

Michigan House of Representatives Testimony before the New Economy and Quality of Life Committee May 19, 2010

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Representative Clemente and Committee Members . . . Thank you for the opportunity to offer testimony regarding Michigan's need to continue its strategy toward economic development transformation.

My name is Scott Fleming, President & CEO of The Enterprise Group of Jackson. The Enterprise Group was established in 1997 to lead business recruitment and retention in Jackson County. The EG is a private/public partnership organized to promote and coordinate economic development initiatives and create wealth within Jackson County. It is comprised of Jackson's leading business organizations.

Today I'd like to cover four areas of economic development that are particularly relevant in Jackson County right now: manufacturing diversification, border issues with Indiana and Ohio, financial incentives to attract and retain companies in Michigan, and funding for EDOs.

FIRST, TURNAROUND IN JACKSON WITH DIVERSIFICATION

With the downturn in the economy resulting from the auto industry, over forty percent of Jackson's manufacturers are currently working with the Department of Defense, making parts for the Mine Resistant Ambush Protected (MRAP) vehicles, washers for submarines, and other military components. Some of those same companies are also producing medical devices, wind generator components, and other non-auto related parts so their companies would survive.

Along the way, Jackson lost some companies that weren't able to get lines of credit to make this change-over. But some of the programs that the MEDC offered, such as diversification loans and other incentives, provided valuable assistance to many companies during the recovery process when the banks were not lending.

ISSUES WITH INDIANA AND OHIO ...

I worked in economic development at DTE Energy for 14 years and saw firsthand how utilities from other states, such as Georgia Power, TVA, Duke Energy, and The Southern Company, came to Michigan and cherry-picked our companies because they had better incentives to offer. In the 1990's, DTE used the same technique to solicit companies in Georgia and the East Coast, where utility costs were higher.

If you take away MEGA's and other tax incentives, border states like Indiana, Ohio and beyond, coupled with their utility companies, could offer more attractive financial packages than Michigan even if you get rid of the MBT.

In today's economic environment, companies are not only looking for financial assistance from the government but from the utilities as well. Georgia Power offers over five economic development utility rates for new and expanding businesses. In contrast, Michigan's two major utilities - Consumers Power and DTE Energy - only offer one. Other states and their utilities have a variety of other advantages they can offer to companies, such as cash back at closings, free infrastructure improvements and free real estate.

THE NEED FOR INCENTIVES TO KEEP COMPANIES IN MICHIGAN

RECAP of Testimonials - Competition from other states for new and expanding companies is fierce. Financial incentives are an essential tool for encouraging these companies to put Michigan at the top of their list. Previous testimonies have indicated that economic development projects are not related to our state's election cycles. All current prospects in our pipelines will not wait for political races to end and make their decisions. They are already conversing with other states.

AND LASTLY, FUTURE FUNDING FOR EDOS

Setting incentives aside, one of the major jobs of an Economic Development Organization is its financial sustainability. The more

time an EDO has to spend seeking operational funds for its organization, the less time it has to devote to its core functions.

I'm currently on a MEDA task force charged with studying potential funding methods for EDOs. We have explored a variety of short-term methods, including grants, charging for economic development services and additional assistance from the State.

We've also looked into long-term funding from other sources, such as additional fees from Michigan license plate tabs. The State parks have implemented this option through a check box on renewal forms. Other possible strategies include adding an economic development fee on electric utility bills. This option goes hand-in-hand with economic growth as new businesses are added onto the electric grid.

Other states have already explored using these types of fees. For example, in the State of Texas, all cities located in a county with a population of less than 500,000 may impose a tax under a new combined local sales tax rate that would not exceed 2 percent. Some cities located in counties with a population of 500,000 or more may also use this legislation for economic development efforts, but a city's eligibility varies from county to county and needs to be determined by the State of Texas Comptroller's Local Government Assistance department.

Again, I want to thank you for the opportunity to offer my thoughts and look forward to your questions and comments.