Business Xpansion Journal

Will Incentive Funds Be There?

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As we enter 2010 and legislative sessions convene, corporations will hear about proposed "job stimulus" programs being touted by governors. When boiled down, these economic stimulus programs, often in the $1 billion range, are created to spur corporate investment by offering any number of tax abatements or credits, grant programming, and so forth, to support corporate decision making.

This at a time when states are struggling to stay in the black.

What effect has the Great Recession had on incentive programming? What effect will it have years from now? As corporations dip their toes in the expansion waters, will they be able to count on incentive funding to be available as promised?

Tax and accounting consultants versed in negotiating incentives for corporations share their insights on the subject. Participants include: Brian Corde, managing partner and Eric Dantzler, senior manager, Atlas Insight LLC; Bryant Colman, president, Economic Incentives Advisory Group; and Dan Levine, principal, MetroCompare LLC.

Business Xpansion Journal: What should corporations understand in regard to the future of incentive award funds and programming?

Atlas Insight Team: There is clearly an increased emphasis on accountability and transparency. Companies need to be cognizant of their commitments when finalizing an incentives deal. Not only is the deal more likely to be made public, but in the event of noncompliance, states are more likely to recapture funds. Be thoughtful when setting your goals, and do not count on a state's willingness to renegotiate down the road in the event that your commitments are not reached.

Bryant Colman: Corporations should understand that they need to be a team player. If a corporation receives a significant incentives package and it maintains its payroll commitments and becomes a solid corporate citizen; the states and localities are going to be more receptive and willing to design programs to continue to benefit the corporation.

Abuse of incentives could potentially ruin or at least shut down some programs that are well designed and beneficial for both the state and corporation.

Dan Levine: Companies should be extremely cautious about funding qualifications that are explicitly included in incentive contracts (e.g., award is "subject to annual appropriation.") Given today's climate, qualified awards of this type should be much more heavily discounted (particularly in states with extreme budget woes) when including an expected value from that incentive in the project's financial model. Moreover, companies must be willing to publicly defend their acceptance of an incentive award as having made a significant difference in their investment decision inasmuch as criticism of such awards is definitely stepping up.

BXJ: Tell us about innovative incentive programs and their effect on growing evolving or existing industries.

Atlas Insight Team: Many states have been aggressively targeting the renewable industry to attract green businesses and grow their respective industry clusters. Some states are taking this concept to the next level by specifically focusing on the repurposing of existing and unutilized manufacturing facilities to manufacture green-technology products. For example, Michigan recently awarded $125 million in incentives to Xtreme Power and Clairvoyant Energy to convert the old Ford Motors Co.'s Wixom plant into a more than 4-million-square-foot alternative energy park. The two companies will use part of the space to manufacture energy storage systems and solar panels, respectively. In New York, Gov. David Paterson recently announced a proposal to create a NYS Manufacturing Legacy Program designed to repurpose underutilized industrial sites to manufacture green-energy components. Indiana has already awarded U.S. Department of Energy funds under its State Energy Plan to companies who are retooling to modify products for use in clean-energy applications. A focus on the end use of a product could mean that traditional companies, not just green companies, can benefit from these types of initiatives.

Colman: Customization is key. Clustering has also been in place for many years, however, a well thought out incentives strategy, often times, is still lacking. More meetings and interviews need to take place between the stakeholders and the state. Get it straight from the source.

Some of the requests we have encountered from companies include, customized training offered by the community college; on-site operations at a community college or university where employers can capitalize on an educated, captive workforce that is willing to maintain flexible hours; and providing favorable financing for the start up of a project.

BXJ: Groups on both sides of the political spectrum are calling states out in regard to the awarding of incentives, viewed by some camps as "corporate welfare." Last year we saw heavily touted supposed game changing projects go south. Should we do away with incentive awards and channel the funds into other business or worker training related programming?

Colman: It is my belief that incentive rewards remain in place. If you look at some of the large incentive rewards in 2008 and 2009, they were for large multinational corporations. However, when peeling back the layers, the jobs that were being created were of marginal pay and for job functions that were not necessarily technical, globally desirable or career-ladder oriented.

In my opinion, states should "put into play" underwriting guidelines before an incentives package is rewarded. Although, you may frequently hear that this process is in place, our experience has been that they are looking for the marquee name and not focusing on the things that matter most such as type of position; pay; companies' commitment to train their workforces; research and development initiatives; community outreach programs; mentoring programs capital investment, etc.

In regard to workforce, I believe that private industry should be rewarded by using their instructors and employees to work independently or in conjunction with the community college system to design training programs that require a certification, creating a "ready and trained" workforce.

Brian Corde: The economy continues the push toward globalization. The biggest argument against incentives in the past has been that it is a “zero-sum” game from a national prospective, because the project will locate somewhere in the United States. With each state fighting to curb unemployment and bridge budget gaps, and with the number of jobs still being lost to overseas competition, incentives could not be more meaningful today than they ever have been.

Eric Dantzler: For better or for worse, the public profile of business incentives has increased during this recession, particularly with the passage of the America Recovery and Reinvestment Act. Depending on the spin, incentives can be associated with positive terms such as stimulus and recovery, or with negative terms such as bailout or corporate welfare.

The fact remains, however, that a well-crafted incentive program can achieve its desired goal in a manner which is win-win for everyone involved. Additionally, as long as states are competing for projects, incentives will continue to exist.

Levine: The “corporate welfare” argument is typically directed at incentives intended to lure companies from an out-of-state location and there is of course some truth to the criticism. Almost always the most significant incentive awards are granted to a company moving from a high-cost location to a lower-cost location in a different state and critics rightly point out that the company was committed to moving even without the incentive award. However, just because a company is committed to moving to a lower-cost location does not mean that only one lower cost is being considered. Incentives can and do on occasion make one lower cost location more competitive than another.

BXJ: Given the state of the economy the past two years, will incentive funds be there for companies when they apply for them?

Colman: Incentives will be available at the federal level, most of which will be for companies that are creating jobs. The cornerstone hiring tax credit, the Work Opportunity Tax Credit (WOTC) has increased in value from $2,400 per qualified employee up to $9,000 per qualified employee. There are also discussions about a $3,000 tax credit for every net new job created by a company. There have also been new categories added that will qualify an individual for the WOTC credit, such as certain unemployed veterans, and disconnected youth.

At the state level, many states are designing incentive programs that target certain industry groups such as renewable energy, bioscience, technology, high-end manufacturing and other industries that create higher paying jobs. Based our research, most of the states will design their programs to achieve the following:

* The creation of “quality jobs” that provide incentives for the creation and retention of high paying jobs in specific industry clusters. These types of incentives will be funded through withholding taxes that otherwise would not be collected absent the new business location and new job creation.

* The creation of job training programs, which will also be funded through net new withholding taxes instead of legislative appropriation and separate business tax.

You can count on states like Texas, North Carolina, Florida and Oregon to lead the way.

Corde: This really is a state by state phenomenon. Some states have aggressively increased their incentive packages, while others have had trouble funding their programs. While some states have recently pulled funding from some of their economic development programs to reallocate these funds to other areas of the state budget, states like Kansas, Kentucky and Oklahoma have recently improved their incentive offerings. In South Carolina's pursuit of The Boeing Co., officials used specially legislated incentives to attract the company's second planned 787 assembly facility to Charleston. States will not shut down and will find a way to get a deal done even in difficult times.

Dantzler: While it's true that state and local economic development agencies are running out of money, it is not universally the case. There are new incentive deals being announced every day, and some states such as Michigan and Kansas have recently been active with respect to major new incentive legislation. Particularly if you're in an industry such as high technology, biotech, renewable energy or film.

On the other hand, there are also examples of states cutting back on incentives. A state's desire to stimulate economic recovery must be weighed against the reality of budget shortfalls. Many incentive programs are “subject to availability of funds,” therefore we're seeing states reallocating funds or choosing not to refund programs. For example, New Jersey recently followed New York and Arizona when it announced that its training grant program no longer has funding available.

Levine: One needs to distinguish among incentive programs that are funded by annual legislative appropriation — statutory programs not requiring annual appropriation (most tax credits); and those funded from a finite pool of existing dedicated funds (like an unemployment trust fund). Statutory programs seem the most secure at the moment whereas incentives funded from existing pools of money are at very great risk as the underlying fund becomes depleted or diverted to balance the general fund (as has apparently happened with California's Employment Training Panel money). In addition, many programs requiring annual appropriation will probably receive less allocation than in years' past; thereby making these programs that much more competitive. Unfortunately there is an inverse relationship at work. Those states with relatively strong economies and budgets will be in a much better position to maintain competitive incentive programs than those states with weaker economies and worse budget situations.

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