



Katie Clark Sieben, Minnesota Department of Economic Development Commissioner

Minnesota's economic incentives are modest, but necessary for attracting new investment

A Civic Caucus Focus on Competitiveness Interview

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Present

John Adams, Dave Broden (vice chair), Paul Gilje (coordinator), Randy Johnson, Sallie Kemper, Dan Loritz (chair), Paul Ostrow, Dana Schroeder, Clarence Shallbetter, Katie Clark Sieben, Fred Zimmerman. By phone: Janis Clay.

Summary

According to Department of Economic Development (DEED) Commissioner Katie Clark Sieben, Minnesota must offer economic incentives when trying to recruit new businesses to move to the state or to convince businesses that are already here to stay and expand here. She maintains that the business incentives Minnesota can offer are "very modest" compared to what other states, particularly Texas and many southern states, are offering. Loans from the Minnesota Investment Fund are capped at \$1 million per company, as are rebates from the newly created Minnesota Job Creation Fund.

Clark Sieben points out that Minnesota will have a worker shortage of 86,000 people by 2020, due to the retirement of the baby boomers and strong job creation in the state. She says Minnesota must grow its own workers, as well as recruit new people. Minnesota has one of the most productive workforces in the country, she reports, which is part of the reason for a number of recent business expansions in the state, with more companies working with DEED on possible moves to Minnesota. Another strength is the diversity of the state's economy.

Clark Sieben discusses DEED's work with K-12 and higher education on workforce development, its joint program with the Minnesota Department of Transportation to upgrade trunk highways that are tied to economic development expansions and its new Made in Minnesota database, which includes information about 600 manufacturers in the state.

Background

Katie Clark Sieben was appointed Commissioner of the Minnesota Department of Employment and Economic Development (DEED) in October 2012. She previously worked for Target Corporation in human resources, campus recruiting, the internship program, community relations and marketing. Prior to that, she served as director of community relations for a startup wind energy developer, National Wind, and as finance director for Mark Dayton for a Better Minnesota. Clark Sieben served as the Executive Director of the Minnesota Trade Office prior to her appointment as commissioner.

Clark Sieben serves on advisory boards for the University of Minnesota's Center for International Business Education and Research and the University of Minnesota Carlson School Global Institute. A graduate of the University of Minnesota, she was honored in 2012 as a recipient of the MSP Business Journal's "Forty Under 40" Award.

Issues to address. In advance of the interview, the Civic Caucus asked Clark Sieben to address the following major issues: (1) the steps needed to better assure a strong workforce in coming years; (2) how Governor Mark Dayton and his cabinet approach the issue of how the state should distribute its tax dollars to advance its competitiveness; (3) what states or regions represent Minnesota's greatest economic competition and whether other states have economic development tools Minnesota doesn't; (4) whether Minnesota should be investing more in incentives to attract businesses; and (5) how Minnesota's structures for economic development, including state and local governments and for-profit and nonprofit sectors, measure up with those of other states.

Discussion

The Department of Employment and Economic Development (DEED) interacts with other agencies at the commissioner level and through subcabinets. An interviewer started the meeting by asking how DEED interacts with other agencies that provide areas of foundational competitiveness, such as K-12 education, higher education, transportation and others. DEED Commissioner Katie Clark Sieben responded that the interaction happens naturally at the commissioner level, where commissioners are constantly sharing information and collaborating. She said it is also happening through subcabinets on areas like the status of the mining community and Minnesota Business First Stop, which has nine different agencies that interact with business involved in conversations about improving efficiencies to provide quicker responses.

Minnesota has one of the most productive workforces in the country. "That's part of why we're seeing quite a few business expansions in the state and why businesses are calling," Clark Sieben said. "DEED's development office is the busiest it's been in a decade at the moment. We are in discussions with a number of companies that are looking to move to Minnesota."

She also said the state has the second highest percentage of people (92 percent) who are high school graduates in the country. Minnesota is also high in the numbers of people with bachelor's and master's degrees. "It's not only the intellect that's here," she said, "it's the productivity of the workforce that really drives investment here in the state."

Retirement of baby boomers will result in a worker shortage of 86,000 people by 2020. Clark Sieben said her department is very focused on the decline in the workforce. She said it's a challenge that is happening at the national level. The retirement of the baby boomers over the next few years will result in losing a lot of expertise and institutional knowledge and a worker shortage. By 2020, the state will have a worker shortage of 86,000 people.

"We must grow our own workers, recruit new talent to the state, and retain experienced workers longer," she said. "Job creation numbers are strong. We are seeing lots of business expansions in the state, so we're going to have the jobs available."

Minnesota has one of lowest unemployment rates (4.6 percent) in the country and is one of 18 states that recovered all the jobs lost during the recession. "There's a lot to be proud of," Clark Sieben asserted. "There's a lot we're doing right in the state." She pointed out, though, that not every demographic group is doing as well as the state as a whole. The unemployment rate for the state's African American population is 13 percent and for the Hispanic population, 10 percent. "These are areas of our workforce we need to remain focused on," she said. "We need to be sure we're providing training and educational opportunities for those populations to help them get connected to jobs that have a career path."

Minnesota is competing well with many other states. An interviewer asked what question Clark Sieben fears the most when trying to recruit a company to Minnesota. "To be honest," she responded, "I don't necessarily fear any question. There are areas of our economy that we need to continue to improve. It's not a perfect environment; no environment is. But we're competing so well at the moment with so many other states."

She gave the example of Geringhoff, a German company that manufactures corn loader equipment, which just decided to invest \$20 million in a new manufacturing facility in St. Cloud, the company's first North American expansion. The facility will bring in 100 jobs initially, with more growth anticipated in the future. Clark Sieben said the company felt comfortable with the culture in the area, noting that St. Cloud Mayor Dave Kleis speaks German. Another very important factor is that 11 of the 13 products the company needs for its supply chain are available in Minnesota.

She said state officials have a "fantastic" story to tell about Minnesota's competitiveness. "We tell companies we have one of the strongest workforces in the country," she said. "Depending on what industry it is and what skills they need, if they need engineers, we'll focus on how many engineers the University of Minnesota is graduating."

She said officials also talk about the diversity of Minnesota's economy as one of its strengths. "We recovered from the recession not because of one industry, but because there are multiple industries that were able to get back on track," she said. "That helps us recover more quickly than other economies in the country."

Minnesota's state economic development incentives are modest compared to some other states. Clark Sieben said the one of the tougher conversations state officials have with companies is about economic development incentives. The 2013 Legislature passed a "historic package" for economic development, she said, which included \$30 million for the Minnesota Investment Fund (MIF) and \$24 million for a newly created Minnesota Job Creation Fund.

"That's a lot of money," Clark Sieben said, "but we're competing with states like Texas that have a \$200 million fund. Southern states are not afraid to put a \$40 million proposal in front of a company. Our programs are designed so we can't give any company more than \$1 million. So, when we're negotiating, I may be up against a \$40 million proposal and we've got \$1 million on the table. So, it's talking about all the other qualities that are here in Minnesota: the workforce, the transportation network, the supply chain and selling that."

An interviewer observed that it sounds like Minnesota officials are thinking that since everyone else is "bribing" people, then we have to "bribe" them, too. "Is that a healthy way to develop an economy long term?" he asked.

Clark Sieben responded that with the \$1 million cap, Minnesota's programs are "very modest" compared to what other states are offering. "States are competing and putting proposals together and often cities are also participating in those proposals. It is the reality of today's competitive environment," she said. "The conversation isn't just about economic development incentives. If we weren't able to put anything on the table, it could make a difference in how many expansions we're recruiting to this state."

DEED is working with K-12 and higher education. Asking about workforce development, an interviewer wondered how DEED connects with the state's education systems at all levels to ensure that down the road, we are in the same position or a better position in terms of having prepared workers.

"We are absolutely working with K-12 and higher education in multiple ways," Clark Sieben responded. "There are multiple committees formed and projects underway we are collaborating on." She said Department of Education Commissioner Brenda Cassellius leads a P-20 committee looking at how we're coaching and guiding students towards the jobs that are in demand. Through its Labor Market Information Office, DEED provides key labor market indicators, information, and analysis, such as employment and unemployment data, wage information, occupations in demand, and key sectors for future job growth.

"This information is important in better understanding the labor exchange and helps ensure that we are training and educating workers based on the demands of the economy," she said. She said the high schools are losing guidance counselors and it's now every teacher's responsibility to be guiding students and helping to provide this information to them.

DEED has regional specialists who must each understand a specific industry, as well as a geographic region. An interviewer commented that Minnesota has some pluses in the area of manufacturing, but we have 100,000 fewer manufacturing jobs than a few years back. He said there is

a significant lack of technical help available from DEED and asked how many engineers and how many people with six to eight years of industrial experience are on the staff of DEED. Clark Sieben responded that DEED has people on staff who have worked in the private sector.

"There is a shortage of people in the economic development field who understand the businesses and the technical processes that are going to make companies competitive," the interviewer continued. Clark Sieben said she thinks DEED has "an extremely talented team" in the business development group. She said there are six regional specialists stationed across the state and one person, soon to be two, focused on the metro market. Each must understand a specific industry, as well as a geographic region.

In order to identify the job skills needed to fill the jobs gap anticipated in 2020, the business community must be projecting their future needs. An interviewer asked about the breakdown of the various skills needed to fill the 86,000 jobs gap projected for 2020. "In order to identify the gap, we need the business community to be projecting their needs down the road," Clark Sieben responded. "In Minnesota we do have a strong public/private partnership across the state." Companies are not always comfortable sharing information with the government, she said. But there are economic development groups like Greater MSP, Greater St. Cloud, Rochester Area Economic Development and APEX in northeastern Minnesota that are starting to project out at the local and regional level.

DEED runs federally funded programs for the unemployed, the underemployed and displaced workers. Clark Sieben said DEED has 47 federally funded workforce centers across the state that are staffed for unemployed and underemployed workers to get assistance, like coaching on interviewing and resume help. The agency also operates and maintains MinnesotaWorks.net, its online job bank, where people can post their resumes online and search for job postings. DEED also runs a federally funded dislocated workforce program.

The Minnesota Investment Fund (MIF) funds upfront capital equipment loans and the Minnesota Job Creation Fund provides rebates for job creation and private investment. In response to a question, Clark Sieben explained that the incentives funded by MIF, which have a \$1 million cap per company, are upfront loans for capital equipment costs. The 2013 Legislature appropriated \$30 million per biennium for MIF. Most companies are receiving loans in the \$400,000 to \$500,000 range.

The Legislature also created the Minnesota Job Creation Fund in 2013, appropriating \$24 million per biennium for the fund. Clark Sieben said the Job Creation Fund also has a \$1 million cap for most deals and is a replacement for the Job Z program, which will sunset in 2015. "The Job Creation Fund is much more transparent and highly accountable," she said. "This is a rebate. A company must create jobs before they see the incentive."

She explained that the state signs a business subsidy agreement with a company that outlines how many jobs it's planning to create and what level of private investment it's planning to make. There must be a minimum of 10 new jobs and \$500,000 in investment. A company has two years to reach its goals. After it does that, it gets a rebate from the Job Creation Fund, based on the wage level of the newly created jobs:

- New jobs paying between \$26,000 and \$34,000 earn the company a \$1,000 rebate per job each year.
- Those paying \$35,000 to \$44,000 earn a \$2,000 rebate per job each year.
- Those paying \$45,000 and above earn a \$3,000 rebate per job each year.

The company must retain those jobs in order to continue to get the rebate each year, generally for a three-year period.

On the capital investment side of the Job Creation Fund program, Clark Sieben said a company gets a five percent rebate on an investment in the Twin Cities and a seven percent rebate on an investment in Greater Minnesota. The rebate can go over \$1 million if the project is creating more than 200 jobs and making more than a \$25 million private investment in Minnesota. Then the company can get up to \$2 million in rebates.

DEED looks at the entire incentive package a company is getting from the state and from local governments. Clark Sieben pointed out that, in addition to the state, cities sometimes also provide incentives to companies through tax-increment financing (TIF) or tax rebates. To receive state money through MIF or the Job Creation Fund, a company must apply through the city or township, which means the application must be approved by the city council. She said DEED business development teams are always in contact with city economic development teams or mayors and city managers. "We look at the entire package a company is getting," she said.

The Transportation and Economic Development (TED) program is a shared program between DEED and the Minnesota Department of Transportation called. Its goal is to update the trunk highway system around the state, Clark Sieben said, but for a proposed update to be funded through TED, it must be tied to an economic development expansion. "We always have way more proposals than we can fund," she said. "Staff tries to figure out the greatest economic impact for each of those expansions."

The Made in Minnesota database includes more than 800 Minnesota manufacturers. Clark Sieben pointed out that this year DEED rolled out the Made in Minnesota database, which includes 800 Minnesota manufacturers and is searchable by region or county. Each company inputs its own information about its products and services. "Part of the reason we created Made in Minnesota," she said, "was to enhance the local supply chain, so that companies thinking of expanding here can see what manufacturers are in the state."

Real estate developers and site selectors play a major role in economic development. An interviewer asked about the role in economic development of commercial-industrial developers who put in buildings and then lease them to companies. "They're playing a major role," Clark Sieben responded. "We're in constant communication with site selectors and real estate developers. We give updates and they provide feedback and insights based on what they're seeing on the ground."

Minnesota must give economic incentives to businesses considering expanding here. In response to a question about whether economic incentives to businesses are a good way for the state to help companies, Clark Sieben said, "We need to participate in that game, because that's what all

states are doing. We need to have a balance in investments of some modest incentives to offer and good investments in education, transportation and other areas where we'll see the greatest return on investment for the economic competitiveness of the state as a whole."

Conclusion

Clark Sieben concluded the discussion by saying, "We can't rest just because we have a strong economy. We have to continue looking at the challenges that are ahead: the baby boomers retiring, making sure there are opportunities for the different ethnic communities coming into the state, and figuring out broadband across the state."