

Thank you, Scott for inviting me and The Council of State Governments (CSG) to participate in the 2012 NASBO Fall Meeting. It is a great honor to be here. CSG, established in 1933, serves all three branches of state government by fostering the exchange of insights and ideas. While I work for CSG's Southern Office, the Southern Legislative Conference in Atlanta, CSG is headquartered in Lexington, Kentucky with regional offices in California, Illinois, New York and Washington, D.C. Thanks to the fine work carried out by Scott and his staff, NASBO and CSG have enjoyed a fantastic relationship for a number of years.

My presentation this morning will cover five broad areas. Part I provides a macro-level snapshot of the U.S. economy with a focus on states while Part II outlines the specific areas of the U.S. economy that have demonstrated improvement. Part III hones in on some of the "bright sparks" on the state economic landscape that are contributing towards reviving state economies while Part IV identifies a key economic development strategy that states have effectively deployed to advance their economies. Finally, in Part V, as per Scott's request, I will briefly provide the latest trends on state unemployment insurance funds.

Part I: Macro-Level Profile of the U.S. Economy and the States

The U.S. economy continues its cautious recovery from the Great Recession, the longest, broadest and most severe downturn since the Great Depression. Even though the recession technically ended, the devastation caused by the Great Recession continues and will linger on for a number of years. Some of these lingering factors include the millions of Americans that are still unemployed and under-employed; millions of Americans that are “under-water” on their mortgages and/or in foreclosure; continuing uncertainty on how the “fiscal cliff” will be bridged at the end of the year given the ongoing political gridlock in Washington; and, great anxiety over the economic turbulence in Europe and Asia along with political turmoil in the Middle East.

As grim as the current economic situation is, particularly for the millions of unemployed and under-employed Americans, there are a number of signs that the U.S. economy is moving in the right direction. The national unemployment rate, after soaring to a high of 10.1 percent in October 2009, the highest rate since April 1983, has started a slow descent (it was 7.8 percent in September 2012) though it still remains stubbornly high. Between September 2011 and 2012, while private sector jobs grew

1.8 percent, government payrolls fell 0.8 percent. On a state-by-state basis, in August 2012, the latest month available, there were a mere 3 states with double digit unemployment rates (California, Nevada and Rhode Island); in comparison in August 2010, there were 13 states and in August 2009, there were 14 states with double-digit unemployment rates. While the state rates are still high, they have improved from the prior three years.

The housing sector, one of the primary causes for the disintegration of the economy, continues to struggle but when compared to earlier years there is room for optimism based on a review of foreclosure filings, housing starts and home prices. Between January and June 2010, 1 out of every 78 U.S. households was in foreclosure; in contrast, between January and June 2012, this number had improved to 1 out of every 126 U.S. households. In terms of housing starts, construction of new single-family homes in August 2012 occurred at the fastest rate in more than two years. In Nevada 1 in 17 households were in foreclosure between January and June 2010; by January and June 2012, this number had improved to 1 in 57 households.

In sum, while there are positive developments related to the U.S. economy compared to the last few years, there are many obstacles ahead too.

Part II: Growth Areas in the U.S. Economy

In assessing economic development trends in the states, I have identified three important growth areas that continue to provide an impressive platform for advancing state economies. Specifically, I see resurgences in three critical areas of the U.S. economy: (1) Manufacturing (2) Exports; and (3) Energy.

(1) Manufacturing Resurgence – For over a half century, the manufacturing sector’s relative contribution to U.S. GDP has been in decline, a process that accelerated in the 1970s when the nation’s high-paying manufacturing jobs in the automotive, steel, textiles and electronic industries began relocating to Latin America and Asia. While the manufacturing sector contributed 27 percent to GDP in 1957, it had slumped to 11 percent by 2009. However, there are nascent signs of a turnaround of the U.S. manufacturing sector in recent years and in 2011, the sector’s current-dollar share of GDP increased for the second consecutive year, to 12.2 percent, its highest share since 2006. (In 2010, its share had increased to 11.7 percent of GDP). In the past few years, call it “re-shoring,” “in-sourcing,” or “rebalancing,” a number of U.S. companies – ranging from GE to Caterpillar to Master Lock to Whirlpool to Dow Chemical to NCR – driven

by the dynamics of global labor, transportation and productivity costs have brought production back to the U.S. from Asia and Latin America. Boston Consulting Group estimates that by the end of the decade, this resurgence could help add 3 million jobs and \$100 billion in annual output to the U.S. economy.

(2) Export Resurgence – A striking aspect of the post-Great Recession U.S. economy has been the impressive surge in U.S. exports. Experts note that since the end of the Great Recession, exports have accounted for about half of the nation’s economic growth. For the first six months of 2012, U.S. exports amounted to \$773 billion, a marked improvement from the \$612 billion and \$723 billion exported during the same period in 2010 and 2011. Between January and June 2012, the top five U.S. export items were transportation equipment such as civilian aircraft and cars; computer and electronic products such as semiconductors; chemicals; non-electrical machinery; and petroleum and coal products. For the latest full year available, 2011, U.S. exports experienced a growth rate of 16 percent, with West Virginia topping all other states with a 40 percent expansion rate. Even at the local level, export growth has been striking. In 2011, merchandise exports from 367 U.S. metropolitan areas (or MSAs) totaled

\$1.31 trillion and since 2009, merchandise exports from MSAs have increased nearly 40 percent. Exports are expected to continue to be a major U.S. economic driver propelled by three factors: artificial intelligence and computing power that dominates current and future manufacturing, all spheres where the U.S. has a comparative advantage; discovery and recovery of large shale oil and natural gas deposits in the U.S.; and, demand from the rapidly developing nations.

(3) Energy Resurgence – As a result of factors such as high energy prices, requiring fixed quantities of biofuels to be used in gasoline, improved vehicle fuel economy standards, cutbacks in demand related to the Great Recession, there has been a sharp reduction in U.S. gasoline consumption in the last five years. Concurrently, there has been a flurry of successful oil and gas exploration projects – facilitated by technological advancements - in North America, including in fields that were deemed uneconomical only a few years ago. These unconventional sources of energy — like shale oil and shale gas across the United States, oil sands in Canada and deepwater production in the Gulf of Mexico has enabled the U.S. – along with Canada – to rank among the fastest-growing sources of new oil and gas supplies in the world. As a percent of overall gas production, shale gas production in

the U.S. has rocketed from 4 percent in 2005 to 24 percent in 2012. Not only is domestic oil output in the U.S. the highest in eight years, reversing a two-decade-long decline, the proportion of demand met from domestic sources over the last six years leapt to an estimated 81 percent through the first 10 months of 2011, the highest level since 1992. As a result, there is optimism that by the end of the decade, the U.S. could become the world's top energy producer, a conclusion that led Citigroup to forecast that as many as 3.6 million new jobs might be created by 2020 as a result of this energy boom.

Part III: Bright Sparks on the State Economic Landscape

While the U.S. economy continues to face multiple challenges, some of them related to the Great Recession, I have to mention a number of thriving economic development projects in many states. This is a strong reflection of the resiliency and vibrancy of the American economy and the astounding ability of the disparate elements within the U.S. economy to innovate, invent and improvise a way out of dire economic times. It is also evidence of the entrepreneurialism that has always been at the core of America.

Here is a fraction of the bright sparks and promising economic development projects from across the country:

- Solar

- Tennessee has emerged as a dominant player in the solar industry and Hemlock Semiconductor and Wacker Chemie, the world's leading producers of polycrystalline silicon, have invested a total of \$2.2 billion in the state recently. Hemlock's 500-acre, \$1.2 billion facility will have 3,500 workers while Wacker Chemie's \$1 billion plant will employ more than 600 workers. They join other solar-related companies in the state including Sharp, AGC Flat Glass and Shoals Technologies. Another important solar development in Tennessee involves Volkswagen's assembly facility in Chattanooga. Not only will nearly 13 percent of the facility's power needs emerge from solar, Volkswagen is building a \$30 million, 9.58 megawatt solar park - the largest in the state - to accomplish this goal.
- Apple's Maiden, North Carolina, \$1 billion data center is a massive 100-acre solar farm - the largest in the country - that will be completed by the end of 2012. A second facility, also 100 acres, will be built a few miles away. Together, the two solar facilities will

- supply 84 million kilowatt-hours of clean, renewable energy annually, permitting the data center to be powered by 100 percent renewable energy.
- SolarReserve's 110-megawatt Crescent Dunes solar power tower in northern Nevada is scheduled to go on-line in December 2013. Backed by \$260 million in private equity, the nearly \$1 billion Crescent Dunes project started construction in September 2011 and employs about 600 people.
 - BrightSource Energy's 370-megawatt Ivanpah solar power tower complex in California's Mojave Desert is scheduled to go on-line in December 2013 too. Both these projects have 25-year power purchase agreements with NV Energy and California's PG&E.

- Auto Industry

The "drive to move South," i.e., the location of a dozen or so foreign automobile manufacturers and an array of parts suppliers in many Southern states remains a major economic boost not only for the individual state economies but also the regional and U.S. economies.

- BMW announced a \$900 million expansion at its Spartanburg County, South Carolina plant in early 2012, bringing to nearly \$6 billion the

amount the carmaker has invested in the state since 1992. The expansion will increase direct jobs by 300 and bring to nearly 7,500 the number of direct jobs at the plant. The plant produces six different BMW models and earlier in 2012, rolled out its 2 millionth car.

- In Alabama, the state's auto plants have ramped up production and created more than 2,500 direct jobs and thousands of indirect and induced jobs just in the last year. Hyundai is adding a third shift at its Montgomery factory and hiring 877 new workers, while Mercedes continues to invest an extra \$2.4 billion and 1,400 new hires at its plant in Vance. Honda announced plans to invest a total of \$390 million in new investment and create nearly 300 new jobs at its Lincoln factory. Toyota's Huntsville engine plant also indicated an expansion of an additional 125 new jobs.
- Volkswagen's Chattanooga, Tennessee plant, after a year in operation, announced in July 2012 that it would hire an additional 1,000 workers to expand production and introduce two 10-hour shifts per day, six days per week. The facility is an integral part of the

carmaker's goal of producing and selling 1 million cars in the U.S. by 2018.

- Nissan announced in September 2012 that its Canton, Mississippi, facility will be the site for constructing three new models resulting in the hiring of 1,000 new employees. This will bring the total number of direct employees at the Nissan facility to 4,500.
 - In West Point, Georgia, earlier this year, KIA announced the completion of a \$100 million expansion that will enable the carmaker to increase production from 300,000 to 360,000 vehicles year. Total workforce at the plant now amounts to more than 3,000.
 - Even the U.S. automakers are expanding and this summer, GM broke ground on a \$380 million plant expansion to its Wentzville facility in Missouri. While the expansion will accommodate the next-generation Chevy Colorado pickup, it will create or retain 1,260 jobs. Similarly, in April 2012, Chrysler announced that demand for its Jeep Grand Cherokee was so strong that it planned on adding 1,100 new jobs at a plant to be constructed in downtown Detroit, the first time the "Detroit" automaker will have a facility within city limits.
- Aviation/Aeronautics

- Gulfstream Aerospace is in the midst of a \$500 million expansion effort at its headquarters in Savannah, Georgia that began in 2010. Also, at its operations in Westfield, Massachusetts, it is building a maintenance hangar to build the new G650 luxury business jet, an expansion project that will increase the number of employees at the facility to 230 full-time positions from 100. Gulfstream is also developing a supersonic business jet, the *Gulfstream Whisperer* that is expected to revolutionize the business jet segment of the industry.
- In late April 2012, at its Charleston, South Carolina facility, Boeing rolled out its first ever large commercial aircraft built in the South, the *787 Dreamliner* passenger jet. Three years after the plant was announced in 2009, the first outside the West Coast, the 6,000 employees of the South Carolina Boeing plant can claim that they assembled the “complete” aircraft. At full capacity, at the end of 2013, the plant is expected to produce 3.5 *Dreamliners* a month, which sell for nearly \$194 million each. By early spring 2012, Boeing had received orders for 854 planes from 59 airlines worldwide.
- In July 2012, Airbus, the European airplane maker, announced that it would invest \$600 million to build an assembly line for its popular A-

320 single-aisle jet in Mobile, Alabama, the company's first factory in the U.S. The facility is expected to create about 1,000 new direct jobs and indirect jobs with suppliers. The plan calls for building 40 to 50 A320 jets a year by the end of 2017.

- Ports
 - Our nation's seaports serve as entryways to domestic and international trade, adroitly linking large and small U.S. businesses to the expanding global marketplace. Not only do seaports support the employment of more than 13 million people across the U.S. and generate \$650 billion in personal income, for every \$1 billion in manufactured exports shipped through seaports, 15,000 U.S. jobs are created. With the scheduled expansion of the Panama Canal by 2015, the average size of container ships will increase significantly, a trend impacting the operations at most of the major U.S. ports that handle containerized cargo. Essential investment at these seaports includes harbor and channel dredging along with multimodal enhancements, while inland waterways require new or rehabilitated lock and dam facilities.

- In response to the Panama Canal expansion and the growing trend towards significantly larger container ships, ports across the country – from Los Angeles/Long Beach to Houston to Savannah to Miami to New York/New Jersey – are embarking on massive infrastructure projects. In fact, over the next five years seaports and their private sector partners expect to spend about \$46 billion on infrastructure enhancements.
- There are a few more projects I would like to highlight:
 - Over two dozen states have incentives to attract video gaming companies to set up operations. These efforts are usually tied to the computer and engineering departments at major universities. The goal is to effectively blend technology and the creative economy to generate a range of positive economic outcomes, one that often runs into hundreds of millions of dollars in economic impact. One of the most entrepreneurial projects is the one between Electronic Arts (or EA Sports) and Louisiana State University (LSU) in Baton Rouge. EA Sports is one of the world's dominant video game companies and several years ago, the company entered into a partnership – the first of its kind – with

LSU and the Louisiana Department of Economic Development to set up a Research Center on the LSU campus. Selected LSU students and EA Sports engineers work collaboratively to develop new video games.

- In Saratoga County, New York, GlobalFoundries, a semiconductor manufacturer, is building a \$4.6 billion, 2 million square-foot campus that will eventually create 1,600 direct jobs and about 8,000 indirect ones with an annual payroll of \$300 million. Several of GlobalFoundries' suppliers have also moved to the vicinity, creating a high-tech cluster.
- In April 2012, Baxter International announced its decision to set up a pharmaceutical manufacturing facility in Covington, Georgia, outside Atlanta. The \$1 billion facility will hire 1,500 new employees – mostly in the high-tech realm - at an average annual salary of between \$50,000 and \$60,000.
- Finally, South Carolina is fast-becoming the leading producer and exporter of tires in the United States. In 2011, the state exported \$1.6 billion in tires and in the last 12 months, all three of the state's major tire companies – Bridgestone, Michelin and

Continental – announced new plants or expansions amounting to hundreds of millions of dollars. The state manufactures 84,000 tires per day and holds a 30 percent share of total U.S. tire exports.

Part IV: Key Economic Development Strategy – Workforce or Job Training

While there is no single reason that has enabled states to see a number of exciting economic development projects thrive, I have to highlight one strategy: workforce or job-training. Over the past several decades, a number of states, particularly in the South have leveraged themselves as real leaders in the job-training effort. And, these efforts have paid off abundantly. When manufacturing began shifting to Southern locations some 50 years ago, these states were forced to quickly devise job-training programs to create a skilled workforce to staff these sites. In the ensuing years, these programs become highly effective and the 2012 Workforce Training ranking has six Southern states in the top 10, including the top 3 states (Louisiana, Georgia and Florida). These state job-training programs work directly with specific employers to ensure that the workforce is sufficiently prepared to take on the jobs at these

manufacturing locations that range from Hyundai to Caterpillar to Boeing to Mercedes.

A good example of a state proactively working with a company to create a sound job-training program is the one Georgia's *Quick Start* program initiated with KIA Motors. KIA built its first North American assembly plant in West Point, Georgia a few years ago. Before the actual plant opened in 2008, Georgia's *Quick Start* program built a 70,000-square-foot training center, an exact replica of the actual KIA plant located next door to train workers. The state spent more than \$14 million to build the facility and more than 3,000 workers have already passed through its program. KIA officials are effusive in their praise of the training of their employees at the center noting that "the quality of this training is the best we have ever seen."

Similarly, the Alabama Industrial Development Training (AIDT) program was launched in 1971 and has trained workers for an impressive array of blue-chip companies, including Mercedes, Honda, Hyundai and Toyota among others. More recently, AIDT opened a 60,000-square-foot, \$10 million Maritime Training Center in Mobile. The training center is scheduled to train more than 2,000 new workers in the next few years for

several shipbuilding companies based in the area, including Austral USA, which recently received a \$5 billion contract from the U.S. Navy to construct 10 new warships.

A corollary to these job-training programs is the effort by states to mesh the requirements of companies with the technical programs offered at their community colleges. Inspired by Germany's "apprentice system," i.e., practical vocational training (including working alongside a senior technician or mechanic) and theoretical training and general education two or more days a week, a number of states have replicated this very effectively across the country.

For instance, Siemens Energy in Charlotte, North Carolina sponsors an apprenticeship program to train potential employees at Central Piedmont Community College. The students work 40-hour-a week jobs at Siemens and spend part of that time at CPCC earning a degree in mechatronics. Siemens's Charlotte state-of-the-art 45,000 square-foot gas turbine plant employs 700, will hire another 400 shortly and is expected to churn out \$400 million in exports annually.

In upstate New York, Hudson Valley Community College works closely with GlobalFoundries, the semiconductor manufacturer, to train

workers at the College's dedicated semiconductor-training campus called TEC-SMART. In Iowa, a state that has increasingly focused on wind energy as a source of power, Iowa Lakes Community College is one of several institutions in the state providing certifications for workers pursuing careers in installing, maintaining and servicing wind turbines. In Nevada, a range of public and private entities have collaborated to train in-demand operators of computer numeric control (CNC) machine tools, the highly automated systems that dominate many machine shops. Termed Nevada's "Right Skills Now," the program supplies workers to GE's Bently, Nevada facility that works on machinery for the oil and gas and power generation industries. Minnesota is another state with a "Right Skills Now" training program where workers enroll in a 16-week curriculum at South Central Community College to train in CNC for work in companies like Permac Industries, a Twin Cities, Minnesota-based company that custom manufactures precision parts for customers worldwide in virtually all industries.

Part V: State Unemployment Insurance (UI) Funds

As a result of the severity of the Great Recession, the doggedly high unemployment rates in so many states and the actions taken by states

(such as expanding benefits and cutting taxes), the UI funds in a majority of the states ended up in perilous shape. During the Great Recession, the funds were attacked at both ends: more people were tapping benefits while a fewer number of companies were paying taxes to replenish the funds.

Based on U.S. Department of Labor data, in the first quarter of 2001, the total state unemployment trust fund balance was \$49.9 billion. By the second quarter of 2008, this number had declined to \$39.7 billion and continued to plunge to \$14.7 billion in the second quarter of 2010 before inching upwards to \$16.2 billion in the second quarter of 2012.

Experts tracking state unemployment insurance trends maintain that trust fund balances alone are not a useful reflection of trust fund solvency levels and often rely on different solvency measures. Among these are (1) the Average High Cost Multiple (AHCM), which measures the number of years a state could pay unemployment insurance benefits at peak recessionary levels, and (2) the High Cost Multiple (HCM), which incorporates the state's own eligibility requirements, benefit history and unique experience with periods of high unemployment over several decades. In both these measures, the recommended threshold is 1.

Unfortunately, the current financial position of state trust funds when assessed by both the AHCM and HCM measures remain very bleak. For the latest period, second quarter of 2012, only 6 states exceed the recommended threshold under the AHCM category and not a single state exceeds the recommended threshold under the HCM category. In sum, the trust funds in 44 states are “broke” or “near broke” with reserves well below the recommended level.

Dozens of states were forced to secure loans from the federal government to bolster their trust funds during the Great Recession. As of late September 2012, 19 states owed a total of \$26.3 billion to the federal government; in contrast, in early November 2011, 36 states owed a total of \$37.3 billion. States are gradually paying back what they borrowed (principal and interest) from the federal government, another expenditure category that strains scarce state revenues.

In response to the precarious fiscal position they find themselves in relative to their unemployment insurance funds, states have been forced to act. Some states have raised taxes on employers and slashed benefits either by lowering the amount paid or the duration for which the unemployed receive benefits. States used to grant up to 26 weeks of

unemployment benefits; now at least a half dozen states provide less than that. Florida links the amount of time the unemployed can receive benefits to the state's unemployment rate; the lower the state unemployment rate, the lower the amount of benefits. Pennsylvania, Michigan, Idaho and Texas are among the states that decided to sell bonds and raise money to pay off the federal government. In addition, the unemployment insurance taxes levied on employers in nearly two dozen states went up due to automatic triggers related to federal law governing states that fail to pay back loans to the federal government within a certain time period.

Conclusion

In closing, as foreboding as the severity of the Great Recession has been on both the national and state economies, there is a glimmer of optimism that we are moving in the right direction. Undoubtedly, there is more anguish on the horizon given the depths to which the economy plunged, particularly for those facing foreclosure and those still unemployed and underemployed. Policymakers at every level of government must remain vigilant to ensure that the ongoing recovery evolves into a self-sustaining expansion. This involves investing for the long-term – education, infrastructure – to ensure that we are setting a solid foundation for this

self-sustaining expansion. States, living up to their reputation as the laboratories of democracy, have initiated effective policies to foster a number of impressive economic development projects leveraging the manufacturing, export and energy sectors. However, there is much more to be done. Redirecting the energies of our economy — beginning at the local and state levels along with engaging the federal government and the private sectors as partners — will eventually generate broad-based, sustained economic growth in all sectors of the country. Thank you for your attention.