



***Cabinet for Economic Development
2006 Annual Report***

**Ernie Fletcher
Governor**

**Benjamin E. (Gene) Fuqua
Acting Secretary**

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Table of Contents

Kentucky Cabinet for Economic Development at a Glance	3
Kentucky Economic Development Partnership Board	3
Secretary's Comments	4
2006 Governor's Economic Development Leadership Awards	5
Jobs and Investment Announced 2006 – Chart	6
Key Economic Development Rankings for 2006	7
Accomplishments of Cabinet Departments and Offices	8
Department for Existing Business Development	10
Major Expansion Projects 2006	14
Department for New Business Development	16
Major New Location Announcements 2006	18
Department of Commercialization and Innovation	20
Department of Financial Incentives	26
Kentucky Strategic Plan for Economic Development	29

Kentucky Cabinet for Economic Development at a Glance

The **Kentucky Cabinet for Economic Development (KCED)** is the primary state agency in Kentucky responsible for creating new jobs and new investment in the state. Programs administered by the Cabinet are designed to support and promote economic development within the Commonwealth primarily through attracting new industries, assisting in the development of existing industries, and assisting communities in preparing for economic development opportunities. The Cabinet consists of:

- Office of the Secretary
- Department for Existing Business Development
- Department for New Business Development
- Department of Commercialization and Innovation
- Department of Financial Incentives

Kentucky Economic Development Partnership Board

The Cabinet is governed by the **Kentucky Economic Development Partnership**. The Partnership is composed of 11 voting and 2 nonvoting members. Eight private sector members appointed by the Governor represent each of the state's six congressional districts with two at-large members. The secretaries of four cabinets: Economic Development, Finance and Administration, Environmental and Public Protection and Commerce, serve as public sector, ex-officio members. The secretaries of Economic Development and Commerce are non-voting members. The Governor serves as Chairman of the Partnership.

Governor Ernie Fletcher
Chairman of Partnership
Commonwealth of Kentucky

Luther Deaton, Jr.
Vice Chairman of Partnership
Chairman, President and CEO
Central Bank and Trust Company

Todd L. Blue
Managing Director, Cobalt Ventures, LLC

Secretary Teresa Hill
Environmental and Public Protection Cabinet

Nelda Barton-Collings
President, Nelda Barton-Collings Enterprises

William J. Jones
Division Manager, U.S. Bank

William F. Dohn
Dohn & Dohn Gardens

Thomas M. Latta
Vice President/Secretary
Latta Insurance, Inc.

Secretary John Farris
Finance and Administration Cabinet

William T. Robinson, III
Partner, Frost Brown Todd, LLC

Acting Secretary Benjamin E. (Gene) Fuqua
Cabinet for Economic Development

Secretary George Ward
Commerce Cabinet

Jean M. Wells, Vice President
Wells Health Systems

Secretary's Comments

Vigorous expansion of our existing manufacturing facilities is evident with the state's 5th place ranking among the top states with expanded manufacturing facilities in 2006. (*Site Selection*, March 2007) Kentucky experienced remarkable job growth in 2006 with approximately 18,624 announced new jobs in the manufacturing and supportive-service industries. Capital investment of \$3.4 billion in the state's economy is projected. A 13th place ranking among U.S. states with the most new corporate facilities and expansions in the 2006 *Site Selection* Governor's Cup award reflects the year's success.

The state's largest investment of 2006 was by UPS with the announcement of the company's second \$1 billion expansion at the Worldport hub in Louisville. The company expects the project to create 1,053 full-time jobs and 3,106 part-time positions. UPS's presence in the state has been a catalyst for other companies to locate or expand in Kentucky. One such company is Geek Squad, a leading computer support task force and Best Buy subsidiary. The Bullitt County facility, Geek Squad City, is expected to create up to 550 new full-time jobs.

Several global companies in Kentucky announced expansion or location of their corporate headquarters in Kentucky in 2006. Exstream Software will expand its Lexington headquarters, Akebono Corporation chose Elizabethtown for its North American headquarters, and Metal Sales Manufacturing Corporation will move its headquarters back to Louisville.

Some other new investments across the state include the location of Inplast USA, to Leitchfield. The new operation will produce plastic injection molded components for the automotive and medical markets, creating 110 new jobs. Progress Rail Services Corporation, a major supplier of products and services to the rail industry, announced an expansion with the purchase of a facility in Raceland and plans to create 71 new full-time jobs.

The Kentucky China Trade Center opened its doors in July 2006 in Beijing, China. The Commonwealth's newest trade office will assist businesses in the marketing of Kentucky products and services to the China marketplace, promote investment in Kentucky by Chinese businesses, and support the Commonwealth's sister state relationship with Jiangxi Province.

Kentucky is now the only state in the nation to match both federal Phase I and Phase II Small Business Innovation Research (SBIR) and Small Business Technology Transfer Research (STTR) awards to small businesses. In November 2006 the Department of Commercialization and Innovation began accepting applications from Kentucky-based high-tech companies for state funds to match federal Phase I awards made on or after January 1, 2006. Qualifying awards from the federal SBIR and STTR programs will be matched by Kentucky up to \$100,000.

We recognize the dedication of our many partners in our collaborative efforts to improve the quality of life for all citizens of Kentucky. We are grateful for the support of Governor Fletcher, the Kentucky General Assembly, and many committed individuals statewide in both the government and private sectors that have made Kentucky a leader in economic development. We look forward to continued success in 2007 as we all work to provide higher quality jobs for all Kentuckians.

Benjamin E. (Gene) Fuqua,
Acting Secretary of the Cabinet

2006 Governor's Economic Development Leadership Awards

Two distinguished Kentuckians received the Governor's Economic Development Leadership Award in 2006. Governor Ernie Fletcher presented the awards in Bowling Green during the Kentucky Association for Economic Development (KAED) Annual Awards Dinner on November 9. The banquet was held in conjunction with KAED's annual meeting.

Governor Fletcher said, "The awards recognize those who have worked hard to create economic development opportunities in our state. These efforts have a tremendous impact on the Commonwealth's economy and improve the lives of thousands of Kentucky citizens." Recipients of the 2006 Governor's Economic Development Leadership Awards were:

John Hindman

Louisville

Vice-President of Public Affairs and Communications

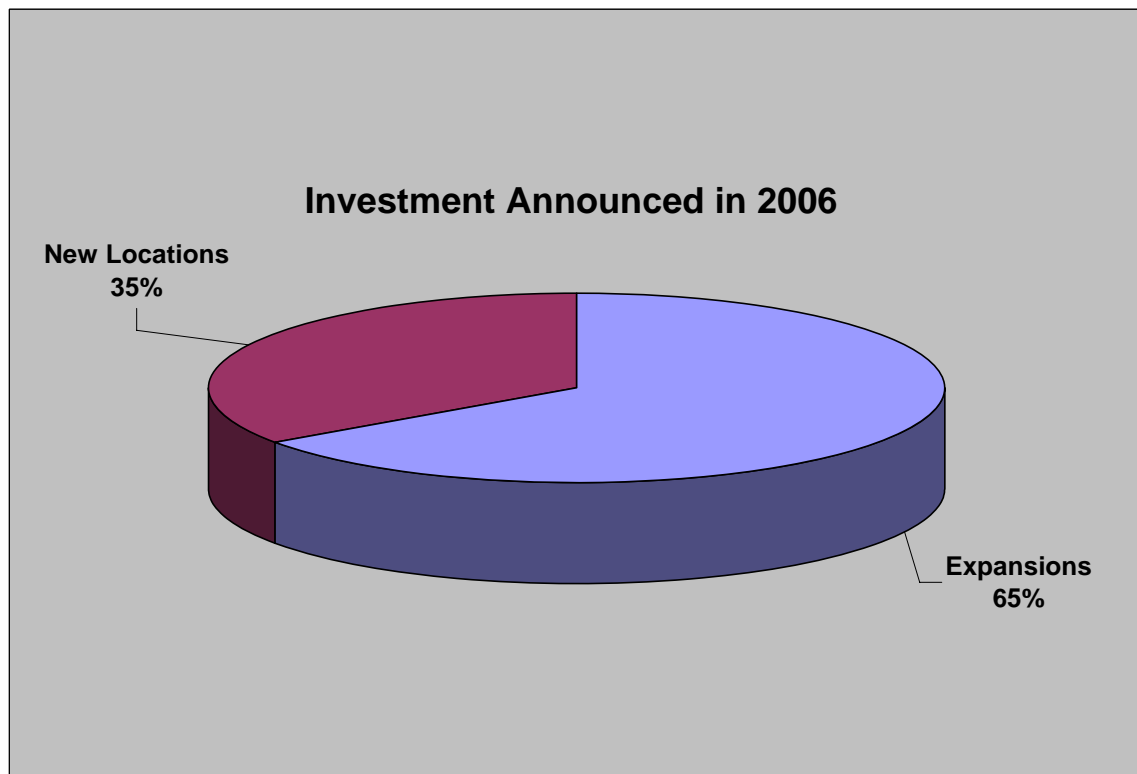
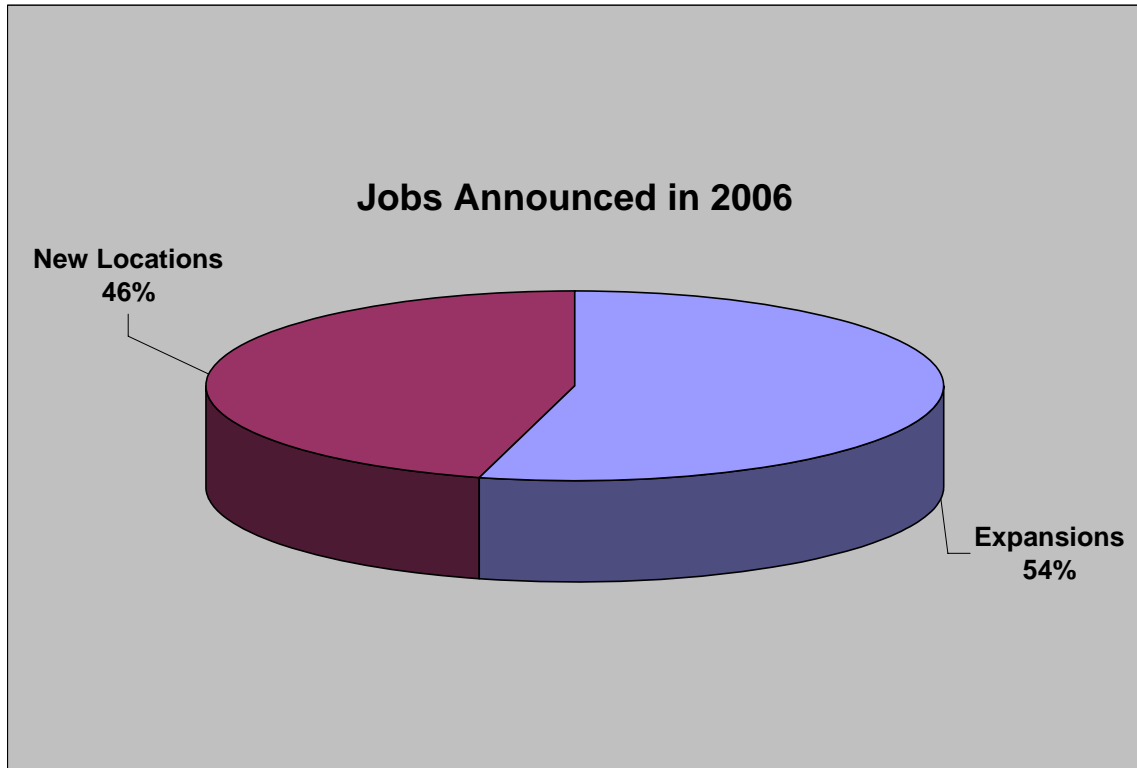
UPS Airlines

Dr. James C. Votruba

Highland Heights

President, Northern Kentucky University

Expansions of existing Kentucky businesses accounted for the majority of new jobs and investment in the state.



Key Economic Development Rankings for 2006

Site Selection magazine's yearly analyses are regarded by corporate real estate analysts as "the industry scoreboard". Kentucky's rankings include:

- 13th nationally in the 2006 *Site Selection* Governor's Cup awarded annually to U.S. states with the most new corporate facilities and expansions. Kentucky has the smallest population of any of the states in the top 15.
- Kentucky ranked 6th nationally in the 2006 *Site Selection* Competitiveness Award. The award is based on 10 quantifiable criteria that measure business expansion activity that took place in the previous calendar year. The indexing system puts all states on a level playing field. (*Site Selection*, May 2007)
- 13th in the 2006 *Site Selection* list of states with the most new corporate facilities and expansions from 2004 to 2006. Kentucky has the smallest population of any of the states in the top 15.
- 7th (Tied) for the 2006 Top States with Most Micropolitans in Top 100 with 6 Micropolitan areas.
- 9th (Tied) for 2006 Top States with Most Top Metros with 5. (*Site Selection*, March 2007)
- Six Kentucky communities ranked in *Site Selection's* 2006 Top 100 U.S. Micropolitans for new and expanded facilities expansions in 2006. The communities are Paducah (T24), Danville (T60), Somerset (T36), Frankfort (T60), Mt. Sterling (T36), and Union City, TN-KY region (T60).
- 5th in the 2006 *Site Selection* list of top states with expanded manufacturing facilities in 2006.
- 5th in the 2006 *Site Selection* list of top states with expanded manufacturing facilities from 2004 to 2006.

Source: *Site Selection* magazine, March, 2007.

Accomplishments of Cabinet Departments and Offices

Office of the Secretary: Responsible for the development and administration of the executive policies and for the overall management of the agency. Staff and administrative functions within the Office include communication services and special projects. Attached to the Office of the Secretary are:

Office of Legal Services: Provides all legal services for the Cabinet.

Office of Administrative Services: Provides Cabinet-wide services in areas of fiscal management, budgetary implementation, and personnel support.

Office of Research and Information Technology: Provides Cabinet-wide support in the areas of information resources, site evaluation, research services, and strategic planning support services. This office consists of three divisions:

Division of Database Systems and Development: Responsible for development of all Cabinet information systems, database development/maintenance, business analysis, and GIS development/maintenance.

Released new products:

Online Building Submission Form – Allows users to add, remove, or update buildings marketed on the Cabinet’s web site.

Sold or Leased Online Database – This program contains an online searchable file, which can also be sorted for sold or leased industrial properties. Allows users to identify sales or leasing activity by facility size and location.

KBIS Online Search - The Kentucky Business & Industry Information System (KBIS) is a free and easy-to-use reference tool to find information about manufacturing and supportive service firms in Kentucky. Searches may be conducted by:

- 1) facility name
- 2) product/service keywords
- 3) NAICS codes
- 4) employment
- 5) location

Training Provider Directory – Developed for the Bluegrass State Skills Corporation, the Training Provider Directory includes listings of educational institutions, state certified individuals and educational consultants who offer training services in Kentucky. The directory allows business and industry to locate the services they need online by searching via the following criteria:

- 1) provider
- 2) skill area

- 3) training specialty
- 4) specific course
- 5) region
- 6) county

Web Page With Map Gallery – Allows a user to view all maps on the Cabinet’s web site, plus a few other maps, in one place. Includes over 30 maps on topics like education and training, environment, incentives and transportation infrastructure.

Division of Research and Site Evaluation: Consists of two branches. The **Site Evaluation Branch** maintains current data on available industrial sites and buildings in the state. In addition, the branch assists communities in evaluating potential industrial sites. The graphics section of the branch prepares promotional and informational material for printing and display. The **General Research Branch** compiles data on taxes, transportation, education, labor force, industrial services, Kentucky companies, economic and demographic statistics, and community information.

Site Evaluation Branch:

- Published 347 industrial site maps and began the update process for 99 others. Visited 312 sites in 135 communities including 56 available industrial buildings. Revised information on 87 buildings, removed 96 buildings from the available industrial building list, and gathered information on 73 buildings that have been, or are expected to be, added to the list.
- Provided information for 81 industrial development projects, 300 general requests and 466 graphics requests, including the Kentucky Derby, trade shows, conferences, and economic development trips.

General Research Branch:

- Research provided for 115 New Business Development projects. Completed 388 special data projects and responded to 1,466 general information requests. Created 27 presentations and 51 economic impact analyses. Updated and developed 46 fact sheets and industry profiles.
- Prepared 139 tax summaries, estimates, comparisons, and calculations, including Industrial Revenue Bond analyses for several projects. Reviewed 68 legislative bills.
- Updated more than 312 KBIIS reports and EDIS tables and over 72 *Deskbook of Economic Statistics* tables.
- Surveyed more than 3,500 manufacturing and supportive service facilities to update the Kentucky Business and Industry Information System (KBIIS) database.

Division of Network Administration and Support:

- Manages the Cabinet’s information resources and office automation system and provides computer support services and security.

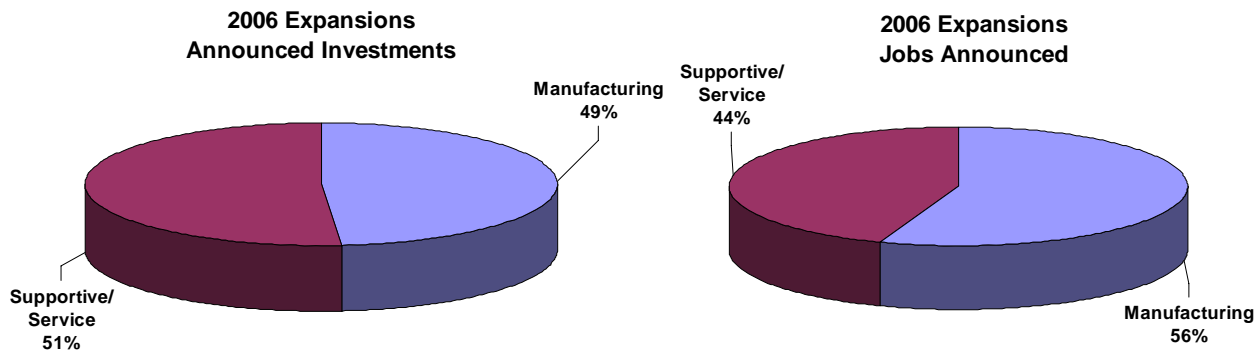
Department for Existing Business Development

The **Department for Existing Business Development** is responsible for assisting and encouraging job retention and creation by working with existing business and industry. Existing Business Development partners with outside agencies and communities to conduct workshops, community assessments, and business surveys to support local development efforts. The Department consists of the **Division of International Trade**, the **Regional Economic Development Divisions**, and the **Division of Small Business Services**.

Business Expansion and Retention

Three hundred and twenty-one expansion projects announced during 2006 will result in more than \$2.25 billion in total capital investments and 10,079 new jobs in Kentucky. Two hundred and fifty-one of those expansions were for manufacturing operations, and represent 5,594 new jobs to be created with investments of over \$1 billion. Seventy announcements were for supportive/service operations that will add 4,485 new jobs when full employment is attained and investments of over \$1.1 billion.

Source: Cabinet for Economic Development, Kentucky Business & Industry Information System (KBIS), 2006 New & Expanding Industry.



The Department's three **Regional Offices**, based in Prestonsburg, Frankfort, and Madisonville, bear primary responsibility for the Cabinet's work with existing and start-up businesses. This mission to retain existing jobs and create new jobs is accomplished through direct contact with businesses and community leaders across the Commonwealth.

During 2006 these three offices accounted for 4,165 business contacts and assisted in 71 business expansion projects. These projects are expected to result in total capital investment of \$953.5 million and the creation of 4,599 new jobs.

Additional project work included 25 new business start-ups, projected to create 985 new jobs, with a total capital investment of \$152.8 million; and one business retention project, which will invest \$17.3 million and retain 121 existing jobs while also creating 67 jobs.

Division of International Trade

For the third consecutive year, Kentucky exports experienced double-digit growth (16%) in 2006. Total **Kentucky exports** grew by more than \$2 billion to approximately \$17.1 billion,

solidifying the Commonwealth's reputation as a major contributor to the world economy. Kentucky's exports rank 7th among the 50 states on a per capita basis. The **International Trade Division** (ITD) assists Kentucky businesses willing to participate in the global market place via one-on-one counseling and global resources available through Kentucky's foreign trade offices in **Mexico, South America and China**.

During 2006, International Trade assisted 142 new clients and handled 201 new requests from existing clients. ITD worked with the Mexico, South America and China offices to recruit Kentucky businesses for 6 major trade shows in environmental, manufacturing, franchise, livestock, equine, agriculture and mining sectors.

Representatives from each foreign trade office spent approximately two weeks in the Commonwealth interacting with clients and communities as guest speakers at such events as the Kentucky International Trade Conference and the Kentucky Association of Economic Development (KAED) Spring Conference.

The **Kentucky Agricultural and Commercial Trade Office** (KACTO) in Mexico has an active client base of 66 Kentucky companies. KACTO has hosted numerous Kentucky companies and universities traveling to Mexico to advance both economic and educational exchange. During these visits they helped companies in expanding their market in Mexico by arranging meetings with prospective representatives, agents and buyers of Kentucky products and services.

The **Kentucky South America Trade Office** (KSATO) based in Chile has an active client base of over 68 Kentucky companies. KSATO hosted numerous Kentucky companies and organized accommodations and activities for the company representatives that traveled to Chile, Brazil and Argentina. During these visits they helped the companies expand their market in South America by arranging meetings with prospective representatives, agents and clients.

In April 2006, the Commonwealth awarded a contract to establish the **Kentucky China Trade Center** (KCTC) to Larkin Trade International (LTI), a Washington, D.C. consulting group specializing in United States-China trade derived from experience as Foreign Service Officers at the U.S. Embassy in Beijing. The office opened on July 1, 2006 at an Independence Day reception hosted by the U.S. Ambassador to China with over 400 high ranking Chinese officials in attendance.

Shortly after its opening, KCTC conducted three half-day seminars in Northern Kentucky, Lexington and Louisville on doing business in China with close to 150 people in attendance. In the fall of 2006, KCTC represented 15 Kentucky companies at the World SME EXPO 2006 in Hong Kong.

Small Business Services Division

The **Small Business Services Division** sponsors significant programs to support small business growth. During 2006, the division coordinated a "Report on Small Business in Kentucky", published as an insert in *The Lane Report*, which identified the importance of small businesses in the Kentucky economy. The division sponsored or participated in more than 40

training classes and workshops on topics such as developing a business plan, selling to the government, business financing options, and minority business development.

The **Small and Minority Business Branch** had a total of 3,499 counseling sessions and inquiry contacts during 2006. This branch helped entrepreneurs obtain \$1,648,263 in business loans during the year. In addition, they helped 500 businesses register in the Cabinet's searchable online database, the Kentucky Business Finder.

The **Business Information Clearinghouse Branch** handled over 6,000 phone calls, resulting in 1,700 requests for business licensing and permitting information.

The **Procurement Assistance Program** has an active client base of 1,973 client firms, which has reported a total of \$105,054,571 in government contracts obtained during 2006. This program held 28 training events and provided 1,832 one-on-one counseling sessions.

Commission on Small Business Advocacy

The newly reorganized **Commission on Small Business Advocacy** (CSBA) implemented the following activities in 2006 to effectively organize and develop strategic goals and begin fulfilling the mission of the Commission and staff.

Marketing/Outreach Activities:

- Promoted the program to small businesses through meetings and presentations with chamber and leadership programs, new brochures and direct mailing activities.
- Redesigned website and added "RegWatch" section to post and solicit input on ending regulations. Also incorporated "Registrations" and "Small Business Matters" pages to enable two-way communication and keep small businesses informed of current issues and related news.

Legislative/Regulatory Involvement:

- Endorsed legislation during 2006 General Assembly involving HB 445 (ICARE), HB 374 (Small Business Ombudsman and Regulatory Notification), and HB 1 in the Special Session designed to modify the Alternative Minimum Calculation to provide additional tax relief to small businesses.
- Provided input concerning proposed OSHA reporting requirements related to notification of on the job injury, deaths, and hospitalization resulting in a trial use of regulations.
- Reviewed 235 promulgated regulations to assess their impact on small businesses and created a networked regulatory tracking database.
- Extensively researched the new federal budget legislation which will impose a 3% withholding on all contracts with certain governmental agencies starting in 2011.

Community Programs

As part of its ongoing educational outreach program, the Cabinet assisted in holding a half-day workshop in Prestonsburg for the local area economic developers. The workshop was held at Jenny Wiley State Resort Park in conjunction with the Department's East Kentucky Office.

The **Action Plan program** was launched in 2004 as a means of helping local development groups and related agencies create annual work plans. Cabinet staff and other economic development professionals facilitate the planning process and produce a written report for local use. In 2006, the Action Plan program was facilitated with the development agency and Chamber of Commerce for the city of Jeffersonton. Additionally, there was a plan completed for the Cabinet's Commission on Small Business Advocacy as well as a follow-up session for the Small Business Services Division.

The **Community Assessment program**, an intensive two-day review of a local economic development program by a team of Cabinet and Kentucky Association for Economic Development volunteers, provides a blueprint for strengthening coordination between community organizations and a defined agenda for community improvement. During 2006, assessments were completed in Bracken, Fleming and Anderson counties with follow-ups from the previous year done in Casey and Logan counties. An abbreviated one-day session was also conducted in Lawrence County.

Major Expansion Projects 2006

Alcan Packaging Pharma Center, Inc. will invest \$27,501,725 at its Shelbyville plant to manufacture blister packs for pharmaceutical companies. The company will expand its current facility of 80,000 square feet by adding 80,000 more. It will purchase and install three new pieces of production equipment allowing growth in the marketing and manufacturing of flexible packaging material and blister packaging. The expansion will add 100 new jobs to the current 137-employee base with an average annual wage of \$30,289.37.

Custom Food Products, Inc., a meat processing facility in Bath County, announced a 42,000 square-foot expansion which includes construction material and building fixtures. An estimated investment of \$24.2 million is anticipated, creating 65 new jobs.

Dart Container Corporation of Kentucky will also invest \$57.525 million at its Hart County facility to convert the existing warehouse into production space, add a new production line and build a 587,148 square-foot warehouse/distribution center and purchase new equipment. The company manufactures disposable food service products. The expansion will create 412 new jobs.

Dart Container Corporation of Kentucky will also invest \$9.547 million at its Daviess County facility to add 16,360 square-feet and purchase new equipment. The company manufactures polystyrene resins, a raw material used in the production of various disposable food service products. The expansion will create 15 new jobs.

Mountain Tarp and Awning, Inc. announced a 34,160 square-foot expansion of their Middlesboro facility which manufactures high quality tarps for the trucking industry. The \$1,401,613 project will create 30 new full-time jobs.

North American Stainless, an advanced stainless steel production facility in Carroll County, announced a 105,000 square-foot expansion to its current 2,601,016 square-foot plant in Ghent. The project cost, including building fixtures and new equipment is \$270 million and will create 80 new full-time jobs within two years of project completion.

Outdoor Venture Corporation announced an expansion of its existing McCreary County facilities which produce tents and related products primarily for the military. This \$740,902 expansion consisting of improvements and new equipment will result in 41 new jobs.

Progress Rail Services Corporation, a major supplier of products and services to the North American rail industry announced the acquisition of a 514,279 square-foot facility located on approximately 80 acres of land in Raceland, Kentucky. Estimated investment in the project is \$26 million with creation of 71 new full-time jobs.

Retail Logic (Pan-Oston Company) will invest \$8 million at its Warren County facility to add 100,000 square-feet and purchase new equipment. The company manufactures store fixtures and checkout counters. The expansion will create 200 new jobs.

Summitt Molding and Engineering, Inc., a plastic injection molding company, will invest \$5.220 million at its Hopkins County facility to add a new product line and purchase new equipment, creating 106 new jobs.

United Parcel Service, Inc. announced a 3.29 million square-foot expansion to the Louisville, Kentucky Worldport main package distribution center. The company expects this \$195,801,380 million project to create 1,053 full-time jobs with hourly wages of \$41.73, exclusive of benefits, as well as 3,106 part-time positions. Continued support for the hugely successful Metropolitan College (a program coordinated by the Commonwealth of Kentucky, UPS, University of Louisville and Jefferson Community and Technical College) will play a major role in helping attract and maintain employees for the expanded hub.

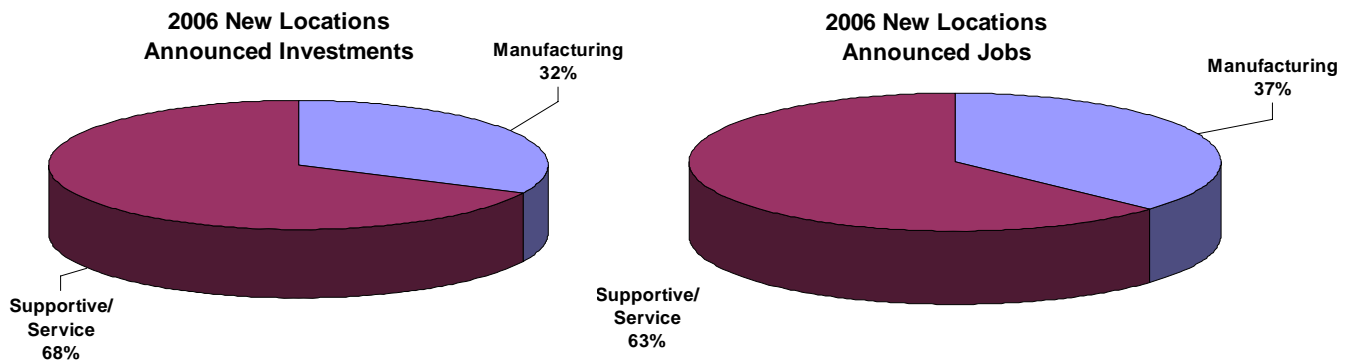
Department for New Business Development

The **Department for New Business Development** is responsible for coordinating the recruitment and attraction of companies that will enhance the overall viability of the state's economy. The Department consists of the Industrial Development Division, two Representative Development offices overseas, and the Local Government Economic Development Fund (LGEDF) multi-county program.

Major Location Announcements

During 2006, new location announcements will result in total capital investments of more than \$1.19 billion and 8,545 new jobs to be created in Kentucky. Forty-two of those announcements were for manufacturing operations, and represent 3,153 new jobs with investments of over \$383.7 million. Thirty-seven announcements were for supportive/service operations, and represent 5,392 new jobs with investments of over \$806 million.

Source: Cabinet for Economic Development, Kentucky Business & Industry Information System (KBIS), 2006 New & Expanding Industry Report.



Industrial Development Division: Promotes the state as a location for new facilities to domestic and international clients. Initiates and participates in out-of-state trips to recruit industry, providing clients with information regarding location requirements and travels with company representatives viewing sites and communities in the state. Project managers are assigned to act as liaisons between the client and permitting agencies, financial institutions, training assistance agencies, and local economic development groups.

Representative Development Offices: The Department has representatives in two foreign offices – the Far East Office in Tokyo, Japan, and the European Office in Brussels, Belgium – to aid in the recruitment of foreign direct investments.

Local Government Economic Development Fund (LGEDF): The Department administers the "multi-county" program of LGEDF. The primary mission of the program is to oversee the on-going development of 12 regional industrial parks located in coal producing areas of the state.

Department for New Business Development Accomplishments:

- Approximately 221 new projects/clients were handled by the Department.
- Communities were submitted (recommended) to companies 1,100 times resulting in over 213 community visits with clients.
- Marketing efforts included sponsorship of the *Automotive News* events in Michigan and Europe. The Cabinet sponsored and staff attended the Area Development Consultant Forum in Chicago, and also called on site selection consultants in Atlanta.

Major New Location Announcements 2006

Japanese-owned **Akebono Corporation** announced they would relocate their North American headquarters from Farmington Hills, Michigan, to their manufacturing campus in Elizabethtown. Akebono, the leading supplier of automotive friction materials and brake products, is building a 10,000 square-foot facility employing 75 people with an average annual wage of more than \$42,000.

The Geek Squad, a **Best Buy** subsidiary, selected Bullitt County (Hillview) as the site for a new computer repair center. The operation consists of 165,000 square feet and an initial investment in excess of \$8.7 million employing 550 people.

Brightpoint Services, LLC, headquartered in Plainfield, Indiana, selected Louisville for its expansion project. With more than 20,000 global customers, Brightpoint is a global leader in the distribution of wireless phones, devices and accessories, as well as a leader in the provision of customized logistic services to the wireless industry. The company will occupy a 239,000 square-foot distribution and fulfillment center, investing over \$3 million and creating 154 jobs.

Datatrak Information Services, a leading provider of information technology services and solutions to federal government organizations, opened a new 250-employee digitization center as part of a multi-year contract with the Department of Homeland Security in Williamsburg. Along with its subcontractor Anacomp, Inc., this center will assist U.S. Citizenship and Immigration Services with its efforts to create, standardize, and implement digitization processes and technologies, providing the foundation for electronic capture and management of critical agency data. The company leased a 57,000 square-foot former Wal-Mart. Datatrak made more than \$2 million in improvements and installed \$2.9 million in equipment in the facility within 60 days to meet the tight deadline set by the U.S. Citizenship and Immigration Services. The company was approved for \$2 million in Kentucky Jobs Development Act (KJDA) incentives.

Eagle Pump & Compressor Ltd., of Alberta, Canada, chose Hickman as the location to establish a secondary manufacturing facility. Eagle Compressor has acquired a 68,674 square-foot facility on approximately 17.9 acres. The company will manufacture and assemble various models of compressors and supply oil field related equipment to the oil and gas industry. They plan to employ over 30 individuals and will invest over \$2 million in the Commonwealth.

Gourmet Express announced its intention to renovate the former SUPERVALU distribution center in Greenville by investing \$7.3 million and moving its manufacturing and headquarters operations from Gridley, Illinois. The move will create 200 new Kentucky jobs within two years of completing renovations. Gourmet Express was formed in 1997 to manufacture and market skillet meals under the Gourmet Dining label. The company has had steady increases in sales and profits each year since and has experienced a 25% growth rate per year since 2003. Gourmet Express received preliminary approval for \$5 million under the Kentucky Rural Economic Development Act (KREDA) program.

GSI Commerce, a leading provider of e-commerce solutions, selected Boone County as the site for a new 541,000 square-foot fulfillment center. The project represents an investment in excess of \$24 million and the creation of up to 500 full-time jobs. The new project represents the fifth center GSI Commerce has located in the Commonwealth.

Inplast USA, LLC, purchased an existing 63,500 square-foot building in Leitchfield to produce plastic injection molded components for the automotive and medical markets. Inplast is a joint venture formed between Plastikon Industries and Injex Industries. Both companies are based in Hayward, California, and were established more than 20 years ago. They plan to create 110 jobs and invest over \$4.7 million in the project.

Metal Sales Manufacturing Corporation, one of the largest and fastest growing manufacturers of metal roofing and siding materials in the country, will move its corporate headquarters to Louisville. Founded in 1963, Metal Sales operates 19 manufacturing facilities throughout the United States. The relocation will include the corporate and technical services divisions of the company. The new 20,000 square-foot headquarters location in downtown Louisville will offer significant room for future growth. The project is expected to create 40 new Kentucky jobs at an average annual wage of nearly \$60,000.

NPR Manufacturing Kentucky, LLC (NMKY), a division of Nippon Piston Ring Co., Ltd., announced plans to establish a manufacturing operation to produce steel automotive piston rings in Bardstown. They will build a 200,000 square-foot facility to produce four million piston rings in 2008 and up to 18 million rings in 2010. The \$48.7 million plant is scheduled to open by July, 2007 and will employ 150 people. Established in 1934 in Saitama City, Japan, Nippon Piston Ring Co., Ltd., employs nearly 2,000 people worldwide.

Sekisui S-LEC America, LLC, a division of Sekisui Chemical Co., Ltd., selected Winchester to establish a manufacturing operation to produce interlayer and acoustic film for automotive glass and architectural applications. They will build a 129,000 square-foot facility which will produce six million automobile units per year. The \$43.2 million plant is scheduled to open by the third quarter of 2007 and will employ 80 people. Established in 1947 in Osaka, Japan, Sekisui Chemical Co., Ltd., employs more than 17,000 people worldwide.

Sister Schubert's Homemade Rolls, Inc., a division of the T. Marzetti Company, will locate their new baking operation in Horse Cave creating 298 new jobs and investing \$35 million in the Commonwealth. Sister Schubert's Homemade Rolls, a manufacturer of yeast rolls, frozen dinner rolls, and other bread products for retail and food service markets, will construct a new 105,000 square-foot facility adjacent to the T. Marzetti operation recently constructed in Horse Cave. The new facility is expected to be operational by Summer 2007.

Summit Aviation, Inc., an industry leader in aircraft modification and maintenance technology based in Middletown, Delaware, announced plans to produce aircraft components for Schweizer Aircraft Corp. (a subsidiary of Sikorsky Aircraft) at the Somerset-Pulaski County Airport. This new aerospace component assembly facility will provide aviation modification, fabrication, and repair operations. The project represents a \$1.9 million investment and up to 100 jobs. Initially, Summit Aviation will lease a 15,000 square-foot hangar, with operations beginning in mid 2007.

Department of Commercialization and Innovation

The Department of Commercialization and Innovation (DCI) is responsible for leading the efforts of the Kentucky Economic Development Cabinet in creating a knowledge-based economy throughout the Commonwealth.

Management Activities:

DCI, within the Kentucky Cabinet for Economic Development, worked closely with the offices of Governor Ernie Fletcher to develop several new initiatives that were proposed by the Governor and included in the Fiscal 2007-2008 biennial budget approved by the Kentucky General Assembly in April 2006.

BIO 2006 Exhibit and Governor's Reception – Secured Kentucky's first-ever "Major Sponsor" role at the Biotechnology Industry Organization (BIO) annual international conference and exhibition. Sponsored seven biotech startups and invited three large biotech companies to attend BIO 2006 to help promote Kentucky's business advantages (arranged for first-ever participation in a state booth by Amgen).

Biosciences Assets and Capabilities Assessment – DCI solicited, evaluated proposals, and selected New Economy Strategies, a national consulting firm based in Washington, DC, to:

1. Conduct a statewide technology assessment focused on Kentucky's biosciences, life sciences, and biotechnologies, including, but not limited to, programs, human capital, intellectual properties, facilities, incentive programs, and investment opportunities and resources.
2. Develop a fast-start biotechnology commercialization and innovation strategy for Kentucky.
3. Develop a comprehensive, digital, searchable "biosciences, life sciences, and biotechnologies assets" database.

Broadband Access for Regional Development (BARD) – DCI continues its work with Kentucky's statewide IT and other agencies and private industry to develop the Broadband Access for Regional Development (BARD) Committee initiated by DCI in Fall 2005. DCI coordinated the efforts of multiple state and local entities on the BARD Committee in developing four community grant proposals to Rural Utilities Services (RUS), a department of the U.S. Department of Agriculture (USDA). RUS subsequently named all four Kentucky communities as recipients of the competitive Community Connect grants. The federal grants, totaling nearly \$1 million, will create vital broadband networks for rural communities that do not have high-speed Internet service. Communities awarded the grants are Berry (Harrison County), Columbus (Hickman County), Concord (Lewis County) and Monterey (Owen County).

Innovation and Commercialization Center (ICC) Program - The goal of the DCI-operated Innovation and Commercialization Center (ICC) Program is to increase the probability of creating and funding Kentucky-based high growth, knowledge-based businesses. Knowledge-based is defined as value added through knowledge, innovation and speed. While measuring success based on clients attaining ICC protocol milestones is one measure of process efficiency, the most significant measure of success is the number of companies receiving external investments.

Over the last fiscal year, the number of ICC companies receiving investments increased to 135 from 75 (up 180%), and active ICC clients increased to 409 from 185 (up 121%) – this success is directly related to the efforts of DCI and ICC staff in supporting clients, growing widespread recognition and support from private sector, ICC staff perfecting service delivery, the continued success of the finance workshops, and leveraging monies from both DCI's high-tech pools and the Kentucky Enterprise Fund investment.

DCI contracts with the Kentucky Science & Technology Corporation to leverage and connect public and private assets (Kentucky Enterprise Fund and private investors), provide a set of central services (workshops and training), assure service quality (talent and consistency), build statewide resources to support client activities (K-NET and Service Provider Network) and continually refine and provide guidance and training on commercialization techniques.

Kentucky Science & Technology Corporation (KSTC) – DCI solicited new proposals for the administration of operations for the Commonwealth's regional Innovation & Commercialization Centers (ICCs) and local Innovation Centers (ICs). Based on proposals received, KSTC was selected to again administer the state's six ICCs and six ICs across the state. These centers operate to increase the quality of investments flowing to knowledge-based firms throughout Kentucky. The program also works to increase statewide knowledge of entrepreneurship, start-up processes, and investment practices, while providing value-added services to existing businesses, start-ups, and the investment community. KSTC subsequently responded to a DCI solicitation to administer the new Small Business Innovation Research Matching Funds Program and was selected to administer that effort as well.

Management Services for Commonwealth Seed Capital, LLC – DCI re-solicited and evaluated new proposals for management services for Commonwealth Seed Capital, LLC. Based on proposals received, Growth Services, LLC, was chosen to provide new management services. Auditor services were solicited, and subsequently the firm of Moore, Stevens and Potter was selected.

National and International Advertising Campaign – In September 2006, DCI initiated a national and international advertising campaign that includes placing full-page, full-color advertisements in technology, venture capital and in-flight airline magazines. Cumulatively, the ads have an initial audience of more than 10 million people. The goals of the campaign include informing readers about Kentucky's progressive technology initiatives (e.g., the SBIR-STTR Matching Funds program) and about a better quality of life available for those in the high-tech industry here. This program/campaign both supports and complements the other initiatives aimed at the high-tech community, while also providing positive impressions about Kentucky to the general public.

Partnership Building – In May 2006, DCI arranged for several Kentucky companies to make presentations to international biotech leader Amgen Inc., which subsequently announced it is pursuing partnerships with:

1. **Pradama:** Amgen’s Metabolic Product Licensing group is working with Pradama to acquire additional information on compounds for osteoporosis.
2. **Yaupon Therapeutics, Inc:** Amgen’s Neuroscience Licensing group is in contact with Dr. Peter Crooks for additional data on compounds for neuropathic pain.

In addition, with DCI’s assistance, the University of Kentucky and University of Louisville are in discussions with Amgen relating to a Contract Research Organization (CRO) initiative.

Summary Performance Results

Activity	FY02 - FY05	FY06	Change	FY02 - FY06
Intake Meetings	796	449	Up 56%	1245
Active Clients	185	224	Up 121%	409
Number New Companies Created	89	101	Up 213%	190
Revenues Generated from ICC Companies	\$37M	\$60M	Up 162%	\$97M
Number of Company Investments Made	75	60	Up 80%	135
Amount of Company Investments Made	\$78M	\$20M	Up 26%	\$98M
Number of Jobs Created	842	369	Up 44%	1,211
Average Salary of Jobs Created	\$ 56,802	\$ 55,081	down 3%	\$56,174
Average Cost of Each Job Created	\$ 4,909	\$ 3,718	24% Less	\$ 4,546
State Tax Revenue from ICC Jobs*	Not Reported	\$ 4,081,590	N/A	Not Reported
Financial Workshops Conducted	130	38	Up 29%	168
Valuation Workshops Conducted	122	37	Up 30%	159
Marketing Workshops Conducted	0	34	N/A	34
Participants in ICC Networking Events	10,564	7,989	Up 76%	18,553

*FY2005 revenue was \$2,869,660

Program Managed by Kentucky Science & Technology Corporation under Contract to DCI Aggregate of all KIA Regions Since Program Inception (FY2002 - FY2006*) *FY 2006 covers July 1, 2005 through June 30, 2006	
KSTC and DCI Managed Funds	
A. DCI Investment in ICC Program Since Inception	\$8,001,017
B. Jobs Created via KSTC and DCI Managed Funds	1,211
C. DCI Investment per Job Since Inception	\$6,607
D. Average Salary per Job Since Inception	\$56,174
E. State Income Tax Revenue per Job 2005	\$3,370.43
F. Total Taxes Paid in 2005	\$4,081,590
G. Net Short-term Investment by DCI	\$3,919,427
Months to Payback	23.52
Years to Payback	1.96

The above shows only jobs created by the ICC program managed by KSTC, under contract to DCI.

Technology Companies and Projects Funded

The primary mission of DCI is to support the creation and retention of high-tech businesses and jobs throughout the Commonwealth of Kentucky. DCI administers two investment pools from which funds are used to support these projects. All funding must be approved by the Kentucky Economic Development Finance Authority (KEDFA). In 2006, the total funding recommended by DCI for high-tech companies and projects and approved by KEDFA was \$9,469,083. Specific projects funded were:

Alltech, Inc. – Alltech, a global leader in animal health and performance, will build the world’s first Center for Animal Nutrigenomics at its global headquarters in Nicholasville. The new center will become part of an eventual 30,000 square-foot research facility. Nutrigenomics offers diagnostic tools that define the optimal nutritional requirements of individual animals. The grant is expected to create 40 new jobs in research and development over the next five years. KEDFA-approved funding by DCI was up to \$1 million to assist in purchasing equipment for the new research facility.

Apolimmune, Inc. – Apolimmune, Inc. is a biotechnology company committed to the development of powerful new therapeutics to treat chronic and acute life-threatening diseases and improve patients' quality of life. Apolimmune is founded on a broad-platform protein-based technology used for immunomodulation; that is, using one's own immune system to treat disease. The company anticipates creating 30 or more jobs at an average annual salary of \$40,000. Apolimmune's ApoVax technology represents a strong potential therapy for cancer and infectious diseases. KEDFA-approved funding by DCI was up to \$500,000.

Center for Information Technology Enterprise (CITE) – Also known as ConnectKentucky, this program requested funds to continue implementing broadband technologies as part of a three-year comprehensive, statewide broadband deployment

plan. CITE will provide community implementation plans, funding assistance, project management in expanding community infrastructure, and a broad public relations effort in all of Kentucky's 120 counties. Currently 92% of Kentucky homes can access broadband. KEDFA-approved continued funding by DCI was up to \$1.9 million over two years.

Growth Services, LLC – Funds were provided to support the formation and initial day-to-day operations of a statewide, non-profit alliance for biotechnology and life science businesses. The working name is Kentucky BioAlliance. The aim of the alliance includes:

1. Helping create jobs and spurring investments in Kentucky life sciences and biosciences;
2. Assisting in implementing statewide bioscience initiatives;
3. Helping lead the biotech industry in pursuing economic research and public policy that guide workforce development, entrepreneurial support, and the regulatory and tax environment; and,
4. Helping find new customers and markets for Kentucky biotechnology companies through networking events, collaboration tools, and industry partnering events. KEDFA-approved funding by DCI was up to \$300,000 over two years (up to \$200,000 in year 1 and up to \$100,000 in year 2).

MetaCyte Business Lab – A business incubator facility that specializes in supporting and developing biotechnology companies. MetaCyte's customers are investors that take equity positions in life science and healthcare technology companies. Funding was requested to support existing operations and to acquire additional "human capital," such as experts in clinical regulatory issues and drug and device development. KEDFA-approved funding by DCI was up to \$750,000 for 2006 (the same amount approved for 2005).

Northern Kentucky University Infrastructure Management Institute – Funds were requested to help build a world-class institute dealing with infrastructure management and core disciplines such as data IM, network IM, security IM, help desk and disaster recovery IM. The funds were requested for expenses relating to project management, including purchasing software, services, and supplies. KEDFA-approved funding by DCI was up to \$332,710.

Northern Kentucky University Risk Management Program – A collaboration between NKU, Tier1 Technologies, ITI, and FedEx will work to develop a risk management tool that the client and other private sector and public sector entities may use in managing their risk exposure and their ability to recover from disasters. The requested funds were for program operating expenses. KEDFA-approved funding by DCI was up to \$276,973.

Secat, Inc. and the University of Kentucky Research Foundation – Secat was formed in 1999 through a university-industry partnership to facilitate the research and development of innovative technologies and products for the aluminum industry. Funding was requested to procure specialized research and development equipment to

be used to advance the growth of Kentucky's aluminum industry. KEDFA-approved funding by DCI was up to \$850,000.

Semicon Associates (a Division of Ceradyne, Inc.) – Semicon is expanding its operations to manufacture its own complete electron gun instead of the cathode assembly it currently makes for use by other electron gun manufacturers. Electron guns are used in many applications, including military defense systems, commercial communication and radar systems, medical, homeland security, space, and energy research. KEDFA-approved funding by DCI was up to \$275,000 to help defray research.

Southeast Kentucky Economic Development Corporation (SKED)/National Bio & Agro-Defense Facility – The U.S. Department of Homeland Security (DHS) is exploring sites for a planned new National Bio and Agro-Defense Facility that would bring 3,500 construction jobs in the first five years and would eventually employ 250 scientists and technicians. Pulaski County was selected as one of 14 finalists and the site has now moved to the next stage of the site selection process. The requested funds to help cover the costs associated with preparing an Expression of Interest (EOI) proposal for a consortium comprised of groups from Kentucky and Tennessee. KEDFA-approved funding by DCI was up to \$124,900.

US WorldMeds, LLC – US WorldMeds, established in 2001, and based in Louisville will begin Phase III clinical trials of Lofexidine. If approved by the Food and Drug Administration, Lofexidine would be the first non-addictive, non-narcotic treatment for relieving withdrawal symptoms associated with opiate detoxification approved in the United States. The drug has been used successfully in the United Kingdom for 13 years to detoxify over 200,000 opiate addicts. KEDFA-approved funding by DCI was up to \$1.3 million to help cover direct costs for completing the USWM-001 clinical trial for Lofexidine.

Western Kentucky University Small Business Accelerator – Funds were requested to pay for construction costs related to expanding the existing Small Business Accelerator located in the Western Kentucky University Center for Research and Development. The expansion would provide additional office suites to help attract start-up high-tech and knowledge-based businesses. It is projected that future tenants in these suites could provide from 20 to 200 high-tech jobs at annual salaries from \$35,000 to \$60,000 and 30 to 300 supporting staff and managerial jobs at salaries from \$25,000 to \$70,000. KEDFA-approved funding by DCI was up to \$423,500.

Department of Financial Incentives

The **Department of Financial Incentives** (DFI) coordinates all financial assistance, tax credit and related programs available to business and industry. The Department is comprised of four divisions: **Grant Programs Division, Direct Loan Programs Division, Tax Incentive Programs Division, and Program Servicing Division.** Additionally, the **Bluegrass State Skills Corporation** (BSSC) is attached to the Department. The employees of the Department also serve as staff to the Kentucky Economic Development Finance Authority (KEDFA), the Bluegrass State Skills Corporation Board, and the Enterprise Zone Authority of Kentucky.

Bluegrass State Skills Corporation (BSSC)

BSSC awarded grants totaling \$4,235,918.55 to fund 164 projects to 133 Kentucky companies and eight consortia providing skills training services to 27,247 Kentucky residents in 2006. These figures include 28 projects in the amount of \$470,843.53 approved with funding provided by Kentucky Adult Education (KYAE) of the Council on Postsecondary Education (CPE): The BSSC Skills Training Investment Credit Program preliminarily approved \$3,793,390.52 in tax credits for 52 projects providing skills training services to 16,047 Kentucky residents in 2006. In addition, 29 companies received final approval of \$1,145,651.78 in tax credits through the Skills Training Investment Credit program in 2006.

Economic Development Bond Program (EDB)

EDB made bond funds available to three different companies across the State totaling \$525,000 during 2006. These 3 companies will expend approximately \$525,000 and hire 457 persons with an average hourly wage of \$14.86.

KEDFA authorized the issuance of \$40 million in Industrial Revenue Bonds for one project. Pursuant to KRS 103.210, KEDFA reviewed four local issues of industrial revenue bonds.

Kentucky Economic Development Finance Authority (KEDFA) Direct Loan Program

KEDFA loan programs approved a total of \$388,394.00 in a direct loan to one borrower in 2006. The loan was made to a new start-up company locating in Kentucky. This loan will help create at least 39 new jobs in Kentucky over the next two years.

In addition, the KEDFA Small Business Loan Program approved a total of \$182,069.00 to two small businesses. Both of the loans were made to new businesses, and the two loans will help create at least 13 new jobs.

Kentucky Enterprise Initiative Act (KEIA)

With assistance from the KEIA program, 49 companies expanded or located new operations within the state during the period of January 1, 2006 through December 31, 2006. These 49 companies are anticipated to invest approximately \$1,634,956,970. Of this total project investment, \$16,281,400 is being invested in eligible research and development equipment and \$573,253,200 is being invested in eligible construction materials and building fixtures. A total of 8,244 new jobs are anticipated to be created. The total refund amount approved for research

and development equipment is \$976,884 and \$23,177,886 for construction materials and building fixtures.

Kentucky Environmental Stewardship Act (KESA)

This new program was adopted by the 2005 General Assembly to attract projects that manufacture products having a substantial and unique effect on the environment. No new projects were approved under this program in 2006; however, the project that previously received preliminary approval is underway and should be finalized during 2007. This project involved the use of a \$9 million incentive to leverage \$49 million in new investment associated with the placement of hybrid technology into automobiles.

Kentucky Industrial Development Act (KIDA)

A total of 37 companies received preliminary approval under the KIDA program from January 1, 2006 through December 31, 2006. These 37 companies were granted \$37.7 million in tax incentives and are anticipated to invest approximately \$648 million. The projects are estimated to create 2,602 new jobs with average hourly wages of \$15.30. During the same period, 57 companies finalized \$92.5 million in KIDA incentives with new private investment of \$683 million and the creation of an additional 4,461 jobs. Wages for the new jobs are estimated to average \$14.44 per hour.

Kentucky Industrial Revitalization Act (KIRA)

One company received preliminary approval under the KIRA program that will result in the retention of 121 jobs and the creation of another 67 jobs when the project is finalized. The preliminary approval authorized \$5.6 million in incentives to leverage \$17.3 million in reinvestment. Another company also received final approval during the year resulting in the retention of 72 jobs that would have been eliminated without the incentives as well as 38 new jobs that are anticipated to result from the project. Approximately \$59 million in private capital was invested to stabilize the economic condition of the two facilities assisted through the KIRA incentive authorization of \$3 million.

Kentucky Investment Fund Act (KIFA)

There has been a total of \$4,763,672 in approved credits for four separate investment funds. No new credits were approved in 2006.

Kentucky Jobs Development Act (KJDA)

For the period beginning January 1, 2006 and ending December 31, 2006, 38 companies received preliminary approval for \$106 million in KJDA benefits. These 38 companies are anticipated to expend \$499 million for project costs which will create 6,133 new full-time jobs in the Commonwealth of Kentucky with average hourly wages of \$18.89. Additionally, 33 companies received final approval for KJDA benefits of \$92 million. These 33 companies will expend approximately \$450 million and hire 5,779 persons with an average hourly wage of \$19.54.

Kentucky Reinvestment Act (KRA)

One company received final approval under the KRA program during 2006. The \$248 million project involved the installation of new equipment with the assistance of an \$18 million tax credit. The project is intended to solidify the existence of more than 7,000 jobs.

Kentucky Rural Economic Development Act (KREDA)

Forty-seven companies received preliminary approval under the KREDA program during 2006. These 47 companies were approved for \$90 million in tax incentives and plan to invest approximately \$629 million. The projects are projected to create 2,742 new jobs with average hourly wages of \$11.90 in Kentucky's higher unemployment counties. Final approval was granted to 27 companies for an incentive amount of \$57 million with new private investment of \$224 million and the creation of an additional 2,020 jobs. Wages for the new jobs are estimated to average \$12.82 per hour.

Kentucky Strategic Plan for Economic Development Accomplishments for 2006

Objective 2.1 Create a Certified Sites Marketing Program to highlight “shovel ready” industrial sites in Kentucky

As part of their meetings with consultants, the New Business Development staff discusses the available "shovel-ready" industrial sites and buildings in Kentucky. The Cabinet markets over 200 pre-screened "shovel-ready" sites with fully available infrastructure and over 200 quality industrial buildings. "Shovel-ready" industrial sites and buildings are now mentioned on the Cabinet's web site as one of the top 10 reasons to locate or expand in Kentucky. An article about the Cabinet's "shovel-ready" sites and buildings was mentioned in the Cabinet's April 2006 e-newsletter and in the May 2006 issue of *Site Selection* magazine.

Objective 2.2 Establish SBIR Phase I and Phase II State Matching Incentive Program

The Department of Commercialization and Innovation received funding to match all Phase I and Phase II federal awards received by Kentucky businesses. This includes matching awards of up to \$100,000 to support Phase I exploration of the technical merit or feasibility of an idea or technology. Phase II federal awards, which support full-scale research and development, can be up to \$750,000, and would be matched by the Commonwealth up to the first \$500,000. Phase I is budgeted at \$2,050,000 for Fiscal Year 2007 and \$2,000,000 for Fiscal Year 2008. Phase II is budgeted at \$4,300,000 for Fiscal Year 2008.

Objective 3.2 Enhance Kentucky Economic Development Information System by developing web search capability by geographic location and drive time

Phase I completed providing basic functionality including dynamically generated zoom-able, scrollable maps showing the locations of sites or buildings meeting user-specified criteria.

Objective 3.4 Establish a trade office in China by 2007

The new biennial budget includes funding of \$300,000 in both Fiscal Year 2007 and Fiscal Year 2008 to operate a new trade office in China. The Cabinet issued a “request for proposals” in September 2005 for a contractor to operate the China trade office. After interviews and evaluation, the contract was awarded to Larkin International Trade Associates of Arlington, Virginia, in April 2006. The Beijing Center is to be operational by July 2006.

Objective 3.5 Create a web-based searchable database of Kentucky businesses and industry

Searchable business and industry database created as an online reference tool used to find information about manufacturing and supportive service firms in Kentucky, searchable by facility name, product/service keywords, NAICS codes, employment or location.

Objective 4.1 Promote “best practices” models of multi-county economic development cooperation in workshops, educational programs and publications

Research and analysis of existing multi-county development entities was completed by December 2005. Materials for presentation and publication were completed for the November 2006 presentation at the annual conference of the Kentucky Association for Economic Development.

Objective 4.3 Develop an online training provider directory and catalog of courses

Site has been developed by CED programming staff. BSSC has identified companies and providers to test and provide feedback.

Objective 4.5 Create new graphic look and feel for Cabinet’s web site along with customer driven navigation system

New graphic look and feel along with customer-focused navigation system for the Cabinet’s web site.