ADDRESSING THE CRISIS:
A Plan for Improving the Delivery of Economic Development Services To Rural Pennsylvania

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A Concept from United States Representative John E. Peterson

Background

The following is a summary of a message I have been offering in a variety of forums across rural Pennsylvania over the past several months. It is a message that applies, in some measure, to most rural regions of the Commonwealth -- but speaks to a problem that is particularly acute in northwest and north central Pennsylvania.

I was born and raised in northwest Pennsylvania, and have represented it in the state and federal governments for much of my adult life. This Northwest Region is experiencing a rate of economic distress and decline -- especially in the manufacturing sector -- that I have not before witnessed.

But the problem is not confined to the Northwest Region. In the sixteen counties which I represent, we lost close to 17,000 jobs between December 2000 and December 2002 in the manufacturing sector alone, and the statewide loss of manufacturing jobs was 177,000 over the same 2-year period. It is no exaggeration to speak of this as a "crisis."

Every year, millions of state and federal dollars are invested in economic development in this region and, in my view, the return-on-investment leaves much to be desired.

Some Facts

As reported by the 2000 Census, Pennsylvania has had stagnant job and population growth, resulting in our losing 2 congressional seats. Of even greater concern, the rate of decline seems to be accelerating. In the past 2 years (since the Census) we have shown continuing decreases -- especially in manufacturing jobs and in the number of younger people who choose to live here.

The Human Side

My attention to this issue was sharply focused about a year ago by the comments of a young man I'll call "Jimmy." I've known Jimmy since he was a kid. He didn't do well in school, didn't much like it, and in fact dropped out at the end of the ninth grade.

He may have had some learning problems, but Jimmy was not dumb. He quickly got a job locally, as a laborer -- and due to his work ethic and aptitude in math, was slowly being given increased responsibilities. Knowing this, I asked him one day if he would be interested in getting his G.E.D. Jimmy was smart enough to know that, if he was going

to realize any of his ambitions, he needed that diploma. So he agreed, and I agreed to help set it up.

Some time later, I asked Jimmy how it was going. He said, "Great, I should be finished up in a few weeks."

"Then what are you going to do?" I asked.

"One thing for sure," he said, "I'm gonna get outta here!"

I was shocked! "What do you mean, you're gonna get out of here?" I asked.

"Ain't nothin' here," he said. "Me and my buddies have been talkin' about it, and there just ain't nothin' here for nobody!"

<u>That</u> was the day I truly realized we were in big trouble. I had been watching the statistics of decline for a long time, but finding out that young people -- like Jimmy and his friends -- thought we were at the end of the trail... that was like a punch in the stomach! <u>That</u> was when I knew we had to make some changes.

How We Got Here

The chain of economic development in rural Pennsylvania has more than one weak link. Factors ranging from aging infrastructure, to lack of technical training, to capital availability, to over regulation, can all work as a drag on economic vitality. But the weak link that is most accessible, and thereby most correctable, is the mainly government funded system of economic development agencies that are supposed to be the catalyst for growth. In my view, this system is not working well at all.

Pennsylvania's economic development system has evolved over many decades. Governors and legislatures have come and gone, and most have wanted to leave an imprint of their economic ideas.

Most programs that were created were good for Pennsylvania; some were excellent. But none ever went away or even consolidated. Instead, they developed their own constituencies of governing boards and employees, and some have become as much concerned with "protecting turf" as with economic development.

Where We Are

The result, in my view, is that we have an "alphabet soup" of regional economic development agencies whose number one mission should be to bring in new jobs and help us retain the ones we already have, but seems to be falling short.

Our complex system of LDDs, IRCs, SBDCs, WIBs, BRTs, PennVests, Ben Franklin Partnerships, Governor's Action Teams and regional Department of Commerce offices is not only inefficient, but is very difficult for a business person to understand -- let alone navigate and put to good use. These regional agencies have been given no defined role on how they should work together and offer no common entry point for businesses or entrepreneurs.

The regional system is supposed to serve -- but is further fragmented by -- the IDCs, TPAs and planning groups that are organized at the county level and which are, in turn, supposed to implement the activities of a host of "local" economic development agencies established at the city, borough or township level. Altogether, there are dozens of these local agencies in the Northwest Region alone.

Both the state and federal governments provide major funding for these agencies, but both have failed to provide them with guidance, oversight or common mission.

In short, our economic development system -- especially in rural Pennsylvania -- is not at all "customer friendly." Because it has grown piecemeal, it lacks an agreed-upon focus or overall coordination. Instead of cooperating, many of these regional agencies find themselves competing among themselves -- and with the county agencies -- for the same pot of money.

Some agencies reserve large sums of money, as much as 3 to 5 million dollars, to meet ill-defined "future contingencies." Throughout the eight county Northwest Region, as much as 10 million dollars is being held in such cash reserves -- instead of being put to work to grow businesses and create jobs "on the street."

I am convinced that the system is broken, and that our economic future depends on our ability to fix it -- and fix it fast. It won't be easy. It will challenge us all.

Three Questions

In focusing on this issue, I have asked the following questions in a variety of venues, as "food for thought":

1) Should our counties each have numerous and separate economic development agencies working in isolation from each other? (Venango County, for example, has at least seven, not counting Chambers of Commerce.)
2) Should an eight county region like Northwest have dozens of economic

development entities that seldom work together, but in fact, regularly compete with one another?

3) Should these agencies have 8 to 10 million dollars of resources tied up in reserves, instead of working to increase economic opportunities?

How we respond to these questions will determine whether we have the spirit and the will to create a new, more effective model for economic development in Pennsylvania.

A Plan

* The system must be streamlined and consolidated. This need not result in it having fewer employees, but should result in every employee spending maximum time on the economic development mission -- and minimum time on duplicate and overlapping tasks.

* Vying for position at the "money spigot" needs to end. An umbrella agency (at least at the county level) needs to access and oversee dispension of state and federal funds. And "transparency rules" must be applied to all agency budgets if any public funds are involved.

* At the regional level, business owners and entrepreneurs must be given a (well publicized) single point of access to the system. One telephone call should be all it takes to access the entire system and all of the services it offers.

* Pennsylvania's Sunshine Law (as amended in 1987) was expanded to apply to all "authorities and commissions" whose boards are composed of, or appointed by, elected officials, and who operate with public funding. This act should be consistently applied to the LDDs, IRCs, etc. -- and they should be encouraged (required?) to invite press to all of their meetings.

* All public-funded economic development agencies must be asked to generate (and make public) one year and three year "Plans of Action". Their boards need to review and approve such plans, and (at regular intervals) measure the agency's accomplishments against this clearly stated action plan.

* Public accountability must become part of the process. In 2002, Act 100 amended our "Right to Know" laws as they apply to public-funded agencies. Economic development agencies should be made to comply with this law by opening their financial records, contracts, etc. to the public. And local press should be encouraged to take advantage of this new openness -- by publishing their annual budgets for instance.

Expanded Services

Historically, economic development agencies have concentrated most of their resources in the following three areas:

1) Infrastructure - Developing industrial parks and sites (including incubators).
2) Financing - Securing low interest (sometimes subsidized) loans for new start-ups and existing expansions.
3) Promotion - Developing materials and activities designed to attract new firms.

In my view, we need to expand this list, by offering a full line of management services that -- especially in the case of new companies -- can make the difference between success and failure.

I see too many companies in my district that are literally run out of checkbooks -- without even minimal day-to-day accounting procedures in place. I see small firms moving toward real growth, that are stifled by lack of knowledge of, or access to, technologies that could streamline their production line or revolutionize their "back office" operations. I see companies perfectly poised to take advantage of "the global marketplace," yet unaware of its potential.

Most entrepreneurs are visionary, ambitious, driven and extremely focused. They tend to be passionate about their product or service, and dedicated to promoting its value. In many cases, however, they lack the experience, knowledge and skill sets needed to operate a growing business. Helping them master the "nuts and bolts" of building a successful company is, in my view, a worthwhile goal. Furthermore, our economic development agencies are well-positioned to pursue such a goal.

To effect that pursuit, I believe we need a new model that quickly refocuses our economic development system to maximize assistance to new and <u>existing</u> businesses, thus creating jobs in our communities. Doing everything possible to help little companies become big companies can be our surest road to growth.

This new model should offer (or expand) services in the following areas:

Accounting/Record Keeping - Concentrate on making sure our new or existing businesses have good and efficient accounting systems that provide the data to make good decisions, and enhance efficiency and growth.

Marketing - Assist entrepreneurs with marketing plans (and knowledge) that would allow them to enter new markets worldwide, while expanding their domestic markets.

Planning - Help growing companies to develop strategic plans to grow their business and expand the use of their products, thus creating jobs.

Technology - Provide companies with technical information on how to improve their manufacturing or processing operations. Help them maximize technology use to streamline back office operations. Show them how the latest technology can increase profits and enhance job growth.

Financial - Assist growing businesses in developing strong relationships with financial institutions, thus giving them the most important key they will need to expand their operation. Too often small businesses have been dependent upon government loan programs, thus not developing solid relationships with the financial institutions that are so necessary to future growth.

Incubators - Continue to grow and expand the incubator concept of assisting new companies. When they mature, they should be moved out of the incubator, with help in locating their own sites and maintaining the necessary support. *(Incubators are highly subsidized by state and federal government, and should not be used to maximize cash flow to the agency running them, thus developing a "cash cow" that competes with the local real estate market.)*

Conclusion

These services should be developed by the LDD -- and IRC funding should be utilized to finance them. Historically, the IRCs have assisted the stronger, mid-sized businesses, ignoring the start-up and struggling businesses. They have taken the easy road that generates cash to fund high salaries with little risk -- and minimum job creation.

The LDDs should find and/or train specialists in the service areas listed above. In many cases, these might be retired business owners and operators, who can share their experience and knowledge with "client companies".

These "consultants" could be hired under contract to assist specific companies -- or could work on an "as needed" basis -- bringing their specific skills to bear on behalf of any county businesses within the LDD.

The old model of large industrial parks and tax-free zones will be less effective in the future, as large companies are more often going off-shore -- instead of looking for a good domestic site. In my view, our best hope is to work more closely -- and offer more service -- to the businesses we already have.

We must concentrate on growing our existing businesses, and supporting our start-ups, in order to compete effectively in a global marketplace. The alternative is to continue our downward spiral in jobs, prosperity and -- most troubling -- the number of young people who choose to live here.