

CITY COUNCIL MEMORANDUM
13-02

DATE: January 28, 2013
TO: Honorable Mayor and Members of City Council
FROM: Mark S. Watson, City Manager
SUBJECT: CHANGE IN ECONOMIC DEVELOPMENT APPROACHES IN OAK RIDGE

Since its inception as a city, Oak Ridge has placed itself on a path of economic independence and diversification while it had ongoing reliance on Department of Energy (DOE) facilities and contractors for the City's future economics. That approach has yielded continued initiatives and created numerous organizations to improve Oak Ridge in the name of economic development. As City Manager and after observation of our community organizations, including the city government itself, I would state that we have lost focus and direction. Decisions are made outside our community that are affecting our jobs, schools, and quality of life yet our response continues to be traditional.

A 2011 article from *Auburn University Extension* indicated that economic development is not only a process that creates, retains, and reinvests wealth in a community, but it is the way in which community leaders communicate, interact, decide, and act with one another that makes prosperous local communities. Oak Ridge is developing a "product" that we are using to invite other residents and businesses to join. How do we look and appear to others? Are our approaches to economic development fair and beneficial to all Oak Ridgers, businesses, and homeowners alike?

The City of Oak Ridge has provided significant investment in the past for many projects that have not materialized or sustained themselves. Just this past week, Answer Financial (owned by Allstate Insurance) announced closure in Oak Ridge moving approximately 300 jobs averaging \$42,000 a year to West Knoxville on I-40. Answer Financial was housed in the building space occupied by InsLogic, Inc., who received \$500,000 from the City/Oak Ridge Industrial Development Board in 2002 and \$750,000 in State grants for building improvements to make a technologically advanced facility at the time. We can no longer afford these investments without long-term vision to maintain and retain these jobs in Oak Ridge.

The purpose of this memorandum is to start aggressive dialogue now and change our approaches to economic development in Oak Ridge. There are nearly 20 different organizations that are involved with the economics of our community and, yet, specifics with most prospects involve City Hall, as they seek out rules, incentives, and available infrastructure. It is with that observation that I approach new initiatives that Oak Ridge can take to develop long-term economics for the community. If we want lower taxes, lower utility bills, less debt, higher per capita incomes and home values, less reliance on DOE contracts, better school support, and more entrepreneurial startups of small businesses, then we must change. As a point to start, I offer these following initiatives:

1. Eliminate the Economic Diversification Fund and distribute Economic Development costs within the General Fund budget of the City.

The City of Oak Ridge has distributed costs of economic development through its Economic Diversification Fund. This fund was initially funded by land sales from Bethel Valley industrial lands. Remaining lots are few and limited. Further funds come from the City's utilities, hotel occupancy taxes, and minor revenues. Costs should be identified in the budget by events and/or contracts in an appropriate section. Since the source of present funding is internal to the City, there is no need to continue the Economic Diversification Fund until such time as significant new revenues return.

2. The City Council shall modify its current tax abatement policy to incorporate other factors before approving any tax incentives.

At present, the approval of tax incentives occurs through the Oak Ridge Industrial Development Board (IDB) according to a matrix involving jobs created and property investment. Some of our abatements have not reached maturity due to bankruptcies and closures. These departures have left the City and the counties with deferred revenues impacting the prosperity and jobs within the community. Many requests arrive late in a process requiring significant City administrative time. Also, more clarity is needed on such projects as retail and apartments as it pertains to public investment. If an incentivized company departs or loses a contract, the public investment should remain with viable buildings and improved infrastructure.

3. All future monetary contracts with the City for Economic Development activities shall be for tangible, quantifiable, measurable, time-driven services.

Performance shall be key factor for success and “partners” shall financially be in the game from the beginning with matching grants and proposed investments. Return on investment will be a critical factor determining use of City funds.

Perhaps, the greatest challenge for the City of Oak Ridge has been the “outsourcing” of economic development with City monies and staff. We have supported the funding of jobs and memberships to various agencies and eliminated City capacities to respond with the City government. Services of regional county agencies have been underutilized while DOE Laboratory focus has been on a greater Knoxville region and less on Oak Ridge in particular. Marketing to economic development prospects has occurred through duplicate services and, yet, expansions and new businesses occur outside our boundaries while we are supposedly “in the game.” Retention of permanent jobs continues to be a concern along with communication as to economic concerns. For instance, the electric switch installed at Appalachian Underwriters to retain 600 jobs and add 150 new jobs was a critical effort by the City and the IDB that responded to this potential loss of jobs.

The City of Oak Ridge is continuously asked for monies through incentives, public improvements and just reliable service. The work of many projects occurs in the office of the City Attorney as an additional cost to the City. It is thought that many logistics can be handled internally the City itself without independent outsourcing by contracted agencies for the City. However, specific tasks and studies may be considered with entities like the Chamber, Tech 20/20, or the County agencies.

4. The Oak Ridge Convention and Visitors Bureau (CVB) should be brought into the City organization as an internal operation.

The CVB is charged with the promotion of the City of Oak Ridge for tourism purposes with the largest contracted allocation of money. This involves direct promotion/coordination with State tourism sources and coordination with local hotels. The CVB has taken on promotion responsibilities for the Secret City Festival and various hometown events. Coordination with the Rowing Association, the Secret City Marathon, and other groups develop a separate marketing approach to promotion of the City due to the contract arrangement, which may limit creativity coordination and responsiveness. Said change would allow more coordination with community presence both inside and outside Oak Ridge and direct oversight of the CVB offices, enabling City Council goals to be reached.

5. Focus for Economic Development shall coincide with the Uranium Processing Facility opportunities for the next two years and should now be our top priority.

The Uranium Processing Facility (UPF) is a \$6.5 billion modernization of the Y-12 facilities. Construction will take an estimated eight years, but will result in a decreased Y-12 footprint that should result in reduced operating costs and security perimeters to the Federal Government. Hundreds of millions of dollars will be accessible for small business development and a next generation of entrepreneurs and

distributors for our community could be developed if we act now. We must take advantages of this! Future changes at DOE/Y-12 can reduce jobs, such as security, so we will need replacement positions.

6. Begin the development of an internal staff Economic Development team in FY 2014 Budget.

As success occurs and finances are available, an economic development team should be created. This would be individuals hired to address economic readiness issues by the City of Oak Ridge, both before and after the project. Coordination would occur at all levels, assuring that we are raising levels of prosperity for everyone in the community. As success occurs, additional team dimensions can be considered, but initially specific "task" contracts can be considered, such as the current agreement for assistance with Ray Evans. Further focus will be brought forward by the City Manager.

7. Festivals, arts, events, and entertainment should be outsourced to community groups through community sponsorships.

The social events of Oak Ridge are based on City financial help and city staff commitments. The largest event, the Secret City Festival is run by a City staffed committee, with many financial sponsorships gained by our own Mayor Pro Tem Jane Miller. With changes in the DOE contracts this year, we have noted the level of vulnerability we may have for these events. Although a free event, there is a need to make the festival sustainable. We also have other events, such as a fireworks show that is full cost to the City with no sponsorship. These costs are born by the City and should be examined for a positive return on investment to the community (i.e., room nights or sales taxes). A community task force to examine this issue may be in order to have events for specific purposes or to encourage new groups to develop these events.

8. Oak Ridge should continue to belong to organizations that meet our overall Economic Development goals: jobs, increased retail sales tax, and housing.

Oak Ridge has been involved with many groups over the years. We are a regional player and should coordinate accordingly. However, our first obligation is to our community and the reputation we seek for it. Diversion of our time and resources can put us at a disadvantage.

With an excellent regional transportation system, we now see the challenge of commuters and how to retain them as residents. We must seek the improvements to our city that will attract youth and families and new residents to Oak Ridge. Our quality of life should be consistently on our minds as we explore what groups we are involved with and their interests in the City of Oak Ridge. Any contract or membership should obviously support Oak Ridge goals prior to consideration.

Mark S. Watson