

Promises, Promises - Will They Still Love You Tomorrow?

Kathleen McMahon. AICP, Applied Communications

kdmcmahon@verizon.net - www.appcom.net

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In the recruiting stage, economic development officials often dangle incentive packages to woo companies to their communities. Would be suitors promise tax breaks, low interest loans, job training funds and a host of other benefits to attract new employers. Often these packages can significantly reduce start-up and relocation costs. When comparing these offers, however, the bottom line is only one factor to consider. The ability of a community to deliver on these promises, and their commitment to your company after the deal is closed, can make the difference between a successful partnership or one that falters.

View Incentives as a Partnership with the Community

A successful partnership between an employer and a community starts even before the company has expressed interest in a particular location. A community will lay a foundation for working with new prospects by developing a vision for economic development, creating a climate that promotes cooperation between public entities and investing in infrastructure and other projects that will foster business growth.

The overall recruitment process will help you assess if a community is prepared to follow through on the incentives they are offering. Information materials will clearly articulate the vision and goals for a community. Staff can readily provide data and additional studies to answer questions regarding labor force, vacant sites, utilities, transportation and required approvals. There will be a coordinated approach between different public entities with easy communication between officials. "Relationships are something communities need to pay attention to." advises Dee Christensen from Washington State University.

The first step in this recruitment process is to identify prospective locations. Some communities will actively market to prospects through trade shows, advertisements in trade journals or by a direct pitch to a company. Other locations may be scouted out through a site selection professional. Often state economic development agencies maintain databases to identify a list of locations that match employer's needs. Sometimes, a company executive will have a personal connection to the community. Regardless of how this initial contact is made, this stage offers a chance for each entity to learn more about each other. It is unlikely that incentives will be discussed in the preliminary vetting of sites.

When company officials prepare to make site visits, they will have their best opportunity to evaluate the community as a partner. The preparation a community makes for these visits and the quality of their presentation indicates the professionalism that you can expect throughout the process. If key leaders in the community are involved, it demonstrates the commitment to working together to make your location decision a success. Communities should be able to explain the competitive advantage of their location as opposed to the other sites you are considering.

Either during the site visit, or soon thereafter, it will be time for communities to make a proposal. It is common that multiple public agencies will contribute to the overall package. Such incentive packages may include programs from the State, local development agencies, community colleges, and local governments. Ideally there should be a single point of contact that coordinates the process and presents a coherent proposal for you to evaluate.

Incentive types

Once there is a short list of cities that are candidates for the contact center, the package of incentives may be the deciding factor in the decision. Navigating through the various proposals, however, can be time-consuming and confusing. It helps to be familiar with the basics and ask the right questions for evaluating the proposal.

The U.S. Economic Development Administration defines incentives as, "...any inducements state and local governments use to attract and retain companies and facilities." Incentives are designed to meet a variety of business needs such as access to capital, facility/site location, infrastructure, regulatory approvals, job training, and reducing start-up costs. As governments become more creative in their approaches, incentives have become more targeted and often have performance-based requirements. Following are some of the more common terms that further define types of incentives. (Source: www.goodjobsny.org)

As-of-Right Benefits – A subsidy, usually a tax break, to which a company is automatically entitled by virtue of meeting some criteria or performing some specific activity.

Bond – A debt financing tool that governments use to finance infrastructure improvements.

Clawbacks – Money-back guarantee language that cancels or reduces a subsidy if a company fails to deliver on the performance based criteria.

Community Benefits Agreement – A contract between a developer and community group(s) in which a developer agrees to provide various benefits as part of a redevelopment project.

Disclosure – Annual, company-specific reporting of subsidies received and the benefits produced.

Energy Benefits – A subsidy in the form of reduced electric or natural gas bills.

Grant- A subsidy which simply consist of cash or another asset from a government agency to company for the development project. Some grants may have a narrow purpose such as job training or land acquisition.

Industrial Revenue Bonds (IRBs) – Tax free bonds that are used to provide low-interest loans to developments.

Payment in Lieu of Taxes (PILOT) – Payments negotiated between companies and local governments to cushion the blow to public services caused by property tax abatements.

Property Tax Abatements – When a local government exempts a company from paying all or some of its property taxes.

Revolving Loan – Loan pool operated by local economic development authorities to provide low-interest financing for projects.

Sales Tax Exemption – Local sales tax may be exempted or rebated for new construction.

Tax-Increment Financing – A city designates an area for redevelopment and diverts the increment of taxes increases in assessed value due to investment in the area to finance redevelopment activities.

Another popular tool is a build and lease back arrangement for office space. The City of Gillette, WY has developed an industrial park and has land set aside for a "build to suit" building. "It reduces the need to locate a building and reduces up-front cost of construction." notes Susan Bigelow from the Northwest Wyoming Economic Development Corporation.

Incentive packages may include any combination of economic development offerings. Being familiar with the incentive process and working with the community as a partner is the best way to make sure incentives meet the company's need. This will provide the foundation to continue a long term relationship that benefits both the community and the company.

For more information:

Economic Development Administration, www.eda.gov (Links to State economic development offices.)

National Association of State Development Organization, www.nasda.com

Case Study - Great Falls, MT and Centene Corp.

Great Falls, MT is a community of about 60,000 people located on the plains of central Montana. With the Missouri River running through the community, three different mountain ranges within 60 miles of the city, and a rich heritage that includes the travels of Lewis and Clark, the community has a lifestyle many communities would envy. When it comes to attracting new business, however, the city must compete with other communities who also tout quality of life factors.

To demonstrate its competitive advantage, the Great Falls Development Authority completed a labor market study in 2002. The study indicated sectors of the economy that would be able to effectively compete in the central Montana region. With this information the community was able to formulate a vision and target strategies to attract companies that provided corporate services such as back-office operations and contact centers.

Centene Corporation, headquartered in Saint Louis, MO, is one company that recently made the decision to expand operations in Great Falls, The Company will open a claims processing center to manage Medicaid and Medicare bills for a multi-state region. Initially, the company will have 20 employees in leased office space. The Great Falls Development Authority is constructing a building designed specifically for the Centene Corp. operations and will lease it back to the company. The building will be ready for occupancy by July, 2005. Within four years, it is anticipated that Centene Corp. will have 250 employees in Great Falls.

In addition to the build and lease back arrangement, other incentives included a 25 year low-interest loan (4.5%) and job training funds from the State of Montana. Additionally, the building will be located in close proximity to the medical and community college campuses in the City and will provide a synergy of related functions.

John Kramer, Executive Director of the Great Falls Development Authority offers this advice for companies that are evaluating locations.

- Look at the labor force. Great Falls has detailed studies that show not only costs of labor but skills, education level, and availability within the region.
- Is this a progressive community with planning? Do public agencies work as a team that will support businesses when needed?
- Does the community have the ability to deliver? In Great Falls, the Development Authority worked closely with the City government to locate the site and facilitate development approvals. The State of Montana is also a key partner.