

**WRITTEN STATEMENT OF
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6-8 minutes, 180 words/minute (1,350 words)

Good morning. My name is Birgit Klohs and I am the President and CEO of The Right Place, based in Grand Rapids.

First, let me thank all of you for inviting my colleagues and me here today. Together, we offer more than 80 years of knowledge and experience in economic development, and are encouraged by your invitation to openly discuss the future of economic development in the State of Michigan.

We all agree that the State of Michigan cannot, at this critical time, afford to slow down or hold up the economic development progress occurring in our State.

A lack of, or prolonged lag of a strong statewide organization to support a strong economic development strategy following the election this year, will compound our state's challenges and rob our State of much needed jobs and business growth.

Our economic development projects do not follow or coincide with state and gubernatorial election cycles. Projects in our pipeline will not wait for political races to end and decisions to finally be made. They will simply select another state.

Commitments made to prospective businesses being made now and the remainder of this year must be kept. The State of Michigan cannot afford to renege on the promises that we are now making, waiting until new state leadership is in place. We cannot simply stop our work while

the state debates the future policies and structure of our economic development tools. We, as regional economic development organizations need, and will, continue our work. That is what our investors and communities expect of us; but we need a strong partner at the state level.

Several economic development organizations throughout the state have strategic plans and priorities for their regions. Many of these plans focus on specific, high-growth potential industries including: alternative energy, life sciences, advanced manufacturing, food processing, and aerospace and defense.

To continue building these key industries it is critical to keep supporting our efforts with the economic development tools and solutions we need to succeed. Our partnership with the state has played an important role in over \$1 billion in life sciences investment in Grand Rapids alone.

West Michigan's investments in life sciences have not only created an incredible infrastructure for research and patient care, but have created thousands of high-paying, knowledge-based jobs; jobs that would have been created in other states without the support from Lansing.

Employing thousands of people at all talent levels, the food processing industry is a bedrock component of our state's economy. With Michigan's incredible agricultural base, combined with the growing "buy local" philosophy, the agribusiness industry may be one of the highest growth areas in the state.

Unfortunately, it is also one of the most highly regulated industries in the state, creating a drag on this industry's growth potential. Controlled by the DNRE, our area food processing companies' expansion plans are

continually held up by the department's lack of responsiveness in the permitting process and in some cases even renegeing on permits already given. We continue to work with businesses throughout West Michigan experiencing serious issues with this Department holding up permitting and thus economic growth. These issues must be fixed immediately. It affects our companies' ability to grow and create jobs in our region.

At a minimum, I recommend establishing a "Good Corporate Citizen Policy" for proven, trusted food processors that are investing in our communities.

Holding back the food processing industry in Michigan will have a ripple effect throughout our state's economy, beginning with our farmers and growers, surging all the way through transportation companies, grocery distributors and retail stores.

There has been much debate for years over the value of incentives and, in recent weeks, over the value of the Michigan Economic Growth Authority's (MEGA) tax incentive programs. I can tell you without hesitation that such incentives are not only needed, but required for our state to compete.

Today, the competition for new businesses and jobs is at record levels. Highly competitive states across the country are offering hundreds of thousands – if not millions – in cash, infrastructure improvements and real estate to secure new projects.

In Lockport New York, \$400,000 in utility upgrades, discounted telecommunication costs and additional tax abatements were offered to land a new Yahoo! East Coast regional data center. The project represents a \$150 million investment and is expected to create less than 125 jobs.

In North Carolina – a state facing a \$4 billion budget shortfall -- \$46 million in tax incentives were offered to secure Apple's new \$1 billion data center which is expected to create just 50 jobs.

It's clear that at the end of the day it comes down to money, and until there is a federal policy on economic incentives, this sort of pace will continue. This is not the time to merely stand on principal, without regard to the state's economic impact, and pull Michigan out of the race.

Michigan's development incentives add to the state's economy more than they take. Incentives played a significant role in both Greater Grand Rapids' and Michigan's ranking third in the nation for corporate expansions in 2009, landing 30 projects in Grand Rapids and 371 statewide, each over \$1 million in new investment and creating more than 50 jobs apiece.

And all for an annual cost of \$85 million. That's not only far less than the investment returned, but also \$3.7 billion less than the state paid in unemployment benefits last year.

Like it or not, incentives do create jobs, not only those generated directly by the companies involved – 4,200 in 2009 Right Place projects alone – but also in other supporting industries from utilities to professional services, to hospitality.

Today, business leaders under pressure to maintain profitability cite business incentives as their number one location criteria over any other factor, including workforce, accessibility and quality of life. This extends not only to new locations, but also to decisions to remain in an existing location.

And in this national incentive race, Michigan economic developers must come to the table with more than just a promise of a talented workforce and beautiful scenery.

Balancing fiscal responsibility with incentive packages is the only option when competing for jobs. As Grand Rapids Press columnist Peter Luke noted last month: "... States aren't going to stop vying for jobs, the only way to end the race is through federal incentives...Until that happens (economic developers) have no choice but to compete." And in such an environment, Michigan's programs are quite conservative. In Michigan, no incentive is provided until the company has met its contractual obligation to the state, generating tax revenues in excess of the revenues foregone through the incentive.

We have an incentive program that is so successful it has been emulated by Indiana, Ohio, Illinois, Virginia, and Kentucky to name a few. The MEGA incentive program does not rely on taxpayer dollars, and it offers tax credits not cash. And while it directly benefits a company, it also provides larger benefits to the surrounding community.

And as much as we may despise them, taxes do play an important role in our economy; supporting services and programs that develop new innovations, educate our children, heal the sick, and care for the elderly.

Tax reform is a MUST, but it is only part of an economic development strategy to make this State competitive again. Just cutting taxes, and believing "they will come" is not a strategy.

In fact, currently, the states with the lowest taxes often provide the most state incentives to prospective businesses. Texas, Tennessee, Georgia, and Alabama have extremely low tax rates, and have paid out

hundreds of millions in both up-front cash and tax incentives to land projects in their states.

These trends prove that the solution is not only about taxes. It is not an either/or proposition of tax reform or incentives. It will require a both/and solution.

West Michigan has much to be proud of as we continue to offer a collaborative, vibrant environment where so many companies continue to thrive. However, with one of the highest unemployment rates in the country, there is still so much to be done. Now is not the time to lessen our efforts or remove the tools we need to attract and retain jobs for our state. With your support, we will continue to compete for the jobs and investments that are so critical for all of us.