

“The Role of General Contractors in Economic Development”

Shari Brown, AICP

March 2019

Presented to

Dr. David Kolzow

and

TCED Advisory Board Members

Creating an environment to attract investment in a community, without contest, is the primary goal of local economic development officials. Through our TCED coursework, students learned about tools that can be used to further this goal. Students also learned that effective economic development cannot occur in a vacuum. Rather, successful economic development occurs when there are engaged partners and established relationships. This paper examines the role that general contractors (GCs) play in the local economic development process. Are there ways for a GC to become a better partner in that process? Can the relationship between the economic developers and GC be forged or strengthened for the mutual benefit of a community and the GC?

Much information exists about the role construction industry plays in both the state and national economy. For example, employment in the construction industry increased 4.1 percent in Tennessee in 2018.¹ The growth rate for nonfarm employment in the Natural Resources, Mining and Construction sector is anticipated to grow by the largest percentage (1.98%) of any sector in Tennessee during 2019 to 2028.² Construction payrolls in Tennessee are forecast to increase 3.4 percent in 2019.³ The U. S. Bureau of Economic Analysis determined that the real value added (the increase in value created by goods or services) by the construction industry increased 8.5 percent in the fourth quarter of 2017 – the largest increase since the first quarter of 2016.⁴

This information demonstrates a tie between construction (as an industry) and the economics of the nation and state. However, how can those within the construction industry work with local economic developers to effect positive change in a community?

This paper examines the relationship between general contracting firms and local economic development programs. Specifically, to learn if there are better ways to coordinate,

determine what services are needed of GCs, examine how valued current services are, what procedures or processes have proven to be effective; and determine if any success stories exist.

Problem Description

There is a growing number of GCs that offer an expanded scope of services called value-added services. Value-added services are those that provide unique and innovative services that clients value.⁵ Since the 2008 recession, it has become increasingly important for GCs to find additional ways to help clients solve problems and make projects feasible. In fact, in what has become the new way of doing business, many of the most beneficial services available are provided before the project even begins. Some of the value-added tools that GCs have added to their menu of available services include:

- Site selection
- Incentive assistance
- No-cost pre-construction services/Design services
- Build-to-Suit-to Lease

Many GCs work for repeat clients and their supply chain which can provide the GC with valuable relationships and let them be the first to know about new construction and expansion projects. GCs provide value-added services to strengthen or maintain their relationship with a client, because the client has confidentiality concerns and prefers the GC act on their behalf, the client does not have the expertise, the client's lack of knowledge of the community (or conversely the GC's knowledge of the community), etc. The relationships developed and maintained in the economic development community by the GC aid clients in the process of

working through the economic development process. These relationships built over the years are extended to clients as they navigate the sometimes-difficult process of site selection, site analysis, incentives, credits, financing (including gap financing) and permitting.

Where do GCs fit into the local economic development picture? What do general contracting firms bring to the table to enhance the local economic developers' ability to create and expand economic opportunity successfully?

How can the relationship(s) with the local officials be broadened and more partnerships created for the mutual benefit of the community and contractor?

How can the contractors' regional knowledge, information about the client(s) and their supply chain, initial contacts (many times before that of the local officials), and potential to fill financial gaps, etc. best be utilized?

Methodology

As little scholarly or trade/professional literature exists on the topic, most of the research for this paper has been in the form of interviews with economic developers, local government officials, GCs, and designers. An effort was made to get input from a cross-section of professionals who have experience on the subject matter. Information was gained in-person, via email and telephonically. The questionnaire used is attached to this document for reference.

Literature Review

In 2007, the Harvard University John F. Kennedy School of Government undertook a study, "The Role of the Private Sector in Expanding Economic Opportunity through Collaborative Action." This article begins with a discussion of Michael Porter and Mark Kramer's term "shared value". Shared value "is not social responsibility, philanthropy, or

sustainability, but a new way for companies to achieve economic success.”⁶ Shared value is different from CSR (corporate social responsibility) as it does not focus on “giving back” but rather “focuses company leaders on maximizing the competitive value of solving social problems in new customers and markets, cost savings, talent retention, and more.”⁷ The report focuses more on the effects of both shared value and CSR in developing countries rather than developed countries and regions; however, there were still a few items transferable to this paper’s topic. One item is that economic growth cannot be achieved without a “vibrant, competitive and innovative private sector.”⁸ The authors discuss a company’s potential to create public value due to economic multipliers that are a “function of companies’ commercial, profit-making business activities” on a national level rather than state or regionally.⁹

A later publication by the Small Business Administration Office of Advocacy (SBA) examines the role of small business in economic development in the United States. Economic development is defined as “fundamentally about enhancing the factors of productive capacity – land, labor, capital, and technology – of a nation, state or local economy”. By using its resources and powers to reduce the risks and costs that could prohibit investment, the public sector often has been responsible for setting the stage for employment-generating investment by the private sector.”¹⁰

A second definition used in the SBA paper defines economic development “as involving both the restructuring and growth of an economy to enhance the economic well-being of people that live in a particular place.”¹¹ This paper provides a historical overview of economic development in the U. S. prior to 1953 including President Franklin Roosevelt’s New Deal Programs – three of which were heavily construction-oriented (the Public Works Administration, National Resources Planning Board, and The Tennessee Valley Authority).¹² The paper later

describes the Public Works and Employment Act of 1977, a program designed to address the nation's highest level of unemployment. This program's "policy focus was on using construction projects to 'prime the economic pump'".¹³ This paper provided some insight into the role that construction has played in governmental programs crafted to stimulate the economy. These same ideas were later repeated in the Obama Administrations ARRA (American Recovery and Reinvestment Act) programs.

Another method of procuring public economic development projects is Public-Private Partnerships (P3s) which most often directly involve GCs. In an article published by The Associated General Contractors, "Public-Private Partnerships (P3s) Overview", the author opines that while P3s present contractors with new opportunities, they also present significant new risks.¹⁴ A P3 is a "contractual arrangement that is formed between public and private-sector partners. These arrangements typically involve a government agency contracting with a private partner to renovate, construct, operate, maintain, and/or manage a facility or system, in whole or in part, that provides a public service"¹⁵. Under these arrangements, the public agency may or may not retain ownership of the public facility or system. Barbour and Heffernan allow that while P3s are gaining in popularity as they allow public entities the ability to utilize expertise and efficiencies of the private sector, the risks of design-build contractors engaging in these projects is increased compared to other more traditional methods of procurement.¹⁶ The authors caution that risks should be carefully analyzed, teaming agreements be carefully negotiated, and that a Special Purpose Entity (a separate business that limits exposure of other entities involved in the project) be considered as an important component of the project team.

Uddin and Zack very comprehensively explain what a P3 project is and address risk allocations in their research paper, "Public-Private Partnership Projects – What, Why & How is

Risk Allocated?” Through their research, they determined that the most thorough definition of a P3 project is ‘...a long-term contract between a government (the local or national government) or government-owned entity...and a private sector party...in which: the public agency leverages the private sector party’s skills and assets to perform all or significant aspects of a project....; the public agency and the private sector party share in some fashion or another the risks and rewards of the project; the public agency retains some measure of control over the project.’¹⁷ The authors examine misconceptions about P3 projects, discuss how these projects are structured, why public owners use P3s, what bidders look for in P3s, and discuss allocation of risks. The authors contend that, as long as the public entity enters a P3 project fully realizing where the benefits lie, with strong community and stakeholder support, a well-organized team, and a clear agreement on the outcomes, P3 projects can provide a public benefit. As this paper concerns the role of GCs in economic development projects, the part of this paper more germane to that topic concerns how GCs view P3 projects. The authors allow that contractors look for a return on their investment, sensible risk transfer, a clear legal and institutional framework, a high level of commitment from key stakeholders, reasonable timeframes and a repeatable project.¹⁸

Questionnaire

Since little scholarly or trade/professional literature exists on this paper’s topic, a questionnaire was formulated and submitted to gain more information. For reference, the questionnaire document is included in the appendix. The questions were posed to regional economic developers, local government officials, GCs, and designers. The questionnaire sought to determine what could be learned about the benefit of value-added services (site selection assistance, incentive assistance, no-cost pre-construction services/design services, and build-to-suit-to-lease) to regional economic developers and local government officials. Information was

also sought regarding items that the GC may present that either enhance or harm the local economic developer's success and to learn how the local economic developer may be able to use a GC's knowledge or tools (other than the value-added tools mentioned earlier). Lastly, the questionnaire asked for examples of success stories involving GCs in the local process.

The questionnaire also sought information from other GCs and design professionals to learn what value-added tools other firms use and to gauge their perceived importance of these tools. The questionnaire further sought to determine what GCs' believe they bring to the table and how they work with local economic developers as far as when they become involved in a project and how their knowledge is used. Contractors and designers were also asked to provide a success story.

The respondents were asked to provide input based on their knowledge and personal opinion. P3 projects are not used very often in this region. For that reason, P3s were not included in the questionnaire.

Seventeen questionnaires were presented either telephonically, in person or via email. Thirteen responses were received. Of those thirteen, one was conducted by telephone, four were in person and the balance were conducted via email.

Responses from Regional Economic Developers and Local Government Officials

An effort was made to gain information from professionals with a lengthy tenure in the profession to learn from their experience. The average number of years the respondents have been in the economic development profession was 26.25 years. They have been in their current position an average of 7.8 years.

When asked to rank the importance of several value-added services provided by GCs, the results were as follows (with one being the most important).

1. No-cost Pre-construction services/design services
2. Build-to-Suite-to-Lease
3. Site selection
4. Incentive assistance

With only one exception (one respondent thought site selection services were more important than build-to-suite-to lease), respondents agreed upon the order noted above.

Respondents were asked to note items GCs bring to the table that enhance the local economic development efforts. Those responses are noted below:

- Engineering expertise (regarding sites/buildings)
- Knowledge of building costs and timelines within our market/region
- Knowledge of subcontractors
- Knowledge and experience with local workforce
- The ability to evaluate sites for the end user's needs
- If contractors are involved early and are present in early discussions, this can avoid the need to have to get back to someone with a reply
- Many times, having a contractor involved gives the project credence and keeps the project moving forward. It helps to have a knowledgeable professional talking to the client about a site or building.

- A GC's knowledge when working with the client to find appropriate sites that are both locational matches as well as access and topographically matched – particularly in the topographically challenged areas of the state is valuable.
- The GC is well suited to provide the visuals that may be necessary to prepare the location for the client. Most sites are not “pre-zoned” and many have a better shot at zoning and incentives with good designs and visuals. Committee members are not typically trained in engineering and site design, so easy to interpret presentations go a long way toward understanding and approvals.
- Initiative to pre-build spec buildings
- Knowledge of potential projects looking for new locations or expansions
- Expertise in site prep and building construction/expansion/upfit costs and time frames

Conversely, respondents were asked to list items that GCs bring to the table that are not helpful to the local economic development efforts. Those responses are as follows:

- Experience in deal-making – Need not be involved in incentive presentations and negotiating (no promises or wrong information provided, please!)
- Knowledge of other project sites- Do not show or mention other sites/buildings without authorization from the locality
- Sometimes a GCs' involvement can become politicized and draw conflict from competing companies
- Don't promise more from the site than you can reasonably expect. Bringing a site design that will need several variances or a major traffic change is probably going to get both the GC/CM and the City into trouble later

- The contractor does have a part to play in incentive discussions, such as cost estimates to help identify funding gaps, but the negotiations typically are through the community/state/utility provider with the site selection consultant or company. If the GC is serving as the site selection consultant, then there is a bigger part to play.
- Once a project begins, GCs work in conjunction with the Industrial Development Authority, and they often engage the GC directly.

Respondents were asked how the contractors' regional knowledge, information about the client and their supply chain, initial contacts, potential to fill financial gaps, etc. best be utilized. The responses are as follows:

- A contractor's regional knowledge and relationships are always helpful for their client and the local community. The GC's supply chain knowledge can assist in identifying strategic locations for the client, plus the use of their relationships with local communities to help leverage support for projects.
- The more you can share with the economic development professional the better. Under confidentiality agreements, they are your best resource to alert the client and GC/CM to partners, incentive opportunities and new sites that may or may not be advertised on the market yet.
- The GC can bring an element of trust to the table because they know the community.
- Combing the different motives (profit for the GC and employment for the community) can create a powerful team.
- The regional knowledge is invaluable. This includes knowledge of building costs, site development nuances, relationships with regulatory officials, utilities, banks, private

investors, etc. Perhaps a virtual spec building program is the best use of their knowledge.

- Can get input from the GC about regional knowledge/clients/supply chain as a way to determine potential prospects for the community.
- Can work with them to be building owner/lessor when locality is not able to play that role (Public/private partnership opportunities).
- When an economic development group realizes that a prospect is a “true prospect” and not a “suspect” it is good to bring all knowledge/resources around the table at an early stage to formulate a plan to ultimately win/land the project.

Most of the respondents replied that they do not approach a project differently if there is a GC involved early in the project. There were; however, a few caveats to that reply. One respondent replied that it depended upon the economic developer’s relationship with the GC. If that relationship is good, the GC’s involvement can expedite the project. If the relationship is poor, it can harm the project. Another replied that it depends upon the size and scope of the project more than the GC firm. Although they do not approach a project differently if a GC is involved early, they would emphasize the need for confidentiality and need to clarify the roles as the project more fully develops.

Lastly, economic developers and local officials were asked to share a success story, if available. One economic developer shared the following story. “We had an automotive tier 1 facility locate in our area. The company started their search looking for a building within the region. After months of searching, they realized they were going to have to go on a Greenfield site. They had a tight timeline to get to market with their product. A GC along with a build-to-suit developer helped to push the project over the finish line by ensuring they could meet their

construction-to-production timelines. It was a very successful project with the company, contractor, developer, and community working hand-in-hand to make sure the company met all their timelines.” “I also had good experience many years ago working with a GC as a member of the economic development team to land a prospect. This person had local government experience in economic development, so understood the process and was great source of information regarding construction costs, trends, etc.” Lastly, a third economic developer shared the following story. “A good partnership for GC/CMs in providing a benefit to economic development in Kingsport was the construction of a spec industrial building in Gateway Commerce Park. The GC/CM worked with the local Economic Development Organization to prepare a large-scale site and building shell. There was not a specific client, however there was a clear unmet need in the area as almost as quickly as the building was underway a client/owner was located. It has had a few stops and starts with the new owners and the current client is the 3rd owner with each more successful than the first. So much so that they are currently preparing their next expansion on the site.”

Responses from GCs and Designers

As noted earlier, there are several services considered value-added by GCs and some design firms. To determine how typical it is to offer these services; several contractors and designers were asked which of these services they provide. All GC/designers surveyed provide no-cost pre-construction services/design services; however, the basis for doing so varies. For example, that service may only be offered on a limited basis for existing clients or those costs may be reimbursed later in the project should the project move forward. All firms offered some level of site selection assistance. All but one company offers build-to-suit-to-lease services; however, these services may be handled by a separate LLC set up to handle these type projects.

Approximately half of the respondents stated that they provide some level of incentive assistance. One firm stated that incentive service is typically provided by a third party and two firms do not provide incentive services.

They were asked to rate the importance of each of these value-added services. All respondents agreed that the no-cost pre-construction services/design services were of the most value to their clients and that the due diligence aspects of site selection were valued by their client second to this. One company views no-cost pre-construction services/design services as a loss leader that can help secure a contract for services.

Although citing the value of being involved early in a project, most of the GCs surveyed are typically involved in a project after the design is complete. All GCs agreed that their value is maximized when they are brought on board as early as possible and prefer to be involved before design.

When asked if they could think of other items that GCs bring to the table to enhance the local economic developer's ability to be successful, the following responses were received:

- We can aid in the economic developer's success through the relationships we have with developers. We can clue them into what is hot in the market and the costs associated with those things. Economic developers appreciate our knowledge of how projects will be financed. They also benefit from our sphere of influence over people who facilitate development (politicians) from a relational and credible business perspective.
- Constructability reviews; identifying potential issues with utilities, building location and site layout; analysis of end-use vs. available property and/or building pad. Local

knowledge of the construction market, connections with local subcontractors and material suppliers, and relationships with the local building and other regulatory officials.

The GCs and designers feel that their role in the economic development process is typically clear and see themselves as a resource to the developers and economic developers by connecting local officials with their knowledge of what's happening in the market and with whom as well as knowledge of the regulatory environment. All GCs think that localities approach projects differently when a GC is involved early in the process. The reasons stated include the ability to have expertise at the table early, having the ability to make decisions on budget and pricing with assurance, the comfort of having a trusted partner at the table, as well as having someone on their team who can “talk shop” with the prospect.

The following was received when the GC and designers were asked to share a success story demonstrating a beneficial role of a GC in economic development. “I can't think of one specific example but I have been involved in several efforts, both successful and unsuccessful, where a *team* of professionals including civil engineers, general contractors, environmental & geotechnical engineers and even grading contractors have been involved in the site selection and due diligence processes. Local knowledge and relationships are extremely valuable – so local firms should be utilized whenever possible.” “Our Senior Director of Business Development is an AICP and CED and he is a past economic developer for a local municipality. He can connect our clients and represent them. He is an ally to the economic developers and they know we have credibility and won't waste their time with clients w/o means (dreamers).”

Conclusion

A GC's role in creating an environment to attract investment in a community through hiring and investment is well documented on a state and national level. The ability to take raw materials and use labor to add value to a product improves the local economic climate and tax base. This paper examines a different role of the GC – that of partner or team player in the local economic development process. The GC adds unique information to the local process: reliable construction costs, local labor information, upfit(i.e. finishing a shell building)/renovation suitability, construction time frames, and sometimes advanced knowledge of a project (particularly when the project involves a GC's repeat client or a part of a client's supply chain).

The questionnaire responses explain that both the economic developers and GCs prefer to be involved early in the process. For GCs, the earlier they are involved, the better. However, GCs should bear in mind that early involvement does not guarantee a construction contract. Economic developers should bear in mind, that when a GC brings a repeat client's project to them for assistance, that GC is trusting the economic developer to take care of that client. The GC also expects to remain involved in the process to ensure that the client is assisted. Most times, the client will want the GCs continued involvement in the process/project.

The responses also confirm that it is important for both parties to understand their roles in the process, share information, and be responsive and respectful. GCs must understand the need to respond to the economic developers promptly and economic developers must present questions and information requests to GC as soon as possible to allow adequate time to respond.

Of the value-added services provided by GCs, no-cost pre-construction services were cumulatively ranked as the most valuable service. Both economic developers and GCs agreed that the GC's knowledge of site prep costs, construction/expansion/upfit costs as well as timeframes can make projects move ahead faster as realistic information is provided early in the

discussion. Several economic developers stated that site plans, floor plans or rendering that may have been produced in this process greatly aid their efforts.

Build-to-suite-to-lease was the second highest ranked service provided by the GC. However, there were caveats to the rankings from both economic developers and GCs. Some GCs offer this service via an LLC separate from the contracting business and find it useful in some circumstances such as when the GC can also function as the developer and when there is a long-term lease. One GC commented further that the value to this service occurs when the building can be designed to fit the lease rate which, for a prospect with limited means, may be the only way for a community to close the deal. Several economic developers stated that, although seldom used, they value having the option available.

Site selection services ranked third in the level of importance. However, ratings varied greatly among respondents. One GC found this to be the most important value-added service provided and stated that the site can create the biggest deviation in construction costs. It can be more costly to construct a building on a poor site than a good one. This service was not ranked that high by economic developers – perhaps due to existing certified site programs.

Incentive assistance was ranked fourth with the exception of one GC who ranked this service second in the level of importance. One economic developer wrote “the contractor does have a role to play (in incentives), such as cost estimates to help identify funding gaps, but the negotiations typically are through the community/state/utility provider with the site selection consultant or company. If the GC is serving as the site selection consultant then there is a bigger part to play.”

P3s represent an untapped opportunity for local economic developers and GCs to work together. Although complicated and not appropriate for each project, P3s provide an avenue to

complete public projects that might otherwise be very difficult if not impossible to complete due to limited budgets, funding delays or tight schedules.

Both the economic developer and GC have a common goal – to create an environment to attract investment in a community. The value-added services provided by GCs are a good starting place for discussions about collaboration. Successfully working toward that shared goal requires communication, trust, and hard work.

Resources

1. 2019 Tennessee Economic Report, page 2
2. ibid page 59
3. Ibid page 13
4. “Gross Domestic Product by Industry, 4th quarter and annual 2017”, U. S. Bureau of Economic Analysis; April 19, 2018
5. For Construction Pros (www.forconstructionpros.com), “How Value-added Services Can Improve Your Construction Business’ Bottom Line”, May 18, 2016.
6. “Business at Its Best,” Shared Value Initiative. www.sharedvalue.org/about-shared-value,. Accessed February 5, 2019.
7. ibid
8. “The Role of the Private Sector in Expanding Economic Opportunity through Collaborative Action: A Leadership Dialogue”, Harvard University John F. Kennedy School of Government, October 2007, page 1.
9. ibid, page 6
10. “The Role of Small Business in Economic Development of the United States: From the End of the Korean War (1953) to the Present”, A Working Paper by Major L. Clark, III and Radwan N. Saade, Office of Advocacy, U. S. Small Business Administration, September 2010.
11. ibid
12. ibid
13. ibid
14. Shoaf, Jeff. “Public-Private Partnerships (P3s) Overview”. The Associated General Contractors, www.agc.org/public-private-partnerships-p3s-overview, Accessed February 5, 2019.
15. ibid
16. Barbour, Robert G. and Timothy E. Heffernan, “Public-Private Partnerships: Design-Build Contractors Take Heed! – Part One.” www.watttieder.com/resources/articles/public-private-pdrtnerships-design-build-contractors-take-heed. Fall 2014.

17. Uddin, Misbah and James G. Zack, Jr. “Public-Private Partnership Projects – What, Why & How is Risk Allocated?: A Research Perspective Issued by the Navigant Construction Forum.” June 2016.

18. *ibid*

Appendix

TCED Capstone

Interview Questions - REVISED

“The Role of General Contractors in Local Economic Development”

Shari Brown, AICP

Creating and expanding economic opportunity is, without contest, the primary goal of local economic development officials. Is there a way for the coordination of efforts and tools between what local government does and what general contractors do and can do to be performed better for the mutual benefit of both the public and private sector?

There is a growing number of GCs that offer an expanded scope of value-added services to include:

- Site selection
- Incentive assistance
- No-cost pre-construction services/Design services
- Build-to-Suit-to Lease

Many GCs work for repeat clients and their supply chain which can make the GC have valuable relationships and be the first to know about new construction and expansion projects. The value-added services may be performed by the GC due to the relationship with the client, confidentiality, the client’s area of expertise, the client’s lack of knowledge of the community (or conversely the GC’s knowledge of the community), etc.

Regional Economic Developers and Local Government Officials:

How long in the profession?

How long in your current position?

Within the last year have you worked with a prospect or project that had a GC involved in the early stages of the project?

Of the value-added services GC/CMs bring to the table, how would you rate the importance of the following:

- Site selection
- Incentive assistance
- No-cost pre-construction services/Design services

- Build-to-Suit-to Lease

Are there things that GC/CMs bring to the table that enhance the local ED's ability to be successful in ED?

Are there things that GC/CMs bring to the table that are not helpful to the local ED's ability to be successful in ED?

How can the contractors' regional knowledge, information about the client(s) and their supply chain, initial contacts (many times prior to that of the local officials), potential to fill financial gaps, etc. best be utilized?

Do you approach projects differently when a general contracting firm is involved early in a project?

Are there any success story examples that demonstrate a beneficial role of a GC in ED?

Other comments:

PEER Group Members/General Contractors/Designers:

Do you offer the following value-added services?

- Site selection
- Incentive assistance
- No-cost pre-construction services/Design services
- Build-to-Suit-to-Lease

Of the value-added services GC/CMs bring to the table, how would you rate the importance of the following:

- Site selection
- Incentive assistance
- No-cost pre-construction services/Design services
- Build-to-Suit-to Lease

At what point is your firm typically involved in a project involving the local, regional or state ED?

- Before site selection
- Before precon/design
- After design

Do you have a preferred time to be involved in the process?

Can you think of items other than those listed above, that GC/CMs bring to the table that enhance the local ED's ability to be successful? If so, please provide a few examples.

Have you been involved projects where your role in the local/state/regional ED process was unclear? How did you work to get clarity? Did you lead those efforts or did the ED lead them?

How do you think the contractors' regional knowledge, information about the client(s) and their supply chain, initial contacts (many times prior to that of the local officials), potential to fill financial gaps, etc. best be utilized?

Do you think the ED approaches projects differently when a general contracting firm is involved early in a project?

Do you have a success story that demonstrate a beneficial role of a GC in ED?

Other comments: