

Incentives:

Their Use and Misuse

April 15, 2008

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Agenda

- The Setting
- The Role of Incentives in the Site Selection Process
- Rules for Granting Incentives
- Successfully Negotiating Incentives

The Setting: Overview

- Incentives are involved in virtually every project -- retention, expansion, new
- Incentives have consistently ranked among the top location criteria -- 6 of 32 factors in Area Development magazine survey (January 2008)
- Cost containment has pressured companies to maximize incentives
- Internal company competition for funds

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- As-of-right incentives are frequently used in the initial stages of a search and “special incentives” used as the tie breaker
- Companies know about the level of incentives given to others
- Increasingly capital intensive projects focus on incentives

Objectives of Incentives

- **Community:** To attract and/or retain desirable companies which diversify the economy of the area while creating good jobs and increasing the tax base
- **Company:** To narrow the choice from 2 or 3 acceptable locations to a preferred location, to reduce start-up costs when it is most difficult for the facility to meet financial hurdles, and to ensure a smooth transition into operation in the desired location

Consultant Fee Structure

- Included in the site selection fee
- Flat fee for negotiations
- Percent of all incentives client receives
- Percent of “special” negotiated incentives

The Role of Incentives in the Site Selection Process

Step 1: Developing project standards

- Identify key cost/operating criteria that may be subject to incentive negotiation

Step 2: Defining the area of search

- Identify “as of right” incentives

Step 3: Community screening

- Send RFP to communities, indicate important incentive areas
- Review responses and evaluate

How Incentives are Evaluated

Incentives	Payroll Rebate	Transferee Assistance	Land Costs	Etc, Etc, Etc,
Lead Group Responsibility				
Program Name				
Value to Company (DCF)				
Estimated Ease of Securing				
Cost/Benefit Analysis				
Priority				
Outcome				

Step 4: Community Visit

- Discuss competitiveness of RFP
- Highlight areas for improvement and solicit improvements in incentives

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Step 5: Evaluate final communities

- Notify finalist communities of the competitiveness of their incentive response
- Visit communities to “fine tune” incentives

Step 6: Implementation

- Finalize incentives and prepare necessary applications

Which are Hot and Which are Not

Hot

- Rebate of employees personal income tax
- Infrastructure assistance
- Utility rate reduction
- Relocation assistance

Not

- Financing
- Corporate income tax abatement
- Local tax abatements

Rules for Granting Incentives

- **Rule #1:** Make sure all potential special incentives granted for a project are written and well understood by the negotiating team
- **Rule #2:** Make sure the people negotiating the incentives have the power to do so
- **Rule #3:** Make sure the state and community work together to develop an integrated program
- **Rule #4:** Make sure a detailed cost/benefit analysis is undertaken for every

project

- **Rule #5:** Make sure the company achieves agreed to milestones before releasing funds
- **Rule #6:** Make sure competitive impulses do not overwhelm rational logic
- **Rule #7:** Be prepared to explain your decision to all stakeholders

Successfully Negotiating Incentives

- Create a power consortium -- all key decision makers that can make things happen:
 - ✓ Local economic development officials
 - ✓ Regional economic development officials
 - ✓ State economic development officials
 - ✓ Utility economic development officials
 - ✓ Private parties as necessary
- How much is enough?
 - You will never know if you have given too much in incentives but you will always know if you haven't given enough

Steps in Negotiating Incentives

- **Step #1:** Estimate incentive range using rough rule of thumb: 5% to 30% of investment or \$10,000 to \$80,000 per job
- **Step#2:** Evaluate total project impact: Use Federal Reserve Fiscal Impact Tool or impact program provided by the state

Federal Reserve Fiscal Impact Tool

- Free
- Quick

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- Easy to use—Excel spreadsheets
- Can run multiple scenarios
- Annual updates
- Quantifies fiscal impact
- Applicable to all sized communities

- **Step #3:** Consider other factors regarding project
 - Number of potential new direct suppliers
 - Quality of jobs created
 - Match of jobs to area
 - Match of business to area (target industry)
 - Impact as a utility user
 - Fit with community culture
 - Environmental considerations
 - Prestige of company name
 - Other

- **Step #4:** Refine estimate of incentive range based on these factors

- **Step #5:** Utilize incentives which best meet project needs