ECONOMIC & COMMUNITY DEVELOPMENT

Ready to Work

TENNESSEE DEPARTMENT OF ECONOMIC & COMMUNITY DEVELOPMENT

2011 ANNUAL REPORT

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2011 A New Model

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In 2011, the State of Tennessee transformed the model for economic development.

The result was one of the most productive years in the state's history for the Tennessee Department of Economic & Community Development (ECD).

Governor Bill Haslam took office in January 2011 after winning the election with the widest margin of any non-incumbent governor in Tennessee history. Governor Haslam's campaign platform was centered on job creation and transforming state government.

Immediately, Governor Haslam challenged the department to undertake an intensive top-to-bottom review that led to the Jobs4TN plan unveiled in April 2011.

Jobs4TN refocused Tennessee's economic development efforts, adjusting them to the new reality of a global economy still struggling to come out of recession. The Jobs4TN plan was transformative, changing the way Tennessee does business when it comes to economic development.

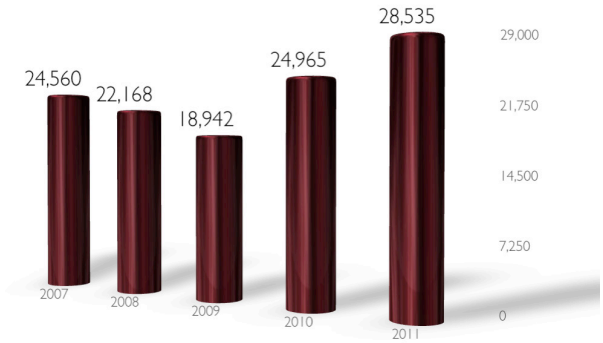
The plan called for ECD to focus on Tennessee's inherent strengths, identifying six target clusters of business and industry where the state has a strategic advantage.

Jobs4TN also tasked ECD with renewing its efforts to help existing Tennessee businesses grow and expand in addition to recruiting new companies to the state from across the world.

This resulted in a reorganization of the department that decentralized our recruitment team into nine distinct regions, closely partnering with local economic development professionals at the local level. We also strengthened our central recruiting project team focused on out-of-state and out-of-country prospects that we manage from the capital and through our four overseas ECD offices.

The results of the Jobs4TN strategy are tangible. In 2011, job creation in Tennessee hit its highest mark of the last five years and since the onset of the global recession. ECD projects and private sector growth tracked by the department accounted for 28,535 jobs created in Tennessee in 2011 and more than $4 billion in investment.

Jobs Created In 2011



Federal statistics show Tennessee's business-climate was right for growth in 2011. State unemployment figures by the end of the year hit the lowest mark since 2008.

All of this was accomplished with a leaner department that now focuses more resources than ever before on company recruitment, native industry expansions and entrepreneurism.

A Focused Strategy

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Governor Haslam asked all departments to undertake a top-to-bottom review of their operations, searching for solutions to make state government more efficient. However, ECD's review necessarily was undertaken in a compressed time frame given the state of the still struggling economy in the first quarter of 2011.

ECD Commissioner Bill Hagerty's team, led by Chief of Staff Brad Smith, conducted a 45-day review of department operations. Despite the tight time line, the review was extremely deep. During that time, ECD staff and a team of 16 pro bono advisors met with:

- **297 roundtable participants;**
- **62 stakeholders;**
- **interviewed a dozen national experts;**
- **and analyzed 878 ECD investments.**

The result was the embodiment of Governor Haslam's vision from the campaign, Jobs4TN - a new mission, a prioritization of ECD resources and a renewed commitment to Tennessee's existing businesses and entrepreneurs.

Governor Haslam established a new goal for the state through ECD's process, that Tennessee will become the number one state in the Southeast for high-quality jobs.

Four key strategies were then employed to reach that goal.

#1 Prioritizing key clusters and existing businesses.

ECD used the clustering methodology of leading economist Michael E. Porter, Ph.D., head of Harvard University's Institute for Strategy and Competitiveness and a Bishop William Lawrence University Professor, to determine attractive economic sectors around which the department would now focus its business development efforts. The six key clusters identified include sectors of business and industry where Tennessee already holds a competitive advantage.

- **Automotive**
- **Chemical products and plastics**
- **Transportation, logistics & distribution services**
- **Business services**
- **Health care**
- **Advanced manufacturing & energy technologies**

Three other areas of strength were identified, each served by separate departments but closely linked to ECD. Tennessee's departments of Agriculture and Tourist Development will work closely with ECD, particularly in the area of rural economic development. The third, music, was managed separately under the Tennessee Film, Entertainment and Music Commission, which has now been merged directly into ECD for added emphasis on the economic development potential of this sector.

ECD research also found that a vast majority of new jobs in Tennessee are created by existing businesses. While company relocations are significant economic development events, they only account for a small portion of all jobs created in the state. Existing business expansions and entrepreneurs starting businesses in the state drive the overwhelming number of all jobs created in Tennessee.

The department then renewed its commitment and outreach strategy for existing businesses, with Governor Haslam and Commissioner Hagerty meeting personally with more than 100 of the state's top employers during 2011.

#2 Establishing regional "Jobs Base Camps."

To better serve these new goals, the strategic decision was made to decentralize ECD, spreading out manpower and resources to nine new field staff regions.

Each region is now led by an executive level Regional Director who serves as a single point of contact for all jobs and business-related issues in the region. Each Director is supported both by a local field staff and by the Department's headquarters staff at the Capitol.

Each jobs base camp has focused on six activities:

- **Business recruitment**
- **Business expansion**
- **Innovation, specifically supporting an entrepreneurial incubator**
- **Workforce development**
- **Aligning and identifying grant resources**
- **Executing specific tasks outlined in each regional strategic plan**

#3 Investing in innovation.

Governor Haslam announced in May a $50 million initiative designed to support innovation across the state that would run through the Department.

The goal of the program, called INCITE for its focus on *i*nnovation, *c*ommercialization, *i*nvestment, *t*echnology and *e*ntrepreneurship, is to raise Tennessee's profile in innovation-based economic development and catalyze growth in the creation of knowledge-based jobs. INCITE also serves to create an environment that is supportive of entrepreneurial job creation.

The INCITE initiative focuses on four areas:

- **Innovation Coordination** – ECD worked through each of the nine regions to develop a strategic plan for economic development. Each contains a strategy to support entrepreneurial innovation using the region's unique assets.
- **Commercialization** – ECD is working with major research institutions in the state on a series of initiatives designed to accelerate the migration of new products and technologies from the research lab to the marketplace.
- **Entrepreneurship** – ECD is funding business incubators in each of the state's nine economic development regions. Each incubator is funded through both state and local sponsorship. Mentors, professional support networks, business plan advice and office space will be available for a wide variety of entrepreneurs who qualify. Startup Tennessee, an affiliate of Startup America, has partnered with ECD to help establish and build their network of accelerators in Tennessee.
- **Co-Investment Fund** – ECD is implementing through the Tennessee Technology Development Corporation (TTDC), a $30 million fund for early stage, seed and mezzanine capital investments. Commissioner Hagerty is the chair of the TTDC Board of Directors.

#4 Reducing business regulation.

Governor Haslam and Commissioner Hagerty committed an ECD working group led by Assistant Commissioner Paul Fassbender, to produce recommendations on how to reduce regulations on business.

The group identified existing federal and state regulations that negatively impact business in the state and alternate language provided a framework for evaluation so that redundant, ineffective and overly burdensome regulations could be modified and removed.

Gov. Haslam announced details of his $50 million INCITE initiative to raise the state's profile in innovation-based economic development and drive the growth of knowledge-based jobs.

Transforming A Department 5

The Jobs4TN plan called for a drastic reorganization of ECD, which Commissioner Hagerty and his senior team pursued vigorously.

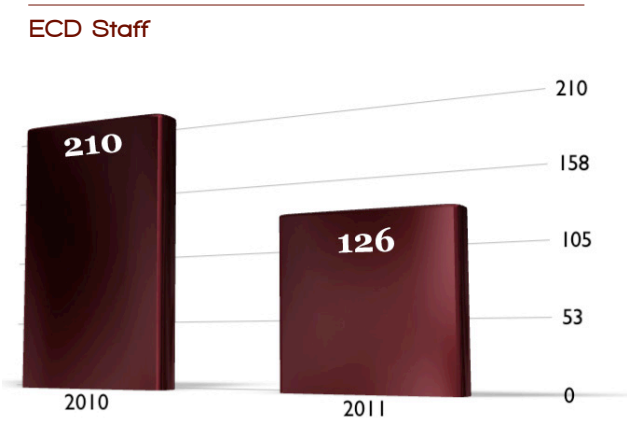
These moves required dynamic and sometimes tough decisions that ultimately proved beneficial to the department's new charge.

Every position and function was reviewed for fit and effectiveness in the new economy. The final result was a significant realignment of departmental resources accompanied by a reduction in overall staff size by more than 40 percent.

To achieve maximum effectiveness, ECD decentralized the management of the department into nine regions. A regional director leads each region, some from within ECD's ranks; some from the larger economic development community while others came from the halls of Tennessee's largest companies.

These are executive level leaders, able to work principal-to-principal with business leaders to accomplish ECD's mission every day as they lead local teams in the department's recruitment efforts.

Through a reorganization of the department's business development team, ECD also put more "boots on the ground" than ever before, recruiting new companies to the state and courting the expansions of existing industry. After installing the jobs base camps staffs, the overall reorganization saw the business development team grow by more than 70 percent with a focus on assisting the private sector to create jobs in the state.



Governor Haslam addressed the new jobs base camp regional staff at a quarterly training meeting in Nashville this summer.

ECONOMIC & COMMUNITY DEVELOPMENT

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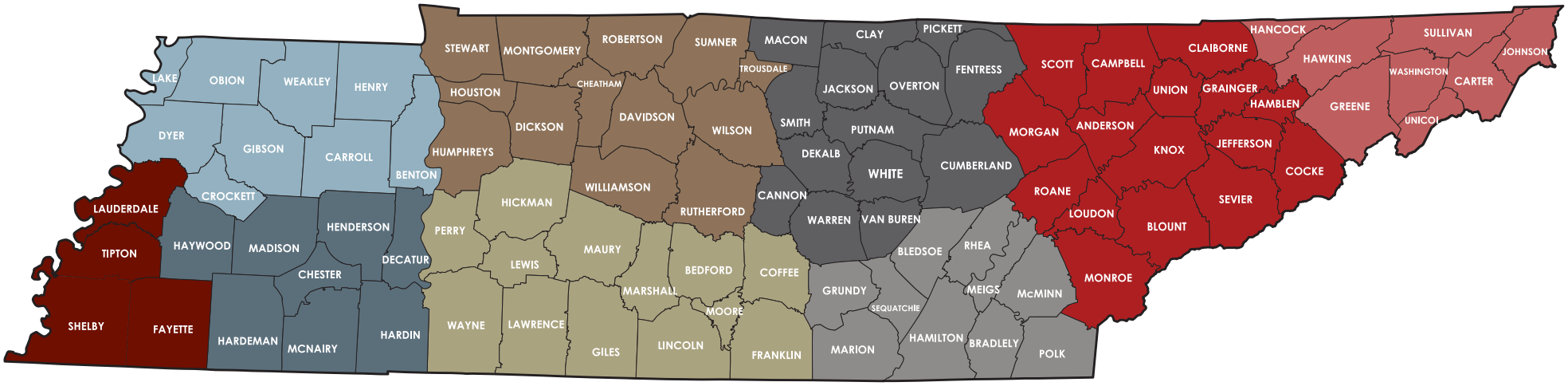

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Tennessee Starts Up

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Governor Haslam's background in entrepreneurial businesses has set the tone for the department to focus on creating the best environment in the nation for entrepreneurism.

ECD made great strides in 2011 increasing support for entrepreneurs, investors and the state's venture capital community.

As part of Governor Haslam's INCITE program, the department leveraged $30 million in U.S. Treasury funds from the State Small Business Credit Initiative to create the INCITE Co-Investment Fund.

The fund will provide early and seed stage capital to qualified investors across the state. The fund will be administered by the Tennessee Technology Development Corporation.

ECD is also funding a $10 million grant system to support the placement of business accelerators in each of the nine regions. The incubator program will provide mentoring and other services to start-up companies and entrepreneurs. The program requires accelerators to find local support in the form of matching funds for the ECD grant.

Finally, ECD partnered with the Entrepreneur Center in Nashville to make Tennessee only the second state in the nation to have its own local version of Startup America Partnership. Startup Tennessee brings together entrepreneurs, mentors, advisors, funders, major corporations, service providers and government organizations to start and scale companies in the state.

Regional Entrepreneurial Accelerators

- **Northeast Region:** East Tennessee State University, Bureau of Business and Economic Research
- **East Region:** University of Tennessee, Anderson Center for Entrepreneurship and Innovation
- **Southeast Region:** The Company Lab
- **Upper Cumberland Region:** Roane State Community College
- **Northern Middle Region:** Nashville Entrepreneur Center
- **Southern Middle Region:** Southern Middle Tennessee Entrepreneur Centers, Inc./South Central Tennessee Workforce Alliance
- **Southwest Region:** Jackson State Community College
- **Northwest Region:** Northwest Tennessee Development District
- **Greater Memphis Region:** Memphis Bioworks

(Top) *Governor Bill Haslam, Speaker Beth Harwell, Rep. Jimmy Matlock and Senator Randy McNally hold a small business listening session.* ***(Right)*** *Commissioner Hagerty with Scott Case of Startup America.*

Rural Resolve

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Commissioner Hagerty visited the Port of Cates Landing that is currently under development in Tiptonville, Tenn. on the banks of the Mississippi River.

In 2011, ECD's reach was felt statewide. Governor Haslam, Commissioner Hagerty and department staff met with more than 2,000 businesses and over 700 economic development stakeholders across the state in 2011.

The department's commitment is to the entire state, but with a renewed focus on helping the private sector create jobs in rural Tennessee. To accomplish that goal, Commissioner Hagerty named department veteran Dan Hawk director of rural development.

ECD also began the implementation of a rural strategy, designed to help local communities become more competitive in a challenging economic development climate.

The department began the launch of a new statewide site certification program to help communities ensure they are developing and maintaining sites that can successfully attract manufacturers and capital investment.

Tennessee communities for years have invested tax dollars in a proactive effort to build and maintain an impressive inventory of industrial park space. The program will help governments and industrial development boards ensure sites are ready for current industrial development and are marketed on the broadest basis.

Keeping local economic development professionals current on best practices in company recruitment has also been identified as a need in certain rural areas of the state. ECD partnered with the Tennessee Valley Authority to provide regional training sessions for economic development professionals to help them navigate today's highly competitive economic development marketplace.

Finally, ECD has identified a growing opportunity for rural communities to engage in the global economy.

There is a great need for business service centers throughout this country, servicing the needs of companies and customers. ECD began in 2011 embarking on a public-private partnership to develop a Digital Factory pilot for the state. The aim is to train employees to work in these jobs and pair communities with companies needing business service centers.

These initiatives were announced at the Governor's Conference on Economic Development in October 2011 – a conference with a record attendance and a significant presence from the state's rural communities.

Our Urban Challenge

Tennessee's larger cities enjoy better than average employment levels and prosperity. However, we have challenges within some of our urban areas that will require a similar focus from ECD to that in our more rural environments. Our department is working daily with state legislators, urban economic development stakeholders and local leaders to ensure that our Economic Development tools are responsive and effective in building opportunities for growth in these central areas.

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Our Global Outreach

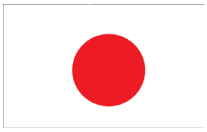
At the same time, ECD is taking the good news about Tennessee's business-friendly climate around the globe.

During 2011, Commissioner Hagerty and staff visited companies in the following countries:

Austria

Ireland

Canada


Japan

Germany

Korea

Senior staff also called our four overseas offices Canada, China, Europe (Germany) and Japan.

In December 2011, Governor Haslam and Commissioner Hagerty along with officials from the U.S. Small Business Administration, United States Commercial Service and Tennessee Small Business Development Centers announced a new state initiative to boost Tennessee exports.

The program, TNTrade, is designed to help small and medium-sized businesses grow their export activity, and consists of two primary components: the Market Access Program (MAP) and a 2012 trade mission to China and South Korea focused on medical device manufacturers.

Finally, Governor Haslam is the host governor for the Southeast U.S.-Japan annual meeting to be held in Tokyo this fall. The governor will lead the Tennessee delegation of business and economic development officials attending the conference and hold an additional trade mission while in Asia.

Consul General Sato with Governor Haslam at the 2011 Governor's Conference on Economic Development

Historic Results

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As a result of this year of transformation, ECD reached a peak it had not achieved since before the onset the global recession. Over 2011, ECD projects and other job growth in Tennessee's healthy business climate resulted in 28,535 new jobs created in the state.

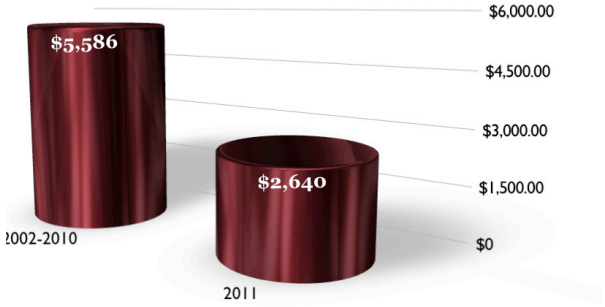
By focusing on strategic sectors and leveraging Tennessee's strategic advantages for these companies, ECD was able to significantly lower the average costs of incentives per job attained compared to the previous decade. In 2011 the average incentive cost per job was reduced by 50 percent compared to the average for 2002-2010.

ECD projects also assisted the private sector in bringing new companies, expansions, major capital investment and jobs all across the state – to major metropolitan areas and rural communities alike.

The Tennessee Department of Economic & Community Development underwent a transformative year in 2011. The department reshaped the way it does business and set new priorities consistent with the dynamics of today's global economy.

This transformation enhanced the state's business-friendly climate and set Tennessee on a course to allow local companies to grow and new companies to come to the Volunteer State and call it home, a place that will realize Governor Haslam's goal of making Tennessee the number one state for high quality jobs in the southeast.

ECD Cost Per Job



Governor Haslam and Amazon officials announced in December 2011 the company would open new fulfillment centers in Tennessee, bringing 1,600 jobs and $139- million in capital investment.

Historic Results... By the Numbers

INYX Incorporated

400 jobs, $23 million investment
(Perry County)

MULLICAN FLOORING

164 jobs, $12 million investment
(Washington County)

TEAMHealth

700 jobs, $17 million investment
(Blount County)

GM

2,350 jobs, $420 million investment
(Maury County)

amazon.com

1,600 jobs, $139 million investment
(Rutherford and Wilson Counties)

ThyssenKrupp

250 jobs, $31 million investment
(McMinn County)

C&F Group

449 jobs, $10 million investment
(Sullivan County)

MARTINREA

175 jobs
$38 million investment
(Robertson County)

QUAPROTEK

126 jobs, $22 million investment
(Lauderdale County)

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