somewhat less than 8%, while city employment has fallen 8.5%. Montreal metro area's employment growth has also been relatively slow like Philadelphia's, especially during the past decade, and Montreal too has experienced more employment growth outside of the central city.

The spatial location of employment in Philadelphia, like in Montreal, no longer follows the single centre concentric ring model, and instead has been spreading, with similar employment types being concentrated in both central cities. During the period 1970-2000, the city of Philadelphia's share of the regional workforce has declined from just below 50% to approximately 30%. There are now several employment centres throughout the region, and they appear to be spreading further out each year. Philadelphia and Montreal have experienced significant suburbanisation of their populations, and the timing of Philadelphia's first major round of suburbanisation coincided with Montreal's 1960-1975 "construction of the metropolitan infrastructure" period. During this period, metropolitan infrastructure, especially in transportation, was being planned and developed to facilitate the suburbanisation of population and industry. The bulk of the growth is in the western suburbs of Philadelphia (Pennsylvania side), but in recent years growth has accelerated to the north and to the east (New Jersey suburbs), as well as to the south (Delaware suburbs). However, it is not clear from the data whether Philadelphia has witnessed a greater spreading of its tertiary industry employment than Montreal.

There is considerable work-related commuting into and out of the City of Philadelphia. One-third of those who work in the city live in the suburban counties (Table 3.1). Almost one quarter of those who live in the city work in the suburbs. The City is a net importer of workers. In 2000, it imported approximately 210 200 workers and exported only about 126 700.

Table 3.1. **Commuting flows**

	Bucks Co. PA	Burlington Co. NJ	Camden Co. NJ	Chester Co. PA	Delaware Co. PA	Gloucester Co. NJ	Montgomery Co. PA	Philadelphia Co. PA	Salem Co. NJ
Bucks Co. PA	64%	3%	1%	1%	1%	1%	7%	4%	0%
Burlington Co. NJ	2%	67%	15%	0%	1%	7%	0%	1%	2%
Camden Co. NJ	1%	15%	58%	0%	1%	21%	1%	1%	4%
Chester Co. PA	1%	0%	0%	71%	8%	1%	7%	1%	1%
Delaware Co. PA	1%	1%	2%	9%	58%	3%	3%	4%	2%
Gloucester Co.NJ	0%	2%	7%	0%	1%	52%	0%	0%	20%
Montgomery Co. PA	19%	2%	2%	13%	12%	2%	67%	11%	1%
Philadelphia Co. PA	12%	10%	15%	5%	20%	13%	15%	77%	3%
Salem Co. NJ	0%	0%	0%	0%	0%	2%	0%	0%	66%

Source: US Bureau of the Census, Journey to Work 2000.

What has happened to unemployment in the Philadelphia PMSA? One might suspect that the flat employment growth would imply growing unemployment, but because of the slow population growth in the suburbs and the population decline in the city, that is not the case. Since 1990, the overall unemployment rate in the city has moved up, down, and up again, and the suburban rate has moved in almost perfect lockstep, but substantially below the city rate. The national rate has also moved with the suburban rate, but it is usually a bit higher.

It is also interesting to note the differences between the hourly wages in the PMSA and the region. For eight of the 22 key occupations, the PMSA wage is within 5% of the national average. Only one occupation category, "life, physical, and social science", has a PMSA wage that is more than 5% below the national average. The PMSA wage rates of the remaining 13 occupations are more than 5% above the national average with the biggest differences largely in blue-collar occupations.

Cost of living

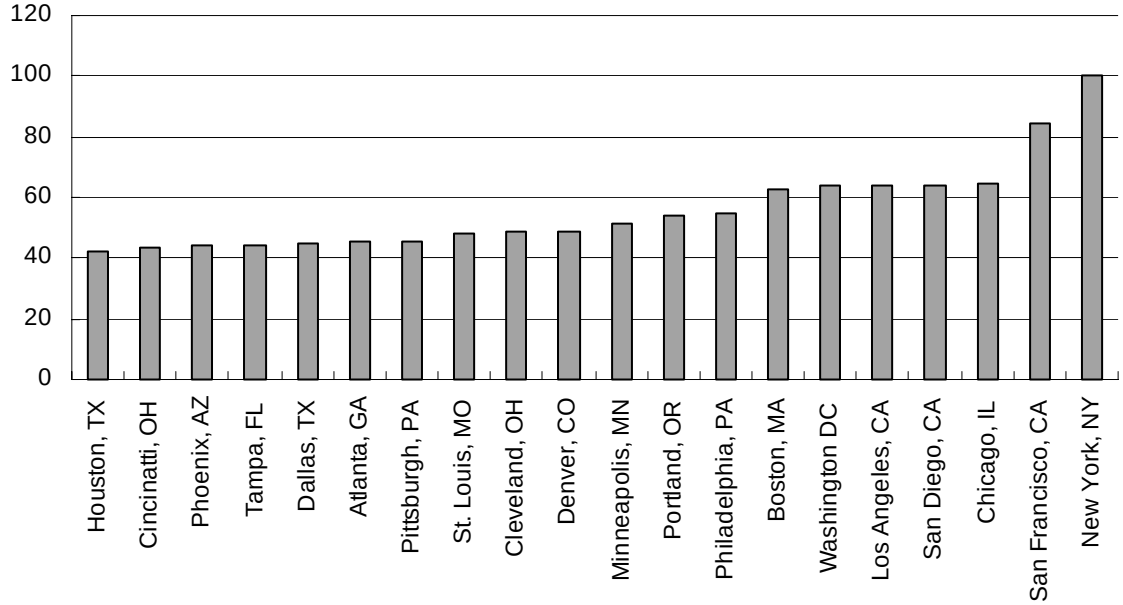
In the U.S., Philadelphia's cost of living compares quite favourably to New York and other major metropolitan areas (Figure 3.1). Montreal and Philadelphia are in the same ballpark for cost-of-living relative to New York City. Furthermore, Philadelphia's consumer prices increased by 24.1% from 1992 to 2001. This is almost 1% per year higher than Montreal's inflation rate. Housing prices followed a similar pattern, up 21.5% since 1992 versus Montreal's 12.2%. These figures are slightly lower than the growth in prices for the U.S. as a whole, as is the case for Montreal and Canada. The U.S. CPI rose 28.2% for all items and 31.1% for housing from 1992 to 2001 (Table 3.1 and Figure 3.2). Interestingly, Montreal's greater inflation observed at the end of the decade than earlier suggests that the comparative annual inflation rates may be converging (indeed, Montreal's inflation rate since 1998 has been slightly higher than Philadelphia's). The evidence does suggest that price increases, especially housing in both cities, have trailed the respective nation's rates and indicate the housing markets have not been as "hot". This could indicate further that neither city is susceptible to a bursting "housing bubble" as other cities in both countries.

Table 3.2. **Change in CPI – Philadelphia CMSA, 1991-2001**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
All-items (199=100)	97.0	100.0	103.1	105.6	108.7	111.6	114.5	117.1	118.3	120.9	124.1
Housing (1992=100)	97.3	100.0	102.7	104.3	106.5	108.8	111.5	114.9	116.8	118.5	121.5

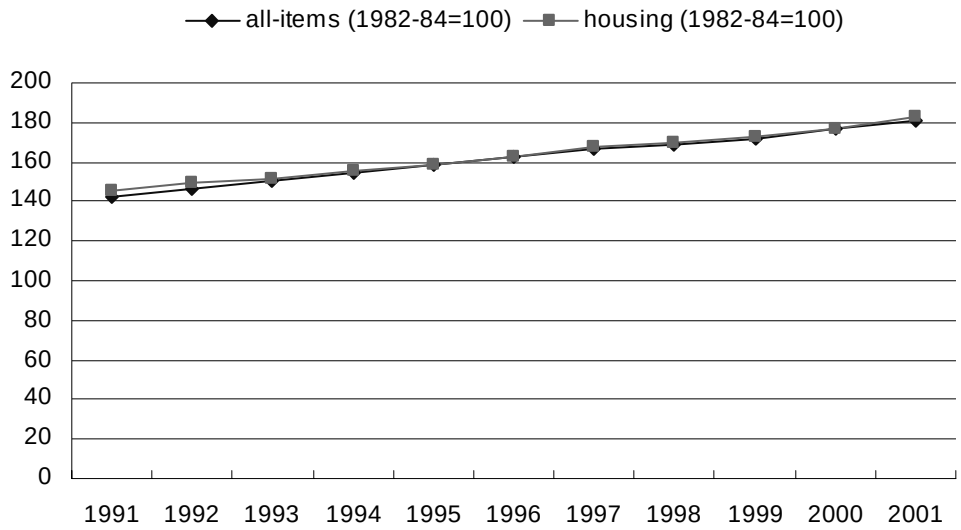
Source: Bureau of Labor Statistics.

Figure 3.1. **Cost of Living Index for Selected U.S. Metropolitan Areas (New York = 100; 2002:Q4)**



Source: American Chamber of Commerce Researchers Association.

Figure 3.2. **CPI for Philadelphia CMSA, 1991-2001**



Source: Bureau of Labour Statistics.

External trade and foreign direct investments

Philadelphia's external trade sector, while large in absolute dollars, is not as large a portion of the local economy as it is in Montreal (consistent with the relative sizes of the external sectors of Canadian and the U.S. GDP). In the early decades of the U.S., Philadelphia was one of the largest and most important international shipping ports in North America. A multitude of factors have diminished Philadelphia's role in international trade and shipping. While there was no complete international trade data for Philadelphia, the international sector, especially exports of goods and services (in addition to international airline passengers), has been increasingly a focus of Philadelphia's public policy since the mid 1990s. This represents a change from earlier periods, especially with respect to the river ports. While Philadelphia's politicians generally supported NAFTA, and the Act is credited with some of the increase, its impact is clearly greater in Montreal.

Philadelphia's two international "ports" are the Ports of Philadelphia and Camden and Wilmington (shipping) and the Philadelphia International Airport. Both experienced increased international activity in the late 1990s, after (1) significant (and continuing) investment in public and private infrastructure improvements and (2) relatively small attempts to regionalise part of the governance. A third international commerce "gateway" is provided by a southern terminus of the Canadian Pacific Railway (CPR) rail system. The combined Delaware River Ports of Philadelphia – Camden, Wilmington and New Castle (Delaware) – handled over 66 million total tons of cargo (domestic and foreign) in 2001; ranking it 9th among the U.S. ports. As the major east coast petroleum importing port, the combined ports handled nearly 44 million tons of foreign cargo (97% imports), also ranking it in the top ten at the national level. The aggregate port activity (and its contribution to the GNP) of the Philadelphia region, while large, is generally underestimated by the public and policy-makers, who tend to view it as an outdated, "yesteryear" mode of commerce.

Domestic and international passenger and cargo activity in the Philadelphia International Airport (PIA) increased significantly during the 1990s and early 2000s. Total tonnage in 2002 was, however, unusually high at over 570 000 tonnes (compared to less than 300 000 tonnes in 1993). Furthermore, international cargo activity grew more than seven-fold from 1993 to 2002: from under 20 000 tonnes to nearly 140 000 tonnes. Passenger traffic (enplanements and deplanements) grew from 16.5 million in 1993 to 24.8 million in 2002 and international passenger traffic nearly tripled over the same time period: from 1.2 million to 3.2 million. The overall air passenger and cargo activity is growing significantly and is considered a very positive economic improvement in the region. Over 1 billion USD has been invested in PIA's infrastructure, significantly boosting its capacity and cost competitiveness. PIA's proximity to some of the country's largest airports in New York, Newark and Washington D.C., considered by some as a limitation to the growth of PIA, has not kept aggressive efforts from increasing Philadelphia's share of this huge market.

Poverty

Both Montreal and Philadelphia metro areas appear to have a disproportionate share of the region's poverty households locked in the central cities and the older nearby suburbs. Interestingly, the observed concentration of poverty in the central cities (independent of racial and ethnicity factors) may be a self-fulfilling prophecy for both cities: under the "flight from blight" hypothesis, greater concentrations of poverty should cause faster suburbanisation than otherwise might occur. While the U.S. and Canada calculate different measures for poverty, it does seem that the two metro areas share roughly similar experiences with regard to two key questions: (1) are the number and share of poverty households growing or shrinking, and (2) is there a distinguishable spatial pattern to the distribution of poverty households within each metro area? In addition, small but definite pockets of concentrated poverty can be found spreading throughout the metropolitan areas. In both metro areas, smaller, older and poorer areas can be

seen scattered across the suburban landscape. However the data clearly suggest further geographic segregation across income levels in both metro areas.

Housing

For several demographic and economic reasons, the housing markets in the U.S. have shown significant growth since the mid-1990s. The Philadelphia metro area also experienced this growth, although at a somewhat lower rate. Philadelphia, like Montreal, has experienced significant recent increases in demand for downtown housing, resulting in rising housing prices combined with record levels of new suburban construction (as well as some new construction and conversion in the city). There is currently a major concern in the U.S. as to whether there is a "housing market bubble". However, in spite of the large increase in housing prices throughout the region, most real estate experts do not consider the Philadelphia residential real estate market to be overbuilt.

Main challenges of the metropolitan area

Philadelphia's intra-metropolitan changes over the past several decades are similar to those witnessed by most older North American cities: central city population declines (absolute and relative), significant suburbanisation of the population and businesses (and, more recently, "sprawl"), reduced population densities, increased racial/income/ethnic segregation in housing, increased land use per capita and per family, declining investment in housing and business infrastructure, increased use of the automobile, and the relative decline of mass transit utilization. Currently, the Philadelphia region is facing two overriding concerns regarding its future: slow population growth[41], especially relative to the rest of the country and its northeast neighbours, which is seen as a prime indicator of its "uncompetitive" economic position; and slow employment growth and the corresponding lack of job opportunities, especially for the current citizens, potential in-migrants, and children (as future employees).

Many policy makers, public policy analysts, community advocates, interest groups and business coalitions actively advocate for what each deems the appropriate "direction" for the Philadelphia region. As in Montreal, people in Philadelphia talk about a focus on improving the "quality" of life in the region rather than making the region larger (more populous). Many declining cities and regions mention preference for "quality" over population growth. However, in a society with free and mobile factors of production and capital, higher quality should lead to an increase in quantity. A more attractive location should result in greater domestic *net* in-migration as well as greater international immigration. It is difficult to imagine a situation where a city is significantly "better" but that has no impact on the locational decisions of people and firms.

Institutional framework of the metropolitan region

Philadelphia's metropolitan political structure is fairly standard for an older U.S. city that completed its annexation before the advent of the automobile, and hence has well-established suburban jurisdictions surrounding the central city. The City is contiguous with its county, so all municipal and county functions are included in the "city" budget (overall operating budget for FY 2003-2004 is approximately 3.2 billion USD). The public school district is also contiguous with the city limits, but has its own budget and taxes separately (overall operating budget for FY2003-2004 is approximately 1.6 billion USD). Outside of the city limits, county governments play a relatively more important role in the public sector, with some strong township and municipality roles. Suburban school districts typically encompass more than one township. Suburban residents will typically pay property taxes for township, county and school district services in overlapping jurisdictions.

The state's role in providing public services at the local level includes transportation (transit and roads), subsidisation of public health care, social services, public education and court/justice operations. The amounts allocated are typically determined by legislatively constructed aid formulae, based on either per capita distribution or a redistributive method (per capita weighted for low income, etc.). The state's role in funding and providing state and local services is relatively small compared to that in other states. A greater portion of non-federal government services received by Pennsylvania's citizens is provided (and funded) at the county and local level. One important implication of this is that differences across jurisdictions within the state are magnified, making it even harder to co-operate in economic development since there is significant intra-metropolitan competition facing local governments.

Philadelphia's geographical positions is another important characteristic, shared by only a few other metropolitan areas in the U.S., that influences the public sector's role in the regional economy. Philadelphia sits near the borders of three states, and its metropolitan area encompasses parts of all three. Most of the economic development policies described in this comparison report deal with the state of Pennsylvania and its subdivisions, which make up the bulk of the metropolitan area. Yet, even this is an example of the politically fragmentation of the region.

Main actors in economic development

There are some significant regional organisations (public, private and public-private) dealing with economic infrastructure and development in the Philadelphia Metropolitan Area. These include the regional transit agency (SEPTA), the regional port authority (DRPA), the regional infrastructure planning agency (DVRPC), and an industrial workforce and productivity entity (DVIRC). All of these have made some inroads into intra-metropolitan policy co-ordination.

Public actors in promoting of economic development

As is true in Montreal, there are a great number of organisations that are involved in economic development in the Philadelphia region. Again similar to Montreal, most are involved in planning activities, encouraging economic development and outside investment, financing real estate development projects, and/or providing some form of technical assistance. It does appear that Montreal has more province-wide entities focused on economic development (relative to local) than Philadelphia has state-wide. These Philadelphia (and Pennsylvania) agencies, detailed in Table 3.2, can be categorised by their primary level of government sponsorship:

At the federal level: Many federal programmes have been developed to encourage economic development in the Philadelphia region. Many programs, like the federal empowerment zone program and Community Development Block Grant, are centred on providing financial resources for distressed areas. These programs are administered at the federal level, primarily by the U.S. Department of Housing and Urban Development, the Department of Labour (workforce development) and the U.S. Department of Commerce, Economic Development Administration and are carried out by either state or local governments.

At the state level: The government of the Commonwealth of Pennsylvania provides resources for a broad range of economic development programs through its Department of Community and Economic Development (DCED), and for workforce development through the Department of Labour and Industry (DLI). The economic development programs include industrial redevelopment, loan and grant financing, high tech/knowledge worker industry subsidies, international trade and tourism, among other areas. The DCED is probably most like Quebec's MFER in its roles. DLI is most comparable to Emploi-Quebec, although other state level organisations, such as the PA Downtown Centre and the Small

Business Development Centres, offer technical assistance and consulting services for specific projects or initiatives.

At the metropolitan level: The Delaware Valley Regional Planning Commission (DVRPC) is responsible for planning transportation and other infrastructure improvements in support of economic development efforts in the Philadelphia region. While significant urban and land use planning activity takes place at the local levels, most of the regional planning, especially in regional transportation infrastructure, is undertaken by the DVRPC. This planning focuses on building the appropriate regional (mostly transportation) infrastructure to meet the needs of an evolving regional economy. Its role in region planning is assured by (and limited to) its required role in determining the allocation of federal funding for transportation and other infrastructure to the region.

At the local level: Each County in the Philadelphia region has a planning commission and economic development agency that devises and administers economic development efforts in their taxing jurisdictions. The City/County of Philadelphia also has a Department of Commerce that primarily invests in infrastructure in support of specific projects in the City. A number of quasi-government agencies, such as the Philadelphia Industrial Development Corporation and the Philadelphia Commercial Development Corporation have been created to work on behalf of the City to target federal, state and local monies for economic development projects in the City of Philadelphia. Some of the larger suburban municipalities have agencies undertaking similar functions, but the counties play the most significant role in the suburbs.

At the sub-county level: There are 60 Community Development Corporations (CDCs) in the City of Philadelphia that provide a wide range of support for economic development in depressed communities, including job training and technical assistance to small business. Certain municipalities (Chester City, Camden, Wilmington, for example) have their neighbourhood development groups and economic development functions (Box 3.1). "Main Street" development organisations, formed to revitalize older main street commercial strips, are common throughout the metropolitan area suburbs.

Box 3.1. Philadelphia Neighbourhood Development Collaborative

Created in 1991, the Philadelphia Neighbourhood Development Collaborative (PNDC) is a collaborative effort of eight foundations and corporations that provide operating support funding, as well as needs-driven technical assistance and training. Current members of the PNDC Funders Committee are the Fannie Mae Foundation, First Union National Bank, The Pew Charitable Trusts, Philadelphia Local Initiatives Support Corporation, Philadelphia Office of Housing and Community Development, PNC Bank, United Way of South-eastern Pennsylvania and the William Penn Foundation. Although governed by the PNDC Funders Committee, PNDC is managed by United Way of South-eastern Pennsylvania.

PNDC has been an important tool for the growth of community development in Philadelphia over the past decade, channelling about USD 9 million in grants to CDCs that operate in neighbourhoods with high levels of unemployment and critical shortages of affordable housing. Since the program's start, CDCs supported by PNDC have developed a total of 1 916 housing units and more than 330 000 square feet of commercial/retail space and community facilities including day care and community centres.

Table 3.3. **Actors in the Economic Development of Philadelphia**

Federal	▪ Small Business Administration ▪ U.S. Export Assistance Center ▪ Main Street Program ▪ Federal Empowerment Zone ▪ U.S. Department of Commerce (Economic Development Administration) ▪ U.S. Department of Housing and Urban Development	▪ Provides loans and technical support to new and existing small businesses, and support to small companies to encourage exporting ▪ Federal initiative to revitalize commercial corridors ▪ Provides financial assistance and technical support to local government for revitalization efforts ▪ Provides financial assistance and technical support to local government for revitalization efforts
State	▪ PA Department of Community and Economic Development & Governors Action Team ▪ PA Downtown Center ▪ Pennsylvania Small Business Development Center ▪ Ben Franklin Technology Partnership ▪	▪ State agency that provides and coordinates economic development resources ▪ Provides financing and technical support for commercial revitalization ▪ Provides financing and technical support to small business ▪ Provides financial and technical support for high-tech development
Metro	▪ Delaware Valley Regional Planning Commission ▪ University City Science Center (located in Philadelphia) ▪ Ben Franklin Technology Partnership (regional office of state program) ▪ Delaware River Port Authority ▪ Greater Philadelphia Tourism Marketing Committee	▪ Plans and ranks projects for federal transportation infrastructure funding ▪ Provides financial assistance for specific development projects ▪ Coordinates local plans for region's infrastructure development/land use planning ▪ Funds wide range of economic development projects in PA and NJ ▪ Regional tourism marketing and promotion
County	▪ County Economic Development Corporations ▪ County Planning Commissions ▪ Philadelphia Industrial Development Corporation ▪ Philadelphia Community Development Corporation ▪ Philadelphia Department of Commerce ▪ Innovation Philadelphia ▪ Workforce Investment Boards (WIB) ▪	▪ Provides financial support for land development and commercial development ▪ Establishes needs for local infrastructure improvements/land use planning ▪ Administers funding and provides technical support for commercial development in City of Philadelphia ▪ Provides financing for targeted economic development efforts ▪ Financing and support for High tech/knowledge industry in region
Sub-County	▪ Community Development Corporations ▪ Neighborhood Improvement Districts	▪ Administers funds and provides technical support for business and community development ▪ Tax or otherwise public supported geographic districts with local business participation

A number of county development agencies and regional organisations such as the Ben Franklin Technology Partnership (which is really a state program carried out at the regional level) provide financial support for specific development projects and business start-ups throughout the region. The (bi-state) Delaware River Port Authority (DRPA), responsible for the operation and maintenance of the Philadelphia area toll bridges between Pennsylvania and New Jersey, had its contract recently modified to allow

"economic development" activities. It now ranks as one of the most important economic development entities in the area, with substantial fiscal resources (proceeds from a 300 million USD bond issue supported by bridge toll collections).

The greatest difference between Philadelphia and Montreal can perhaps be traced to their respective metropolitan governmental organisations. On the one hand, Montreal has made significant inroads in establishing metropolitan-wide governmental organisations that have responsibilities and resources for region-wide economic development and planning activities. If successfully implemented, the Montreal Metropolitan Community initiative, may prove to be more efficient than the current patchwork of competing economic development bodies. Its "mandate" is to prepare a regional economic development plan although it remains to be seen what that plan will entail, how it will be agreed upon, and more importantly, how it will be implemented across divergent community and political interests. On the other hand, though discussed heavily and advocated mightily, no such regional bodies have been established in Philadelphia, except perhaps for the DRPA. Even the DRPA is primarily limited to the port and waterways of the region, and its economic development mandate is not all encompassing. What little "local strategic planning" related to economic development that does take place is devised and carried out at the local levels. The lack of an official regional governmental planning body (besides DVRPC), with authority and resources, has resulted in the triumph of competing political interests and a significant lack of regional coordination in strategic economic development planning and implementation at the regional level. Politically-driven interests are more responsive to the immediate (or identifiable) demands of citizens. Such demands may well be short-sighted from a regional point of view.

Recently, several governance issues have come to the forefront of political discussions in the Philadelphia Metropolitan Area:

- The Governor has proposed sweeping tax reform designed to shift a significant portion of funding aimed towards public schools from its current source of local real estate property taxes to the state income tax, along with a greater redistributive formula for state education aid. At this time, the state legislature appears to have settled on a less robust version.

- The state legislature has assumed control of the Philadelphia Parking Authority and the Pennsylvania Convention Centre Authority (Philadelphia's convention centre), shifting allocation and policy decision making to the state.

- The DRPA's mandate was expanded in the 1990s to include a wider range of economic development activity, no longer restricted directly to port-related activity.

- Port Unification efforts to merge the Ports of Philadelphia with the South Jersey Ports achieved partial success in the 1990s as certain functions of the ports (marketing and main channel dredging, for example) were officially combined, eventually as a subsidiary of the DRPA.

Private corporations

There are a number of banks, venture capital organisations and large corporations that are involved in economic development in communities throughout the Philadelphia region. Spurred by federal Community Redevelopment Act (CRA) requirements, banks and other depository institutions typically work in partnership with public agencies to provide financial support for neighbourhood business development. Many large companies also provide financial support primarily for (aesthetic) infrastructure improvements and workforce development in their communities. Some corporations are also active in providing financial and technical support to community development organisations. The Philadelphia Plan partnership is an outstanding example, with nearly a dozen corporations taking advantage of state corporate

income tax credits (1 USD for 1 USD) to provide financing for specific community development groups, all in Philadelphia.

Private business organisations

As is common throughout the U.S., various chambers of commerce represent regional and local business interests in the public policy arena. In the Philadelphia area, the chambers are based on geography (*e.g.* Northeast Philadelphia, West Philadelphia, and Chester County) or other common links (*e.g.* African American and Hispanic chambers). In recent years all of the various chambers have attempted to work more cooperatively with the local governments and the public economic development entities. Of course while these chambers are primarily membership organisations, they do serve as important business group voices in the making and evaluation of public policy on economic development.

The largest and most influential in the area is the Greater Philadelphia Chamber, which is the successor entity after a recent merger with the Greater Philadelphia First (GPF) organisation. The latter was considered for years the premier, exclusive and most influential business organisation in the region. In recent years, the relative importance of the largest Philadelphia corporate business chiefs declined as outside mergers, consolidations, bankruptcies and multiple geographic locations dissolved the direct links between business and Philadelphia. The merger of GPF into the Chamber last year and the Chamber's selection of the outgoing state governor as its new president have increased its importance in public affairs. Major issues addressed by the Greater Philadelphia Chamber of Commerce include cuts in Philadelphia city wage and business taxes, medical malpractice reform and Pennsylvania's "brain drain". The majority of the chamber's members are small businesses that have fewer than 100 employees (85% located in Philadelphia County and the surrounding four counties.

Public-private partnerships

The Philadelphia Metropolitan Area is home to many public-private efforts relating either directly or indirectly to promoting the economic growth and development of the region and its various components. In certain cases, the initial impetus for the partnership came from the public sector; for others, private industry, and some were *de novo* efforts, while others evolved from previous efforts. In virtually all cases, the public-private partnerships are recognized as important regional players in their respective areas of activity, and as such their efforts can help influence not only public policy, but also private (corporate and individual) behaviour.

However, public private partnerships cannot be expected to solve every urban development problem, nor are they automatically and easily implemented. They may be more effective in the implementation of real estate development projects rather than as policy development or advocacy tools. It is difficult to determine how much "coordination" will help and whether the mix of public and private in economic development is "appropriate" in Philadelphia (or any place for that matter). It may generally be better to have less government involvement in the form of taxing and regulating, and more in the form of infrastructure and serving as a "market-maker" to bring interested parties to the table.

Such partnerships are, in many instances, strongly encouraged by state, county and local governments, although most do not carry with them any legal or official binding, nor do many receive direct government funding support. Instead, many of these efforts engage in activities that are subsidized by both private businesses and, at least indirectly, by the various levels of government (via tax exemptions or acknowledgement of status). Partnership efforts are found in various sectors, including environmental action and smart growth advocacy, such as Pennsylvania Environmental Council (PEC) and 10 000 Friends of Pennsylvania.

Policies to enhance economic competitiveness

As noted above, the overriding concern in the Philadelphia region (and especially in the city) continues to be its slow population growth, especially relative to the rest of the country and its northeast neighbours, which is seen as a prime indicator of its "non-competitive" economic position. The second (and obviously related) significant concern is the slow employment growth and corresponding lack of attractive job opportunities, especially for the current citizens, potential in-migrants, and children (as future employees). The ramifications of these economic conditions are clear: standards of living decline, relatively at first, and then absolutely. As is true in Montreal, a significant amount of public and private funding is being directed to address these concerns.

Enhancing economic competitiveness, at the state and local levels (not at the national level), requires an understanding of the nature of and reasons for the existing lack of competitiveness. In general, a metropolitan area fails to be economically competitive when other jurisdictions, whether nearby or far away, exhibit greater population growth, employment growth and opportunities, greater numbers of business start ups, expansions and relocations, greater investment, and higher growth rates of personal income and standard of living.

There is a debate as to the most effective fundamental approach to addressing the lack of competitiveness of the region's economy. Some argue for more active government and public-private initiatives to counter the relative weakness of the region as a location for investment or business start ups. Others argue for less government intervention into the economy, asserting that one of the main disadvantages of the region is its large aggregate of governmental sectors (and corresponding high tax burdens), which impedes private economic growth, either through inefficiency in service provision or objectives of income redistribution. In fact, one of the key issues in the current mayoral campaign is the extent to which the city can reduce its onerous wage tax rate. It appears, however, that most economic development efforts in Philadelphia, like in Montreal, anticipate a larger public sector role than currently exists. In other words, a higher number of or more powerful government programs are typically devised to address economic woes. While the debate continues as to the appropriate mix of public and private roles in economic development, almost all interested parties consider *the lack of coordination* in planning and economic development across the metropolitan area as a negative factor hampering economic growth. This view has provided the underlying basis for "regionalism", the relatively new thrust of economic development from a regional vantage point.

Key issues to address in the Philadelphia region with regard to the lacklustre economic growth of the region are the absence of a unified structure for strategic planning and a vision of the entire region; absence of harmonisation and multiplicity of decision centres; and insufficient "concertation" between public and private sectors. For example, most planning and economic development programs are handled at the sub-county (including municipal) level, and intra-metropolitan competition has led to what many believe have been suboptimal (from the viewpoint of the entire region) business and investment location decisions and excessive public sector subsidization. The sole exception to this rule is the DVRPC, but even that entity is limited in its ability to plan regionally and direct resources in an optimal manner. There are relatively few metropolitan-wide efforts with regard to land use planning, the identification of undesirable functions/utilities, and the rationalization of government subsidies for location or business growth. Finally, a recurring theme in the Philadelphia area has been the perceived lack of business participation and "civic leadership" in shaping and implementing "good" public policy.

As is true in Montreal, many current public and private efforts in the Philadelphia region seek to address these fundamental issues. Some are reconstituted versions of earlier initiatives, and some represent brand new approaches. Some look to increase the co-ordination and co-operation across different jurisdictions and many apply to a single jurisdiction. In many cases, Philadelphia and Montreal have

similar economic development policy initiatives. The following are some economic development policies undertaken in the Philadelphia region.

Enhancing human capital

Although not directly considered a function of economic development under the existing structure of government, public education is increasingly being viewed as a key to economic strength and growth for cities and metropolitan regions. Pennsylvania is currently looking at legislation to increase the state's share of funding to public education, and reduce reliance on local property taxes. In the Philadelphia Metropolitan Area, low performing schools and students are found disproportionately in the central cities of Philadelphia, Chester and Camden[42]. There are at least two underlying problems with the current state of public education in the Philadelphia Metropolitan Area:

- *Efficiency*: Under-educated children represent a low-skilled labour force, and hence a lower level of productivity in the region than could otherwise be the case. With the strong national and international competition facing cities and states (and countries) today, an underperforming workforce can be a liability.

- *Equity*: Within metropolitan areas, the issue of fairness in educational opportunity is another major concern, independent of the efficiency issues. In U.S. inner cities, children are often from low socio-economic backgrounds and represent disproportionately minority groups. They often receive poorer education than their suburban counterparts, and are therefore relatively less prepared for the workforce and economic opportunities than them.

As is reported about Montreal, Philadelphia is home to many colleges and universities, and is a top-tier medical education and research centre. The higher education institutions represent a significant export industry for Philadelphia. One of the areas of great current public policy concern is how to leverage these assets better, to obtain a greater income, investment and employment return from the existing base.

Workforce development programs in the U.S. tend to be funded at the federal (and to a lesser extent, state) level with input from the local level on how to spend the funds. Relatively little local public funding is allocated to workforce development. During the 1970s, the Comprehensive Education and Training Act (CETA) program was the main federal workforce development effort. It was largely considered ineffective, and was replaced legislatively by the Jobs Training and Partnership Act (JTPA). During the 1980s and most of the 1990s, the primary federal JTPA workforce development programs were administered at the county level by Private Industry Councils (PIC). The councils were early examples of public private partnerships, with Boards of Directors coming from both government and private industry. PICs allocated funds for profit and not-for-profit labour training programs and to companies for on-the-job (OTJ) training.

In many jurisdictions, the PICs suffered from not being considered part of the economic development team. This changed dramatically during the late 1990s as economic development officials heard greater concern about the quantity and quality of labour supply from the business community. At the same time, the PICs loosened up their restrictions against specific job training and OJT, which made their programs more helpful to economic efforts. By the end of the 1990s, Workforce Investment Boards (WIB) replaced the PIC as the mechanism for determining federal and state workforce development funding programs at the local level. The WIBs were designed to increase the level of private sector involvement. In Philadelphia, the Philadelphia Workforce Development Corporation (PWDC) is a newly reconstituted entity that administers the WIB programs (along with any other city and state workforce programs). It is seen as being much more responsive to business needs than was the old PIC.

One additional workforce development area where Philadelphia seems to have an advantage over Montreal is the use of and coordination with (in the area of labour training) region wide community colleges as a key component of economic development policy. This is the result of strong leadership in the community college system and their connection to the economic development world via the PICs and now the WIBs.

Geographic incentive zones

Similar to the economic development zones in the Montreal Region, the Philadelphia region has created zones to spur economic re-development in declining areas suffering from years of business disinvestment. In almost all cases, the zones encompass areas located adjacent to high poverty and high unemployment level neighbourhoods. In theory, lowering the cost of operating a business (or increasing the return on investment) in these depressed areas will leads to revitalization of the areas. The key, of course, is the size of the subsidy, and whether it is sufficient to induce economic activity in a particular location that would not have occurred there otherwise. Philadelphia has four types of zones, each offering an increasing amount of incentives for businesses to locate and invest in plant and equipment, as well as incentives to increase employment. There remains some disagreement about the success of these zone programs. The most successful (relative scale only) appears to be the Keystone Opportunity Zones (KOZ) program. It has by far the largest subsidies to business location and expansion. There remain strong advocates for the other zone programs (including, of course, those hired to administer them), but it is hard to make a case that they have been significantly effective (Box 3.2.).

Box 3.2. Four type of incentive zones in the Philadelphia metropolitan region

State Enterprise Zones. These zones were established by state statute and administered locally. Funding is provided for zone managers, and (relatively small) incentives are available for firms expanding in or relocating to the zones. Such incentives include a discount on electric bills, reduced interest rates on subsidized public loans, and access to the zone manager for assistance. The incentives are ultimately dependent upon the state allocating sufficient funds each year, and overall the incentives are considered meagre. This is an example of a program that has become more of a bureaucratic hanger-on than an effective economic development initiative.

Federal Empowerment Zones. In the mid 1990s, Empowerment Zones became the one of the main Federal Government urban redevelopment initiatives. Philadelphia, jointly with Camden, New Jersey, was one of 10 cities selected nationwide in a very competitive process. The thrust behind the *Democratic* Party empowerment zone approach (to differentiate it from the *Republican* "opportunity zone" approach) was to add in social service and job-training components to the standard tax incentives. Philadelphia/Camden zones, based on Census tracts, were allowed a total of 50 000 residents, a relatively small portion of the cities' combined populations of nearly 1.6 million. The two cities received a total of 100 million USD and businesses in the zones received tax incentives such as a wage tax credit and accelerated depreciation. Unfortunately, the strongest incentive, a federal corporate income tax credit for wages paid in the zone applies only to those hires who are *residents* of the zone. Given the relatively small population in the zone (many of whom are children, elderly people or those already working), this incentive has proven weak. Overall the program is described as a success by its advocates, and not successful by its detractors.

Box 3.2. (continued)

Keystone Opportunity Zones (KOZ). Modelled after Detroit's Renaissance Zones, the KOZs represent one of the highest forms of public subsidy associated with a depressed geographic area. In exchange for either investing (through new plants and equipment) or increasing employment, businesses have all of their state and local taxes eliminated for a period of 12 years. Counties apply for zones from the state in a competitive process (the first was in 1999, a second round in 2001 and a third round is contemplated because of the strong developer interest). Precisely because KOZ benefits are relatively significant, KOZs have brought to the surface the long-running tension between "general fund" budgeters and economic development officials. By eliminating taxes in certain zones, the state and local governments actually see an initial decline in revenues. This is fundamentally different than the more typical incremental incentives like tax abatement and tax increment financing for spurring economic (mostly real estate) development.

Tax Increment Financing (TIF) Zones. Pennsylvania is one of 48 states that allows local jurisdictions to create special districts in which certain taxes paid by the owners and users of new developments can be diverted from (actually intercepted before going to) the general governmental funds to benefit the development project. Philadelphia utilised TIFs fairly aggressively during the 1990s, as did several of the surrounding jurisdictions (especially for the redevelopment of brownfield sites). The TIF mechanism is currently not as much in favour in Philadelphia at this time, as budget revenue concerns have dominated recent public policy discussions.

Entrepreneurship and business development

The primary public sector economic development strategies and programs are carried out by the Pennsylvania Department of Community and Economic Development, the Philadelphia Department of Commerce, the County Commerce Departments, and the various county industrial and commercial development corporations (IDCs). They typically focus on the three basic objectives: business retention, expansion and attraction. These objectives (and especially the priorities among them) have been the subject of considerable debate, not only in Philadelphia, but also throughout the economic development world. These ultimate objectives are general enough to apply to most cities and metropolitan areas, including Philadelphia and Montreal.

Over time, economic development officials have come up with creative new methods or tools for undertaking these fundamental approaches, and these specific tools have changed considerably over the past decade or so. Philadelphia is one of the leaders in innovative economic development approaches in the following areas:

- *Business assistance*: Philadelphia established a "Mayor's Action Team" to assist businesses when dealing with the city government[43]

- *Industrial/manufacturing assistance*: connecting businesses to labour training and other government programs, including DVIRC training for ISO9000, for example

- *Low interest loans and grants*: to businesses for expansions or upgrading of plant and equipment (and extended to high-tech businesses)

- *Tax abatements*: Since 2001, Philadelphia allows 10 year property tax abatement for new construction – both residential and commercial developments – following a very successful tax abatement program promoting the conversion of obsolete commercial, industrial and institutional buildings into residential apartments in the late 1990s)

- *Marketing the jurisdiction*: Economic development agencies are active in efforts to market the region to businesses across the country

- *International trade promotion* (with the International Visitors Council, the U.S. Export Assistance Center and the newly established Greater Philadelphia World Trade Center)

The Pennsylvania Department of Community and Economic Development, which includes the Governor's Action Team, administers a wide variety of programmes. The programmes range from an online application form (Single Application for Assistance) that allows businesses to apply simultaneously for any number of Pennsylvania's economic and community development financial assistance programmes to the Centre for Entrepreneurial Assistance, the lead agency in Pennsylvania government for small business development. The centre encourages the creation, expansion and retention of successful small, women-owned, and minority-owned businesses. The Department of Economic and Community Development also provides access to 16 state- and federally-funded Small Business Development Centres and offers demographic information on Pennsylvania and its inhabitants, business statistics, information on capital assistance programs for businesses, networks of suppliers, and networks of sales contacts. The Governor's Action Team (GAT) is an implementation arm for this department and does not build policy vision. It helps businesses access government subsidies. The GAT coordinates its activities with city and county agencies, so on net it probably reduces the aggregate public sector subsidies to businesses for relocation and expansion, and diminishes (but does not eliminate) the amount of businesses playing one jurisdiction against another with regards corporate location.

Strengthening university-business linkages

Philadelphia, like Montreal, suffers from a weakness in university-business relations. To address this problem, several organisations have either modified their approaches or have been established to link the public, private and educational institution sectors. They include:

- *Ben Franklin Technology Partnership (BFTP):* BFTP is one of the nation's largest state technology development programs. It has a budget of 56.3 million USD. The development authority provides technology development grants and invests in university research; it also offers flexible financing and investment opportunities to technology-oriented businesses.

- *The Science Centre (formerly the University City Science Centre):* The first and one of the largest urban technology parks in the world, the Science Centre aims to provide added research space for companies that want to be in close proximity to the University of Pennsylvania and Drexel University and to promote economic development in West Philadelphia. Its major roles are to serve as an advocate for the knowledge industry (*e.g.* bio-informatics and nanotechnology); to develop and manage technology parks; and to commercialize new technologies and innovations. The Science Centre has 34 academic institutions in its network, which includes national and international organisations.

- *BioAdvance*: BioAdvance was established develop the life sciences industries by transforming the region's strengths in biomedical research and development into commercial opportunities.

- *Innovation Philadelphia (IP)*: IP was established in 2002 as a public-private partnership supported by the City of Philadelphia and the state of Pennsylvania. Its mission is to enhance the global innovation economy of Philadelphia through technological leadership. One of IP's first major initiatives is the Road Map to Growth—a collaborative effort with the Greater Philadelphia Chamber of Commerce and the City of Philadelphia, and the support and expertise of New Economy Strategies and the University of California at San Diego's Centre for Regional Innovation Studies. The Road Map articulates regional competitive advantages and identifies unexploited opportunities[44].

River/waterfront redevelopment initiatives

As with many other North American cites that grew up as ports, and used rivers for sources of power, modern day uses tend to be less industrial and more recreational and aesthetic. Philadelphia is located between two rivers, the Delaware and (one if its tributaries) the Schuylkill. As noted above, it is considered an inland port, located approximately eight hours from the mouth of the Delaware Bay. Both rivers were vitally important in the commercial development of the city from its founding in the early 17th century until the middle of the 20th century. The Delaware River remains an important commercial waterway today, but its relative importance has declined significantly. The Schuylkill was a source of direct power as textile mills lined its banks, and indirect power as it was a major route for transporting Pennsylvania's vast coal resources to the rest of the world.

Schuylkill River. Environmental cleanup and regulatory activity remains strong on both rivers. One generation ago, the Schuylkill was grossly polluted, but it has been significantly restored over the past few decades. Recreational uses, including boating and adjacent biking/hiking trails have been developed, largely (but not exclusively) funded by the public sector. Further into the City, the East (now Kelly) and West River Drives straddle the Schuylkill River and are considered some of the most beautiful recreational riverfronts in the country. They are part of the city's Fairmount park system, and are extremely well utilised.

Manyunk. This is an old textile centre that has been transformed into a trendy regional retail and dining destination (and is becoming a stop for tourists, too). A project is currently underway to refurbish the old Manyunk Canal (originally built for towing coal barges around the river rapids) into a tourist and recreation asset.

Delaware River. In the late 1960s, a large, deteriorated section of the Delaware riverfront adjacent to the centre city was demolished and a riverfront plaza was developed. At the same time, an Interstate Highway was built between the river and the downtown. Unfortunately, this highway was only partially sunken, and only partially (cost savings measures) covered, creating a huge physical and emotional schism between the city and its riverfront.

Much of the economic development activity along the riverfront has been hindered by the inability to connect the city to the riverfront, thereby making commercial ventures appear too risky. In the 1990s, several new developments (hotels, residential apartments and tourist attractions) have been built, and both Philadelphia and Camden are currently weighing additional development proposals for both sides of the Delaware. At the same time, a proposal to cover over the Interstate Highway is gaining some traction in the planning community.

Tourism and convention development efforts

In the past few years, Philadelphia has revamped its travel and tourism marketing and promotion efforts, and the region has witnessed increased cooperation among the city, the suburban counties and the state in promoting tourism. In the late 1990s, the Greater Philadelphia Tourism Marketing Commission (GPTMC) was established, shifting resources and responsibilities out of the Tourism Division of the Philadelphia Convention and Visitors Bureau (PCVB), and combining the efforts of the Pennsylvania suburban counties. An additional 1% hotel tax was also enacted, the proceeds of which are dedicated to the GPTMC marketing efforts. In addition to the National Park Service and the Pennsylvania Department of Tourism, several other public-private organisations work cooperatively with the GPTMC in promoting greater tourist activity. These include the Independence Visitor Centre Corporation (IVCC), Historic Philadelphia, Inc. (HPI), and the Greater Philadelphia Hotel Association.

Recent activity was based in earlier public sector investments in infrastructure. In a related effort in the early 1990s, Philadelphia and Pennsylvania also invested significant public funds in boosting the convention and trade show activity. Philadelphia was one of the last cities to join the "modern" Convention Center league. The site of Legionnaire's Disease in 1976, the city's convention market virtually dried up overnight. Until 1994, the City's main convention Centre was a depression era relic, the old Philadelphia Civic Center, which was inadequate to accommodate modern conventions.

Compounding the earlier dearth of convention activity was the city's low and rapidly deteriorating inventory of hotels. With the opening of the new Pennsylvania Convention Centre in 1994, the City began an aggressive subsidy program to convert obsolete commercial office buildings into hotels. This effort was dramatically successful, and not only were important architectural gems saved throughout the downtown area, but also the room inventory rose significantly, from approximately 7 000 rooms to over 12 000. Hotel supply also increased in the airport area and, to a lesser extent, in some of the suburban areas. Hotel occupancy has also increased, and this has added to hotel tax revenues, which are primarily used for the convention centre debt service and convention and tourism marketing. Hotel occupancy *rates* have also been relatively high (given the huge increase in supply), but recently the rates have been dropping because of (primarily labour) problems leading to reduced convention centre bookings. In the past month, new labour agreements were hammered out and the outlook is much brighter.

Film and music production

Film, music and video production has been a small but growing portion of the region's economy. A 2001 report by E-consult Corporation estimated the economic impact of the film industry alone during the 1990s to have been nearly 200 million USD. The promotion of the film industry is the main objective of the Greater Philadelphia Film Office, a public-private partnership. Its Board consists of public, private not-for-profit and private industry leaders. In addition to promoting the Philadelphia region as a site for motion picture and video production, they act as a liaison between the production companies and the local governments to ensure smooth operations and minimize regulatory or location problems. They also provide a "market" facilitating supplier and demander interaction and maximizing the dissemination of industry information. The music production industry is also relatively small, but an important component of the creative arts sector for the City.

Expanding transportation facilities

Developing the mass transit system

While the Philadelphia region continues to witness the ever-expanding role of the automobile and truck as the primary mode of transportation, it benefits from an elaborate mass transit system infrastructure. Not unlike many older North American cities, Philadelphia once boasted a massive streetcar system, developed primarily in the private market place (though with strong – and sometimes apparently even legal – public assistance typically in the form of exclusive franchises) in the late 1800s and early 1900s. Philadelphia was an early builder of the subway, which formed the backbone of the mass transit system. The streetcars and trolleys gradually gave way to the bus, though some trolleys remain (and even new service is scheduled to begin soon on a refurbished line to the Zoo). The South Eastern Pennsylvania Transportation Authority (SEPTA) was created as a regional successor to the city's Philadelphia Transit Company (PTC) and suburban rail lines.

Philadelphia's good fortune was to be the terminus of two great railroads, the mighty Pennsylvania Railroad and the Reading Railroad. After their demise, their lines in the Philadelphia area were ingeniously connected via a new Centre City commuter tunnel in the 1970s, creating an expansive regional commuter rail system. This regional rail system is operated by SEPTA, and connects at key points to the

mass transit system, making the overall system even stronger. The system (subway, trolley, bus and regional rail) connects with Amtrak, New Jersey Transit and PATCO, Delaware Transit, the Centre City PHLASH bus loop and a myriad of private commuter bus systems operated by colleges, companies and residential apartment complexes.

Even with this excellent route infrastructure in place, SEPTA's continuing problem has been an inability to raise sufficient revenues (farebox, commercial development opportunities, and government subsidies) to enhance service delivery, and increase ridership. The governance structure is heavily weighted by Board members representing suburban areas (the City has only 2 votes out of 15). Strong unions keep costs high (the system has weathered several strikes in the past decade), and reduced services have plagued the system in recent years. This results in a "Catch 22": better service is required to raise more revenues, but more revenues are needed to increase service levels and quality, absent productivity increases.

Public interest in transit policy is relatively high, although the automobile dominates the transportation debate. Interested parties have formed organisations to advocate for greater funding for mass transit, for encouraging "transit oriented development" ("TOD") as well as for studying the impacts of public transportation policy on economic growth and development.

One such group is the Delaware Valley Association of Railway Passengers (DVARP), a volunteer group of people interested in more efficient and effective transportation. The DVARP provides information to a wide range of members about public policy and about transit authority activities and advocating for service retention and improvement, as well as service expansion. Other groups, including Pennsylvanians for Transportation Solutions (PenTrans), the Clean Air Council, NJ-Association of Railroad Passengers (ARP) and the Pennsylvania Environmental Council are also active in these areas. A new effort, the Greater Philadelphia Transportation Initiative (GPTI), was recently established and funded by the William Penn Foundation to study the regional transportation system to inform public discussion and public policy.

Improving and expanding the airport

The Philadelphia International Airport (PHL) is owned and operated by the City of Philadelphia. In the 1990s, PHL began a series of major capital improvements, representing over 1 billion USD[45], which continues to this day. These do not include the significant capital improvements added for enhancing security after 9/11. The PHL suffers from being virtually landlocked, and lacking the ability to expand significantly because most of the airport land is outside of the city limits, and Delaware County has for years taken a "no expansion" stance. In an impressive example of interjurisdictional collaboration, the recent inclusion of Delaware County appointments to the Airport Advisory Board has lessened some of the animosity that characterised the relationship. The PHL also suffers from being in the same airspace as New York and Washington, D.C., and obviously being held subordinate to them during any congestion periods. Interestingly, location is also a factor in the number of flights in and out of Philadelphia. With the excellent Amtrak rail service from Philadelphia to both New York and Washington, relatively few people fly from PHL to these two most connected air destinations in the country.

Finally, the airport is dominated (55%) by U.S. Airways, which, with the encouragement of the Philadelphia City Government has dramatically increased its activity out of Philadelphia at the expense of its hubbing operations at Pittsburgh and Charlotte, NC. However, unlike many hub cities, Philadelphia has a significant "O&D" (Origination and Destination) traffic, so it is likely to play a key role in the business plans of any successor to U.S. Airways, if the airline should go out of business in the future.

Comparing Montreal and Philadelphia

There exist many similarities and differences between Montreal and Philadelphia. Aside from obvious differences resulting from their location in different countries and similarities in terms of being large, older cities, many interesting comparisons can be drawn by looking at demographic compositions, underlying institutional frameworks, conscious public policy decisions at the national, state (or province) and local levels, and the national and international competition each city faces. In socio-economic terms, the two metropolitan regions can be compared as such:

- Montreal is a medium size metropolis that has modest population growth; Philadelphia a large metro area with slow population growth;
- Both are dense and concentrated metropolises, but Philadelphia is growing less concentrated more rapidly than Montreal (*i.e.* more sprawl);
- Montreal's centre, the Island of Montreal, remains the economic heart of the region; Philadelphia's Centre City is fighting to remain so in its region;
- Both are metropolises built on a strong system of public transportation, although automobile use is increasing;
- Both metropolises have a greater than average level of poverty concentrated in their central cities (when compared with their respective metro area counterparts);
- Both are metropolises with many colleges and universities and high levels of students per capita, but lower per capita rates of degrees awarded compared to other North American metropolises;
- Both are metropolises with costs of living and costs of doing business among the lowest of all major international cities;
- Montreal has enjoyed economic growth over the past decade, but still has a lower employment rate and a higher unemployment rate than Toronto or Vancouver; Philadelphia has experienced fairly slow economic growth over the decade and lags behind other major U.S. northeast cities in employment growth;
- Both are metropolises whose economies have undergone a transformation towards the tertiary sector, like other North American metro areas;
- Both are metropolises with significant declines in manufacturing employment, but still have major manufacturing activities in high technology fields such as aerospace, biotechnology, new information technologies, and (in Philadelphia's case, life-sciences);
- Both are metropolises characterised by historical and cultural dynamism and attractiveness to tourists;
- Both are metropolises that perform less well in the high level tertiary sector (finance, insurance, and real estate) than their respective competitors;
- Montreal is a metropolis with a high level of exports, particularly to the U.S. – Philadelphia has a much smaller, though growing, international export sector.

Both metropolises have many actors in their respective economic development arenas. A main actor for Montreal is the Quebec government, which defines economic policies for the province that are in turn anchored at the regional and local levels. The state of Pennsylvania, while an important economic development actor in the Philadelphia region, shares its main role with county (including especially the city/county of Philadelphia) development agencies and the (bi-state) Delaware River Port Authority. Under the newly elected Governor (the former Mayor of Philadelphia), the state's role could increase.

Both metropolises employ a wide range of economic development policies and initiatives, covering a variety of economic development components, based loosely on the idea of identifying and building upon

the respective area's economic strengths and comparative advantages. In both areas, too, the private sector has increasingly become partners with the public sector in economic development. Ironically, this more solid partnership comes at a time when the private sector's portion of each metro area's GRP and employment is shrinking.

Interestingly, one of the perceived key problems for overall regional economic development plagues both Philadelphia and Montreal. The Montreal report notes that most of Quebec's actions are taken in the context of economic regions that do not correspond to the metropolitan territory. There is, consequently, no single metropolitan strategy. The lack of a strong state role in the Philadelphia area (along with its history of fiscal federalism and increasing personal mobility) has increased local government fragmentation and resulted in a substantial lack of coordination in economic development planning, and implementation.

That caveat noted, in regional coordination of economic development activities, Montreal may be a bit more advanced than Philadelphia, but that may well be due more to the regional and provincial public structure than any set of initiatives or qualified actors. Policies aiming to improve the business environment in the region are likely to be more effective than policies that target specific industries or businesses. Also, joint marketing efforts are more likely to be successful if they include a wide range of players (geographic and by business type). The marketing message should be broad, in order to achieve a consensus among sponsors.

In the future, to maintain or reinforce the economic status of their metropolitan regions, both Montreal and Philadelphia governments will have to:

- Perform better and improve their productivity (both private and public sectors);
- Reinforce (improve and build upon) their human capital resources;
- Maintain and strengthen their advantages in the high technology sector, notably in new information technologies for Montreal and life sciences for Philadelphia, while investing resources in other potential growth sectors such as culture and tourism;
- Identify specific entities and programmes when developing public policies;
- Improve the quality of life (increase the standard of living) of their citizens;
- Identify ways for the different jurisdictions in the metropolitan areas to work more co-operatively, especially in the economic development arena. Philadelphia has made some strides in this area, but there remains a significant rift between the city and its suburbs;
- Improve networking and collaboration across the industry-academic and public sector "divides";
- Identify new ways the local governments can work co-operatively with the state (provincial) governments to minimize the amount of detrimental intra-metropolitan competition, while preserving the efficiency-enhancing attributes of keen competition among jurisdictions.

NOTES

1 The metropolitan area definitions used by BEA for its personal income estimates are the county-based definitions issued by the Office of Management and Budget (OMB) for Federal statistical purposes. OMB's general concept of a metropolitan area is that of a geographic area consisting of a large population nucleus together with adjacent communities having a high degree of economic and social integration with the nucleus. OMB recognizes two sets of metropolitan areas in the New England region. The first set is defined in terms of cities and towns; the second set, which is used for the estimates presented here, consists of the 12 New England county metropolitan statistical areas (NECMAs). Outside of the New England region, the metropolitan areas consist of 58 primary metropolitan statistical areas (PMSAs) and 248 metropolitan statistical areas (MSAs). The PMSAs and one NECMA are grouped into 17 consolidated metropolitan statistical areas (CMSAs). The 318 metropolitan areas consist of the MSAs, PMSAs, and NECMAs.

2 The U.S. Department of Commerce Bureau of Economic Analysis estimates the 2001 13-county population at 3.025 million, 13th of the 318 Metropolitan Statistical Areas in the nation.

3 Many data in this section comes from the Metropolitan Council's webite: www. Metrocouncil.org

4 There were 689 census tracts in 2000 and 606 in 1990.

5 13-county 2001 GDP (USD 128.06 billion) divided by the Minnesota Department of Employment Security's estimate of the number of employed persons in 2001 (1,762,992).

6 Licenses fall principally into four categories: human health and veterinary medicine, agriculture, food and biotechnology, engineering and physical sciences and software and information technology. University of Minnesota Office of Technology and Patents Marketing.

7 See www.entrepreneur.com/bestcities/citiesranked (as of 7/21/03).

8 Data from the U.S. Department of Education, National Center for Educational Statistics, National Assessment of Educational Progress and Metropolitan Council, Regional Indicators.

9 . Metropolitan Council, Regional Indicators

10 A 1999-2000 Twin Cities' residents survey revealed that the main weakness perceived is transportation. Thirty-four percent said that congestion and development issues are the biggest problem facing the region, nearly matching the figure for crime and social issues (39%), and significantly higher than the proportion in a 1997-1998 survey (16%). The second is affordable housing. 20% of polled residents cited this as an issue in 1999-2000, twice as many as in 1997-1998 (Metropolitan Council, 2000*b*).

11 Household wells in rapidly growing suburban communities were being contaminated by septic tanks, and wastewater service was fragmented. The Federal Housing Administration threatened to cease issuing mortgages for houses that were not connected to central sewer service because of contamination problems. These events were the immediate trigger for action that led to the creation of a metropolitan council.

12 The St. Paul Port Authority is a public corporation, created by the legislature to develop a navigable channel in the Mississippi river, oversee riverfront commerce and provide businesses with cleaner sites on which to operate. Air transportation of goods and people takes place through the Minneapolis-St. Paul Airport, augmented by seven regional "reliever" airports. In 1999, the airport served a total

of 113 domestic and 15 foreign destinations and was the seventh busiest in the U.S. in terms of passenger traffic (Metropolitan Council, 2000*b*).

13 See http://www.house.leg.state.mn.us/hrd/issinfo/metgov.htm**.**

14 www.minneapolischamber.org

15 In Minnesota, eleven local governments impose a general sales tax. The city of Duluth and Cook County levy a 1.0% sales tax. The cities of Minneapolis, St. Paul, Rochester, Mankato, Two Harbors, Winona, Proctor, New Ulm and Hermantown levy a 0.5% sales tax. In addition, local units of government may impose a lodging tax (up to 3%), a franchise tax, a tax on aggregate (gravel) production or a charitable gambling tax (with proceeds accruing only to gambling regulation). Minneapolis levies a 3% tax on downtown entertainment, liquor, lodging and restaurant sales.

16 Note that since local school districts are responsible for primary and secondary education, expenditures for education are not included here.

17 See http://www.budget.state.mn.us/budget/capital/index.html**.**

18 See Minnesota Statutes 475.52, 475.53.

19 . C/I property includes all businesses, offices, stores, warehouses, factories, gas stations, parking ramps, etc., as well as public utility property and vacant land that is zoned commercial or industrial. Excluded are properties in tax increment financing districts and the Minneapolis-St. Paul International Airport.

20 Only two significant changes have been made to the metropolitan fiscal disparities programme since its implementation in 1975. One provided for a temporary (to be repaid) additional distribution to the city of Bloomington, 1988-1999, for development of highways serving the Mall of America. A second, in 1995, established a special annual distribution to the Metropolitan Council in support of the Livable Communities Fund, in turn available to municipalities participating in that fund's local housing incentives (Hinze and Baker, 2000).

21 Analysis of the data 1990-2002 yields similar findings.

22 The staff includes analysts, cartographers, demographers, geographers, researchers, and statisticians with expertise in community development, crime and justice, demographics, education, environmental quality and sustainability, geographic information systems, and government.

23 In 2002, the agency handled 350 applications for municipal boundary adjustments, an increase of 85 from 1999. The office also processed 25 power plant sitting and transmission line routing applications, 10 more than in the prior two-year period. More than 1 000 requests for geographic data are satisfied every month. Moreover, the office publishes 15-20 research and analysis reports and presents its findings at many national, state, and local forums. In 2002, the office was assigned to lead, serve on, or staff more than 70 national, state and regional task forces, commissions and working groups.

24 See "Minnesota Planning: Strategic Directions". July 2002. http://www.departmentresults.state.mn.us/planning/planning.pdf

25 See Minnesota Statutes 473.101 Local Planning Assistance**.**

26 See http://www.dot.state.mn.us/newsrels/990826honor.html

27 See http://www.friendsofmnvalley.org/partnerships.htmhttp://www.friendsofmnvalley.org/partnerships.htm

28 The Minnesota Business Partnership consists of the chief executive officers of Minnesota's 100 largest companies. Their mission is to forge a partnership between the public and private sectors to improve the economy and quality of life for everyone in Minnesota.

29 On the short-term track, police and probation officers joined together in June 1997, to make unannounced visits to parolees' homes, discouraging retaliation and repeat offences. Between the summers of 1996 and 1997, the number of homicides declined from 40 to 8. Another significant result of HEALS' work has been the legislative initiatives around an integrated information system that assists 1 100 different criminal justice entities in Minnesota to share information, thereby improving public safety.

30 See http://www.mcf.org/mcf/forum/heals.htm.

31 See http://www.arts.state.mn.us/artsmn/amn2.html.

32 See http://www.dted.state.mn.us.

33 See the Minneapolis Community Development Agency, http://www.mcda.org.

34 See http://www.ci.stpaul.mn.us/business/business-faq.html

35 This figure includes young second- and third-generation immigrant children.

36 In 2000, the automotive industry had a total turnover of € 33.835 billion, making it the sector with the strongest sales, and the export rate was 55.4%.

37 www.region-stuttgart.org

38 Kommunale Pool groups together more than 100 towns, municipalities and counties.

39 Other WRS corporate members include: Südwestdeutsche Landesbank (8 %); Landesentwicklungsgesellschaft Baden-Württemberg LEG (8 %); Stuttgart Region Trade Corporation(2.4 %); RKW Baden-Württemberg GmbH (2.4 %); Stuttgart Chamber of Trade and Industry (1.6 %); IG Metall (1.6 %); Baden-Württemberg Farmers' Union (0.4 %).

40 The Philadelphia PMSA covers 9 counties: five in south-eastern Pennsylvania and four in southern New Jersey.

41 News articles in early July warn of Philadelphia's population falling below that of Phoenix by 2004, dropping what was once the nation's most populous city to an embarrassing 6th place. Local officials responded with proclaimed expectations of growing population.

42 Here and throughout, we note that Philadelphia is not unlike most major metropolitan areas in the U.S. in regard to public education issues and problems.

43 Note the need for one part of government to assist businesses and citizens in dealing with another part of government, rather than having the latter be more citizen and business friendly.

44 IP also recently developed an action plan that seeks to: increase the entrepreneurial economic development resources in the region; increase the amount of pre-seed and seed capital investment; accelerate the rate of commercialisation of market-driven technologies and support university research and technology transfers; increase the research investment in strategic technologies for the regional economy from Federal, State, private and industrial resources; reduce the "brain drain" and assist in the development of a world-class, life-long learning environment; facilitate collaboration among industry, government, academia and non-profit organisations involving key economic initiatives; develop a balanced portfolio of programs that

support retention, recruitment and strategies for the new economy in the region; and enhance the global image of Philadelphia as a leader in the knowledge economy.

45 Investments are broken down into the following: new regional air terminal USD 100 million; new international terminal USD 450 million; new ramp control tower USD 20 million; new aircraft parking aprons USD 50 million; new parking and highway access USD 205 million; existing terminal expansionsUSD 50 million; aircraft de-icing facility USD 50 million; and new fire training facility USD 10 million.

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