



Cabinet for Economic Development

Kentucky's Business Climate

Kentucky works hard to take care of business. Whether it's a business that is new to Kentucky or one whose roots are generations deep, Kentucky makes sure businesses have what they need to succeed. With some of the nation's lowest industrial electricity costs, a competitive tax structure, aggressive and effective incentive programs, an ideal location and an unsurpassed quality of life, Kentucky has become the top location choice for companies from all over the world.

Relative Cost of Doing Business

Kentucky has one of the lowest overall costs of doing business in the eastern United States according to Economy.com's June 2010 edition of the *North American Business Cost Review*. The report, which measures the cost of doing business within a state based on unit labor cost, tax burden, and energy cost, ranks Kentucky tied as the ninth lowest in overall cost of doing business in the nation. When compared to all states east of the Mississippi River and to states generally considered Kentucky's economic competitors, the state ranks third and fourth, respectively. The index utilized to measure the overall cost of doing business within a state determined Kentucky to have an index of 90. The national average index is 100.

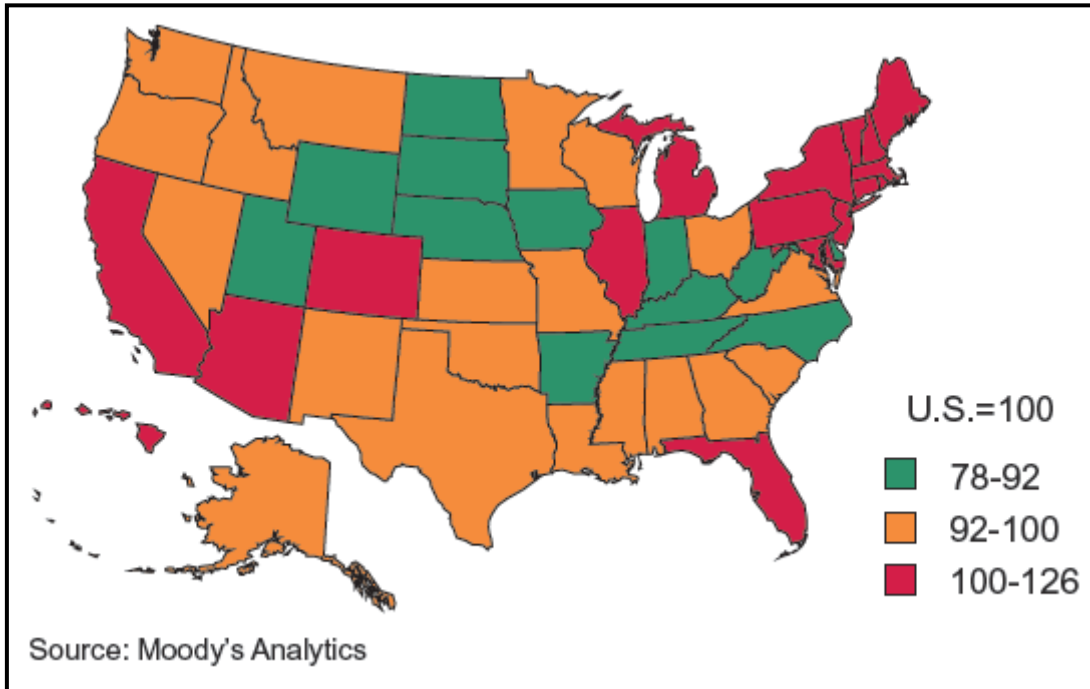
Competitor State Business Cost: 2008

Kentucky's Competitor States	Overall Rank		Unit Labor Cost		Energy Index		State & Local Taxation	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank
United States	100	-	100	-	100	-	100	-
Competitor State	94	-	98	-	83	-	94	-
North Carolina	84	2	85	2	76	14	95	21
West Virginia	85	3	94	11	60	2	107	43
Arkansas	89	8	92	9	78	17	99	32
Tennessee	90	9	93	10	90	25	78	2
Kentucky*	90	9	93	10	71	9	99	31
Indiana	91	11	94	11	77	16	102	38
Missouri	93	15	103	35	66	5	86	9
Alabama	95	19	100	23	93	30	81	4
Mississippi	95	19	95	15	96	32	92	17
South Carolina	97	25	102	33	81	20	88	11
Virginia	97	25	103	35	76	14	89	12
Ohio	98	27	100	23	90	25	106	42
Georgia	99	30	104	37	91	27	95	21
Illinois	102	36	104	37	98	33	99	32
Michigan	103	38	106	43	92	28	102	38

Source: Derived from data provided by the *North American Business Cost Review*, 2010 Edition, Prepared by Economy.com, Inc.-- Updated June 2010.

Note: A ranking of 1 represents the best condition = lowest business cost.

United States Indices of Relative Business Cost: 2008



In addition to Kentucky's high national and competitive state regional ranking for low business cost, some of Kentucky's major metropolitan areas also stand out as attractive low-cost business locations. The Elizabethtown area tied with seven other U.S. metropolitans as having the 13th lowest overall business cost in the nation. The Owensboro and Bowling Green areas also placed well, tying as the 27th lowest, while Lexington and Louisville, tied as 96th lowest.

--Note: 384 metro areas are indexed for business cost.

Market Access

Kentucky is located in the geographical center of the Eastern United States, which includes states sharing an east or west border with the Mississippi River. Due to its extensive highway, air, rail, and waterway transportation systems, the Bluegrass State is in a strong position to compete in the global marketplace. With its borders within 600 miles of over 60 percent of the nation's population, personal income, and manufacturing business establishments, Kentucky's intermodal freight and passenger transportation systems extend to provide safe, efficient and cost-effective access to all points of the globe.

In 2008, the population center of the United States east of the Rocky Mountains was located 9.7 miles northwest of Harrodsburg, Kentucky. Harrodsburg is located within a 40-minute drive from I-75, I-64, US 27 and US 127, which are main arteries to the rest of the eastern section of the United States.

Kentucky is at the highway crossroads for the Canada to Florida I-75 route, extending from the Great Lakes to the Gulf of Mexico, and the St. Louis to Norfolk I-64 route, which stretches from the Mississippi River to the Atlantic Seaboard. Domestic and international air travel is served by the Delta and Comair hubs that provide non-stop service to Europe and Canada from the Cincinnati/Northern



Kentucky International Airport (CVG). International flight connections are also available from the Louisville International Airport (SDF) at Standiford Field and Lexington's Bluegrass Airport (LEX).

Kentucky business is served by not one but two major shipping hubs, giving companies a leg up on getting products, papers and packages into the global stream of commerce. UPS Worldport has just completed its second \$1 billion expansion at the Louisville International Airport, pushing handling capacity at its worldwide air hub to an incredible 500,000 parcels per hour. The hub serves global destinations to over 200 nations and territories. DHL also moved its base to the Cincinnati/Northern Kentucky International Airport in Erlanger, Ky, in 2009. Several other air freight and parcel providers also operate through Kentucky's air system.

Kentucky is a rail center for the mainline services of the CSX, Canadian National, and Norfolk Southern railroads that provide services from the Great Lakes gateways to the Gulf of Mexico and link intermodally with inland and deep-draft ports for export trade. Western Kentucky is the heart of the nation's inland waterways and river port system, standing at the junction of the Upper and Lower Mississippi River, the Ohio River, and the Tennessee-Tombigbee navigation corridors.

Work Force

As more and more companies operate in a global economy, Kentucky understands the importance of providing its workforce with the latest skills. The Cabinet's [Bluegrass State Skills Corporation \(BSSC\)](#) plays a significant role in keeping Kentucky's business and industry competitive in the international marketplace by assisting them in providing the necessary training for their workforce. BSSC has built a strong reputation for meeting and exceeding industry needs for customized, flexible and industry-driven skills training. It achieves this by partnering with other employment and training organizations to tailor a comprehensive program of skills training services for new, expanding and existing companies.

County-specific data on unemployment rates, civilian labor force, educational attainment and occupational wages, which all combine to paint a picture of the available workforce in an area, can be obtained from the Cabinet for Economic Development's website under the [Community Profiles](#) section.

Low-Cost Utilities

An increasingly competitive business environment compels companies to examine the long-term costs of production and distribution and to focus on regional differences in the net cost of doing business. Among the more significant factors having a direct influence on bottom-line costs is the annual capital that must be committed to utility consumption.

Kentucky's industrial sector electric power costs rank 8th lowest in the nation, while the state's average retail price for all sectors is the 4th lowest in the nation. With an average industrial price of 4.8 cents per kilowatt hour, the state's industrial electric costs are almost 30 percent lower than the national average. Kentucky's natural gas costs, in the industrial, residential and commercial sectors, are competitive, particularly within the Midwest and Southeast regions of the nation. Kentucky ranks 3rd in natural gas industrial costs when compared with states east of the Mississippi River and ranks 19th nationally in natural gas industrial costs - \$10.41 per 1,000 cubic feet.

Kentucky enjoys a competitive advantage in the provision of energy, natural gas, and water supply. The state's large coal reserves and their resulting proximity to coal-burning utility plants, its direct location on the interstate natural gas pipeline corridor and an abundant natural water supply derived from an extensive network of rivers, streams, and lakes keep Kentucky's utility costs among the very lowest in the nation. In turn, a large number of utility providers, with oversight by the [Kentucky Public Service Commission](#) (PSC), continue to ensure competitive rates for the consumer. Average annual utility costs and tariff rates for individual providers are available at the PSC.

Business Incentives

Kentucky provides financial support through an array of financial assistance and tax credit programs to encourage economic development, business expansion and job creation. In June 2009, Governor Steve Beshear signed into law House Bill 3, known as Incentives for a New Kentucky (INK), overhauling Kentucky's economic development and tourism incentive programs. The landmark legislation revamps numerous existing programs, while also creating several new programs to further encourage new investment and job creation in the Commonwealth. The new and revamped programs are designed to make Kentucky more competitive regionally and more appealing to innovative companies, headquarter facilities, advanced manufacturing and existing companies in need of substantial investment.

A key component of INK includes the consolidation of four legacy programs into the [Kentucky Business Investment \(KBI\) Program](#), a single, more flexible program offering income tax credits

and wage assessments to new and expanding businesses. With a focus on helping Kentucky's existing business, INK also greatly expanded the [Kentucky Reinvestment Act \(KRA\)](#) to benefit existing manufacturers who need to make a significant capital investment in Kentucky facilities in order to remain competitive.

Additionally, the [Kentucky Enterprise Initiative Act \(KEIA\)](#), which allows approved companies to receive a sales and use tax refund on building and construction materials, and equipment used for research and development, was amended through INK legislation to make the allowable length of the project term more flexible to meet the needs of construction projects. It also added electronic processing systems costing \$50,000 or more as an added eligible cost. A new sales and use tax refund was also established for companies that are heavy users of computer and telecommunications equipment.

Small businesses will also benefit from the legislation through a new tax credit program, known as the Kentucky Small Business Investment Credit (KSBIC) program. It provides tax credits to companies with 50 or fewer employees that create and fill one eligible position over base employment and invest at least \$5,000 in qualifying equipment and/or technology. Legislation passed during the 2010 Extraordinary Session amended the program statute to accelerate implementation – companies may begin applying to KEDFA for credits in 2011

Kentucky also provides a variety of options for high-tech, research, and knowledge-based businesses, including a nationally recognized [SBIR-STTR Matching Funds Program](#), which matches both Phase 1 and Phase 2 federal SBIR and STTR awards to Kentucky high-tech small businesses. Additionally, [High-Tech Investment Pools](#) are used to build and promote technology-driven industries and research-intensive industries with the goal of creating clusters of innovation-driven industries in Kentucky. Small and medium-size, Kentucky-based companies may also be eligible for commercialization assistance or seed funds through the Kentucky Enterprise Fund, Kentucky Rural Innovation Fund, or the Kentucky Commercialization Fund, all administered by the Council on Postsecondary Education.

Additional income tax credits for occupational and skills upgrade training costs are available through the Bluegrass State Skills Corporation (BSSC), while the Kentucky Economic Development Finance Authority (KEDFA) offers low-interest state loans for non-retail industrial, service industry, agribusiness, and tourism projects. Long-term loans for fixed assets are available for small businesses through the Commonwealth Small Business Development Corporation.

Kentucky also modernized its tax code a few years ago in order to create a more proactive, business friendly taxation model. Major changes affecting the business climate include the elimination of the corporate license tax, the lowering of the highest corporate income tax to six percent, the exemption of intangible property from state and local taxation (except for financial institutions and life insurance companies), the exemption of local property tax from biotechnology products and the creation of the "Major Recycling Project" program for qualifying projects with an investment of more than \$10 million in recycling or composting equipment.



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For more detailed information on all the incentives offered by the Commonwealth, please contact the Cabinet for Economic Development or visit <http://www.thinkkentucky.com/kyedc/pdfs/kybusinc.pdf>.

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