

EMPLOYEE WAGES

How Much Impact Do Employee Wages Have On Economic Incentives?

By Leslie Rubin

Wages are one of the three major factors that will influence the economic assistance package. The other two, number of jobs created and/or retained and the company's capital investment, will largely dictate the outcome depending upon the program.

To illustrate, real property tax abatements are directly linked to the real estate capital investment. The commitment as well as the length of the abatement period will often depend on the number of jobs created and the company average wage. Each community thus sets its respective thresholds.

If we assume a direct correlation between the average company wage and economic incentives offered, at what point along the scale of increasing wage averages do we begin to see a point of diminishing returns? In reality a company is not going to adjust its average wage in order to achieve a larger share of incentives. So the question becomes one of knowing how a company's wages compare to an established area reference point and how to compensate if those wages deviate negatively from that average.

Figure the company average

The company needs to determine its weighted average wage for comparison purposes. The way a business computes this average can vary from company to company. Furthermore, the data a company generates may not be easily interpreted by a government official.

State government officials expect new jobs to be tracked separately from the existing pool of jobs. The company can use its own standard job classifications, as long as government officials commonly recognize the terminology. If there is doubt as to what terms the governmental agencies prefer, any representative should be able to provide a list of examples.

To further illustrate this point, I recently meshed a company's descriptive categories of senior managers, middle managers and operators into administration and operations. On the surface it seemed simple enough, but it became a matter of understanding the allocation of staff time. What we finally determined was that many job descriptions required employees to oversee and actively work with departments involved in production, so they were classified as part of operations.

Be aware of economic bias

It is important to understand whether the community in which the company currently operates or is being attracted to has an economic bias. Some areas prefer manufacturing, others emphasize service sector businesses, and still others have targeted high technology jobs.

A company does not need to consult an expert to obtain this knowledge. Review of the local newspapers and experience with obtaining building permits is a pretty effective indicator. Being in the position of creating less desirable jobs will not preclude a company from

obtaining economic assistance, but it will put a greater emphasis on the company's average wage.

Find the area reference point

What is the area reference point, and how is a company compared to it? Since both the federal and state regulatory agencies collect wage information, an area reference point, or area average wage, is readily available, often on-line through government web sites. It is unlikely that the area reference point used in the determination of an economic assistance package is segmented into small categories. In most instances either a countywide average of all persons employed or some large subset, such as manufacturing, is used.

If the area reference point is adjusted annually, short-term fluctuations, such as seasonal effects in employment, will not impact the average significantly. A company with annually adjusted wages will not be penalized when a comparison is made. However, in a strong growing economy in which area averages are frequently reviewed, a company will need to utilize the most updated information while pursuing economic assistance discussions. Being caught short in a comparison without adequate preparation will reduce the chances for a favorable package of assistance.

The point of diminishing returns

Can a company have an average wage, which will yield the same level of economic assistance, as that of a company,

whose average wage is a dollar or two less, under equivalent conditions? Yes. The threshold to exceed is the area average wage. Once that metric has been met, the magnitude of benefits is still tied to the company average, but the relationship changes. A company proposing to create jobs with the highest area wages will receive a significant benefit package, but the limitations of the programs begin to be reached and, consequently, the economic benefits taper off.

A company with an average wage exceeding the area average is in the enviable position of being a desirable employer. It is thus less difficult to obtain a significant incentive package. It would be unwise, however, to adopt an attitude of entitlement, even if a company is the highest paying employer in the area. A well-constructed summary profile of existing and anticipated new hires will go a long way in achieving a quick, desired response.

What about companies below the area reference point?

A company with an average wage slightly less than the area reference average will be treated as if paying the area aver-

age. If the company is paying two to four dollars less than the area average, a somewhat different approach to government will need to be taken in order to achieve some economic assistance.

In an economically depressed area, a company paying an average wage below the area average is not handicapped, as long as the area reference point is derived from wage data in that section of the community. In large metropolitan regions, however, an area average often encompasses the entire metropolitan district. So, a company in a depressed area is compared to a higher threshold. In this latter case, it will be imperative for a company to provide an explanation supporting their pay scale and, equally if not more important, to discuss the other strengths of the company.

An employer in an economically depressed area may have an average wage below the countywide average but employs and trains residents of the area in a clean, safe environment. This company will be viewed favorably. The economic assistance will not approach that of the highest paying employer, but any benefit is helpful.

A similar discussion would apply to a rural company. If the company is the largest single employer in the area, the government's response is usually favorable.

Words of advice

Any company pursuing local and state economic assistance will want to review the area labor and employment statistics. This information is typically part of the marketing material provided by a community, but that source often reflects dated information. Most states have web sites, which carry more recent area data. Once this information is obtained, it will need to be compared to the company-wide weighted average.

Communities typically have their own way of evaluating the data, so an understanding of the particular community's priorities helps in positioning the company properly. Remember that the company average wage is only one prong of the validation for economic support. The other two elements are the projected capital investment and the number of jobs retained and/or created. □

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