Job-Friendly Economic Development

This article first appeared in the November/December 2010 issue of *IMPO*.

I have found that there is a big disconnect between what business owners want out of economic development, and what state agencies provide. Most businesses, particularly manufacturers, would like to have an economic development model that is extremely business-oriented and totally focused on just recruiting companies and creating jobs. I found one in Northern Kentucky called the Tri-County Economic Development Association. In 1987, three counties got together to form a regional partnership called Tri-ED. Since then, 490 primary companies have relocated or expanded in Northern Kentucky, accounting for $4.7 billion in capital investment.

Tri-ED is a non-profit development organization and an extension of both the local government and the local private sector. This is unlike most states where Economic Development is a state agency with state employees. I think this may be a key factor because private companies have a lot of input into the mission, and the organization is not saddled with bureaucracy and civil services rules. More importantly, the mission is not about the state's interpretation of what businesses need.

Tri-ED's Strategic Plan calls for the following growth goals for 2015: 14,300 new primary jobs (50,381 total new jobs) for Northern Kentucky, generating $2.8 billion in incremental wages, $1.6 billion in incremental tax revenue, and $270 million in incremental tax revenue to the State.

The Primary Factors

Since all states are crying out for more tax revenue to offset their deficits, it might be worth examining the primary factors that make this work to see if the model is practical in other states. I focused on tax credits, loans, utility incentives, work force training, grants, schools, and location.

Location — According to Bob Green, senior vice president for Tri-ED, "The centralized location as well as a great highway system are major incentives for manufacturers to locate here. Additionally, the cost of doing business as well as a manufacturing based economy and resulting work force are also primary reasons".

Taxes — Kentucky has a statute that limits property tax increases to 4.9 percent over the previous year. Property taxes are very low compared to other states, and most tax incentives in Kentucky "revolve around corporate income tax reduction".

Corporate Income Tax Credits — The Kentucky Job Development Act allows a 5 percent of gross wages credit for start-up costs and rental costs of businesses. Other tax credits are aimed at areas of poverty, manufacturing and service technology industries, manufacturing and coal mining operations that are in danger of closing, and rural economic development.

Venture Capital — The Kentucky Investment Fund Act provides tax credits to up to 40 percent of the investment in small businesses. There is also an Angel Capital Network for businesses seeking $250,000 to $5 million in equity financing.

ezone Grants — Created in 2001, the ezone is a division of Northern Kentucky Tri-ED. The mission of the ezone is to accelerate, mentor, align capital, and gain exposure for start-ups, emerging, and existing high-technology businesses.

Incubators — The Kentucky Innovation and Commercialization Centers provide entrepreneurial assistance and concept development funds up to $25,000 per company.

Machinery and Utilities — Manufacturing machinery, pollution control equipment, and materials used in the course of manufacturing are exempt from property taxes. Utility companies also offer economic incentive rates for large industrial and commercial energy users, for up to 5 years.

Training and Education — Northern Kentucky companies are facing a 40 percent turnover of experienced employees by year 2020. Tri-ED is working closely with Northern Kentucky University's Launch Pad Program to make students, parents, and educators more aware of manufacturing opportunities. Kentucky has also adopted manufacturing skill standards, which define the specific occupational skill training and educational subjects needed in manufacturing. Job training grants have also been awarded in several skill areas.

Why Does It Work?

I think the Tri-ED program has worked well for many reasons:

1. It is very focused on recruiting and job creation.

2. The organization is a partnership between local government and local businesses, creating an operation that is business-oriented and business managed.
3. Cost reduction (by offering tax exemptions, tax credits, and reduced tax rates to eligible companies) helps businesses monetarily by offering loans, grants, and sources of capital.
4. The emphasis on education and training of employees. Education and training programs for manufacturing provide for remedial education, basic work skills for new employees, intermediate training for specialties like machining, maintenance, fabricating, and Bachelor's degrees.
5. Perhaps most importantly, Tri-ED is not a state agency. State agencies cost a lot of money to simply administer, and economic development must be done by serving the needs of local city, county and port governments. The mission gets diluted, and very little of the money actually goes to the businesses that are recruited.

A good example is my own state of Oregon, whose agency is called Economic and Community Development Commission and commands a large two year budget of $419 million. From this budget, only 7.2 percent ($39 million) goes to business and trade. The largest part of the budget goes to community development - $293 million, or 70 percent.

At a time when most states are running severe deficits and desperately need to create jobs, adopting the Tri-ED model with a simple mission of recruiting companies and creating jobs would seem like a very practical solution. This does not mean that community development is not important; it simply means that tax revenues from new and growing companies and new jobs are more important.

If providing businesses money and helping them reduce their costs and taxes are primary incentives to getting them to relocate and create more jobs, then this should become the future model for economic development. On a total yearly budget of $2 million, Tri-ED has attracted 490 companies that have created 48,277 new jobs in the last 23 years. The Oregon performance measures from year 2007/2008 showed that the agency created 3,538 jobs, retained 3,169 jobs, yet cost the taxpayers $418 million over two years.

Mike Collins is the author of Saving American Manufacturing.