



**Testimony by Director David Goodman
Ohio Development Services Agency
Ohio Senate Finance Committee
Workforce Subcommittee
April 28, 2015**

Chairman Beagle, Ranking Member Williams, and members of the Workforce Subcommittee, thank you for the opportunity to offer testimony on House Bill 64, the main operating budget. My name is David Goodman, and I am the Director of the Development Services Agency.

Two years ago, I testified before the General Assembly and made the commitment that the Development Services Agency would improve accountability for taxpayer money and strengthen customer service. I am happy to be here today to update you on our progress – which is illustrated in our budget plan.

Our Budget

The Development Services Agency has proposed a budget at the same funding level as the previous biennium with the exception of an increase for debt service.

How are we doing more with the same funding? We take a holistic view of each project to make sure we are not duplicating efforts or spending. We find alternative resources where we can. We have increased monitoring of the money we spend – but we never let an impactful project go by.

It is our job at the Development Services Agency to:

- Assist JobsOhio and the JobsOhio regional network with recruiting employers by providing and monitoring taxpayer supported incentives;
- Assist small businesses and entrepreneurs with what they need to grow;
- Assist communities to advance their economic development plans by supporting ideas which become sustainable;
- Provide a catalyst for additional economic development;
- And encourage a unique, authentic, and appealing lifestyle that attracts visitors and employers.

Supporting JobsOhio

JobsOhio and the JobsOhio regional network sometimes finds state incentives are necessary to encourage businesses to settle here, over competing states. When Ohio provides taxpayer incentives, a company must commit to creating jobs and capital investment in the state.

The Development Services Agency monitors these commitments to ensure taxpayers are getting a return on their investment.

When I arrived at the Development Services Agency, the old Department of Development systems provided little accountability. The system was broken.

Development has committed to reviewing and constantly improving all of our processes. I can confidently report today that jobs are being created and investment is being made. For calendar year 2014, the Development Services Agency had record compliance by businesses that received state incentives. This has been independently verified by the Office of the Attorney General. Ohio companies in this period delivered 103% of the jobs promised – more jobs than promised!

To achieve this, we had to take action against non-performers. Some of them were failing for more than 5 years. No one wanted to admit that there was a problem. I am proud to say that we have cleaned up the process. If a company doesn't meet its commitment to the state, they must return the taxpayer money or in some cases, have their benefits reduced. We are able to be flexible to changing business conditions through a review process that is fair and consistent.

From January 2014 – December 2014, our agency took **remedial actions** against 76 companies. We took **prospective action** against 72 companies to reduce their benefits when they were not going to meet their commitments.

Improving Customer Service – Entrepreneurship and Minority Business

I have been talking about adding large employers. Equally important in our mission are small- and medium-size businesses. They are the backbone of the Ohio economy.

In partnership with the General Assembly, Governor Kasich is making Ohio even more attractive to people willing to take a risk and start or grow a small business. The proposal in the executive budget would eliminate income tax for virtually all small businesses and position hometown businesses across the state for growth and job creation.

At the Development Services Agency, these are our customers. We help them access capital, develop business plans, and navigate the path to procuring state and federal contracts.

When small businesses succeed, the Ohio economy grows. With that in mind, we have an initiative in HB 64 to identify entrepreneurial business incubators in the state. The project will look at location, what services they provide, unmet needs, and duplication. We will identify best practices and growth characteristics with attention to industries like advanced manufacturing, agribusiness, and biohealth,

among others. This will better position Ohio to help early stage companies be a part of the state's job-friendly climate.

This initiative will identify stories like EnviroFlight, a company in Yellow Springs (Greene County). With an investment from the Ohio Third Frontier and services from regional economic development partners, EnviroFlight has been able to harness the power of the black soldier fly to process food waste and create meal for livestock.

Founded in 2009 by Glen Courtright, EnviroFlight breeds the black soldier fly and feeds the larvae food waste. The larvae become high protein food for fish farms and zoos nationwide. The company is upgrading its facility to increase production. EnviroFlight chose Ohio because of our support for technology and small business.

The Incubator Initiative is just one way we can continue to help and encourage entrepreneurial growth.

We are following Governor Kasich's lead that all Ohioans should have opportunity in the state's improving economy. The Development Services Agency works closely with the Department of Administrative Services to increase the number of minority-owned companies that do business with the state.

- In Fiscal Year 2014, the state of Ohio **purchased more goods and services** from minority-owned companies **than ever before** - \$165 million! To give you some context, that number was \$106 million in Fiscal Year 2013, which was itself a record.
- **More cabinet agencies** have **met** the legislatively-mandated 15 percent **goal for purchases** from minority businesses. In Fiscal Year 2014, 17 out of 24 agencies met the goal – up from 10 agencies in the previous year.

While this is great progress, there is more work to be done. Before her recent appointment as Director of the Ohio Department of Commerce, Jackie Williams led our Minority Business Development Division and determined a need to increase Minority Business Assistance Center (MBAC) presence in Northeast Ohio. My search for a new leader in Minority Business Development is already underway. In the meantime, there is no delay in our work.

Just this morning, a record number of minority businesses are going before the Minority Development Financing Advisory Board for bonding requests, including three from Cleveland alone – Price Builders & Developers, EdArch Associates, and Allstate Industrial.

The Development Services Agency's Minority Business Development and Ohio Third Frontier teams are working together to increase access to technology and entrepreneurship by minority and underserved populations. We are bringing awareness about start-up and early stage companies to rural and inner-city populations. For example, our team recently visited Wilberforce University to discuss the engineering signature program they are developing and how we might work together.

Partnerships are critical to grow new ideas and new skills in Ohio.

Workforce Development

The readiness of the workforce is critical to the economy, and we are asking you to continue a successful public-private partnership in House Bill 64.

The Ohio Incumbent Workforce Training Voucher Program is preparing workers for the jobs of tomorrow. Businesses of all sizes with specialized training needs in energy, aerospace and aviation, and polymers and chemicals, among others, are utilizing this program.

And the workers benefit! New skills can make them valuable into the future.

I saw it first-hand at Airborne Maintenance & Engineering Services – also called AMES -- in Wilmington. The company does maintenance and repair on aircraft. They used the Incumbent Workforce Training money to help them train aerospace workers on both new types of aircraft and innovative composite repair processes. The company bought new equipment, the state helped train the workers, and now the company services additional models of aircraft, bringing new clients to the state. As one person told me, people thought the area was dead when DHL pulled out, but programs like this enable us to bring in new clients and ensure jobs for the future.

In HB 64, we are asking you to continue funding this program. It is one of the many ways Ohio is differentiating our state from competing states.

TourismOhio

While competition among other states is tough, Ohio is setting itself apart. And that is our plan for Tourism. It is more than just big fun - it is big business!

Here are some Ohio tourism numbers:

- \$38 Billion, that's with a B – in revenue was generated by the Ohio tourism industry in 2013
- 405,000 Ohioans were employed by a tourism business or tourism related business in 2013

Tourism is an economic driver and can be an essential part of a community's economic development plan.

Gervasi Vineyard, in Stark County, is a great example of where tourism and industry intersect. The vineyard was founded by the Swaldo family and includes a winery, restaurant, inn, and event space. This tourism destination has been so successful that last year, they expanded and added the Twisted Olive restaurant in Summit County. The Twisted Olive welcomes 4,000 guests per week and employs 100 people, with an expectation of generating \$5 million in sales in 2015.

There are more stories like this all across Ohio. Mary Cusick, chief of TourismOhio, worked with the industry and the TourismOhio Advisory Board and developed a strategic plan for tourism. It is the first time Ohio has a written plan and measurable goals. It's a smarter way to spend taxpayer money to attract visitors.

The next step is identifying a new brand for the state and aggressively promoting our unique, authentic identity to businesses and visitors in Ohio, across the country, and around the world. That work is underway now.

I am very excited about the value we gain for Ohio by letting people outside our borders understand why we love it here.

Community Redevelopment Initiative

When these visitors come, I want them to see shining communities. We work with local leaders to improve low- to moderate-income housing, parks, sidewalks, public infrastructure, and Main Street business districts. I am most excited about our Abandoned Gas Station Cleanup Program initiative.

In many small communities and on Main streets across Ohio, there are abandoned gas stations.

These stations sit empty, usually in a high traffic location in the heart of a community. This is property that might never be redeveloped because the cleanup costs would be more than the value of the property.

HB 64 designates \$20 million in grants to provide local governments which own an abandoned gas station property with the resources they need to clean up the site and prepare it for redevelopment.

Think of the impact we can make in our communities by redeveloping these abandoned sites.

Working with the Ohio EPA and the State Fire Marshal's Buried Underground Storage Tank Regulation Section – also known as BUSTR --, we are improving customer service for the cleanup of these sites with a road map for transforming these properties without having to navigate three state agencies.

Improving Customer Service

The Development Services Agency renews its commitment to improving customer service.

We are more responsive, nimble, and focused than ever before. We have metrics to evaluate our programs and how they are working. We can't let our economic development programs get stuck again. We will remain nimble.

The Job Creation Tax Credit is one of the key tools in the state's economic development tool kit. It needs to be updated to reflect Ohio's changing tax structure. In this budget, we are asking you to modernize the Job Creation Tax Credit by adjusting how it is calculated and increasing our ability to recapture taxpayer money from underperforming companies.

Currently, the tax credit is calculated based on income tax withholdings. HB 64 proposes that the tax credit be calculated based on the new payroll created. As Governor Kasich fulfills his commitment to lowering the income tax for all Ohioans, the value of the incentive, as it is currently calculated, decreases for the employer. This puts employers who would earn a higher tax incentive at odds with employees who want lower taxes. New payroll is a variable that companies can control, and encourages the creation of higher paying jobs. Changing the calculation using new payroll will keep Ohio competitive with other states while maintaining a neutral value on the tax credit.

The House made a few changes to this item which concern us. The formula we proposed in the executive budget is revenue-neutral to the state. The new formula added in the House has the unintended consequence of potentially costing the state millions in GRF. I would be interested in having further discussion with you about this item.

Also part of Job Creation Tax Credit modernization in HB 64, we are asking the General Assembly to improve our ability to recapture taxpayer money from underperforming companies. Right now, the Development Services Agency can only recover from non-performing companies that have closed their doors. You know as well as I do that by the time a company has shut down, there is little, if any, money left.

The change we are requesting would allow the Tax Credit Authority to recapture money from companies that fail to substantially meet or maintain their commitments to the state of Ohio.

Appropriations

I want to let you know that it is very important to me, both as the Development Director and as a former legislator, to only ask the General Assembly for what we need. Therefore, you will see in many line items a reduction from last biennium.

A few individual line items are higher than in fiscal year 2015 due to some restructuring within our agency, particularly through creating specialist teams for grants, loans, and tax credits. The administrative costs of those programs in some cases moved between line items. In total, our GRF appropriation request is flat from fiscal year 2015, with the exception of debt service payments.

Closing

I appreciate the time you have afforded me today. The Development Services Agency values the support and partnership of the General Assembly so that we can:

- Assist small businesses and entrepreneurs with what they need to grow;
- Assist JobsOhio and the JobsOhio regional network with recruiting employers;
- Assist communities to advance their economic development plans;
- And encourage a unique, authentic, and appealing lifestyle that attracts visitors and employers.

We will do all this and maintain our commitment to accountability, transparency, and customer service.

Thank you, Chairman Beagle and members of the Subcommittee. I would be happy to answer any questions.