

ECONOMIC OUTLOOK AND REVENUE ASSESSMENT  
Idaho Department of Commerce  
January 7, 2010

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

As I reviewed and prepared my notes for this presentation, I looked back on what I had reported to you last year and realized that many of my comments will seem redundant; however, perhaps this year I can offer a glimmer of good news as Idaho continues to push towards recovery.

From my perspective, the economy remains flat. The primary drivers today are 1. Tight credit markets, 2. Lack of consumer confidence, 3. Fiscal fever.

Fiscal fever in this case refers to deficit spending policies and the anticipated impact it will have on taxes. At the state level, deficit spending is a zero sum game, and corporate America is waiting for the bill. Today, fiscal fever is contributing to the corporate "decision freeze". Tomorrow, however, the fiscal responsibility that Idaho's leadership has insisted on will prove to be an ally in our recruitment efforts. Corporate America seeks stability and predictability.

The credit markets continue to be of concern...enough so that just two days ago the Governor held a Finance Summit in an effort to directly engage with our financial institutions on what can be done to better service our state's businesses.

While domestic deal closure across the nation remains light, we are seeing encouraging activity on the international front. The Asian and select other economies are starting to grow again. Idaho's exports are starting to gain steam fueled by the weak dollar and international parent companies are pumping money into Idaho subsidiary expansion projects. Idaho is a bargain today.

Governor Otter's **Project 60** has provided the framework that the Department of Commerce has based its strategic and divisional work plans on. My comments are structured in Project 60 format.

## Helping Existing Business

The department's number one priority remains servicing our Idaho communities and existing businesses. I personally spend about 40% of my time working with existing companies to help them grow and more frequently just to stay in business.

We have had several systemic successes this year in an effort to assist Idaho companies.

1. In September, Commerce was successful in securing U.S. CIS approval for a statewide EB-5 Immigrant Investment Regional Center.
  - The federal EB5 program is a tool to attract foreign capital
  - We are also working with two other regional center candidates that have applications under review
  - It is my belief that job creation will result from direct EB5 or Regional Center related EB5 activities in the coming year
2. Commerce has continued to work with small innovative companies to help them secure federal research grants.

I am happy to report that in calendar year 2009 ten Idaho Companies received phase one Small Business Innovative Research (SBIR) federal awards and loan guarantees totaling over \$103 million.

We anticipate many of these phase one awards to lead to larger phase two awards and continued success in securing federal grants especially for innovative companies producing products for national security and green energy related industries.

3. The Idaho Procurement and Technical Assistance Center (PTAC) managed by the Department of Commerce has had a very busy year working with a record number of Idaho companies to secure federal government contracts.

Awards from October 2008 to September 2009 doubled from the previous year. Idaho companies received \$180 million dollars in prime and subcontract awards.

Our assistance center will continue to aggressively educate Idaho companies on contract opportunities and assist them with the federal proposal process.

Given the current level of federal spending, we anticipate a high likelihood that Idaho contract awards will remain high.

4. In working with our rural communities to improve their infrastructure needs through federal and state grant funds we have seen several distinct trends this last year.

Requests for job creation state funds have decreased due to the nationwide recession. There are simply fewer relocation and expansion projects taking place. So our decision to cut these funds was correct.

Even though our rural areas are not requesting job creation state grant funds, it appears that several cities are trying to create an economic spark, by way of downtown improvement projects.

We are seeing an increase in requests for federal Community Development Block Grants for downtown revitalization projects.

An August 2009 survey of Idaho cities and counties indicated that the priority for federal funding was most critically needed for:

- public infrastructure
- economic development
- planning and studies
- community facilities
- and housing related activities

We expect demand for federal block grant funding to remain high. Current 2010 application demand is \$7.9 million, with an additional \$1.5 million in demand expected.

5. Our tourism industry experienced a drop in activity of just over 7% in FY09 compared to our record FY08.

To-date in FY10, we are experiencing an additional decline of 11%.

We are cautiously optimistic that we will begin to see a rebound and an increase in visitor traffic starting in FY11.

Our assumptions for growth in FY11 are based on forecasts from the U.S. Travel Association indicating a modest recovery in leisure visitation and spending in calendar year 2010.

International visitation also shows gains, but is not expected to return to previous highs until 2013.

The U.S. has implemented a visa waiver program with Korea that should lead to an increase in Korean tourists.

Idaho does expect to see an uptick in pass through tourists heading to the 2010 Olympics in Vancouver.

## **Domestic**

The second tier of Project 60 for Commerce is our efforts to recruit companies domestically.

- The good news is that our pipeline of 105 companies expressing interest in Idaho is at a record level. Last year at this time we could only report 23 companies in the pipeline.
- We have had a 48% conversion rate from lead into project and in 2009 we conducted 19 site visits.

Generally the department's recruitment projects remain off the radar so to speak until we are permitted to announce them. We have an incredibly unique project underway that involves Mountain Home AFB and Gowen Field. Both facilities are on the Air Force short list of potential locations to win bed down missions for the F-35 Joint Strike Fighter. We would like to think we are in the running for up to 6 total squadrons...now at an estimated 500 jobs per squadron, plus construction and supply contracts; that is a big deal by any measure. The impact on state and local economies could be sizeable. Commerce has teamed with a broad range of interested parties to win these missions. You will be hearing more soon.

The size of our pipeline tells me many of the domestic companies are looking to escape challenging operating cost environments, while our foreign company component sees an opportunity to expand.

The top industries expressing interest in Idaho are traditional manufacturing, energy related manufacturing and call centers.

Unfortunately in 2009 we were only able to land three very small projects. Eight larger projects were lost for a number of reasons including availability of facilities, access to suppliers, power needs, tax policy, incentives, specific workforce needs and airline routes.

## **International**

- Become a significant focus at Commerce
- Money is flowing internationally where it is not domestically
- Relative weakness of the dollar

Last year was a record year for Idaho exports. They were valued at more than \$5 billion.

Through the 3<sup>rd</sup> Quarter of 2009, Idaho exports were valued at \$2.75 billion, down 30% from the same period in 2008.

On the bright side, based on quarterly data trends, we are cautiously forecasting that Idaho exports will be down approximately 20% (\$1 billion) for calendar 2009, a significant improvement from the 1<sup>st</sup> quarter 2009, when Idaho exports were down more than 38%.

- Even though Idaho exports have taken a significant hit when compared to our all time record year of 2008, the last two quarters have put us well ahead of the U.S. export recovery pace.

We have directed our Trade Offices to focus their resources on not only trade but also investment promotion.

Idaho's key partners are still located in Pacific Rim countries. 7 of 10 of Idaho's top export destinations are Asian countries.

Our international trade and investment strategy remains focused on these countries and where Idaho maintains international offices.

- \$50 million was invested to complete construction of the Hoku plant in Pocatello.
- Premier Technology in Mexico and possibly in Taiwan
- The department has a full court press on in support of the forest products and mining industries in Asia and Mexico.

## **Conclusion**

To sum it up, the money that is flowing for investment is currently coming from the international markets and until that trend changes we will continue to maintain a strong focus internationally.

I believe that Idaho has a number of strengths that will carry us out of this recession including low cost of operating, skilled and available workforce, fiscally responsible and accessible government, safe communities and an excellent quality of life.

- 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.