

# CEDC Nomination

It is stated that the role of economic development corporations is to seek out new economic opportunities and retain existing business wealth, ultimately aiming for continuous and sustained economic growth. As with other communities, Lubbock was faced with a situation of a large manufacturer within the city consolidating its production. On October 20, 2006 Frito-Lay announced it would be closing its Lubbock facility, one of the company's oldest, in its plan for increasing efficiency in its production operations. This situation has visible negative outcomes to any community concerning such topics as employment, sustainable growth, and standard of living. A challenge was placed on the table of the Lubbock Economic Development Alliance (LEDA) to take action in aiding those displaced by the closing and to help attract a new tenant to the facility (a brownfield development project). The following presents the situation, the project, and its outcome.

## Economic Situation

### Manufacturing Faces a Hurdle

Looking at data from the US Census Bureau's most recent Annual Survey of Manufactures (ASM) there was a decline in food manufacturing employment in Texas from 82,745 in 2004 to 80,379 in 2005, approximately a two percent drop (Bureau). With Frito-Lay vacating their facility in late 2006, there was cause for concern in this sector of this statistic holding true in Lubbock in 2006 and 2007. A total of 279 employees were affected by the halting of all Frito-Lay manufacturing operations in the city, 5% of the total manufacturing jobs (5,400) in the Lubbock metropolitan statistical area (MSA).<sup>1</sup>

Using Figure 1 and concerning ourselves only on job numbers as an economic indicator of growth; we can see that manufacturing saw a decline in the Lubbock MSA over the past four years with an average decrease in numbers of 2.6%. No surprise to this statistic when taking into account the recent recession in the US, but as we can also see, even with Frito-Lay closing its manufacturing facility, the Lubbock MSA saw a slight upswing in the manufacturing industry in 2006 of nearly 2%. LEDA wanted this to continue into 2007, and to achieve continual growth, immediate action was needed to fill the vacant facility.

**Figure 1:** Relevant Industry percentage changes in job numbers for Lubbock MSA 2002-2006

<b>Manufacturing</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Average</b>
Job Numbers	6,000	5,700	5,400	5,300	5,400	5,560
Percentage Change	NA	-5.0%	-5.3%	-1.9%	1.9%	-2.6%
<b>Goods Producing</b>						
Job Numbers	11200	11000	10600	10600	10800	10840
Percentage Change	NA	-1.8%	-3.6%	0.0%	1.9%	-0.9%

Source: Texas Workforce Commission

---

<sup>1</sup> Of the 269 employees affected some retired following the plants closing.

## **Frito-Lay Takes Action**

Frito-Lay, understanding its corporate social responsibility to the community that helped them grow throughout their history, aimed at aiding those displaced and finding a new tenant. Hosting and contributing to local job fairs for those displaced was one way Frito-Lay helped. From their October 20, 2006 news release on their website:

“While the consolidation is strategic for our business, we recognize the personal impact business decisions such as this one have. This is not an easy decision to make,” said Al Carey, President and CEO, Frito-Lay North America. “We are committed to working with and supporting our displaced associates to ensure as smooth a transition as possible.”

With this in mind they referred Shearer’s Food, Inc., a co-packer of Frito-Lay kettle-cooked potato chips, for the recently vacated facility. Shearer’s, located in Brewster, Ohio, is a manufacturer and distributor of Shearer’s brand snacks and also manufactures private label products for customers in the retail snack food industry (such as Frito-Lay). Frito-Lay saw a great opportunity for the Lubbock community knowing that Shearer’s had been looking to expand its operations into this region of the country. The company was looking at Phoenix, Arizona and Las Vegas, Nevada along with Lubbock. Frito-Lay pleased with the Lubbock community as a whole did not hesitate on referring the city. Communication between Frito-Lay, Shearer’s, and LEDA started very soon after Frito-Lay closed its doors in late November. It was then up to LEDA to sell the Brewster, Ohio Company on Lubbock as a new manufacturing location.

## **Project Shearer’s**

In late November 2006 LEDA provided Shearer’s Food, Inc. with a proposal packet for the city of Lubbock, which included information on the site, cost of doing business, cost of living, incentives, and the community. Also included in the provided documents were three LEDA funded labor market surveys. The first was a 2006 Job Location Preference Survey conducted by the staff at the Earl Survey Research Center at Texas Tech University. The other two were a Regional Workforce Survey of Lubbock and the Surrounding Communities, prepared in part by the WorkSource of the South Plains and the last was a 2005 Regional Underemployment Survey, also conducted by the Earl Survey Research Center.

According to Kenny McKay, Director of Business Retention at LEDA who headed the project, the package presented to Shearer’s worked well. The community, combined with the location and other variables of the city, were strong selling points to the company. Shearer’s CEO, Bob Shearer, said, “It was a perfect fit for us. It just made sense to us to come here.” He then went on to say, “The people of Lubbock, their strong work ethics and community support were deciding factors in Shearer’s moving to Lubbock.”

Tax abatements are a strong selling point for expanding businesses. However, in this situation, Frito-Lay had taken up all prior abatements on the facility. Shearer’s would not be receiving any tax abatements for opening operations in our city. Although discouraged by this fact, Shearer’s still knew Lubbock was the right fit for their operations, the distribution location being another plus for locating here. “This is a product you can’t ship all over (the nation) from Brewster,” stated Shearer’s President Scott Smith. Lubbock’s central US location would be beneficial to Shearer’s distribution operations.

## **Communication Channels**

This project’s success depended on several factors, but most importantly were the communication channels of the parties involved and the time in which actions were taken to produce results. LEDA prides itself on the valuable asset it provides to prospective incoming businesses, ease of mind. By this we mean

the ease companies have knowing that delays in the process will be held to a minimum. This holds true through the entire project process, from city introduction with site visits to saving time providing the most effective and efficient contact information in the city. Having close relations with governmental and city officials is something smaller communities can achieve but it seems to be unique within larger populations. Being one of those unique communities, Lubbock aids in transition instead of hindering.

Immediate action was taken, putting the project on the fast track. As soon as mid December, Mr. McKay had appraisers on site providing information for the Ohio company. Also included in the project was a position that worked for the city and LEDA. This position acted as a liaison to Shearer's Food, Inc. and was filled by Rob Allison. This provided a tie in the channel that promoted success by all involved parties.

The relationship Mr. McKay had and still has with Shearer's, Lubbock, and other community partners provided a smooth communication channel for the involved parties, which ultimately cut down on correspondence and transition time. This is something that could be achieved within any community with the right personnel and some hard work. These relationships were the competitive edge for Lubbock.

### **Incentives Approved**

Holding a board meeting on January 31, 2007, LEDA's Board of Directors voted on and approved a Performance Agreement with Shearer's. The Performance Agreement pertained to payroll incentives and capital investment incentives that would be provided by LEDA over a three year period. Figure 2 presents the information approved upon.

**Figure 2:** Financial detail of the Performance Agreement between LEDA and Shearer's

<b>Payroll Incentives</b>	
Number of Jobs Created	269
Incentive Payment (paid over a three-year period as jobs are created)	\$686,500
<b>Capital Investment Incentives*</b>	
Payment at Start of Production	\$250,000
One Year After	\$81,750
Two Years After (and \$30 million in capital investment completed)	\$81,750
<b>Total Capital Investment Incentives</b>	<b>\$413,500</b>

\* Shearer's Food, Inc. to make a capital investment of \$30 million

The incentives are dependant on Shearer's holding up to the agreement of 269 jobs created and a total of \$30 million in capital investment. The capital investment mostly pertained to renovations and updates to the facility, bringing in state-of-the-art equipment (refusing any media coverage of the interior of the facility on opening day in late June 2007 to maintain privacy).

Later that day a press conference was held and Shearer's Food, Inc. announced it would open production at the former Frito-Lay plant, aiming for a May start date on production. Only two months had passed between Frito-Lay's closing and Shearer's commitment. Wasting no time after the announcement, Shearer's started work on the brownfield project in early February. It was a very lucky "miracle" for our

city but it would not have gone through without the commitment and passion of LEDA and city staff members pushing it full steam ahead.

## Economic Result

Due to strong community relationships between LEDA and city entities Shearer’s transitioned smoothly into the Lubbock community. The area where it is unique is in project performance which secured the project and translated into a strong economic impact in Lubbock. Using IMPLAN Professional (social accounting and impact analysis software) the total economic impact of this project was \$364,438,153 (Figure 3).

**Figure 3:** IMPLAN report for the economic impact of Shearer’s Food, Inc. Number of employees equals 269.  
 IMPLAN Code 79, NAICS code 311919

<b>Output Impact</b>			
Direct	Indirect	Induced	<b>Total</b>
\$163,367,296	\$46,468,739	\$28,521,898	\$238,357,933
<b>Total Value Added Impact</b>			
Direct	Indirect	Induced	<b>Total</b>
\$71,606,680	\$28,860,102	\$17,912,910	\$118,379,692
<b>Tax Impact</b>			<b>Total</b>
			\$7,700,528
<b>Total Economic Impact</b>			<b>Total</b>
			\$364,438,153

A February ground-breaking, plus a fast work pace, allowed Shearer’s to have an opening day ceremony early July of this year. Seven months had passed since Frito-Lay’s departure; this was a fast turn around for a brownfield development. What could have been a somewhat devastating loss of jobs, a long-time tenant, and an eye soar vacant building transpired into a \$364 million economic impact and a valuable new community asset.

Shearer’s CEO Bob Shearer’s was recently named an Entrepreneur of the Year award winner in the Northwest Ohio region, an award sponsored by Ernest & Young. Now, due to strong relationships and LEDA’s perseverance, Shearer’s is now calling Lubbock, TX a great place to do business.