Testimony of Mr. William "Bill" F. Hagerty, IV
Commissioner, Tennessee Department of Economic and Community Development
Before The
House Committee on Oversight and Government Reform
On
"Tennessee Job Creation: Do Federal Government Regulations Help or Hinder Tennessee's Economic Development?"
June 18, 2012

Mr. Chairman, Congressmen DesJarlais and Congressman Black:

Thank you for inviting me to testify before the committee on the impact of federal government regulations on job creation in Tennessee.

My name is Bill Hagerty, and I am the commissioner of the Tennessee Department of Economic and Community Development (ECD). I serve at the pleasure of Governor Bill Haslam, and I am honored to have your committee in our state.

The Tennessee Department of Economic and Community Development's mission is to develop and execute strategies to make Tennessee the No. 1 location in the Southeast for high quality jobs. The department seeks to attract new corporate investment in Tennessee and works with Tennessee companies to facilitate expansion and economic growth.

In 2011, job creation in Tennessee hit its highest mark since the onset of the global recession and the second highest year on record, topped only by 2007 at the height of the bubble. 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 capital investment.

Ongoing and substantive communication with businesses at home and abroad is critical to our success. Our department has executive level field staff on the ground in nine distinct regions in the state working with Tennessee businesses every day. We also have four international offices in Japan, China, Germany and Canada.

The ECD staff is also regularly in touch with the state's entrepreneurial and start-up business community. We are responsible for two different venture capital programs targeting increased investment in Tennessee businesses. We also provide grants to nine business accelerators across the state. These accelerators provide resources to help entrepreneurial Tennessee companies get off the ground.

Our department's outreach to Tennessee businesses has reached unprecedented levels. Our staff met with more than 2,000 businesses and over 700 local economic development stakeholders last year. That outreach is ongoing this year at a heightened pace, and in 2012 we have added to the mix a series of rural economic development roundtables.

At Governor Haslam's direction, we committed an ECD working group led by Assistant Commissioner Paul Fassbender. Commissioner Fassbender led a series of 12 roundtables across the state focused on opportunities to improve the regulatory climate for Tennessee businesses. The group identified existing federal and state regulations that negatively impact business in the state, and Commissioner Fassbender's team delivered a report to the Governor last year with state level recommendations.

What we have learned from being on the frontlines of job creation in Tennessee is that four main areas of federal law are causing problems for Tennessee businesses – often problems that keep them from growing and hiring.

In a broad sense, general uncertainty about the future of federal laws and the related regulatory environment are keeping some Tennessee businesses on the sidelines when it comes to capital investment and hiring. Business owners and managers are forced to make decisions in a very uncertain environment. That impairs long-term planning and limits growth-related strategies from taking hold and having a positive impact.

The Patient Protection and Affordable Care Act (PPACA) is possibly the number one issue perpetuating this state of uncertainty among business owners, according to our outreach. While the U.S. Supreme Court decision expected this month may lend some clarity to the issue, the unease and uncertainty from already sky-rocketing health insurance costs for employers is only compounded by the unknown future of PPACA.

Job creators watch as the law is bandied about in the press, ricocheting through the judicial system and they simply are frozen by the lack of certainty this law has caused. The general perception and the belief among Tennessee business owners is that this law will only cut deeper into their bottom line and make growing their companies that much more difficult.

A second federal issue that creates even more uncertainty for Tennessee employers is the concern surrounding rulings from the National Labor Relations Board.

As a right-to-work state with no state income tax, Tennessee has become a magnet for all kinds of businesses. Our status as right-to-work is one of the great strengths we market when we want to recruit a company to the state. It is also the reason so many businesses choose to stay in Tennessee.

However, the NLRB Boeing ruling related to South Carolina sent shock waves through the U.S. business community, and nowhere more so than in Tennessee. Much like the impact of the 2010 Healthcare Legislation, it is the uncertainty caused by the NLRB's overreaching that simply freezes decision makers and dampens their appetite to commit capital and create more jobs.

During our travels across Tennessee and during our daily interactions with business leaders, we hear frequently about a third major concern - the impact a tightening of credit is having on businesses of every kind.

When you talk to banking leaders in our state about the problem, they point to the negative impact the Dodd-Frank Wall Street Reform and Consumer Protection Act is having on community banking.

While Dodd-Frank was not intended as a one-size-fits-all set of reforms for banks and financial institutions, the law is largely being perceived that way out of an abundance of caution by banking leaders. At over 2,200 pages, community banks are struggling to determine what if any of the Dodd-Frank law applies to them as they live in a constant state of constraint and fear over the potential regulatory impact of their lending practices.

Furthermore, the dense regulatory climate has community banks biting into their own bottom line by adding staff simply in an attempt to be compliant with the new law – staff that only exists to navigate Dodd-Frank. Some banking leaders here suggest this heavy regulatory climate actually caters to the largest banks with massive regulatory staff, saying the very existence of community banks is threatened by the sheer weight of these new regulations.

The net effect is, again, an uncertain federal regulatory climate that dampens community banks incentive to make loans and help their business customers grow. This is particularly bothersome for a state like Tennessee, where locally owned community banks are the lifeblood of business in our mostly rural state.

And fourth, many Tennessee businesses regularly tender complaints to our staff about the burdens of meeting Environmental Protection Agency regulations and mandates. Overall, businesses find EPA regulations costly to negotiate, the paperwork involved paralyzing and the regulatory culture of the agency to be adversarial in many cases.

Our Tennessee Department of Environment and Conservation does an excellent job of trying to help Tennesseans negotiate these rules and regulations, many of which are passed down for states to enforce; however, the complexity of EPA mandates are often so overwhelming that small businesses advise us that they simply can't find an affordable, reasonable path toward compliance.

Overall, Tennessee is blessed with a terrific business climate – one of the best in the world. Government does not create jobs; the private sector creates them through capital investment, hard work and an entrepreneurial spirit. Tennessee has one of the greatest entrepreneurial communities in the U.S. and a state government that understands and supports business.

While our department is not a regulatory agency, we interact on a daily basis with companies that have the potential to expand. As such, we have a broad understanding of how federal laws and the current uncertain regulatory climate hampers business leaders in our state from investing in the future. The risk-reward equation for entrepreneurs in our state is being negatively impacted and the heightened reluctance to undertake entrepreneurial risk is a major hurdle for our department's efforts to take job creation in our state to a higher plane.
And while Tennessee has made significant progress since Governor Haslam took office - moving our unemployment level from above the national average to below the national average at 7.9 percent - we still have a long way to go.

Thank you for inviting me today and for listening to our perspective. I am happy to answer any questions.

William (Bill) F. Hagerty, IV was sworn in as commissioner of the Tennessee Department of Economic and Community Development by Gov. Bill Haslam on January 15, 2011. As head of the state agency primarily responsible for job creation in Tennessee, Bill is on leave from Hagerty Peterson, LLC, a merchant bank and private equity firm he founded.

Bill has founded, funded and grown a number of successful business enterprises. As an executive, he has served as CFO, COO, CEO and chairman of a variety of domestic and international firms.

Bill has served in a number of senior executive positions with companies such as CyMed, the nation's third largest medical records company, NEW Customer Services Company, the nation's largest electronics warranty company, Sound Advice, a home entertainment retailer and Powerway, Inc, an automotive supply chain management software company. His international experience includes having served as CEO of ALAM, Ltd, a joint venture private equity investment platform majority owned by Lehman Brothers, which he helped establish with offices in Hong Kong and Beijing, China.

He also worked for the Boston Consulting Group for seven years and spent three years based in Tokyo, Japan where he served as senior expatriate with responsibilities throughout Asia.

In 2007 and 2008, Bill served on a voluntary basis as a National Finance Chairman for the Romney for President campaign and later served on the transition planning team in the 2008 general election for John McCain's presidential campaign. He also served on the White House Domestic Policy team as a member of the President's Council on Competitiveness where his portfolio included international trade, financial markets, telecommunications and defense. Bill was a White House Fellow, serving on the staffs of the NASA administrator and the vice president.

Bill attended Vanderbilt University where he graduated Phi Beta Kappa with a degree in economics. He also attended Vanderbilt University Law School where he was a Wilson Scholar and associate editor of the Law Review. Bill resides in Nashville, Tenn.

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