

Federal Reserve Bank of Chicago
Fourth Annual Summit on Regional Competitiveness
November 17, 2016
Keynote Speaker: Victor Smith

MALE SPEAKER: This is an especially exciting time for our next speaker. As a close confidant of Vice President-elect Pence, Victor Smith has served Indiana as the secretary of commerce since 2013.

Under his stewardship, Indiana businesses have created 150,000 new jobs, and the state's unemployment rate has dropped from more than 8 percent to now at 4.6 percent. In 2015, the state surpassed its previous record employment level from March 2000, and now more Hoosiers are working than in any time in the state's 200-year history.

Please welcome Indiana Secretary of Commerce, Mr. Victor Smith.

VICTOR SMITH: Thank you very much. It's good to see you today, and thank you for the invitation.

Kelly, thanks for putting a great program together as always, and thanks for including us.

The title of what we're talking about today is setting an action item for our megaregion, which is clearly, should be, and clearly is on the forefront of my agenda when we

Victoria's Transcription Services, Inc.

312-551-8818

look at how to grow in the best way the Indiana economy and the neighborhood that we sit in, because I think with a better neighborhood certainly the state of Indiana also directly prospers.

Let's be mindful of the fact that we identify as this region, and in that region there are three states, and they are three very different states, three distinct states: Wisconsin, Illinois, and Indiana.

Among and in those three states there's some 21 counties that identify, self-identify, to be part of this region. So I kind of look at this as an inverted wedding cake. First, we're in the United States, and then in the Midwest, and then with our -- certainly our group within the states, and then regions within the states, and then counties.

So you have to kind of look at it as an inverted wedding cake, and you really start at the top and you work down that inverted wedding cake when you're in economic development trying to get and target those economic investment dollars.

They can be of companies you're trying to attract in the first instance or companies that are already there that you're hoping to try to just get to expand. And you do

that by the policies that you have as the location that's either going to attract or repel those investments.

Naturally, people are going to want to invest where they get a good return. I can only speak to our experience in the state of Indiana. We have been very -- intentional; I guess is a good word. We've been very intentional about pursuing policies that are very pro-business, very fiscally responsible. We just feel that with those types of policies we're going to naturally attract people that want to make money on their investment in a very predictable way.

A minute of personal privilege. Just let me remind you Indiana sits today with the highest bond rating of any state in the country, bar none. Fourteen percent of our state budget is in cash reserves, funded pension liabilities, constitutionally-capped property taxes, one percent, constitutionally-capped. Those are serious policy decisions that we've initiated and pursued and put in force.

The next level beyond the state that we have an influence in is looking at regionalism within the state. I'm going to talk about regionalism and some of the things that we learned that we're doing within the state on a

regional basis, and then I'm going to apply those to the broader region that we're talking about today.

So if you just allow me for a minute to talk about regionalism and the importance of that first within the state, and then I'll talk regionally.

There's something called the Regional Cities Initiative that we pursued in Indiana. My report to the governor was, "Sir, 8.6 percent unemployment when you were inaugurated. Tomorrow we will find out it's actually 4.4 percent that we sit in the state of Indiana."

By the way, that's not playing with the numbers too because -- and I say that, you can play with those numbers. Our workforce has gone up by 80,000 people in that same time period. Our unemployment rate has dropped by several percentage points, meaning we've absorbed that 80,000 people that have joined the workforce plus we've added another 80,000 or 90,000. That's 160,000 jobs that have been created in Indiana in the last three years. It's extraordinary.

But my report is, "Sir, the problem we have now is workforce. We need more people." Somewhere between zero percent and 4.4 percent, where we sit, is full employment, and I think it's closer to 4.4 percent than zero. But for

the grace of God there go either some people that are stricken with addictions that can't find themselves to work every day sober, ready to go to work. There's a certain percentage of people that unfortunately you wouldn't define as fully employable. So somewhere between zero and 4.4 percent is full employment, and we're getting pretty close. "Sir, we need additional people."

So we need to make investments in our region to attract and retain the talent within those regions, make investments that it's a better place to live, work, and play.

So we took some of that money we have put aside and we've said, hey, we're going to put up essentially 10 percent up to 20 percent of your down payment, call it, and we'll be your silent partner because the state looks at it that with increased economic activity we'll get our payback.

So we partnered -- we had a little competition among the regions. There were seven regions around the state that self-identified. We didn't define them. It's not our job. They self-identified as a region. Northwest Indiana is self-identified. South Bend, Mishawaka, Elkhart identified. Fort Wayne and their surrounding counties

identified. Indianapolis, Muncie, Anderson, Newcastle. Our side of the river from Louisville and Evansville.

They all self-identified as regions, and they came up and they said, "These are things that we want to invest in to attract and retain talent." Better places, trails, performing arts, amphitheaters, you name it. And we said, "Great, let's do that because we want to spur the economic activity on a regional basis."

That's happened, and I'm happy to say we passed legislation last year and we're actually writing checks on that. We put \$200 million towards that, and by the way, that's translated into \$2.4 billion of projects that are now underway; 10X leverage, it's fabulous. It's exactly what we hoped for. I say that because we understand and espouse the strength of regionalism.

Going up that inverted wedding cake I was talking about, let's now get to the region that we collectively belong in. It's important that we also self-identify. We didn't want to say, "South Bend and Mishawaka, you guys should be -- you guys are close -- and you guys should like each other." They self-identified. They had shared goals. They had shared philosophies. They had shared common goals that they said, "We want to aim high and aspire to be this

together. That's what we want to do." We said, "Awesome. We're going to be your silent partner in that. Let's go for it."

Skin in the game. Somebody said it before. It's really important from where we come from that you have skin in the game. It can't just be a grant to go get it done because it's "Well, I wouldn't have done it that way. The state's telling us to do this way." We don't play that game. Come with a plan, private partnership, public partnership, and we will be that, but everybody's got to have skin in the game.

I say that because it's important first if we're going to be intellectually honest with each other, we need to have a real conversation, an apolitical conversation, about what it is that we're trying to do and what we aspire to be here in this region that we call ourselves.

What should we be trying to do? And candidly, what shouldn't we be trying to do? What are we good at, and what are we not good at? Do we want to tolerate things, or do we want to blow things up and fix it? I'm not much of a tolerate guy when you can do something about it.

In my counterparts' conversations, and in fact we just had one again today, I think those things that we all have

a vested interest in -- they were apolitical, apolitical -- is infrastructure, transportation, logistics. Those types of things that are the driving force of what we are from an economic engine.

You need infrastructure. You need roads. You need rail. You need ports. And what we're sitting on candidly was built in the 1970s, is 40-some years old, and never contemplated the type of both commercial and passenger traffic that we see today. It's nobody's fault. It's just that we haven't been making those investments.

So as our governor would say, I would aim high and say this is what we want to do, and let's put the political will -- you have to enter the political will -- you have to put the political will behind to get those things done, without parochial roadblocks that stop things from getting done.

And if we want to say that this is a megaregion with Chicago at the center of, which it is. Let's be honest, of course it is. If it's a hub and spoke then things have to flow through the hub and can't stop at the hub, which is a lot of times what happens.

So I'm here to simply represent and talk from an Indiana perspective. We want to play. We will aspire,

trust me. We're making big investments in infrastructure now. We want to do it as a region. We've proven -- we're showing -- next week we're opening a brand-new bridge over the Ohio River that connects southern Indiana and Louisville; a billion dollars, P3, under budget, seven months early.

We just announced we're going to do another one. Another billion-dollar bridge across the Ohio River just South of Evansville. We just announced we're going to build our fourth deep-water port on the Ohio River, third on the Ohio River, there's one up here at Burns Harbor. By the way, that does more tonnage, twice the tonnage, of the Chicago port. Go figure. We're making investments in infrastructure. The only brand-new interstate under construction right now is in Indiana in the whole country.

I don't mean to put a stick in people's eye when I say that. We are willing and interested in making those investments. As we go up that inverted wedding cake we would love to collaborate and try to get that done, and take advantage of some maybe unique opportunities that we have for representation in Washington. Come on. They're talking a big infrastructure investment. Let's give them a multistate model. Why not? (Applause.) That's right.

I simply come here to say thank you as a group for getting together to talk regionally. Indiana will be stronger with a stronger Chicago region because it is a juggernaut of economic powerhouse activity. I take no pleasure, the State takes no pleasure in watching some struggles. If all cylinders were firing, we would all be stronger as a region. That's what we want.

So my message is simple, which is, let's get together and focus on some of those aim high transportation projects. Let's do that. That's one where there's no elbow in anybody's eye about locating a company here, a company there. Those are just basic infrastructure things we should be doing as a state and certainly as a region and absolutely as a country. And you have Indiana as a very willing and active partner to do that.

With that, I say thank you very much. Kelly asked if I would take a couple of questions, and of course I will.

The last thing I would say just because I forgot to mention this but it's important, one of those other investments that we're making is the South Shore. The State alone, we're picking that up. We're going to dual-track the South Shore hopefully all the way to South Bend someday but certainly at least to Michigan City. That's

what we're doing right away. We're doing that -- we're cobbling the monies together on our own to get it done. We be a heck of a lot bigger, heck of a lot faster, and a lot more regionally-collaborative if we could do some of these things collectively.

But as I've shared with you, we're making those investments, and we'd love to do it regionally because it has more impact regionally.

Thank you for the invitation to get me here. You can tell I'm very passionate about what we're doing in Indiana. I'm very proud about what we're doing in Indiana and unapologetically, we should be. And I hope that we can collectively make each other stronger in the region. Thanks.

Sir?

MALE SPEAKER: Could you be specific about how you've gone about financing your infrastructure investments? And in particular, do you have any lessons learned that you would like to convey to us in that regard?

MR. SMITH: We have paid for some by bonding many years ago. We have -- we have also taken a P3 route most recently and a lot of cash involved. We're attempting to try to not have long-term payments and put it, finance it,

and what does that mean? It means put it onto my kids and my grandkids. That's not what we're trying to do.

We've actually paid cash up and have gotten a P3 investment where we've actually had private sector money come in, and through some toll mechanisms, some reasonable toll mechanisms have done that.

As you've seen -- you may recall, we privatized the Indiana Toll Road. We sold it for several billion dollars, with a long-term leaseback. Took that cash. What did we do? We took that cash and prepaid about five years' worth of otherwise infrastructure projects in Indiana in cash. We did some really incredible financing. We paid cash for stuff.

Sir?

MALE SPEAKER: Thanks, Mayor Dickert. First of all, congratulations. I think you should be unapologetic about the fact that you've been successful and that the things that you have done have worked. So from our perspective, congratulations.

This entire OED organization, the Tri-State Alliance was built on cooperation, so if there's anything that we can say to you it's that not only the transportation group but the water group and everybody understand the importance

Victoria's Transcription Services, Inc.

312-551-8818

of that working together and the collaboration to get that done, you're right. This is a powerhouse megaregion. I'm from Wisconsin. We get it.

We should be never competing cross-border. We should always be building a better economy whether it's utilizing the Gary, Indiana Airport better or making sure that the transit system is more efficient and effective in rail and everything else.

So I guess the message I would like to send back to you and everyone else is that let's learn from what you've done, and then let's start building that pathway to that collaboration and that infrastructure so that we can utilize the P3s as well as the opportunities for cost savings and efficiency to create a system in this region that is undeniably one of the best in the world. So thank you for that.

MR. SMITH: And by the way, this is a great forum to get people together to talk about those best practices. So sometimes -- I'll stop harping on the political thing, but sometimes that just puts a wall up and you stop conversation because of other reasons. It's unfortunate. I concur.

By the way, I also come from a -- I ran a

manufacturing company for 17 years. That's where I come from. I'm not a political guy. And a machining company. That's what I did. So root cause, corrective action, and continuous improvement. By no means do I say that what we're doing is perfect. It's not. Indiana's got lot of stuff to work on. Trust me. But we're in that collaborative spirit, and I thank you for allowing us to be part of that. We want to be a part of that best practices conversation in forums like this.

Sir?

MALE SPEAKER: Normally, I don't need a microphone to speak to the government of the State of Indiana. I'm Morton Marcus, by the way. You may have heard my name, but I know you're in a rarified atmosphere up there in the state house. Let's not deal with facts. Let's deal with policy. What about the idea of using toll roads more extensively in Indiana? Why don't we try to lead the nation in using our interstate highways (inaudible 0:18:50.5).

You have a very strange microphone here. Either my voice is wavering, but I don't think my hand shakes very much.

MALE SPEAKER: (Inaudible 0:19:00.5) talk technology.

MALE SPEAKER: That's right, this isn't a Purdue session.

MR. SMITH: I think the question was something about espousing toll roads as a means --

MALE SPEAKER: User fees as a way of handling infrastructure development. Yes.

MR. SMITH: I think kind of like the energy plan, it's all of the above. I think that's fine, but I wouldn't take that as the sole financial source. I think it has a very important role, but I don't think it is the have-all end-all funding source for all projects going forward. But I think properly used and minimally used is fine, but I wouldn't --

MALE SPEAKER: Don't you work for politicians?

MR. SMITH: If I remember, your comment a couple of hours ago was that you laughed that there was any policy in Indiana whatsoever, and I went, "Well, that's a statement." We can disagree, too. I think there's been substantial policy achievements in Indiana. So we can disagree on that, and that's fine.

What I suggested is I think that that is a funding source, and we in fact do use it. We do. We have toll roads, but we don't want to have that as the sole funding

source for all infrastructure investments going forward. I think there should be some free use of maintenance of your existing roads, for sure.

-END-