Staying Power

Government agencies are turning more frequently to financial incentives as tools for RETAINING BUSINESSES AND JOBS. But do these breaks benefit the communities, too?

By Cynthia Kincaid

Pennsylvania Governor Edward G. Rendell recently announced that East Penn Manufacturing will receive an incentives package from the state to assist the company in expanding its Berks County facilities, which will include construction of a new battery plant and distribution facility. The project will create at least 800 new jobs within the next three years for the manufacturer of lead-acid batteries, while keeping its existing 4,828 jobs in Pennsylvania. According to Rendell, the state's $21.4 million investment will leverage $108 million in private investment, which will help offset the $130 million project cost.

Welcome to the ongoing world of incentives packages for business. More and more municipal governments, in order to convince companies to keep their jobs and tax revenues in their present locations, are using these packages. "There is a perception of companies, particularly in certain regions, that they are competing in a global economy, and the cost of operations is really critical," says Larry Kosmont, president of Kosmont Companies, a firm specializing in economic development and transactions between the public and private sector. "So in order to receive private investment, [these companies] feel they need to turn up the heat on being competitive, which means using targeted incentive programs."

According to Kosmont, incentives packages are efforts directly related to the economy, especially when communities are looking at quality job generation. What's more, he says, offering companies incentives to stay put is a practice that is here to stay.

"It's a function of communities trying to be competitive, and it's a function of the difficulty of generating a tax base," he says. "Cities and counties are after achieving a certain quality of life, and the pressure from their constituents to produce a good quality of life never ends. The more money you make the more money you spend, and I think that applies to communities as well. So they are always going to be on a strategic outlook for businesses, particularly ones that generate a good amount of quality jobs and general investment into the community."

Granting Growth Money

Sometimes communities can go to great lengths to keep their current businesses happy and in place. Stickley, a manufacturer of collector-quality fine

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furniture, had considered moving out of the Syracuse, New York, area, but thanks to a $500,000 capital grant from the state of New York's Empire State Development, the company decided to stay. Empire State Development was also instrumental in convincing Tessy Plastics, a manufacturer of plastics located in Elbridge, New York, to build a 60,000 square-foot facility in Elbridge, instead of Lynchburg, Virginia. The $6 million project retained 393 jobs in Elbridge and created an additional 100.

Last year, Cadbury Adams, the candy manufacturer, was given tax incentives under New Jersey's Business Retention and Relocation Assistance Grant (BRRAG) program. Cadbury Adams relocated 275 employees to its new U.S. and Americas headquarters in Parsippany, New Jersey, with the $412,500 grant. Cadbury plans to invest $8.3 million in future dollars into the community.

But not everyone is convinced of the benefit of these incentive programs, particularly for municipalities. "The problems that we see are companies being offered benefits that are above and beyond anything necessary to bring them into the community," says Carmen Balber, consumer advocate for Foundation for Taxpayer and Consumer Rights. "A corporation that is moving into a city is going to squeeze whatever they can out of that city, and those incentives can far outstrip the benefits that taxpayers receive in return." Balber points to a developer a few years ago who received multiple years' worth of tax breaks in order to redevelop part of the downtown Los Angeles area. "I think [incentives] come and go, as politicians are told by the businesses that are moving in that it's necessary or not."

Community and Infrastructure Support

According to Kosmont, the decision for a company or manufacturer to remain in its present location is based on a few factors, the first being the availability of investment infrastructure. "Location decisions for companies start with proximity to vendors, suppliers, or customers," he says. "If you have several locations that qualify, many times the tiebreaker comes down to the quality and level of investment in infrastructure."

Another big item, one that Kosmont says cities tend to discount, is the general support for business. Companies carefully weigh the overall climate and community support for business. "If you have a company that's going to make a long-term, large investment, they want to know they are dealing with a region that is supportive of business," he says. "And they look for those signs."

Kentucky is one such state that is offering incentives to keep existing businesses in place and efficiently operating. This past June, the Office of the Governor and the Kentucky Cabinet for Economic Development announced approval of tax incentives for Ford Motor Company under the Kentucky Jobs Retention Act (KJRA). Ford has agreed to invest in its Louisville, Kentucky, truck plant to increase efficiency and reliability at the facility. The $66 million project, approved by the Kentucky Economic Development Finance Authority (KEDFA), will be spread over 10 years.

Ford is expected to invest a total of $105 million for facility and technology upgrades and the purchase of new machinery and equipment. "Ford is facing unprecedented competitive challenges, and this type of partnership support enhances our ability to work together closely to set the stage for additional opportunities in the future," says Curt Magleby, Ford's director of state and local government and community relations. Louisville Mayor Jerry Abramson says the Ford plants are critical to the Louisville area and the incentives will help ensure that the automaker stays in Kentucky: "The Ford plants are major employers and important corporate citizens in Louisville, and these incentives will go far in keeping the automaker in our city."

What Companies Want

Some of the most popular incentives for companies, according to Kosmont, are "land write-downs," where companies can purchase land at a reduced price. "They also like operational assistance, mostly in the form of utility cost reductions, equipment installations, and tax credits for large purchases," he says. Less favorable incentives require companies to support a great deal of housekeeping and maintenance procedures, typically targeted to credits for wages, salaries, and training programs. "These tend to be high maintenance, high sustenance programs for employers, so they are less likely of interest," he says.

Even utilities are offering incentives to keep their commercial customers happy and in place. The Tennessee Valley Authority (TVA) has assisted Aisin Automotive Casting Tennessee, Inc. in breaking ground on a new $67 million parts plant in Clinton, Tennessee. Electricfil Automotive of France, with 1,100 employees worldwide, also plans to establish an American headquarters in Athens, Alabama, with the help of a TVA $5.3 million initial capital investment to assist with the purchase of new equipment.

California is also stepping up to the plate to make doing business easier and more cost efficient. In 2005, California's Public Utilities Commission passed a law allowing two of the state's utilities, Pacific Gas and Electric Co. and Southern California Edison, to give rate reductions to companies that threaten to move out of their service territories, all in an effort to stem the tide of companies leaving the state.

Inexpensive electricity and land were two very important factors for Google in their search to build a new server farm. Lenoir, North Carolina, was left stunned by 2,100 job losses after the closing of seven furniture factories over the past three years. But the area had plenty of land and cheap energy, so Google came calling. The Internet search company inked a deal his year to create 210 jobs within the ommunity in exchange for tax breaks nd infrastructure upgrades valued at 212 million over 30 years. Google lans on investing $600 million in the erver farm.

"The costs [of electricity and infra- tructure] are much higher, and the risks re greater, so benefit packages to com- anies are higher," says Kosmont. "The lollars involved have grown, and that rend is going to stay in place."

yes Wide Open

For many companies and municipali- ies, these incentive partnerships can be vin–win, but only if both parties come o the table with open eyes, particularly he municipalities who usually bear the runt of fiscal responsibility. "It's the nunicipality's job to negotiate for ncentives, produce a thorough analysis, nd make all of that information pub- ic," says Balber. "And that's where ome of this simply falls by the wayside because so much of this is done behind losed doors."

Balber says once the deal is inked and the press conference held, the public is usually told about all the tax revenue that will be generated and the jobs created, without any discussion of concessions. All of these things, she says, need to be brought to light for everyone, including the public. "No neighborhood association should be responsible for hiring some expert to analyze whether or not the government is doing a good job for them."

Kosmont agrees and also blames the vagaries of the marketplace for some government loss of control where incentives are concerned. "If the economic marketplace takes a major turn, it's hard for state or local government to control how a company responds to market conditions," he says. "So sometimes the best investments going in, over the long term don't yield results, because things have changed for that company, based on the overall marketplace that they compete in.

"It can be a risky business," he adds. "When government gets into a deal with a private-sector company, and they make an investment in their operations or relocation package, they are subject to the whims of the marketplace in which the company operates over the long term."

Balber and Kosmont both believe that it is incumbent on both sides to make sure that the investment they are making has all the marks of a good long-term relationship. "You want to hedge your bets," says Kosmont. "And it's important to have an exit strategy." AREA