

Managing Economic Development Incentives across Multiple Sites

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There are many published articles describing the triage needed to identify the ideal site for a company. It is also apparent that conducting a simple Google search will yield a large number of articles on the science and art of economic assistance negotiations. What is infrequently discussed is what needs to be done after the procurement of the initial commitments to realize the proposed benefit.

So, how does a company progress from an incentive negotiation to a bottom line impact?

Providing Context

Economic development incentives have a life cycle. The first and most often referenced phase is the obligation of commitments for economic assistance. The result of the activities associated with that initial phase is a high level document setting out the agreed upon conditions under which the defined incentive benefits can be realized. This phase is typically completed within months of the start of the negotiations.

The second or administrative phase is the filing of applications and execution of approved contracts. The sequence of the applications is often dictated by critical "but for" provisions defined for a particular economic development incentive. Tax abatement is a prime example of this in which a building permit cannot be pulled or a lease executed in some states until the local government has approved the application. Failure to follow procedure negates the benefit. The other driver determining the sequence of applications is the potential to realize the financial benefit near term. A cash grant for equipment or an infrastructure grant would fall into this group.

The application is an opportunity to clarify obligations previously agreed upon and renegotiate if necessary. Following submission of applications there is an internal government approval of the document and issuance of a contract. The execution of the program contracts activates government and company obligations and describes in detail the timeframe for accomplishing stated goals as well as the exceptions. This administrative phase will require months and potentially up to a year to complete.

The final or compliance phase is when the economic benefits are realized. Some economic development agencies send out reminders that compliance is due along with the format for reporting required data. Most do not. Understand that compliance is the responsibility of the company. This is the high risk phase in an economic incentive life cycle. It is high risk because the multi-year compliance relies on continuity of knowledge over time which is complicated by the movement of personnel within the organization.

If it was only one program with one set of obligations, the challenges associated with tracking and filing compliance documents could be addressed, more or less. Most economic development incentives come in packages of multiple programs however. Each incentive has a unique set of compliance obligations, reporting requirements and even separate agencies to whom the data has to be submitted. Now imagine the complexity of trying to keep track of multiple sites each having a unique incentive package. Given this situation, no rational company would undertake multi-site incentive obligations in the absence of millions in potential benefit to the bottom line.

Managing Realization

The typical scenario operating under conditions of multi-site economic incentives is the local facility general manager or controller is charged with the responsibility. For a time this approach works because these same people were present when the incentives were negotiated and have maintained some level of program tracking. However as with any growing company, people move. The economic incentive document trail tends to be neglected during the personnel transition. Company's management will recognize there is a problem when the

non-compliance letter is sent from the government agency and/or when an accounting of actual versus projected benefit is reviewed.

How can a company realize the proposed financial benefits?

By actively managing the incentives and having a corporate level finance, tax and/or operations executive monitor the outcome on a regular basis.

As was stated previously, a letter notifying a company that it is in non-compliance for failing to submit necessary documentation is a great motivator to focus attention on a specific issue. A corporate executive by nature being an inquisitive sort of person also begins asking what else is out there, what is at risk and how do we get this back under control?

The challenge is twofold: assuring that all the incentive programs have been captured and preventing the situation from occurring again.

Experience with economic development incentive programs will help expedite the data mining but understand that the process is iterative and requires a lead with good organizing skills. The best place to start is with the original incentive offer. The number of incentives offered should correspond to the number of compliance documents to be submitted so long as the programs are active. If there is a shortfall, further digging is needed. Once the data is gathered, the next task is to determine if the benefits are being realized. Tax and Finance will play a pivotal role at this point in helping to sort through the details.

The largest incentive benefits are typically long term. In fact, some programs such as property tax abatements and income tax credits can span decades. So a tracking process and reference instrument that can be adopted by mainstream corporate needs to be developed.

Ultimately, all of the data gathered is entered into an incentive tracking tool. The history, current status and ongoing obligations (plus any potential problems) are available in one location for all parties to review.

The incentive tracking tool is expanded to cover separate locations, each with its own set of economic development incentives which can then be rolled up into a global summary for ease of reference. When new incentive projects are undertaken, the same instrument has an added section that tracks the outcome of the negotiations, the application and contract process.

Attaining Goal

The multi-site economic development management process will take time to initiate and commitment to sustain. If the goal of the corporation is to realize the maximum potential financial benefit from obligated incentives, then the procurement, administrative and compliance phases have to be actively managed.

