

## Evaluating economic incentives for growing industrial companies

**W**hen seeking economic incentive assistance, all companies need to consider the timing of their expansion, their growth plan and their relationship with government. Manufacturers, warehousing, distribution and transportation companies – the industrial sector – have the added challenge of finding a site that accommodates the company's needs and the community's desires. In addition, it is commonly acknowledged today that fewer jobs are being created per dollar of capital investment made than the comparable project of yesterday.

### Site selection

Not every location is suitable for siting a manufacturing company. Many older industrial sites lack the acreage that a growing company might require, have cumbersome access to interstate highways and carry the potential for environmental liability. Thus, suburban industrial parks have sprung up to meet the land and transportation needs of these companies, to allow for co-location of vendors and suppliers, and to provide greater efficiency in the delivery of products.

### Recycling sites

From government's perspective, the reuse of industrial land is preferred because most older industrial land is not well suited to commercial or residential development. For those willing to accept the limitations of these older corridors, the opportunities for economic benefit can be substantial. The maximum level of allowable real and personal property tax abatements, relief from sales tax on equipment and construction, reduction of permitting and licensing fees, support for training, and exemption from specialized taxes, such as inventory tax, are commonly used to attract prospects. This can translate into hundreds of thousands, or perhaps millions, of dollars for companies that are equipment intensive or have a projected multi-million dollar building investment.

Most of the programs result in downstream benefits, so a company is wise to not plan the savings up front. One other point to keep in mind is that municipal agencies are now putting more conditions, such as time required to

remain at the site, as a compliance obligation. These requirements are certainly within a company's control; however, management needs to factor these elements into the site selection phase of their plan in order to avoid misunderstandings between the company and government.

Economic development officials are aware of the limitations associated with old industrial sites and will support the location of a company in a new industrial site, rather than lose the prospect to another community. The impact of potential economic benefits to the company remains substantial although the magnitude is often tempered by inter-governmental relationships.

### Industrial parks

Developers frequently work with local government to create attractive industrial sites in anticipation of future demand for such sites. The use of infrastructure grants and the creation of an economic revitalization area – for tax abatement – are committed with the understanding that such savings will accrue to the forthcoming tenant. The parceling of economic incentives has the potential to reduce the economic benefit a company might otherwise see, but so long as the savings are passed through to the tenant and the company negotiates additional economic incentives prior to signing a lease agreement, the net effect should be the same.

In evaluating an industrial park, a company needs to be aware of what economic benefit has been contributed to the park by whom (government and/or the developer) and what has been negotiated in exchange for these benefits.

### Job Creation

Outsourcing is alive and well – and trending upward. Any company planning expansion will determine which activities will be performed by employees and which will be provided by a vendor. This practice generally leads to fewer new jobs added to the company payroll than what a local impact analysis of the company's investment might project. The net effect for a company is lower economic benefits when economic assistance is tied

to job creation. Counterbalancing this is the reduction in total payroll. However, the contribution to the local community and the region is the result of the company and its outsourced activities.

### Government attitudes

What can a company do to be given credit for outsourced business? It largely depends on the attitude of the awarding government agency. Many government administrators practice strict adherence to policy, while some seek to support growth in whatever manner is reasonably and legally attainable. When the government representative is dogmatic and unwilling to consider a modified approach, the in-house incentive eligible jobs will be counted, and no more will be considered. It may be possible to circumvent this individual using a favor, but this action is risky and does not guarantee success.

To encourage government representatives to consider broadening their view of this issue, the company must present a strong case. Quantitative information derived from an impact analysis will go a long way. However, such a tool requires knowledge of the economic development programs, formulas for calculating taxes and other costs of doing business, and the ability to simplify the explanation of what the numbers mean.

A company can benefit from this exercise and the resulting information whether the immediate goal is achieved or not. Having an informed voice will influence policy decisions, which can directly and indirectly effect the company's bottom line.

### Be prepared

The use of government assistance programs requires research and careful consideration. The company must weigh potential dollar incentives against other factors, such as transportation access, land and labor availability. As outsourcing becomes more common, company management may have a difficult time claiming job creation numbers that are not associated with their payroll. Remember that municipal representatives have latitude in the use and level of commitment of economic incentives. Being prepared results in real benefits. □

### ABOUT THE AUTHOR

Leslie Rubin is the Group Leader for Concord Economic Development Services, a division of Concord Partners. Concord Economic Development Services helps growing businesses access public and private sector resources to enhance success. Leslie Rubin can be reached at Concord Partners by phone at 317/808-3200 or via email at [lrubin@concordpartners.org](mailto:lrubin@concordpartners.org).