



C.L. "BUTCH" OTTER, GOVERNOR
DONALD A. DIETRICH, DIRECTOR

ECONOMIC OUTLOOK AND REVENUE ASSESSMENT January 7, 2009

Senator Goedde, Representative Bayer, Members of the Committee, good afternoon.

As we all know, the economy this past year has been a roller coaster, and, unfortunately Idaho has not been immune to what is now officially recognized as a recession.

The fallout from the financial crisis is becoming ever more severe and has led to less available credit for businesses and consumers. That has a direct impact on corporate relocation decisions. Lack of consumer confidence has trickled over into the business sector creating a "decision freeze."

Idaho will continue to trend in the direction of the national economy over the next 24 months but without the extreme highs and lows of our competing states many of whom have leveraged themselves with higher debt and riskier investments.

However, there are a couple of bright spots.

- Some international markets are still experiencing significant growth opportunities.
- The weakness of the U.S. dollar has provided an opportunity for Idaho exporters to be more competitive in global markets.
 - \$4.7 billion 2007
 - \$3.9 billion through September 2008
 - Increase of 22%

Idaho has fared better than many states as a result of our ability to diversify our economy over the past 3 years. Idaho has seen growth in energy related companies, high technology firms, agriculture, and manufacturing and distribution.

Unfortunately, Commerce experienced a drop off in the number of companies in our recruitment pipeline from 50 entering 2008, to our present pipeline of twenty-three. Thirty percent of our deal flow remains international.

Currently five leads have passed the site selection phase and are moving into the decision phase. These five companies represent 1350 jobs.

Project 60

To help Idaho weather these tough economic times, I would like to share with you an overview of the Project 60 initiative.

Project 60 is a comprehensive initiative to grow Idaho's Gross Domestic Product from \$51 billion to \$60 billion.

It is a statewide initiative involving state agencies, our education system, and our business leaders.

Designed in three tiers to strengthen both rural and urban communities, the plan will create quality Idaho jobs by:

- a. Fostering systemic growth
- b. Recruiting new companies to Idaho
- c. Selling Idaho's trade and investment opportunities to the world.

SYSTEMIC GROWTH

While our country's current economic slide has created real financial hardship for thousands of Idaho citizens, it has also created a significant pool of extremely skilled workers who can immediately provide bottom-line value to any new or expanding business.

Our first line of defense is to support those workers that have been impacted by layoffs.

A top priority involves making Idaho's business climate more attractive by:

- a) Cultivating a highly skilled workforce
- b) Establishing a method to get research being conducted at our universities and research institutions and commercial enterprises to the consumer market
- c) Improving our transportation and information infrastructure

WORKFORCE RECRUITMENT

To grow our existing Idaho businesses we need to attract and grow a highly skilled innovation workforce (Engineers and advanced specialties).

Idaho needs to establish a centralized tech-transfer & commercialization function, to get research from our universities, the national lab, and new and orphaned technology from our commercial enterprises, to the market place.

Idaho is known for creating more patents per capita than any other state...but commercialization of ideas from our creative minds isn't happening. It's time to reverse that trend and start building companies from within.

DOMESTIC RECRUITMENT

Domestically, Commerce will build on our recent recruitment successes, specifically targeting firms that will work well with our existing industries of:

- a. Energy
- b. Recreational Technology
- c. Manufacturing
- d. Aeronautics
- e. Technology

INTERNATIONAL

Our marketing efforts reach internationally, not only selling Idaho's products to the world, but also selling Idaho itself as a great place for foreign sources of capital to invest their dollars.

We plan to market Idaho for potential foreign direct investment (FDI) by targeting specific markets like Canada, Asia, and Mexico.

Currently we are establishing an Idaho EB-5 Immigrant Investor Program to encourage the development of Tech Transfer and support our entrepreneurial community.

Working together with the private and public sector as partners, these three tiers of Project 60 will ensure that Idaho overcomes the current economic crisis and emerges stronger for the benefit of all Idahoans.

COMMERCE

I'd like to share with you some Commerce accomplishments during these past 24 months.

With our economic partners, the Department has played a key role in placing a number of high paying new businesses within the state.

To name just a few:

- Hoku Scientific, Peterson Inc., and Nordic Windpower in Pocatello
- Areva in Bonneville County
- RxElite in Nampa
- BioPol Laboratory and Cabelas in Post Falls
- Packaging Specialties, Pacific Ethanol, Hyline, High Desert Milk, and Dot foods in Burley

In 2007 and 2008 over 2,600 new jobs were created and capital investment is expected to exceed \$3 billion.

INTERNATIONAL

Commerce continues to maintain offices to promote trade and investment in Guadalajara, Taipei, and Shanghai. We also maintain significant strategic partnerships in Japan, Korea, Hong Kong, Vietnam and other Southeast Asian countries.

In 2008, Governor Otter has led international trade missions to Mexico, Hong Kong, Macau, Vietnam and Taiwan. Actual and forecasted sales from these missions exceed \$5 million.

In support of Project 60, we have directed our Trade Offices to focus their existing resources on not only trade but also investment promotion.

Currently, the value of Idaho exports remains strongly tied to the semiconductor industry. Despite this fact, in 2008 growth in the paper, ore mining, dairy products and transportation equipment sectors continues to be strong.

The U.S. Department of Commerce estimates that Idaho exports support more than 38,000 jobs each year.

RURAL INITIATIVE

Between the Rural Professional Program, the Idaho Gem Grant Program and the Rural Community Block Grant Program 1345 primary wage jobs have been created over the past three years.

Since 2005 twenty-one Rural Development Grants have been awarded, creating 899 primary jobs and 544 estimated secondary jobs.

Average pay for jobs created through the Rural Development Grant program is a little over \$14 per hour.

TOURISM

In the current economic climate, collections for the dedicated tourism marketing fund are down 5% after experiencing strong growth in 2007 and early 2008.

Advanced bookings, web site traffic and travel guide orders all reflect the weaker economy.

However, heavy snowfall should be advantageous to areas with winter recreation.

Our spring marketing campaigns will continue to reflect the “Adventures in Living” concept, and present a strong value message to potential travelers with a more conservative financial outlook.

Idaho is preparing to position itself to benefit from the 2010 Winter Olympics hosted by Vancouver, B.C.

Although we do not anticipate the impact that the 2002 Olympics had on Idaho citizens and businesses, Idaho products and services will benefit as attention is given to the Games.

INNOVATION

The Office of Science & Technology has a new name. It is now called the Commercial Innovation Division.

This name change speaks to the division’s decreased emphasis on the exclusive development of technology for its own sake, and the more inclusive application of innovation to traditional industries, as well as expansion, retention, launch, and attraction of companies that produce innovative products and services.

The Commercial innovation division has worked hand in hand with our business attraction group, offering subject matter expertise in our efforts to recruit innovation companies.

The division administers a very successful federal grant assistance program for small, innovative companies that range across a variety of traditional and emerging industries.

Last year that program attracted more than \$4 million in federal grants to Idaho.

The Division is playing a critical role in establishing the EB-5 Regional Center and is working to create a centralized statewide Tech-Transfer protocol.

The Commercial Innovation Division continues to work closely with some of our innovation industries to identify solutions to workforce shortages.

Quality of Life

Because Idaho offers such a magnificent quality of life, all of us at Commerce do consider the ramifications of growth.

Promoting quality of life and a higher standard of living are the guiding principles behind the Department's mission.

To assist in mitigating some of the impacts from growth, the Department continues the Growth Management Program that began in 2007.

Currently, we are assisting 42 rural cities or towns and 10 counties to deal with growth related issues.

Mr. Chairman, Members of the Committee, there is a lot of work ahead for us at the Department of Commerce, but we have a clear vision and a willingness to embrace change to grow our economy as efficiently as possible in these challenging times.

Thank you, Mr. Chairmen, I am happy to answer any questions.