

**Joplin**  
**Economic Development Testimony**  
**9-14-10**

# Steve Russell Small Business Incubator Testimony

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1 I'm not sure if the next person wants to  
2 testify or not.

3 Steve Russell. I take that as a yes.

4 MR. RUSSELL: I'll take it.

5 COMMISSIONER GROSS: Welcome, Mr. Russell.

6 MR. RUSSELL: Thank you.

7 My name is Steve Russell. I'm director of  
8 Joseph Newman Innovation Center in Joplin. It is  
9 associated with the Joplin area Chamber of Commerce.  
10 It's actually an arm of the foundation, which is a  
11 501(c)(3).

12 As the gentleman just talked about a second  
13 ago, I think that if you had been in downtown Joplin  
14 six years ago and you were down there now, you would be  
15 totally amazed at what's happened.

16 Again, about six years ago there were three  
17 things that kind of kicked it all off, and it was the  
18 Frisco building, the City Hall started moving into  
19 their new location. We started building an environment  
20 down there.

21 The Innovation Center was started as a 1912  
22 kind of a dilapidated building. The structure was in  
23 fine shape, but it needed a lot of work. So in order  
24 to start the Innovation Center, we went and applied  
25 with the Missouri Technology Corporation and DED and

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1 received our certification as an incubator and an  
2 Innovation Center.

3 We received funding from three sources, and  
4 those sources are the -- for the facility itself was  
5 the tax credits, but also Economic Development  
6 Administration supplied money for our -- the renovation  
7 process.

8 The building was completely renovated,  
9 brought up to standards of this century, and it's a  
10 beautiful facility. Currently I have ten tenants in  
11 there. The building is about 95 percent full.  
12 Graduated about four tenants from there.

13 Currently, our -- the annual salaries that  
14 are generated range in about \$3 million. Sales that  
15 are generated are about \$4 million, somewhere right  
16 around there.

17 The tax credits that we receive, the first  
18 amount, which was about five years ago, was about  
19 \$100,000. Since then, it's been lowered to about  
20 \$45,000. And of course, that's -- incubator tax  
21 credits are 50 percent tax credits on that. So we have  
22 utilized that money for part of the construction that  
23 we did on the facility, and also the current  
24 maintenance on the building also.

25 Again, we have about 60 employees in the

1 building with ten companies, but the facility itself is  
2 not just designed -- the Innovation Center is not just  
3 designed for the tenants. We have responsibility to  
4 help anyone that's in the region.

5 Recently we started a prosperity initiative  
6 that assists several counties in Missouri and a couple  
7 of counties in Kansas, and we started a -- several  
8 projects to assist entrepreneurs.

9 I think what you will find in testimony  
10 following mine, a couple of people that will be up here  
11 will indicate the flurry of entrepreneurial  
12 opportunities that's going on in Joplin, and those  
13 people that are really wanting to start a business and  
14 do something for themselves.

15 So we appreciated the tax credits, and we  
16 look forward, hopefully, to continue with the tax  
17 credit program for a few more years.

18 Be happy to answer any questions that you  
19 have.

20 COMMISSIONER GROSS: Questions? Anyone? (No  
21 audible response). Nope.

22 Thanks for being here.

23 MR. RUSSELL: Thank you.

24 COMMISSIONER GROSS: Next is Mark Roark  
25 (phonetic)?

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1 community. Then all that stops and is either going to  
2 other states or just not happening, period.

3 COMMISSIONER GROSS: Anything else? (No  
4 audible response).

5 Thank you for being here.

6 MR. WILLIAMS: Thank you.

7 COMMISSIONER GROSS: Larry Cox changed his  
8 mind.

9 Mr. O'Brian? It looks like he's the one  
10 that's ready.

11 MR. O'BRIAN: Good afternoon. How are you?

12 COMMISSIONER GROSS: Good afternoon. How are  
13 you doing?

14 MR. O'BRIAN: Just fine. I'm going to hand  
15 these out. I'll overwhelm you with paper, if you can't  
16 do anything else, although it's very light.

17 COMMISSIONER GROSS: State your name.

18 MR. O'BRIAN: I will. My name is Rob  
19 O'Brian, O-B-R-I-A-N. I'm president of the Joplin Area  
20 Chamber of Commerce.

21 First and foremost, thank you all for being  
22 here today. We appreciate you taking the time to come  
23 to our corner of southwest Missouri and talk about tax  
24 credit programs.

25 A little different than this memo that I've

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1 given you, but given the tenor of the conversation  
2 leading into this, I just want to echo a few things  
3 here.

4 One, the people like Mark Williams and Toby  
5 Teeter, who are already doing projects -- and they're  
6 certainly not the only ones in southwest Missouri, but  
7 they're already doing projects, and have been doing  
8 projects based on what they understood the rules of the  
9 game to be at the time.

10 And they took substantial risk personally to  
11 utilize historic tax credits and other tax credits to  
12 do projects that certainly have added construction jobs  
13 to our area that have helped really support our  
14 economy, even though we, like a lot of the state, have  
15 been in an economic downturn.

16 And I think as a matter of good faith, they  
17 should be supported as rapidly and as fully as  
18 possible, given the State's current budget situation.

19 But again, I think your mission is really to  
20 look toward the future and what can be done in the  
21 immediate future, and in the longer term future.

22 So starting with the historic tax credits, I  
23 would just say they have a great benefit to our  
24 community. I think you've heard several comments about  
25 they certainly were utilized first in St. Louis and

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1 Kansas City, our two big metro areas.

2           It took a little while for people in the  
3 development community, whether local or in places in  
4 the state looking for opportunities, to find  
5 communities like Springfield and Joplin and Cape  
6 Girardeau and Columbia and Neosho and smaller  
7 communities yet, and really began utilizing the  
8 credits. But the use of those credits has been  
9 beneficial for our communities.

10           And certainly to do anything that would be  
11 destructive of the intent of historic tax credits would  
12 really have a significant negative impact on a lot of  
13 the momentum that has been going on.

14           One of the things that I think is very  
15 important, and it is hard to quantify. I mean, when  
16 you're in a position certainly in the legislature, if  
17 somebody is saying, well, you know, how do we quantify  
18 the economic impact of this? And jobs is a good  
19 indicator of that. And a lot of times beyond the  
20 construction jobs, sometimes they don't appear to  
21 create jobs.

22           But in terms of the perception of the  
23 community and the vitality of the community and the  
24 economic impact that comes from that, it can be very  
25 significant. I've given you a little bit of an

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1 indicator in the memo, but one of the things -- and  
2 you've heard projects here, about the Gryphon Building,  
3 about Mark Williams' excellent use of the programs and  
4 the kind of great things he's done on the historic tax  
5 credit side.

6 But one thing we hear from our business  
7 members is just the perception of the community, the  
8 downtown area. These buildings that are being brought  
9 back. There's vitality there. There's these events  
10 that occur downtown, and it creates a vitality that  
11 businesses appreciate because many of our businesses,  
12 despite the economy, are still in a hiring mode, but  
13 they're looking for skilled talent.

14 And whether it's our hospitals trying to  
15 bring in physicians or skilled technicians, whether  
16 it's companies trying to bring in engineers, there's  
17 always that perspective of what's the community have to  
18 offer?

19 We know what the job is. And there's lots of  
20 communities out there that have a vibrant cultural life  
21 that appear to be progressive, and so if you don't  
22 appear to be in that game, that's a check mark against  
23 you.

24 And we have heard from numerous, numerous  
25 numbers of our companies and their top management that

1 what is going on in downtown Joplin benefits them in  
2 their ability to recruit top talent.

3 We also believe it is very instrumental as we  
4 look to bring new companies in over a period of time.  
5 And an example of that, going back a few years, just  
6 before the economy kind of turned down, was working  
7 with AT&T. And at the time it was Cingular. Cingular  
8 had gone through a process to establish a new mobile  
9 customer center, it's a business-to-business center,  
10 and they completed their merger with AT&T.

11 And there were people with AT&T that really  
12 had been in Missouri and Kansas 20 years ago, and they  
13 were in Atlanta and Dallas and these very vibrant  
14 communities. And they had in their mind a picture of  
15 what southwest Missouri looked like, quite frankly.  
16 And they wanted to bed everything that the Cingular  
17 folks had done to that period of time.

18 And we took them around and they literally  
19 said, you know, "We have to apologize to you because we  
20 had this picture of kind of the rust belt, dieing small  
21 metro community, and what we see here is a community  
22 that's beginning" -- because we were in the beginning  
23 process, but beginning to turn it around. The  
24 buildings were being restored.

25 Streetscapes were being done. We had

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1 leveraged the incubator tax credits mentioned earlier  
2 to establish our incubator restoration of a 1911  
3 building, and so that brought us 500 jobs. And it's  
4 been 500 jobs despite the economy's ups and downs.  
5 It's been 500 good jobs in our community since 2007.

6 So these kind of programs do have a benefit.

7 I do think it's the 800-pound gorilla that  
8 everyone is looking at. Certainly one of the things  
9 that is going to be discussed and debated is, is there  
10 a way of, you know, lowering the caps on the project?  
11 Lowering the percentages of the credit in historic tax  
12 credits?

13 In the current budget climate, certainly  
14 everything has to be considered, but I would just echo  
15 Mark's comment earlier. I think we have to make sure  
16 that we don't throw the baby out with the bath water in  
17 terms of getting perhaps a better handle on historic  
18 tax credits that satisfies most folks.

19 We also have to do it in a way that protects  
20 smaller projects, regardless of where they occur. And  
21 you know, in essence, protecting the little guy. But  
22 somewhere in there, there has to be a mechanism that  
23 somewhere smaller projects are given as much  
24 consideration as some of the larger ones.

25 I'd also say that I would think any

1 recommendation that then comes into legislation ought  
2 to be for about two years. That gives a little bit of  
3 time to see where the economy is going. It gives some  
4 time and some certainty for people to know what the  
5 rules are at that point in time.

6 And hopefully, in two years, when you can  
7 have another review of this, the economy looks better  
8 and some other decisions could be made in the process.

9 Going back to my memo, you know, one of the  
10 things, doing this for 25 years, 15 of those years in  
11 Missouri, the nuts and bolts economic development, the  
12 job creation aspect of that, this state, the Department  
13 of Economic Development people, and the legislature  
14 worked very hard a few years ago essentially on several  
15 programs. Enhanced enterprise zone was one, quality  
16 jobs was another, and then the continued enhancement of  
17 the build program.

18 And frankly, most of us in the day-to-day  
19 economic development world kind of consider those the  
20 big three. Those are the best tools we have when we're  
21 trying to leverage existing companies into expansion,  
22 or new companies into our locations.

23 They, right now, collectively are about 130  
24 million, I think, and they have been very good programs  
25 for our state. Those are programs, by the way, that

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1 also are really kind of a pay-as-you-go.

2 In other words, with those programs, there's  
3 nothing up front until those jobs are created. Until  
4 that investment is made, those programs do not go into  
5 effect. So even though they may be allocated, until  
6 there's an actual direct benefit back to the community  
7 and the State, those credits don't go out the door.

8 And so I think it's very important to  
9 recognize that there are different types of credit  
10 programs: some of them go out up front, and others that  
11 go out when there's performance. And so I think it's  
12 very important to keep these programs intact.

13 A couple of things, as you know, we've  
14 certainly talked about it in economic development  
15 circles, is -- that could be helpful. And again, given  
16 the current economic climate, it may be useful to look  
17 at these as a pool as opposed to three capped programs.  
18 Because we do find that as time goes on, sometimes you  
19 have a project that qualifies very much for this  
20 program, whatever this program is, enhanced enterprise  
21 zone. But we're capped.

22 And so we got this nice little table back  
23 from DED that shows, you know, little stars in it where  
24 actually the dollar incentives would be in terms of the  
25 credit benefit for two or three years out until they

1 know the legislature will get to reauthorizing or  
2 whatever.

3 I think if DED had some flexibility to move  
4 credits among programs, that would be beneficial. It  
5 would also kind of set from a legislative standpoint,  
6 it really kind of removes that session by session,  
7 well, this year we're dealing with this program and  
8 credit caps, and then next year, we capped out the  
9 other one. Now we have to deal with this program.  
10 Now, you know, we've covered two or three bases with  
11 one pool.

12 Separate from that, but probably linked to  
13 that, if you have a pool of programs, one thing that  
14 would be good to consider certainly is how to upfront  
15 these programs. Most of them are five-year programs.  
16 Some of them are longer in terms of the payback.

17 What we're finding is that again in the  
18 current economic climate there are projects out there,  
19 but other states have come up with deal-closing funds  
20 and basically they think they can put in the first year  
21 or two of a project.

22 These three programs are very good. They are  
23 actually very aggressive, but they're extended over a  
24 period of time. And so if there is a way to front load  
25 the benefit with appropriate -- with an appropriate

1 claw back or other provision -- again, making sure that  
2 that performance is there -- I think that would be  
3 beneficial over the long haul. And again, with  
4 flexibility, some abilities to front load on key  
5 projects -- not every project, but certainly on key  
6 projects in the state, I think it would be feasible  
7 for, again, a couple year period to maybe reduce that  
8 total cap of 130 million by a little bit and get a  
9 little more breathing room in the budget.

10 Training programs -- and Dr. Marble knows  
11 this as well as anyone. The new jobs training program,  
12 retained jobs training program, are stellar. They're  
13 very good programs. They're very flexible. They're  
14 very useful. They're not true tax credit programs  
15 because, again, they're kind of a pay-as-you-go.

16 There's an economic benefit to the State  
17 before the money goes out the door. We need to make  
18 sure that they're adequately funded, and really enhance  
19 the ability to train and retrain our Missouri workers  
20 for the kind of jobs that we hope that we both expand  
21 and attract to our communities and our state. Higher  
22 skills, higher wages. And we need to make sure we  
23 address those.

24 I think overall there's about 70 tax credit  
25 programs that you're looking at in the state. Some of

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1 those go back more than 30 years. And probably some of  
2 them were great ideas at the time. Probably some of  
3 them may still be great ideas, but they're either  
4 underfunded and consequently not making the significant  
5 impact, or they just have run their course.

6 I think if you can look at some of the  
7 programs and find those that are similarly directed and  
8 pool them together, just like we talked about job  
9 creation, and find ways to enhance the impact, that  
10 would be great. You get more bang for the buck. If  
11 we're not going to get any bang for the buck or  
12 anything significant, then let's end it and get the  
13 savings out of those programs.

14 I think anything that you do should be about  
15 a two-year window -- maybe three. But probably a  
16 two-year window to allow time, without legislative  
17 modification from year to year, to see how any changes  
18 sink in, and what kind of benefit or not we're getting  
19 out of those, and then be willing to move forward in a  
20 couple of years based on the economic climate at that  
21 time.

22 And finally, I think that one thing, it's a  
23 very hard task that you have. You know, is a clear-cut  
24 set of priorities, you know. In my position, in the  
25 position of some of the people you've heard from, like

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1 Mark Williams and Toby Teeter, those kind of things  
2 that have a direct job impact, that have a training  
3 impact, that create construction jobs, that revitalize  
4 communities, you know, that's our priority.

5 I know there are other people here who are  
6 good friends, they look at their programs that serve a  
7 social need, that help people who are in desperate  
8 straits. That's a priority.

9 And we have a lot of priorities in the state.  
10 And I think the difficult task you have really is to  
11 put some kind of line-up to those to say, based on the  
12 dollars we have and the ability we have to fund  
13 programs, here's the way it's going to have to line up.

14 But I think as a commission, you -- we kind  
15 of expect you to do that because of -- if it's clearly  
16 articulated and there's a set of priorities that we all  
17 can get behind because we understand it, then there  
18 will be the legislative support to take action.

19 Thank you very much for your time this  
20 afternoon.

21 COMMISSIONER GROSS: I hope it works just the  
22 way you laid it out there.

23 COMMISSIONER WOOD: You make it sound easy.

24 MR. O'BRIAN: You know, I've been on that  
25 side, too, and it is not. It is very difficult. And I

1 know, Senator, you know that very well.

2 COMMISSIONER GROSS: Yeah.

3 MR. O'BRIAN: That even with all good  
4 intentions, when January comes, everything's up for  
5 grabs again.

6 COMMISSIONER GROSS: Questions? Comments?

7 COMMISSIONER ANDERSON: A question. Rob, I  
8 think I know your response, but some have suggested  
9 that tax credits be subject to annual appropriations.  
10 What would be your reaction to that?

11 MR. O'BRIAN: Well, I think the impact of  
12 that, Jim, is really which credits?

13 And again, I think part of that issue is when  
14 you have programs that are essentially pay-as-you-go,  
15 that there is an economic impact that has to occur  
16 first, before the credits are awarded. Things like  
17 quality jobs and build, and those types of things.

18 You know, in a very real way, they've kind of  
19 just done a loop around the state and, you know, again,  
20 somewhat in a perfect world, but should have an overall  
21 positive economic impact on the state, but certainly  
22 not a negative -- not a, we put money out on the table,  
23 because you've already gotten the economic benefit.

24 And so I think to put those into an annual  
25 appropriation setting really is probably not

1 necessarily giving full consideration to the dynamics  
2 of those types of programs.

3 We do have other programs, certainly, that  
4 has to be a consideration.

5 COMMISSIONER ANDERSON: As you would visit  
6 with a business prospect, don't you think that would be  
7 a major negative? If the tax credits would not be  
8 guaranteed, it would be subject to the annual  
9 appropriation, at the whim, obviously, of the  
10 legislative session?

11 MR. O'BRIAN: I think, as mentioned earlier,  
12 we have had cases -- and, you know, with all good  
13 intent. But we've had cases in the past where we've  
14 been working with Sallie and other people at the  
15 Department of Economic Development, and because there  
16 has not been an appropriation made that raised a cap on  
17 a program, they do this nice chart of, you know, what's  
18 your five-year benefit based on the payroll and the  
19 investment and all of those types of things, and it's a  
20 bunch of little asterisks in the box.

21 And what you can say is, you know, if the  
22 legislature approves this, then by golly, this is what  
23 you're going to get. But today you have a bunch of  
24 asterisks in a box.

25 And frankly, that doesn't go very well. One

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1 thing businesses need, the one thing investors need in  
2 historic projects is certainty. They need to know  
3 that, you know, there's rules to the game, and that the  
4 rules are followed, and that there is certainty not  
5 just today, but five years out, ten years out.

6 Absolutely, Jim.

7 COMMISSIONER GROSS: Thank you for being  
8 here.

9 MR. O'BRIAN: Thank you very much, Senator.

10 COMMISSIONER GROSS: Alice Malinowski.

11 MS. MALINOWSKI-SUNDAY: Allison  
12 Malinowski-Sunday.

13 First let me thank you very much for having  
14 this hearing in Joplin. It is a rare occurrence to  
15 have these sorts of events here in our part of the  
16 state. So thank you, and welcome, and I hope you have  
17 a great visit.

18 My name is Allison Malinowski-Sunday, and I'm  
19 the executive director of a local non-for profit  
20 domestic violence shelter.

21 I've had this position for just about 30  
22 years and have seen really a tremendous change in the  
23 way the State of Missouri funds domestic violence  
24 services, and one of those ways is through the domestic  
25 violence tax credits specific to our programs.

O'Brian (cont.)

JOPLIN AREA  
CHAMBER OF COMMERCE

To: Missouri Tax Credit Review Commission Members  
From: Rob O'Brian, President, Joplin Area Chamber of Commerce  
Date: September 14, 2010

Commission Members;

Thank you for taking the time to visit Joplin and for your efforts to address concerns about the use of tax credits and the impact on the state budget. In June, 2009, the Joint Committee on Legislative Research directed the Oversight division to evaluate state tax credit programs. That report provides a wealth of information and some good basic recommendations for consideration.

As an economic development practitioner for more than twenty-five years, fifteen of those in Missouri, I would offer some "real life" experience with those tax credit programs with which I am most familiar.

**Job Creation:** The "big three" for existing firm expansion and attraction of new companies to our state are Quality Jobs, Enhanced Enterprise Zone and BUILD. These three programs have annual caps that, collectively, are approximately \$130 million annually. It is important to note however that these are, in essence, self-funded programs. MQJ and BUILD are repaid on the basis of new payroll tax, while EEZ credits are awarded based on a percentage of payroll and capital investment. In addition, a project must go forward and the jobs must be created before a company derives any benefit. These are the most direct and useful tools those of us in the trenches have to support job creation.

I have two recommendations, linked but separate, that may give our state a better competitive edge with these programs. First, is to combine the caps, giving flexibility to move the credits as needed to support projects, rather than hitting a cap in one and not being able to qualify the project in another program. This Job Creation pool could, for a period of time, be somewhat reduced, (\$110-\$120 million) since DED will have the flexibility among the programs to move credits as needed to support projects. Second, is to seek a way to "front load" credits for major job producing projects. In the current economic climate, companies are seeking ways to maximize the upfront funding of startup costs. While these three programs are among the most aggressive in the country, other states are putting more funding in the first one to two years and getting the projects. They are also often getting by with less overall incentives because of the front loading.

**Training:** The Missouri New Jobs Training program and Jobs Retention Training program are among the most flexible in the country. The structure, in essence, is a private bond, typically purchased by the company, and repaid by payroll taxes generated by the jobs. As the economy recovers, our state must be positioned to help existing firms stay competitive through extensive retraining of their workforce and to attract new, higher skilled positions to the state by providing adequate funding for the training required. If savings can be found in other areas, these two programs need to be expanded. Customized Training, typically used for smaller job creation numbers is a direct grant process. Although it has been restored somewhat in recent years after being cut in 2003 -2005; it is still underfunded given the need of small companies to retrain employees to stay competitive.

(over)

Historic Tax Credits: This program, which offers tax credits up to 25% of qualified costs, grew substantially in the past decade and seems to be the focal point for much of the public debate about tax credits. The program was not capped, until HB 191 passed in 2009 set some limitations. Historic Tax Credits were initially used in St. Louis and Kansas City and only in the past few years have been utilized in smaller cities such as Joplin. However, the economic benefit has been tremendous.

The use of Historic Tax Credits in our area has enabled several projects to move forward, when they otherwise may have stalled due to the economic downturn. These projects have provided numerous construction jobs, helping to support our area. In addition, the projects have helped renovate and improve our downtown. While such improvement, beyond jobs, is hard to quantify from an economic perspective, we know, from numerous comments from businesses that an improved downtown has improved the perception of our community. This, in turn, helps existing firms in their quest to recruit new talent. In addition, the perception of a progressive community was instrumental in our recruitment of AT&T in 2007, leading to a 500 person customer contact center, which has been a stable employer for our community and state.

Given the pressure on the budget, it is not unreasonable to consider a lower annual cap on the credits and/or a reduced percentage of credit. However, any such moves should be done in a manner that continues to support development in communities outside of the two major metro areas. In addition, actions should be limited to a two year window which will, hopefully, give more time for the economy to improve and an opportunity to review the demand for project support.

Overall, we would recommend the following:

- The State has nearly 70 credit programs, going back more than 30 years. A number of these programs have minimal dollars and minimal impact. Those that are no longer serving a significant need and creating significant benefit for residents of the state should be refocused to provide benefit or ended, collectively creating significant savings.
- In that same vein, the Commission should seek ways to combine or pool programs that have the same basic goals, such as job creation, housing, etc. in order to give flexibility in addressing those needs. With greater flexibility it is likely the annual overall credit requirement can be reduced.
- Any recommendations should have a two year window without modifications. This will allow time to determine how the changes are working. At the end of two years, the Legislature can revisit all programs based on the state's (hopefully improved) economy.
- Most importantly, this Commission must agreed to and set priorities. In the current economic climate, we believe it is imperative to focus on supporting the creation of new, quality jobs by encouraging existing businesses to invest in expansion and attracting new companies to our state. That also requires providing the training and retraining to allow working Missourians to have the skills needed to obtain and retain those jobs. Other organizations will have different views. Regardless, this Commission has been charged with providing a clear, balanced approach to addressing the needs of the state and having a clearly articulated set of priorities is key to gaining support and legislative action.

Again, thank you for the opportunity to present this information. If you have any additional questions or information needs, please feel free to contact us at any time.