Global Research & Consulting

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ECONOMIC INCENTIVES GROUP

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Economic Incentives – The Intersection of Site Selection and Economic Development

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A. OVERVIEW OF CORPORATE SITE SELECTION

BUSINESS CLIMATE RANKINGS

The primary role of a State's economic development policy is to support business recruitment and retention. Firms considering relocation or expansion almost always evaluate how state economic development assistance might affect their total cost of doing business in a particular location. In order to effectively and efficiently target economic development policies, a clear understanding is needed of the corporate site selection process and what questions a CEO asks when making a location decision.

Company executives, economic development agencies, and site selection consultants keep a close eye on a state's business climate ranking. Whether to confirm a perception or satisfy curiosity, business climate rankings tend to be one of the first items of business when considering new operations. A number of business climate rankings are periodically published by Site Selection Magazine, Business Facilities, CNBC, Forbes, Chief Executive Magazine, and IBM Global Business Services just to name a few.

State Business Climate Rankings

	2009 Business Climate Rankings *Site Selection Magazine*	2009 Top Ten Competitive States *Site Selection Magazine*	2009 Top States & Provinces in North America *IBM Global Business Services*	2009 Best & Worst States for Business *Chief Executive Magazine*	2009 America's Top States for Business *CNBC*	2009 The Best States for Business *Forbes*	2009 Top 10 States for Business Climate *Business Facilities*
1	North Carolina	Ohio	Ontario	Texas	Virginia	Virginia	Texas
2	Texas	North Carolina	Virginia	North Carolina	Texas	Washington	South Dakota
3	Virginia	Michigan	Ohio	Florida	Colorado	Utah	Wyoming
4	Ohio	Pennsylvania	South Carolina	Georgia	Iowa	Colorado	Utah
5	Tennessee	Kentucky	Pennsylvania	Tennessee	Utah	North Carolina	Florida
6	South Carolina	Texas	Quebec	Nevada	Minnesota	Georgia	Delaware
7	Alabama	Tennessee	North Carolina	Virginia	Kansas	North Dakota	Washington
8	Georgia	Alabama	California	Arizona	Massachusetts	Texas	Montana
9	Indiana	Indiana	Illinois	South Carolina	North Carolina	Nebraska	Oregon
10	Kentucky	South Carolina	Indiana	Colorado	Georgia	Oregon	New Hampshire

Source: Site Selection Magazine; IBM Global Business Services; Chief Executive Magazine; CNBC; Forbes; Business Facilities.

The validity of the methodology used in each business climate ranking survey can certainly be argued. However, right or wrong, the typical CEO tends to rely on these rankings at face value. A State's ranking in these surveys should not be the primary focus of the State's economic development policy, but it is important to recognize a State's perception among the general business community.

Following is a brief breakdown of the methodology in each survey.

2009 Business Climate Rankings

- Source = Site Selection Magazine
- Top 3 States = North Carolina, Texas, Virginia
- Methodology

  Executive survey ranking, number of new significant businesses opened in 2008, number of new significant businesses opened between 2006 and 2008, new business openings per one million of population, and number of new significant businesses opened in 2009 through August.

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2009 Top Ten Competitive States

- Source = Site Selection Magazine
- Top 3 States = Ohio, North Carolina, Michigan
- Methodology

  Total facilities per one million of population in 2008, total capital investment per one million of population in 2008, total new jobs created per one million of population in 2008, absolute number of total new facilities in 2008, % growth of new facilities from 2007 to 2008, % growth of new facilities from 2005 to 2008, ranking in Site Selection's most recent annual business climate survey, number of top 100 metro areas in Site Selection's annual ranking of top metros, number of top 100 small towns in Site Selection's annual ranking of small towns, number of 100+ job projects per one million of population in 2008.

2009 Top States & Provinces in North America

- Source = IBM Global Business Services
- Top 3 States/Provinces = Ontario, Virginia, Ohio
- Methodology

  Job creation from significant foreign investment in 2008.

2009 Best & Worst States for Business

- Source = Chief Executive Magazine
- Top 3 States = Texas, North Carolina, Florida
- Methodology

  Annual survey of 543 CEOs; Issues surveyed include proximity to resources, regulation, tax policies, education, quality of living, and infrastructure; Other issues include taxation & regulation, workforce quality, and living environment

2009 America's Top States for Business

- Source = CNBC
- Top 3 States = Virginia, Texas, Colorado
- Methodology

  Ranking based on 40 measures of competitiveness; Major categories include cost of doing business, workforce, quality of life, economy, transportation, technology & innovation, education, business friendliness, access to capital, and cost of living

2009 The Best States for Business

- Source = Forbes
- Top 3 States = Virginia, Washington, Utah
- Methodology

  Ranking based on six categories including cost of doing business, labor supply, regulatory environment, current economic climate, growth prospects, and quality of life; Business costs that include labor, energy, and taxes are weighted the most heavily

2009 Top 10 States for Business Climate

- Source = Business Facilities
- Top 3 States = Texas, South Dakota, Wyoming
- Methodology

  Ranking includes cost of labor, business tax climate, quality of life, educated workforce, greenest state, transportation infrastructure, per capita GDP, population growth, and energy costs/efficiency

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KEY STRATEGIC DRIVERS

Site Selection Magazine conducts an annual survey of corporate real estate executives from a broad array of industries. This survey asks each executive to list the main site selection factors they consider when evaluating a location decision.

Top Site Selection Factors 2009 Corporate Real Estate Executive Survey	
1	Transportation infrastructure
2	Existing workforce skills
3	State and local tax scheme
4	Utility infrastructure
5	Land/building prices & supply
6	Ease of permitting & regulatory procedures
7	Flexibility of incentives programs
8	Access to higher education resources
9	Availability of incentives
10	State economic development strategy
Source: Site Selection Magazine	

Infrastructure, workforce, and tax climate are on the top of the list. Following these items are availability & cost of real estate and regulatory concerns. Overall, relative to all items most corporate real estate executives consider, economic incentives tend to be one of the final factors in a location decision.

The results of this Corporate Executive Survey are indeed practical and realistic in site selection today. Based on a fifteen year history of site selection engagements conducted by the CBRE's Labor Analytics Group, CBRE Consulting, and Economic Incentives Group, the availability and cost of adequate labor, land, and facilities are usually the most important site selection factors. Incentives can become more decisive when competing markets have relatively similar labor costs and skill levels.

Economic development policy should be tied to the key strategic drivers of the industries and operations a state wishes to recruit and retain. These strategic drivers can vary. There are two types of operations: capital-intensive and labor-intensive.

Capital-Intensive Operations

Capital-intensive operations tend to heavily invest in infrastructure, machinery, and equipment for operations. These capital-intensive operations include manufacturing, distribution, life science/bio science facilities, research & development, and data centers. In general, start-up investment in machinery and equipment (part of business personal property) tends to be over $50 million for most significant capital-intensive operations around the U.S. For example, according to the CBRE Economic Incentives Group, the capital investment profile of a high-end, mission-critical data center can be $800 million with machinery & equipment accounting for 75% of total (or $600 million). The remaining 25% consists of real property investment (i.e. land acquisition, construction costs).

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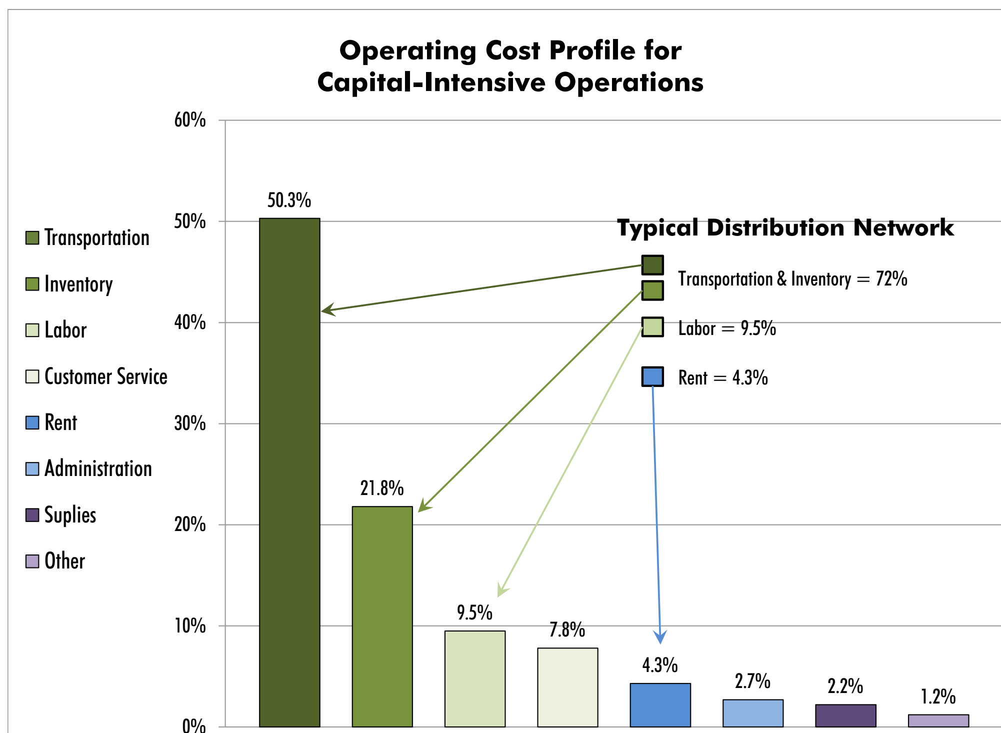
As shown on the following chart, transportation and inventory costs account for nearly 72% of the total cost of doing business for typical manufacturing and distribution operations. According to CBRE's Industrial Services Division, location decisions for these operations start and stop with an evaluation of logistics (transportation & infrastructure) as well as proximity to suppliers and customers. Overall, labor costs are very small component to the total cost of operations equation.



Source: CBRE Industrial Services Division

From an economic development perspective, leading with a location's labor market attributes or unemployment insurance taxes, for example, will not materially attract capital-intensive operations. Marketing and providing solutions for transportation costs, infrastructure, inventory taxes, and real estate (to an extent) is much more effective in recruiting these types of industries. Targeting incentives to offset the costs of these strategic drivers is critical for successful business recruitment or retention.

Labor-Intensive Operations

Labor-intensive operations tend to heavily invest in workforce and job training rather than machinery and equipment. These labor-intensive operations arise from industries such as financial services, business services, healthcare, information, insurance, and outsourcing just to name a few. Labor is at the forefront of an operation's success and is the key driver in a location decision. Since payroll costs can be upwards of 70% to 80% of total operating costs, the savings benefit to locating in a more cost effective labor market is essential. For example, a savings of just $1 per hour for a financial analyst in Tucson compared to Denver yields annual labor savings of more than $1 million a year for a 500-job operation. Practically speaking, no amount of economic incentives or real estate cost savings could counteract the impact of labor costs in the long term.

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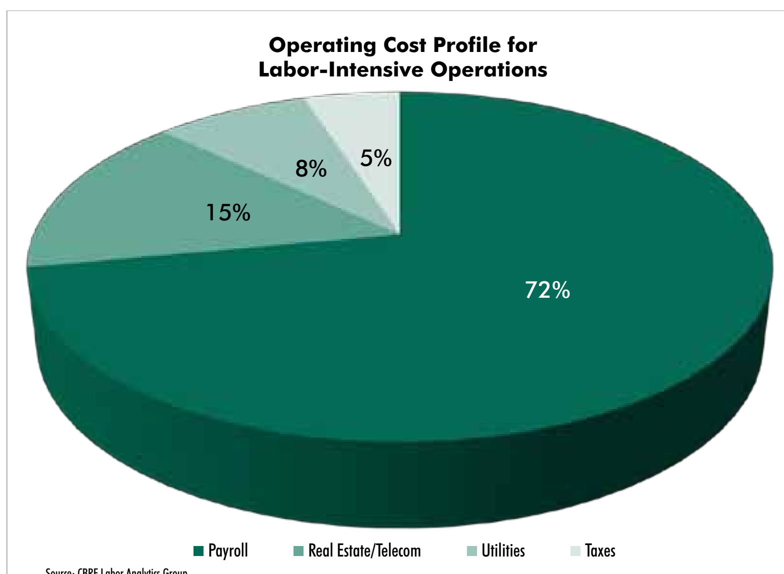
A multitude of companies (from Fortune 500 to privately-held firms), realize tapping the right people for the jobs is the heart of their competitive advantage.



"Understanding the future implications on operations by evaluating which markets can sustain operations when the economy returns to historic averages will be a crucial success factor as companies decide which markets to invest in today. By identifying new locations that align both with the location strategy set forth initially, as well as the specific skill set and logistic requirements, real estate departments can react quickly and locate the company in optimal labor markets for years to come."

From an economic development perspective, leading with a location's labor market attributes as well as job training and recruitment resources will be most effective in recruiting these types of industries to a State as well as incentives to offset the costs of labor, job training, and capital investment (to a lesser degree) is critical for successful business recruitment or retention.

THREE APPROACHES TO SITE SELECTION

There are three approaches to corporate site selection with varying degrees of sophistication and strategy. Some companies engage in a highly sophisticated, customized, and strategic site selection process in order to find the best long-term economic opportunity for a new operation. Other companies choose a different site selection strategy called "follow the herd" in which a location decision is based solely on where its competitor is located. The third type of site selection is "sold by the sizzle" in which incentives drive a location decision.

Sophisticated Approach

Companies that follow the Sophisticated Approach to site selection want to thoughtfully research and evaluate the best community and State for its operations. This is true for both labor-intensive and capital-intensive operations. The following graph illustrates the typical filtering process of this approach.

The site selection process starts with diagnosing an operation's key drivers such as logistics, infrastructure, labor availability, and labor skill sets just to name a few. A location analysis is undertaken by matching the key drivers to a community and state's demographic and economic make-up.

Upon reaching a shortlist of markets that meet an operation's key drivers, the company and/or site selection consultant will conduct community tours. The purpose of these tours is to validate the findings from the data analysis and verify the curb appeal of the community. An evaluation of economic incentives and real estate is conducted at the end of the site selection process. The endgame of the Sophisticated Approach to site selection is to find the best net economic opportunity accounting for logistics, labor, real estate, and incentives.

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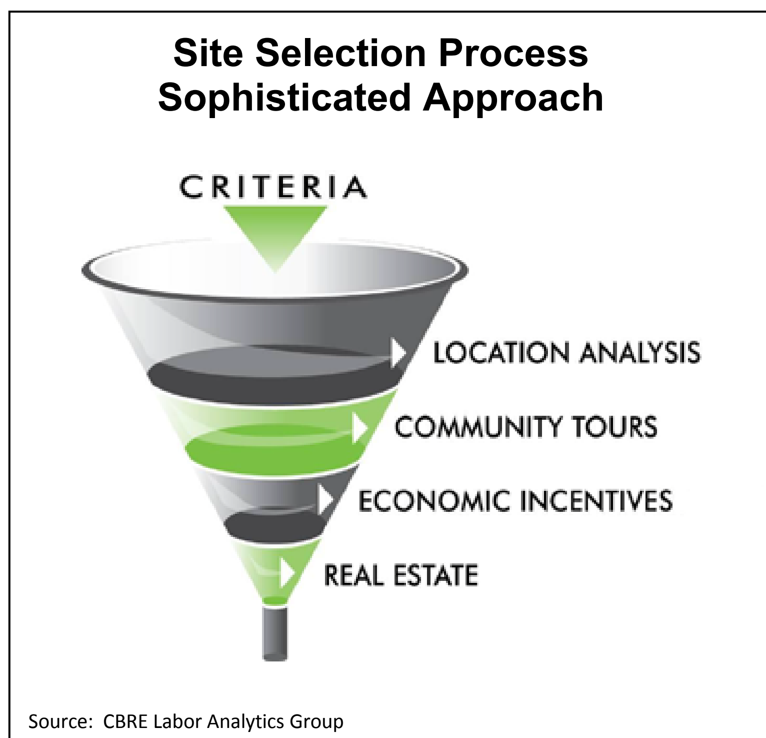

Source: CBRE Labor Analytics Group

From an economic development perspective, while incentives are a key component to the location decision, leading with an economic incentive package is misplaced. Discussions of incentive savings are most productive at the end of the location analysis when the company has focused on the optimal communities for its operation. This is the best point to determine the true need for incentives in successfully recruiting the company.

It should be noted that while this is the most desired site selection approach by economic development agencies, it does not happen every day.

Follow the Herd Approach

Companies that engage in the "Follow the Herd" Approach to site selection choose to let their competitors or other companies in the same industry do their site selection work. The reality is if a community and State are good for its competitor then that community is good enough for the company. During the last decade, this approach has been seen with bio-tech firms in San Diego, renewable energy manufacturing companies in Oregon, distribution centers in Indiana, and financial services in Charlotte just to name a few.

These types of companies may tend to put some to very little weight in a location's cost advantages, or even disadvantages, just to be near similar companies. Indeed, some state economic development marketing strategies are focused on announcing any successful business recruitment or retention. More times than not, a CEO will read an announcement about a competitor and decide "if it is good for them, then it is good for us."

Based on recent experience of the CBRE Economic Incentives Group, the Follow the Heard Approach can be currently seen in Arkansas, for example. In 2008, Nordex announced a wind turbine manufacturing plant in Jonesboro, Arkansas (population of 113,084). This facility is projected to have a $100 million capital investment with 700 jobs paying $17 per hour. This announcement created a buzz about Arkansas that has

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led to Mitsubishi Power Systems American announcing a wind turbine manufacturing facility in Fort Smith (population of 300,000). This facility is projected to have a $100 million capital investment with 400 jobs. Business development managers with the Arkansas Economic Development Commission revealed the Nordex announcement opened the flood gates for other interested wind manufacturing companies. Arkansas is currently courting a number of wind turbine manufacturing prospects.

Incentives are certainly a major driver in these circumstances. From an economic development perspective, while incentives will likely be more heavily relied upon, it will be increasingly difficult to determine if incentives are needed to successfully recruit the company. Good, bad, or indifferent, an economic development policy cannot ignore prospects using this approach. Of course, given the nature of these types of prospects, economic development marketing strategies are of equal importance as economic incentive programs.

Sold by the Sizzle Approach

The third approach to site selection is called "Sold by the Sizzle." In this approach, location decisions are primarily driven by the magnitude of a potential incentives package. Geographic preference, labor cost advantages, and industry clustering are of little importance in these circumstances. Some economic development agencies, both state and local, have grasped this concept to facilitate rapid economic development activity.

A recent example is Oregon and the renewable energy industry. Oregon aggressively sells its Business Energy Tax Credit (BETC) program to prospective renewable energy manufacturers. During the last several years, there has been a flood of successful recruitment activity to communities in Oregon that may not have been on the radar.

From an economic development perspective, this approach has its advantages and drawbacks. The advantage to leading with incentives is the enhanced ability to lure companies who otherwise would not look at a state. The nature of this site selection approach is incentive programs create interest to dive deeper into opportunities in a state. This is effectively a form of reverse site selection where incentives drive the initial interest in a state (i.e. "selling the sizzle") with real estate, labor, and logistics solved for at a later point in the location decision. The main drawback to leading with incentives is the potential criticism of misusing taxpayer dollars when it may not be necessary. Overall, leading with incentives can be a good economic development strategy to facilitate business recruitment in a state. The challenge is to ensure access to incentive programs is thoughtfully managed.

In each approach to corporate site selection, economic incentives play a critical role in a company's location decision, whether it be at the end or beginning of the selection process. This is true in every state and province across the U.S. and Canada. The economic development reality is CEOs are constantly in search of locations with the lowest total cost of doing business. While overall business strategy comes first, targeted and financially significant economic incentive programs will enhance a state's ability to successfully recruit and retain strong economic development prospects.

Overall, economic incentives cannot be ignored.

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B. ROLE OF INCENTIVES IN BUSINESS RECRUITMENT & RETENTION

The overarching goal of economic development is to increase the standard of living of a state's residents through the creation of new job opportunities paying a competitive to above-average wage at every step of the economic ladder. These opportunities can range anywhere from $9 per hour customer service jobs to $20 per hour aerospace manufacturing jobs to $60,000 per year nursing jobs. Economic incentives can play a critical role in attracting the right type of jobs from the desired industries.

Economic incentives vary from state to state by type, availability, target industries, performance metrics, and methods of payment. Business recruitment in the U.S. is highly competitive. As companies become more and more mobile and indifferent to location, economic incentives can make the difference between winning or losing.

STATUTORY vs. DISCRETIONARY INCENTIVES

There are two types of State economic incentives – statutory or discretionary. Statutory incentives are also called "as of right" or entitled incentives. These programs are enabled by statute, have explicit performance metrics (i.e. job creation, average wages, healthcare benefits), and the incentive benefit is fixed. If a Company meets the statutory criteria and fills in the appropriate applications, the incentive benefits are guaranteed. Statutory incentives can include corporate income tax credits for job creation, R&D tax credits, job training grants, foreign trade zone benefits, and military trade zone/re-use incentives.

Discretionary incentive programs are customized to a company's specific priorities, the incentive benefit and payment term are negotiable, and the final approval is at the discretion of a government official. Discretionary incentives are only offered on a case by case basis for strong economic development prospects that are projected to generate a significant economic and fiscal impact on the State and community. Discretionary incentives can include property tax abatements, cash grants, sales tax exemptions/refunds, donated land, forgivable loans, and free parking to name a few.

Types of Economic Incentives

Statutory Incentives

"As of Right"

- Cash Grants
- Corporate Tax Credits
- Sales Tax Refunds
- Job Fairs, Recruiting & Screening Services
- Research & Development Tax Credits
- Foreign Trade Zone
- Military Trade Zone

Discretionary Incentives

"Customized Incentives"

- Real & Personal Property Tax Abatements
- Cash Grants
- Corporate Tax Credits
- Sales Tax Refunds
- Training Grants
- Building Permit Waivers
- Infrastructure Grants
- Forgivable & Low Interest Loans
- Donated Land
- Free or Subsidized Parking Facilities
- Equipment Grants
- Low Interest Equipment Loans
- Utility Cost Reductions
- Low Interest Bond Offerings
- Public Financing

Source: CBRE Economic Incentives Group

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PURPOSE OF ECONOMIC INCENTIVES

Economic incentives are intended to lure businesses that will significantly expand the tax base, employ local residents, have a catalytic effect on local suppliers, are in a job-growing mode, and creates local wealth. Incentives cannot turn a bad location with inadequate workforce or infrastructure into a good location. However, incentives are most persuasive when location factors are relatively equal between communities and can either level the playing field or be the deciding factor among a short list.

Economic incentives have three functions: address cost disadvantages, revitalize distressed regional economies, and induce favorable economic activity.

Address Cost Disadvantages:

There are a number of site selection factors and operating costs that cannot be controlled in the near term. These include labor costs, available workforce skill levels, real estate availability & cost, transportation infrastructure (to an extent), and geography. For example, consider an economic development prospect that needs to hire 500 financial analysts. Metro Phoenix and Metro Tampa are the final two locations. Our focus will be on total labor cost since it accounts for 70% to 80% of these types of operations. According to the latest occupational wage survey conducted by the U.S. Bureau of Labor Statistics, the median wage for a financial analyst in Metro Phoenix was $31.17 per hour. By comparison, the median wage in Metro Tampa was $28.20 per hour. This $2.97 per hour difference in wages results in total labor costs that are $3 million per year higher in Metro Phoenix (or $30 million over a 10-year time period).

Overall, strategically targeted incentives can help offset some or the entire cost disadvantage for a particular industry when such a disadvantage is otherwise likely to result in the loss of investment and employment. All things being equal, the lack of incentives to offset the labor cost disadvantage for the prospect in the above example will likely mean a lost opportunity.

Revitalize Distressed Regional Economies:

Incentive programs can be designed to encourage businesses to locate in a particular region where unemployment & poverty have been historically high and private investment has lacked other more affluent regions in a state. Offering enhanced incentive savings or even exclusive incentive opportunities to businesses investing in the revitalization areas can help support job creation and investment to these regions when they otherwise would not occur.

Overall, the absence of incentive programs targeted for these relatively economically disadvantaged areas in the State could cause prospective businesses to look elsewhere. The sign of a good economic development policy is to not be one size fits all but to be flexible and customized to the dynamics (pitfalls and all) of a State's regional economies.

Induce Favorable Economic Activity:

Incentives can be designed to encourage the recruitment of businesses in basic industries. These types of industries export outside the local economy and bring net wealth in or substitutes for imports to the local economy. Basic industries produce relatively substantial ripple effects throughout the economy. These ripple effects are measured in terms of jobs, payroll, and new tax revenues to the State.

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For example, consider two economic development prospects are asking for incentives. One prospect is a 100-job computer manufacturing operation and the other prospect is a 100-job warehousing operation. The 100 jobs created by the computer manufacturing business will likely create an additional 218 jobs resulting in total economic activity estimated at $31.7 million annually. By comparison, the 100 jobs created by the warehousing operation will likely create only 59 additional jobs with total economic activity estimated at $8.3 million annually. The question is: Where will $1 million in incentives have the greatest return on investment in a State – the computer manufacturing business or the warehousing business?

Overall, incentive programs can be designed to provide benefits to industries that will have the greatest employment and fiscal benefits to a State, diversify the employment base, and especially bolster & protect certain industries that are given legislative priority.

NET NEW VS. RETENTION

Across the U.S., a majority of State incentive programs are targeted for new businesses only. Most incentive programs are designed to provide incentive benefits when a business creates new jobs or new capital investment. During the part of the business cycle when growth is abundant, the reality is most economic development agencies are focused on new opportunities that will add new jobs and tax revenue to the State. Incentive programs with sole focus on "net new" are not very usable during a recession or recovery when businesses generally shy away from expanding operations.

The other side of the economic development coin is the retention of existing businesses, particularly those that contribute the greatest impact to a state economy. In today's world, businesses are looking for the lowest total cost of doing business. A CEO could decide to relocate the business if less expensive opportunities exist in a location outside its current state. This potential loss of jobs will unequivocally have an economic and fiscal impact to a state. With new economic development prospects, the question is: What is the new impact (jobs & tax revenue) of this new business to the state? With retention, the question is flipped and becomes: What is the state likely to lose (jobs & on-going tax revenue) if the business leaves the state?

Overall, incentive programs should be designed to encourage both creation and retention of jobs. This level of flexibility will allow economic development groups in a State to be adaptable in every stage of the business cycle.

HOW DO INCENTIVES WIN BUSINESS?

Of course, incentives will not be the one and only factor that secures a business location in the State. The overall business strategy tends to come first with consideration of supply chain, transportation, labor, real estate, and taxes. After these strategic drivers are reasonably solved for, incentives can either level the playing field or be the deciding factor.

The net effects of meaningful incentive programs are to lower startup investment and reduce on-going operating costs. If an incentives package hits neither of these hot buttons, a business and site selection consultant will immediately write off the projected savings. At the end of the day, all pieces of a State incentives package need to be financially significant to the prospective business.

To help illustrate how incentives can win business, consider a client who is evaluating two markets in the U.S. to combine into one facility a back-office call center and a mission critical Tier 3 data center operation. This opportunity was both a labor-intensive and capital-intensive operation. Projections called for 1,250 total jobs and total capital investment of $2.0 billion ($1.6 billion for equipment). The two markets on the short list have different real estate / facility options. One market has an existing building that could be retrofitted to fit the needs of the operation. The Governor and local community leaders were aggressively selling this

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option due to the economic importance of the proposed operation and relatively low cost structure of the state. The second market includes a greenfield site – vacant land that could accommodate new construction of the facility. After a 12-month site selection search, these two markets were identified has having relatively equal attributes including transportation, proximity to suppliers, labor availability and skill sets, and business tax climate.

First and foremost, labor costs were the primary focus due to the significant job creation that was planned. As shown on the following table, the 1,250-job operation includes mostly Customer Service Associates and Management/Support. Average salaries for the Associate positions are $25,000 (or $12/hour) in the existing facility market compared to $20,800 (or $10/hour) in the greenfield site market. Additionally, Management/ Support salaries were on average 10% lower in the greenfield site market. Over a 10-year period of time, total payroll was $44.8 million lower (on a net present value basis) in the greenfield site market compared to the market with the existing facility. Without incentives and all other things being equal, the client would have chosen the market with the greenfield site.

Labor Cost Differential
Back office call center / data center

	Labor Cost Savings		
	Existing Facility	Greenfield Site	Existing Fac. Costs (Savings)
Number of Jobs			
Associates	1,000	1,000	
Management & Support	250	250	
Total	**1,250**	**1,250**	
Average Salaries			
Associates	$25,000	$20,800	
Management & Support	$65,000	$55,000	
Average	**$33,000**	**$27,640**	
Payroll			
Annual	$41,250,000	$34,550,000	$6,700,000
10-year Total	$412,500,000	$345,500,000	$67,000,000
Net Present Value	**$276,375,000**	**$231,485,000**	**$44,890,000**

Source: CBRE Economic Incentives Group

Both states and communities offered significant incentive packages to win the business. As shown on the following table, the market with the greenfield site offered $28.3 million in incentives over a 10-year period. This incentive package included free land, job creation tax credits, and a job training grant. The existing facility community offered $105.5 million in State and local incentives. This incentive package included federal grants for infrastructure & energy efficiency, use tax exemption on new equipment purchases, and a forgivable loan to help offset the significant cost of equipment. Additionally, the incentive package incorporated corporate income tax credits for job creation & investment, a job training grant, and real property tax abatement. Over 10 years, on a net present value basis, the incentive package from the market with the existing facility yielded savings about $64.6 million higher than the market with the greenfield site. If incentives were the driving force in this location decision, the existing facility market would be the clear winner.

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Economic Incentive Savings
Back office call center / data center

	Economic Incentive Savings		
	Existing Facility	Greenfield Site	Existing Fac. Costs (Savings)
Start-up Investment			
Land cost subsidy	$0	$1,175,000	
Infrastructure grant	$1,200,000	$0	
Energy efficiency block grant	$500,000	$0	
Use tax exemption on equip.	$50,000,000	$0	
Forgivable loan for equip. purchases	$2,000,000	$0	
Total Start-up Incentives	**$53,700,000**	**$1,175,000**	**($52,525,000)**
Ongoing Operations			
Job creation tax credits	$20,625,000	$25,912,500	
Investment tax credits	$10,000,000	$0	
Job training grant	$1,250,000	$1,250,000	
Real property tax abatement	$20,000,000	$0	
Personal property tax abatement	Exempt	Exempt	
Total Ongoing Incentives	**$51,875,000**	**$27,162,500**	**($24,712,500)**
Total Incentive Savings (10-yr)	**$105,575,000**	**$28,337,500**	**($77,237,500)**
Net Present Value	**$84,460,000**	**$19,836,250**	**($64,623,750)**

Source: CBRE Economic Incentives Group

In order to put the incentive savings in the proper context, a comparison to labor costs was necessary. Labor costs in the existing facility market were $67 million more expensive over ten years. By comparison, the existing facility market had an incentive package valued at more than $77 million higher than the greenfield site market. Combining these two items, total net operating costs over 10 years was $10 million lower (or $19 million lower on a net present value basis) in the market with the existing facility. All things considered, this confidential client chose the existing facility market because it had the best net economic opportunity.

Overall, the state and community with the exiting facility creatively crafted an incentive package that addressed the inherent labor cost disadvantage for the jobs being created and addressed the client's sensitivities to both start-up investment and on-going operating costs. Ultimately, given the projected $2 billion investment, the state and community's contribution of $53 million in start-up incentive savings was a significant consideration that helped win the business. Stated differently, if the incentive offers were equal between both markets, the Client would have chosen the existing facility market since more money was offered upfront rather than over a period of ten years.

Net Economic Opportunity
Back office call center / data center

	Net Operating Costs (10-years)		
	Existing Facility	Greenfield Site	Existing Fac. Costs (Savings)
Labor Costs	$412,500,000	$345,500,000	$67,000,000
Economic Incentives Savings	($105,575,000)	($28,337,500)	($77,237,500)
Net Operating Costs	**$306,925,000**	**$317,162,500**	**($10,237,500)**
Net Present Value	**$191,915,000**	**$211,648,750**	**($19,733,750)**

Source: CBRE Economic Incentives Group

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WHICH STATES ARE AGGRESSIVE WITH ECONOMIC DEVELOPMENT & INCENTIVES

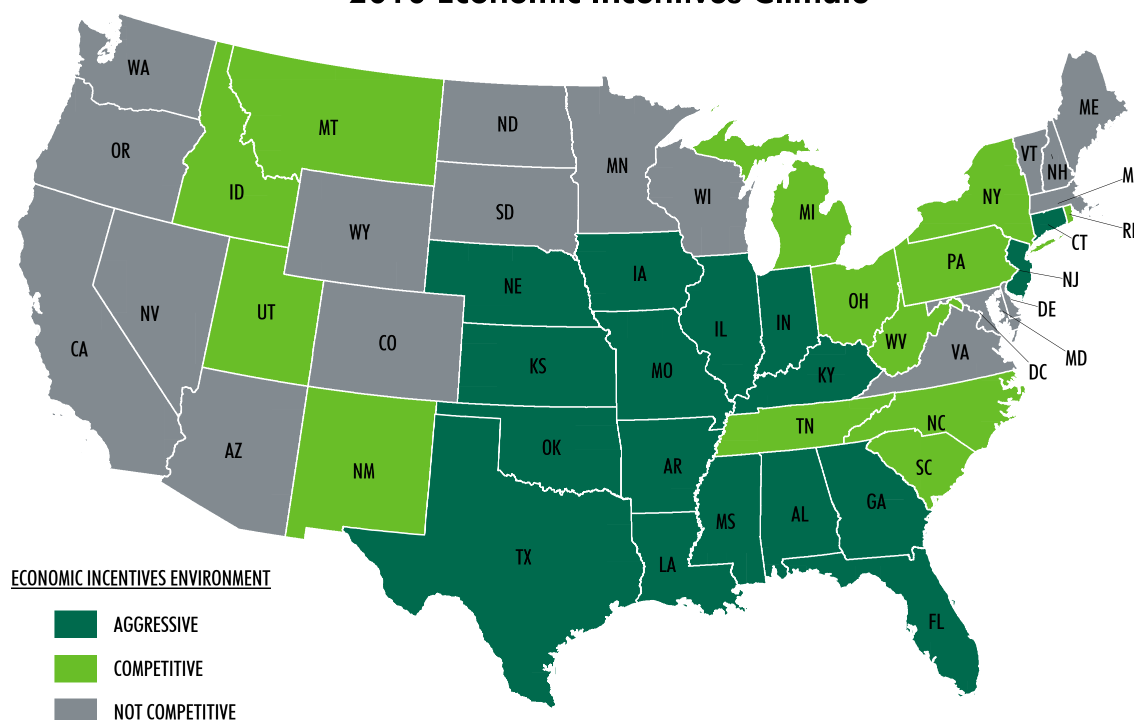
All things considered (including geography, transportation infrastructure, supply chain, labor cost & availability, and other factors), economic incentives play a critical role in recruiting and retaining strong economic development prospects across the U.S. The following map illustrates each state's relative competitiveness with economic incentives. This map is produced by CBRE's Economic Incentives Group and is based on the Group's extensive experience with economic incentive negotiations across the U.S. during the past five years, each state's main economic incentive programs, and recent precedence for offering discretionary incentives. Each state is ranked as Aggressive, Competitive, or Not Competitive.

Aggressive states tend to have incentive programs that produce the most financially significant and varied incentive savings. These aggressive states range from Nebraska down to Texas, most of the Midwest (Iowa, Missouri, Illinois, Indiana, and Kentucky, and nearly the entire Southeast (Mississippi, Alabama, Georgia, Louisiana, and Florida). These states have a deep economic incentives toolbox to pull from including tax credit, job training grants, cash, and local incentives programs (free land, property tax abatements, forgivable loans), just to name a few.

Competitive states have some usable incentive programs but not as many as the Aggressive states (in general) and potential savings are most significant for selected industries. Competitive states range from states in the Northeast (Ohio, Michigan, Pennsylvania & New York) to Tennessee & the Carolinas to Idaho, Montana, and Utah. In general, these states have taken the policy position they do not want to be one of the most aggressive states but need to be competitive on a case by case basis to win business recruitment.

States that are Not Competitive do not have many economic incentive programs and are mostly situated in the West and Northeast. These states have taken the position they do not or very rarely play the incentives game or historically have not needed incentives to lure businesses. When competing for an economic development prospect also looking at Texas, Indiana, or New York (for example), the Not Competitive states do not have the resources to win the business, all things being equal.

2010 Economic Incentives Climate



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C. ECONOMIC INCENTIVES TOOLBOX ACROSS THE U.S.

INVENTORY OF ECONOMIC INCENTIVE PROGRAMS IN OTHER STATES

All 50 states have a number of economic incentive programs. These programs vary by type, availability, target industries, performance metrics, and methods of payment. This analysis is limited to the incentive programs available for general commercial businesses. Exclusions to this analysis are direct business financing, municipal grants & loans, local incentive programs, and other State programs not directly available to economic development prospects.

The CBRE Economic Incentives Group maintains a proprietary incentives database of more than 1,400 statutory and discretionary incentive programs across the U.S. and Canada. The table on one of the following pages summarizes the availability of incentive programs for all 50 states into seven primary categories. These categories include job tax credit, investment tax credit, job training grant, payroll rebate, cash grant / closing fund, sales/use tax exemption or rebate, and other tax exemptions.

Job tax credit:

- 38 of 50 states offer job tax credits;
- These programs provide corporate income tax credits based on job creation and/or retention. Tax credits are issued upon employment verification on an annual basis, allowed to cover between 50% and 100% of tax liability in any given year, and permitted to be carried over to future tax years should tax liability not be sufficient to cover the earned tax credits. Some states allow tax credits to be transferred/sold to third parties. Few states allow tax credits to be refunded.

Investment tax credit:

- 32 of 50 states offer investment tax credits;
- These programs provide corporate income tax credits based on capital investment in real and/or business personal property. Tax credits are issued upon investment verification, allowed to cover between 50% and 100% of tax liability in any given year, and permitted to be carried over to future tax years should tax liability not be sufficient to cover the earned tax credits. Some states allow tax credits to be transferred/sold to third parties. Few states allow tax credits to be refunded.

Job Training Grant:

- 49 of 50 states offer job training grants;
- These programs provide grants to offset a portion of a company's training costs. Grants typically cover a defined list of eligible training costs and are typically paid out on reimbursement basis. Typical costs include trainer salaries, travel costs, books, materials, supplies, training facility rent, and other items. Few states allow reimbursement of trainee wages.

Payroll Rebate:

- 9 of 50 states offer payroll rebates;
- Payroll rebates involve annual or quarterly cash refunds of a proportion of new annual payroll generated by an approved business. Payroll rebate benefits are expressed as either a percent of gross taxable wages or a percent of withholding taxes. Refunds are typically approved for three to ten years.

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Cash Grant / Closing Fund:

- 19 of 50 states offer cash grants or closing funds;
- Cash grant funds are discretionary incentive programs that provide upfront cash to qualified businesses whose operations have a significant economic and fiscal impact on a State. These cash grants are typically paid upon receipt of full government approvals of an economic development agreement, prior to certificate of occupancy, or within two years. State deal closing funds are part of this category.

Sales/use tax exemption or rebate:

- 19 of 50 states offer sales/use tax exemptions or rebates;
- Sales/use tax exemptions allow for full or partial abatements of sales or use taxes due on purchases of construction materials, equipment, and/or utility usage. Most sales/use tax exemption programs are limited to certain industries, types of operations, or performance metrics (i.e. job creation or capital investment).

Other tax exemptions:

- 19 of 50 states offer sales/use tax exemptions or rebates;
- Miscellaneous tax exemptions are offered by states to offset burdens of sales taxes, income taxes, use taxes, local property taxes, and fuel taxes just to name a few. These programs generally are not applicable to the typical economic development prospect. Most other tax exemption programs are limited to certain industries, types of operations, or performance metrics (i.e. job creation or capital investment).

See the table on the following page for additional detail.

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Inventory of State Economic Incentive Programs

(Most widely used economic development programs)

State	Job Tax Credit	Investment Tax Credit	Job Training Grant	Payroll Rebate	Cash Grant / Closing Fund	Sales/use tax exemption or rebate	Other Tax Exemptions
Alabama	X	X	X			X	X
Alaska			X				
Arizona	X	Renewable					X
Arkansas	X	X	X	X	X	X	
California	X		X				X
Colorado	X	X	X			X	
Connecticut	X	X	X		X		X
Delaware	X		X	X			
Florida	X	X	X		X	X	
Georgia	X	X	X		X		X
Hawaii	X	X	X				X
Idaho	X	X	X			X	
Illinois	X	X	X		X	X	
Indiana	X	X	X				X
Iowa	X	X	X		X	X	
Kansas	X	X	X	X	X	X	X
Kentucky	X	X	X				
Louisiana	X	X	X	X	X	X	
Maine		X	X			X	
Maryland	X	X	X		X		
Massachusetts		X	X				
Michigan	X	X	X				
Minnesota	X		X			X	X
Mississippi	X		X	X			
Missouri	X	X	X	X		X	X
Montana	X	X	X		X		
Nebraska	X	X	X			X	
Nevada			X			X	
New Hampshire			X				
New Jersey	X	X	X	X		X	
New Mexico	X	X	X		X		
New York	X	X	X			X	X
North Carolina	X	X	X	X	X		
North Dakota	X		X				X
Ohio	X	X	X				X
Oklahoma		X	X	X			
Oregon			X		X		X
Pennsylvania	X		X		X	X	X
Rhode Island	X	X	X				X
South Carolina	X	X	X		X		X
South Dakota			X				
Tennessee	X		X				X
Texas			X		X	X	
Utah	X	X	X		X		
Vermont	X	X	X			X	
Virginia	X		X		X		
Washington			X				X
West Virginia		X	X		X		X
Wisconsin	X		X				
Wyoming			X				

Source: CBRE Economic Incentives Group.

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D. BEST PRACTICES OF ECONOMIC INCENTIVE PROGRAMS

A review was conducted on all 1,400+ economic incentives programs in our database to find the most effective, flexible, targeted, and financially significant State programs across the U.S. These best practices are considered the most effective at recruiting and retaining businesses.

JOB TRAINING GRANT PROGRAMS

49 out of 50 states (Arizona being the exception) currently have an active State job training grant program. Most job training grant programs across the U.S. are funded by general appropriations and reimburse a limited proportion of actual training costs incurred by businesses. Eligible training costs tend to include trainer salaries, books, materials & supplies, travel costs, curriculum & development, and some portion of rent for a training facility.

Iowa, Kansas, and New Mexico have the most effective State job training grant programs in the U.S. These job training grant programs have unique funding mechanisms and have evolved beyond the standard program to include reimbursement of trainee wages. The table on one of the following pages summarizes the best practices in State job training grant programs.

Iowa 260e Program

The 260e Program (also called Iowa New Job Training Program) is not funded by general appropriations. The 260e Program is funded by the issuance of industrial revenue bonds based on employee withholding taxes projected to be remitted by the business. When determining the size of the training grant, the State and local community college estimate the annual withholding taxes from the jobs and annual payroll expected to be generated by the business. Depending on the industry and average salary of the jobs, the State and community college will decide the percentage of total withholding taxes that will be diverted to cover the annual debt service of the bonds.

For the term of the bonds (5 or 10 year), the business is obligated to maintain an agreed-upon annual payroll and effectively write two checks when remitting withholding taxes. One check goes to the Department of Revenue and the second check goes to the community college for debt service. All in all, Iowa's funding mechanism is revenue-positive. Training grant proceeds never exceed the withholding taxes generated by the company's employees.

In addition, the 260e Program covers a portion of trainee wages as well as the traditional training costs (trainer wages, consumable items, books, rent, etc). Depending on the average wages of the new jobs to be created, up to 50% of trainee wages during training can be reimbursed. Reimbursement of trainee wages mostly outweighs all other eligible training costs.

Kansas IMPACT Program

IMPACT stands for Investments in Major Project and Comprehensive Training. Similar to Iowa, IMPACT is funded by the issuance of industrial revenue bonds based on a percentage employee withholding taxes. According to Kansas statute, no more than 95% of annual withholding taxes can be diverted to payment of debt service on IMPACT bonds. The value of a training grant is driven by the economic impact of the company on the State and the discretion of the Department of Commerce staff.

IMPACT grants have three uses of funds. Up to 50% of the IMPACT grant can be declared an upfront cash grant to offset costs of machinery, equipment, building improvements, payment of trainee wages, and other approved capital expenses. After deducting a standard 10% of gross proceeds as an administrative fee to the community college and local workforce board, the remaining grant is intended to cover traditional training

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costs (trainer wages, consumable items, books, rent, etc.). The upfront cash grant feature is a creative and unique feature the State of Kansas uses to thoughtfully recruit businesses to the State.

In addition to the funding mechanism, IMPACT allows for reimbursement of trainee wages. The State of Kansas has the discretion to fund up to six months of trainee wages. This discretion is dependent on the industry, average wages, and overall economic impact to the State.

New Mexico JTIP

JTIP stands for Job Training Incentive Program. JTIP is funded through general appropriations and grants are allocated on a quarterly competitive basis. The State of New Mexico bases its discretion for awarding JTIP grants on the industry, average wages, and overall economic impact to the State. Additionally, JTIP allows for reimbursement of trainee wages. Depending on the average wage levels of the projected new jobs, a JTIP grant can reimburse between 50% and 70% of trainee wages during training.

Other Key Features & Observations

These job training grant programs are discretionary and certain industries are eligible. The allowable industries are considered basic industries such as manufacturing, processing, assembly, mining, and R&D. In fact, the enabling statutes for the Kansas and New Mexico programs limit training grants for service companies and multi-state wholesale distributors. These companies are eligible if and only if more than 51% (Kansas) and 60% (New Mexico) of revenue is generated out of state. While the statute enabling Iowa's training grant program excludes an out of state percentage, the established rules & regulations use a 60% rule of thumb for eligibility.

Clawbacks are an inherent feature in all three programs. Since the Kansas and Iowa training grants are tied to 5 to 10 year bonds, the company is liable for the full indebtedness. For example, if a company receives a training grant tied to a 10 year bond and ceases operations in year 5, the company is required to payback the remaining balance of the bonds since withholding taxes are no longer remitted. New Mexico's clawbacks are more negotiable and are indirectly based on when the State is made whole with withholding tax revenue.

All in all, these best practices in job training grant programs are designed to be revenue-positive.

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Best Practices
State Job Training Grant Programs

State	Program Name	Type of Program	Eligible Industries	Eligible Uses of Funds	Clawbacks	Wage Threshold	Funding Mechanism
Iowa	**260E Program** Iowa New Jobs Training Program	* Reimbursement grant * Discretionary award	* Manufacturing * Processing * Assembly * R&D * Services in Interstate commerce;	* Customized training * On-the-job training * Skill assessment * Training equipment, materials, supplies * Training services of a community college or other institution * Testing/evaluation of employees * Travel costs of employees & trainers (airfare, hotel, per diem) * College tuition, books, fees * Fees / wages of a private / company trainer * Rent of training facilities * Up to 50% of trainee wages (depends on wages)	Yes. Company is required to fully pay down the issued bonds and related interest payments.	Yes Indirect threshold dictated by Program Rules & Regs. State and Community College have the discretion to deny an applicant with below average wages.	* Issuance of industrial revenue bond by local community college; * % of employee withholding taxes diverted to debt service on bonds; * 5 to 10 years bond term;
Kansas	**IMPACT** Investments in Major Projects and Comprehensive Training	* Reimbursement grant * Cash grant (upfront) * Discretionary award	* Manufacturing * Mutli-state wholesale distribution * Regional or national service companies (51% of revenue generated outside of KS) * Agriculture * Mining * R&D * Interstate transportation * Tourism activities targeting out-of-state tourists	* Customized training; * On-the-job training; * Trainer salaries; * Curriculum planning & development; * Travel costs (airfare, hotel, per diem) * Books, materials, supplies, manuals * Videotape development * Certain training facility costs; * Up to 50% of funds for training equipment or capital expenses; * Equipment relocation expenses; * Labor recruitment; * Up to 6 months of trainee wages;	Yes. Company must maintain operation for 2 years; Company is required to fully pay down the issued bonds and related interest payments.	Yes Indirect threshold dictated by Program Rules & Regs. State has the discretion to deny an applicant with below average wages.	* Issuance of industrial revenue bond by local community college; * Up to 95% of employee withholding taxes are diverted to debt service of bonds;
New Mexico	**JTIP** Job Training Incentive Program	* Reimbursement grant * Discretionary award * Competitive funding process	* Manufacturing * Warehouse/distribution * Export service companies (60%+ of revenue generated outside of NM)	* Classroom training at a public educational institution; * On-the-job training (OJT); * Combination of classroom and OJT; * Travel costs of trainers & employees (airfare, hotel, per diem) * 50% to 70% of trainee wages for up to 6 months (depends on wages);	Yes. Reimbursement offered on a pay-for-performance method	Yes	* General fund appropriation * Competitive funding process

Source: CBRE Economic Incentives Group.

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PAYROLL REBATE PROGRAMS

9 out of 50 states offer some type of payroll rebate incentive program. A payroll rebate mostly involves annual or quarterly cash refunds from a state based on a percentage of either new gross wages or new withholding taxes. This type of incentive is designed to be pay-for-performance. Incentives are directly tied to new payroll generation and job creation. Upon payroll generation and remitting withholding taxes to a state, the company is eligible for a cash refund. A state's motivation to offer a payroll rebate incentive is two-fold. First, the periodic refunds directly motivate an eligible company to create new jobs and generate new payroll. Second, the refund is delivered in the form of cash rather than tax credits or tax exemptions.

In a world where cash is king, a payroll rebate incentive program is a creative means to compete with tax credit heavy states. Indeed, a payroll rebate program is much more efficient and effective at influencing a company's location decision. Beyond the marketing benefits, a well-designed payroll rebate program can be inherently revenue-positive. Cash refunds are only paid out when payroll and withholding taxes are received. Cash refunds will not exceed incoming tax revenue.

Arkansas, Kansas, Louisiana, Missouri, and Oklahoma have the most effective payroll rebate programs in the U.S. The table on one of the following pages outlines each program's benefits, eligibility requirements, and other thresholds.

Arkansas Create Rebate

The Create Rebate program in Arkansas is a discretionary payroll rebate program that offers annual cash refunds equal to between 3.9% and 5.0% of gross wages up to seven years. The percentage of gross wages rebated is dependent a four-tier system. Each county in Arkansas is categorized based on a number of economic factors including unemployment, poverty, and historic job growth just to name a few. Tier 1 counties include the most economically vibrant communities and companies can receive the lowest rebate percentage (3.9%). Tier 4 counties are considered economically disadvantaged and companies receive the highest rebate percentage (5.0%).

Create Rebate is one of Arkansas's discretionary incentive tools to win at business recruitment. During 2010, incentive offers tend to for no more than three years. In only the most highly competitive circumstances and for projects with significant economic impacts, Arkansas will extend benefits up to the statutory max of seven years. Incentive offers are tied to basic industries only. An eligible company must create and maintain a minimum annual payroll of $2 million with average wages of full time employees above the county average wage. Since rebates are paid only when a company performs, no penalty or clawback exists. If annual payroll falls below $2 million, the company is generally removed from the incentive program.

Kansas PEAK

During the 2009 legislative session, Kansas enacted its PEAK incentive program. PEAK stands for Promoting Employment Across Kansas. PEAK is a discretionary payroll rebate program that provides annual cash refunds equal to 95% of withholding taxes for 5 to 10 years. The term of the periodic cash refunds is dependent on how a company's weighted average wage stacks up against the county's average wage. PEAK is applicable to most major business locations.

Incentive offers are tied to basic industries only. An eligible company must create and maintain a minimum annual payroll of $2 million with average wages of full time employees equal to or above the county average wage. The standard incentive term is five years. A company can earn a bonus of a seven-year standard term if at least 100 jobs are relocated from out of state. Other bonuses include one additional year of benefits for each 10% that a company's average wage is above the county average wage. Since rebates are paid only when a company performs, no penalty or clawback exists. If annual payroll falls below $2 million, the company is generally removed from the incentive program.

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Louisiana Quality Jobs Program

Louisiana's Quality Jobs Program is a discretionary payroll rebate incentive program that provides annual cash rebates equal to between 5% and 6% of gross wages for up to 10 years. The typical cash rebate is also tied to a refund of state sales/use taxes paid on capital expenditures. Quality Jobs offers an alternative option to the cash refund/sales tax rebate feature. A company may also choose to receive a corporate income tax credit equal to 1.5% of qualified capital expenditures.

Incentive offers are tied to basic industries only. An eligible company must create at least five new jobs, pay an average wage of at least $14.50 per hour (standard threshold across Louisiana), and maintain a minimum annual payroll of $500,000 (or $250,000 for companies with less than 50 jobs). Since rebates are paid only when a company performs, no penalty or clawback exists. If annual payroll falls below $500,000, the company is generally removed from the incentive program. If a company elects the investment tax credit feature and is removed from the Quality Jobs program, the state will not allow subsequent use of the tax credit in a company's annual tax return filings.

Missouri Quality Jobs Program

Missouri's Quality Jobs Program is a discretionary payroll rebate program that provides annual benefits ranging from 3% to 5% of gross wages for up to 5 years. The state exercises the discretion to provide benefits in refundable tax credits and/or retention of withholding taxes. With the withholding tax retention feature, the company is first required to meet the Quality Jobs Program's eligibility requirements. Upon certification, the company is allowed to divert a portion of its remittance of employee withholding taxes to its own bank account. This retention feature is different than most payroll rebate programs that require full remittance of withholding taxes to the Department of Revenue prior to receiving a cash refund.

Incentive offers are tied to basic industries only. An eligible company must create the prescribed minimum number of new jobs (depends on type of business) and pay wages at or above the county average wage. The annual payroll minimum is tied to the job threshold and county average wage. The Quality Jobs Program allows for a high wage bonus and local incentive bonus. If a company's average wages are 120% to 140% of the county average wage, the allowable benefits are increased by ½% point. If a community provides incentives, the allowable benefits are increased by 1% to 3% points. For example, a company that creates 250 jobs paying 150% of the county average wage and receives local incentives can earn a maximum payroll rebate equal to 8.5% of gross wages (or 5% standard + ½% wage bonus + 3% local incentive bonus).

Since rebates and tax credits are paid only when a company performs, no penalty or clawback exists. If annual payroll falls below the prescribed minimum, the company is generally removed from the incentive program. The Missouri Legislature implemented a $80 million program tax credit cap. In no one year may there be more than $80 million in outstanding refundable tax credits under the Quality Jobs Program.

Oklahoma Quality Jobs Program

Oklahoma's Quality Jobs Program is a discretionary payroll rebate incentive program that provides quarterly cash rebates up to 5% of gross wages for up to 10 years. The rebate percentage and term of the incentive is dependent on the number of jobs and average wage compared to the county average wage as well as the economic impact of the company on the state and community.

Incentive offers are tied to basic industries only. An eligible company must create at least ten new jobs, pay an average wage equal to at least the county average or the State average of $28,878 (whichever is higher) and maintain a minimum annual payroll of $2.5 million. The Quality Jobs Program provides a high wage bonus. If a company's average wage exceeds 300% of the State or county average wage, the rebate

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percentage is enhanced to 10% of gross wages. Since rebates are paid only when a company performs, no penalty or clawback exists. If annual payroll falls below $2.5 million, the company is generally removed from the incentive program.

Other Key Features & Observations

These payroll rebate programs are discretionary and certain industries are eligible. The allowable industries are considered basic industries such as manufacturing, wholesale distribution, headquarters, and other basic industries. The general rule of thumb is a company is eligible if and only if more than 75% (Arkansas), 51% (Kansas), 50% (Louisiana), and 75% (Oklahoma) of revenue or sales is generated out of state. In addition, qualified small businesses are eligible for the payroll rebate programs in Oklahoma, Missouri, and Louisiana.

The payroll rebate programs are generally designed to be revenue-positive. Cash refunds should be never more than expected withholding tax revenue. Kansas is the only state in this group of best practices that directly ties benefits to a percentage of withholding taxes. The nature of the Kansas program is that benefits will never exceed withholding taxes generated by the new jobs.

The remaining states (Arkansas, Louisiana, Missouri, and Oklahoma) tie benefits to gross wages. Based on our calculations, the typical payroll rebates in these states could exceed actual withholding tax revenue. The following table compares the payroll rebate to the effective withholding tax rate (as a percent of gross wages) for a job paying $40,000 per year. For example in Louisiana, the payroll rebate is from 5% to 6% of gross wages whereas withholding taxes are estimated at only 3.4% of gross wages. It should be noted the effective withholding tax rates in this table are high estimates since they exclude downward adjustments for federal adjusted gross income (FAGI), deductions, and personal exemptions.

This disparity is similar across the board. In these cases, since the payroll rebate benefits most likely exceed withholding tax revenue, each state effectively relies on net new sales and corporate income tax revenue to cover any shortfalls to remain at least revenue-neutral.

Payroll Rebate vs. Withholding Tax Rate

State	Rebate of Gross Wages	[1] Effective Withholding Tax Rate (High Estimate)
Arkansas	3.9% to 5%	4.9%
Louisiana	5% to 6%	3.4%
Missouri	5% to 8.5%	5.4%
Oklahoma	5%	4.9%

[1] Net effective tax rate for a $40,000 salary. Excludes adjustments for federally adjusted gross income (FAGI), deductions or personal exemptions.

Source: CBRE Economic Incentives Group

All in all, the intention of these payroll rebate programs is to be at least revenue-positive if not or neutral.

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Best Practices
State Payroll Rebate Grant Programs

State	Program Name	Type	Benefits	Eligible Industries	Minimum Requirements	Wage Threshold	Clawbacks	Funding Mechanism
Arkansas	Create Rebate	Discretionary	* Cash rebate on new payroll * 3.9% to 5.0% of gross wages (depends on County Tier) * Up to 7 years * Annual basis	* Manufacturing * Computer related businesses * Motion picture production * Distribution centers * Office sector businesses * National or regional headquarters * R&D * Scientific & technical business services * Companies with at least 75% of revenue from out of state	1) Basic industry 2) Minimum new jobs => None 3) Minimum wage => County average wage 4) Minimum new payroll => $2 million 5) Health Insurance => Offered to FTEs 6) Program Bonus => None	Yes Based on County Average	No. Rebates are paid upon creation of new jobs and generation of new payroll.	Pay-for-performance program. Rebates funded out of withholding taxes.
Kansas	PEAK	Discretionary	* Cash rebate on new payroll * 95% of withholding taxes * Up to 10 years * Annual basis	* Manufacturing * Mutli-state wholesale distribution * Regional or national service companies (51% of revenue generated outside of KS) * Agriculture * Mining * R&D * Interstate transportation * Tourism activities targeting out-of-state tourists	1) Basic industry 2) Minimum new jobs => Up to 10 relocated jobs 3) Minimum wage => County average wage 4) Minimum new payroll => $2 million 5) Health Insurance => Offered to FTEs and employer must pay at least 50% of the premium cost. 6) Program Bonus => (a) 7-year term with 100 relocated jobs; (b) 1 year added for every 10% the company's average wage is above the county average wage. 7) Requires relocation of a business from one state to Kansas	Yes Based on County Average	No. Rebates are paid upon creation of new jobs and generation of new payroll.	Pay-for-performance program. Rebates funded out of withholding taxes.
Louisiana	Quality Jobs Program	Discretionary	Cash rebate on new payroll and sales/use tax rebate on capital expenditures ***OR*** investment tax credit * Cash rebate on payroll = 5% to 6% of gross wages * Sales/use tax rebate = 4% State sales tax on capital expenditures * Investment tax credit = 1.5% of qualified capital expenditures * Small business component * Up to 10 years * Annual basis	* Bioscience * Manufacturing * IT * Environmental Technology * Food Technology * Advanced Materials * Oil & Gas Field Service * Companies with at least 50% of sales out of state * Companies located in certified distressed regions in the State	1) Basic industry 2) Minimum new jobs => 5 3) Minimum wage => $14.50 per hour 4) Minimum new payroll => * Companies < 50 jobs = $250,000 * Companies > 50 jobs = $500,000 5) Health Insurance => Offered to FTEs and employers must pay premium cost equal to $1.25/hour. 6) Program Bonus => None	Yes $14.50 per hour	Yes and No. Sales tax refund must be paid back if business does not reach job metrics for 5 years. Cash rebate for payroll is only funded when jobs are created & new payroll generated.	Pay-for-performance program. Rebates funded out of withholding taxes and sales taxes received.
Missouri	Quality Jobs Program	Discretionary	* Retention of withholding taxes and/or refundable tax credits * 3% to 5% of gross wages * Up to 5 years * Above average wage bonus * Local incentives bonus * Small business component * Annual basis	* For-profit & non-profit businesses (excluding retail, public utilities, education services, religious organizations, ethanol production, biodiesel production, and public admin) * Headquarters * Admin offices	1) Basic industry 2) Minimum new jobs => * High impact business = 100 or more * Technology business = 10 or more * Small business = 20 to 40 3) Minimum wage => County average wage 4) Minimum new payroll => Indirectly tied to minimum job standard and county average wage 5) Health Insurance => Offered to FTEs and employers must pay at least 50% of premium cost 6) Program Bonus => 1/2% bonus if average wages are between 120% and 140% of County average. 1% bonus if average wages are greater than 140%. 1% to 3% bonus for local incentives.	Yes Based on County Average	No. Retention of withholding taxes only allowed upon creating jobs and generating new payroll. Tax credits are certified upon meeting minimum requirements.	Pay-for-performance (retention of withholding taxes benefit only) $80m annual program tax credit cap (set by Legislature)
Oklahoma	Quality Jobs Program	Discretionary	* Cash rebate on new payroll * Up to 5% of gross wages * Up to 10 years * Above average wage bonus * Small business component * Quarterly basis	* Manufacturing * R&D * Headquarters * Mining * Warehouse/distribution (40% of inventory shipped out of state) * Transportation (75% of sales out of state) * Flight Training Svcs * Wind Power Repair * Sports Teams * Services (75% of sales out of state)	1) Basic industry (75% of sales out of state) 2) Minimum new jobs = 10 3) Minimum wage => County average not to exceed State average of $28,878 4) Minimum new payroll = $2.5 million 5) Health Insurance => Offered to FTEs and employers must pay at least 50% of premium cost 6) Program Bonus => Rebate enhanced to 10% of gross wages if average wages exceed 300% of State or County average wage	Yes Based on County Average not to exceed State average of $28,878	No. Rebates are paid upon creation of new jobs and generation of new payroll.	Pay-for-performance program. Rebates funded out of withholding taxes.

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DEAL CLOSING FUNDS

19 out of 50 states offer some type of deal closing fund or cash grant program. A deal closing fund involves upfront cash grants and/or forgivable loans only in highly competitive situations and only for projects with a substantial economic and fiscal impact to a state & community. Deal closing funds are mostly financed through periodic general fund appropriations. In a world where cash is king and business recruitment highly competitive for select projects, a deal closing fund is a highly effective economic incentive program that contributes cash to bring closure to a deal and win the business.

Due to the current budget deficits seen across the U.S., well-financed and active deal closing funds are few and far between. The Texas Enterprise Fund is the most plentiful, active, and highly marketed deal closing fund among the states. Arkansas, Florida, Louisiana, North Carolina, and Virginia have established deal closing funds and have been actively funding projects during 2010. The table on one of the following pages outlines these best practices in state deal closing funds and highlights each program's benefits, eligibility requirements, and other thresholds.

Texas Enterprise Fund

The Texas Enterprise Fund (TEF) was established in 2003 to actively recruit high impact economic development prospects to the State of Texas. Between 2003 and 2010, TEF has allocated more than $383 million in grants to companies that are projected to create over 56,000 new direct jobs and $14 billion in capital investment. Currently, about $190 million remains available in the TEF.

During 2008 and 2009, Texas has continued to attract significant economic development prospects to the State despite the national recession. A selection of these prospects includes Medtronic's regional headquarters to San Antonio (1,384 jobs, $23 million investment, TEF grant of $6 million), HelioVolt's solar panel manufacturing plant to Austin (158 jobs, $63 million investment, TEF grant of $1 million), and Caterpillar's engine assembly plant to Seguin (1,714 jobs, $176 million investment, TEF grant of $8.5 million).

The Governor's funding committee evaluates TEF grant requests based on the expected return on investment to the state. This analysis looks at number of jobs, annual payroll, capital investment, financial strength of the company, industry sector outlook, local participation with incentives, and private funding match. At the end of the day, the final decision of each TEF grant request is made by the Governor, Lieutenant Governor, and Speaker.

The typical TEF grant averages $4,875 per job or 1.4% of capital investment. These metrics tend to go up or down depending on a company's job creation and projected capital investment. These per-job and per-investment metrics can vary and grants are customized to fill a funding gap for each project. Interstate competition is required, payout terms tend to be two to three years, and clawbacks are necessary component to ensure the State's return on investment. The return on investment is between 4-to-1 and 8-to-1.

Arkansas Governor's Quick Action Closing Fund

In Arkansas, the Governor's Quick Action Closing Fund is a discretionary grant program used to lure economic development prospects with significant job creation and capital investment. The Arkansas Legislature started this Fund in 2008 with $50 million. The Fund was reauthorized during the 2009 session with another $50 million.

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Florida Quick Action Closing Fund

Florida's Quick Action Closing Fund (QACF) was created in 1999 as a discretionary grant incentive program to attract, retain, and provide favorable conditions for growth of certain high-impact business facilities to the state. As of the date of this report, about $13.5 million is available in the QACF. Statute requires a minimum 5-to-1 return on investment for all QACF awards.

Louisiana Economic Development Loan Program

The Economic Development Loan Program (EDLOP) is Louisiana's version of a deal closing fund. EDLOP is a discretionary incentive program that provides cash grants to high impact economic development prospects. Cash grants are structured as forgivable loans to ensure the State's return on investment. The principal and interest payments on a forgivable loan are paid in full each year a company creates and maintains a pre-determined level of jobs, payroll, and capital investment. EDLOP grants are offered at the discretion of the Governor and Secretary of Economic Development.

North Carolina Job Development Investment Grants & One NC Fund

North Carolina has two deal closing funds - Job Development Investment Grants (JDIG) and the One NC Fund. These discretionary incentive programs provide cash grants to high impact economic development prospects. One NC Fund is an upfront cash grant program that requires a 50% match from the community of county. JDIG is not an upfront cash grant program but is designed to provide annual cash grants based on the projected annual withholding taxes. Similar to a payroll rebate program, JDIG benefits can equal up to 75% of annual withholding taxes up to 12 years. The North Carolina Legislature enacted a $15 million annual limit for JDIG payments per year. Grants are offered at the discretion of the Governor and Secretary of Economic Development.

Virginia Governor's Opportunity Fund

The Governor's Opportunity Fund in Virginia was created in 1992 as a discretionary grant incentive program to attract significant employers. As of the date of this report, about $20 million is available.

Other Key Features & Observations

These deal closing funds are discretionary and certain industries are eligible. The allowable industries are considered basic industries such as manufacturing, wholesale distribution, headquarters, and other basic industries that generate a majority of revenue / sales from out of state. Each of the programs requires average wages above the county average wage, local support with incentives, private funding match, and but-for situation. The but-for situation simply means there must be interstate competition and without the incentives the company would not locate in the state.

The funding committees for each deal closing fund run an economic and fiscal impact model to best ascertain a project's return on investment. Due to scarce funding, investment of deal closing fund dollars is focused on projects that will generate the highest return on investment to the State while strategically targeting industries of interest and regions of the state.

All in all, these deal closing funds are designed to be revenue-positive typically over a 4- to 7-year period of time.

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Best Practices
State Deal Closing Fund Programs

State	Program Name	Type	Benefits & Uses of Funds	Eligibility Criteria	Clawbacks	Funding Mechanism
Texas	Texas Enterprise Fund	Discretionary	* Cash Grant * Grants offered at the discretion of the Governor; * Grants average $6,800 per new job (range from $2,000 to $10,000); * Grants intended to offset capital investment, infrastructure, job training, and/or other approved uses. * 2 to 3 year payout term	* Basic industry * Significant return on the State's investment * Local support with incentives Decision Criteria * Job creation and wages * Capital investment * Financial strength of applicant * Business history * Business sector outlook & analysis * But-for requirements	Yes	Annual appropriation from General Fund * Started in 2003 with $295 million and reauthorized in 2005 with $180 million;
Arkansas	Governor's Quick Action Closing Fund	Discretionary	* Cash Grant * Grants offered at the discretion of the Governor; * Grants intended to offset capital investment, infrastructure, job training, and/or other approved uses. * 1 to 2 year payout term	* Basic industry * Significant job creation, payroll generation, and capital investment * Significant return on the State's investment * Local support with incentives * Average wages above the county average * But-for requirement	Yes	Annual appropriation from General Fund * Started in 2008 with $50 million. Reauthorized in 2009 with $50 million;
Florida	Quick Action Closing Fund	Discretionary	* Cash Grant * Grants offered at the discretion of the Governor; * Grants intended to offset capital investment, infrastructure, job training, and/or other approved uses. * 1 year payout term (typically)	* Basic industry * Significant job creation, payroll generation, and capital investment * Significant return on the State's investment * Local support with incentives * Average wages at least 25% above the county average * But-for requirement * Requires a 5-to-1 payback ratio	Yes	Annual appropriation from General Fund * 2009 funding at $13.5 million
Louisiana	Economic Development Loan Program (EDLOP)	Discretionary	* Cash Grant / Forgivable Loan * Grants offered at the discretion of the Governor and Secretary of Economic Development; * Grants intended to offset capital investment, infrastructure, job training, and/or other approved uses. * 1 to 3 year payout term (typically)	* Basic industry * Significant return on the State's investment * Local support with incentives * Average wages at least the county average * But-for requirement * Requires a business to maintain operations in the State for 150% of the term of the award	Yes	Recurring appropriation from General & Special Funds and/or GO Bonds
North Carolina	Job Development Investment Grants (JDIG) and One NC Fund	Discretionary	* Cash Grant * Grants offered at the discretion of the Governor and Secretary of Economic Development; * Grants intended to offset capital investment, infrastructure, job training, and/or other approved uses. * 1 to 12 year payout term	* Basic industry * Significant return on the State's investment * Local support with incentives * Average wages at least the county average * But-for requirement * Requires a business to maintain operations in the State for 150% of the term of the award	Yes	One NC Fund Biennial Appropriation JDIG * Pay-for-performance based on % of withholding taxes * Legislative limit of $15 million annual gross allocation
Virginia	Governor's Opportunity Fund	Discretionary	* Cash Grant * Grants offered at the discretion of the Governor; * Grants intended to offset capital investment, infrastructure, job training, and/or other approved uses. * 1 to 2 year payout term	* Basic industry * Significant job creation, payroll generation, and capital investment * Significant return on the State's investment * Local support with incentives * Average wages above the county average * But-for requirement	Yes	Annual appropriation from General Fund * Started in 1992. 2009 funding at $20 million

Source: CBRE Economic Incentives Group.

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RETENTION INCENTIVE PROGRAMS

Nearly all statutory and discretionary state incentive programs are designed to subsidize the creation of the new jobs, new payroll, and new capital investment. These programs inherently cannot support the retention of major employers and their corresponding on-going generation of tax revenues in a state. Even the payroll rebate and deal closing fund programs previously discussed focus on net new business recruitment.

There are only five state incentive programs designed to target business retention. These best practices are found in Illinois, Indiana, Kentucky, Michigan, New Jersey, and Ohio. The table on one of the following pages outlines these best practices in state retention incentive programs and highlights each program's benefits, eligibility requirements, and other thresholds.

Illinois EDGE

The retention incentive program in Illinois is called EDGE – or Economic Development for a Growing Economy. The EDGE Program is a discretionary incentive program that awards corporate income tax credits equal up to 100% of withholding taxes for up to 10 years. The percentage of withholding taxes and term of the incentive is dependent on the number of jobs and average wage compared to the county average wage as well as the economic impact of the company on the state and community.

Retention incentive offers are tied to basic industries only. An eligible company must retain at least 25 jobs, pay an average wage equal to at least the county average, and invest $5 million in new capital investment into the existing facility. Companies receiving EDGE tax credits will be required to maintain operations and retain a pre-determined number of jobs for a period of time. Penalties are negotiable on a case by case basis.

Indiana EDGE

The retention incentive program in Indiana is also called EDGE – or Economic Development for a Growing Economy. The EDGE Program is a discretionary incentive program that awards corporate income tax credits equal up to 100% of withholding taxes for up to 10 years. The percentage of withholding taxes and term of the incentive is dependent on the number of jobs and average wage compared to the county average wage as well as the economic impact of the company on the state and community.

Retention incentive offers are tied to manufacturing, business services, and R&D only. An eligible company must retain at least 35 jobs and pay an average wage equal to at least 105% of the county average. Minimum payroll to be maintained and any new capital investment are determined on a case by case basis. Companies receiving EDGE tax credits will be required to maintain operations and retain a pre-determined number of jobs for two years beyond the term of the EDGE award. For example, if the EDGE award provides eight years of tax credits, the company is subject to a retention period of 10 years. Penalties are negotiable on a case by case basis.

Kentucky Reinvestment Act

The retention incentive program in Kentucky is called the Kentucky Reinvestment Act (KRA). The KRA Program is a discretionary incentive program that awards corporate income tax credits up to 10 years and equal to (a) not more than 50% of approved capital costs and (b) not more than 100% of training costs to upgrade the skills of existing employees. The approved tax credit benefits are dependent on the number of jobs and average wage compared to the county average wage as well as the economic impact of the company on the state and community.

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Retention incentive offers are tied to manufacturing and related manufacturing operations such as storage, warehousing, distribution, and related office facilities. An eligible company must retain at least 85% of the employment level in the previous year and incur at least $2.5 million in new capital investment. Minimum payroll to be maintained is determined on a case by case basis. Companies receiving KRA tax credits will be required to maintain operations and retain a pre-determined number of jobs for a negotiated retention period. Clawbacks are negotiable.

Michigan MEGA Retention Tax Credit Program

The retention incentive program in Michigan is called the MEGA Retention Tax Credits. MEGA is the Michigan Economic Growth Authority and has the statutory authority to promote economic development in the State of Michigan. The MEGA Retention Tax Credit Program is a discretionary incentive program that awards corporate income tax credits equal up to 100% of withholding taxes for up to 20 years. The percentage of withholding taxes and term of the incentive is dependent on the number of jobs and average wage compared to the county average wage as well as the economic impact of the company on the state and community.

Retention incentive offers are tied to manufacturing, mining, R&D, wholesale and retail trade, film & digital media, office operations, and some tourism projects. An eligible company must retain at least 50 jobs, pay an average wage at least 150% of the federal minimum wage, and make a capital investment of at least $50,000 per retained job. Companies receiving tax credits will be required to maintain operations and retain a pre-determined number of jobs for a negotiated retention period. Clawbacks are negotiable.

New Jersey Business Retention and Relocation Assistance Grant

The retention incentive program in New Jersey is called the Business Retention and Relocation Assistance Grant (BRRAG). The BRRAG Program is a discretionary incentive program that awards corporate income tax credits equal up to $1,500 per retained job. An eligible company must retain at least 50 jobs and pay an average wage at least equal to the county average wage. Minimum payroll, minimum capital investment, and allowable industries are negotiable. Companies receiving tax credits will be required to maintain operations and retain a pre-determined number of jobs for five years. Clawbacks include 100% recapture of tax credits if a company does not maintain operations for the five-year retention period.

Ohio Job Retention Tax Credit Program

The retention incentive program in Ohio is also called the Job Retention Tax Credit Program (JRTC). The JRTC Program is a discretionary incentive program that awards corporate income tax credits equal up to 75% of withholding taxes for up to 10 years. The percentage of withholding taxes and term of the incentive is dependent on the number of jobs and average wage compared to the county average wage as well as the economic impact of the company on the state and community.

Retention incentive offers are tied to manufacturing, headquarters, and other administrative offices. An eligible company must retain at least 500 jobs and make a minimum capital investment of $50 million for manufacturing facilities and $20 million for headquarters/administrative operations. Minimum payroll and the overall minimum average wage are negotiable. Companies receiving JRTC tax credits will be required to maintain operations and retain a pre-determined number of jobs for negotiated number of years. Clawbacks are negotiable on a case by case basis. The Ohio Legislature implemented a $13 million annual cap for the JRTC Program.

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Other Key Features & Observations

The states offering these retention incentive programs have a significant amount of discretion at offering retention incentives compared to most other state incentive programs. Each program has a but-for requirement. The primary consideration is if the company can prove the existing operation is not economic feasible without the incentives.

These retention incentive programs allow tax credits to be converted to cash (with the exception of Kentucky). Illinois, Indiana, New Jersey, and Ohio allow retention tax credits to be transferred / sold to unrelated third party investors. These investors typically exchange cash for the tax credits at a negotiated discount to the actual value of the credits. For example, an investor could agree to purchase retention tax credits for 75 cents on the dollar. For $1 million in retention tax credits, a company could receive $750,000 in upfront cash. In addition, Michigan and Indiana are the only states that issue refundable tax credits. If a company does not have sufficient state tax liability in the year the tax credit is earned, any unused retention tax credits will be refunded by the state in the form of a cash check. Kentucky does not allow tax credits to be refunded or transferred.

Based on the CBRE Economic Incentives Group's experience in negotiating retention incentive packages, these best practices have proven to be an effective and fiscally responsible way to retain existing business.

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Best Practices
State Retention Incentive Programs

State	Program Name	Type	Benefits	Eligible Industries	Minimum Requirements	Wage Threshold	Clawbacks	Funding Mechanism
Illinois	<u>**EDGE**</u> Economic Development for a Growing Economy	Discretionary	* Tax credit * Up to 100% of withholding taxes * Up to 10 years * Transferable	* Manufacturing * Services * Companies with a significant % of revenue from out of state	1) Basic industry 2) Minimum retained jobs => 25 3) Minimum wage => Discretionary 4) Minimum new payroll => Discretionary 5) Minimum capital investment => $5m 6) Health Insurance => Discretionary 7) But-for Test => Yes 8) Retention Period => Discretionary	Discretionary	Yes Discretionary recapture if business does not maintain retained jobs for retention period	* Based on % of withholding taxes and employer paid health benefits
Indiana	<u>**EDGE**</u> Economic Development for a Growing Economy	Discretionary	* Tax credit * Up to 100% of withholding taxes * Up to 10 years * Transferable and refundable	* R&D * Manufacturing * Business services	1) Basic industry 2) Minimum retained jobs => 35 3) Minimum wage => 105% of County average wage in the same industry 4) Minimum new payroll => Discretionary 5) Minimum capital investment => Discretionary 6) Health Insurance => Discretionary 7) But-for Test => Yes 8) Retention Period => 2 years beyond term	Discretionary	Yes Discretionary recapture if business does not maintain retained jobs for retention period	* Based on % of withholding taxes and employer paid health benefits
Kentucky	Kentucky Reinvestment Act	Discretionary	* Tax credit * Up to 50% of approved capital costs and 100% of job skills upgrade training costs * Up to 10 years * Not transferable; Not refundable.	* Manufacturing * Related manufacturing functions including storage, warehousing, distribution, and related office facilities;	1) Basic industry 2) Minimum retained jobs => 85% of previous year's employment 3) Minimum wage => Discretionary 4) Minimum new payroll => Discretionary 5) Minimum capital investment => $2.5m 6) Health Insurance => Discretionary 7) But-for Test => Yes 8) Retention Period => Discretionary	Discretionary	Yes Discretionary recapture if business does not maintain retained jobs for retention period	Tax credit
Michigan	MEGA Retention Tax Credits	Discretionary	* Tax credit * Up to 100% of withholding taxes and employer-paid health care benefits (adjusted by personal income tax rate) * Up to 20 years * Refundable	* Manufacturing * Mining * R&D * Wholesale and trade * Film & digital media * Office operations * Certain tourism projects	1) Basic industry 2) Minimum retained jobs => 50 3) Minimum wage => At least 150% of Federal minimum wage 4) Minimum new payroll => None 5) Minimum capital investment => * $50,000 per retain job * Real & personal property investment 6) Health Insurance => Offered to FTEs 7) But-for Test => Yes 8) Retention Period = Discretionary	Yes 150% of federal minimum wage	Yes	* Based on % of withholding taxes and employer paid health benefits * No known tax credit allocation cap
New Jersey	<u>**BRRAG**</u> Business Retention and Relocation Assistance Grant	Discretionary	* Tax credit * Up to $1,500 per retained job * Transferable	Discretionary	1) Basic industry 2) Minimum retained jobs => 50 3) Minimum wage => At least County average 4) Minimum new payroll => Discretionary 5) Minimum capital investment => Discretionary 6) Health Insurance => Discretionary 7) But-for Test => Yes 8) Retention Period => 5 years	Yes Meets or exceeds County average wage	Yes 100% recapture if business does not maintain retained jobs for 5 years.	* Tax credit allocation cap is $20m annually
Ohio	<u>**JRTC**</u> Ohio Job Retention Tax Credits	Discretionary	* Tax credit * Up to 75% of withholding taxes * Up to 10 years * Transferable	* Manufacturing * Headquarters * Administrative offices	1) Basic industry 2) Minimum retained jobs => 500 3) Minimum wage => Discretionary 4) Minimum new payroll => Discretionary 5) Minimum capital investment => * Manufacturing = $50m * Headquarters/Admin = $20m 6) Health Insurance => Discretionary 7) But-for Test => Yes 8) Retention Period => 7 years or term of tax credit plus 3 years.	Discretionary	Yes Discretionary recapture if business does not maintain retained jobs for retention period	* Based on % of withholding taxes * Tax credit => $13m annual cap + unallocated tax credits from previous year

Source: CBRE Economic Incentives Group.

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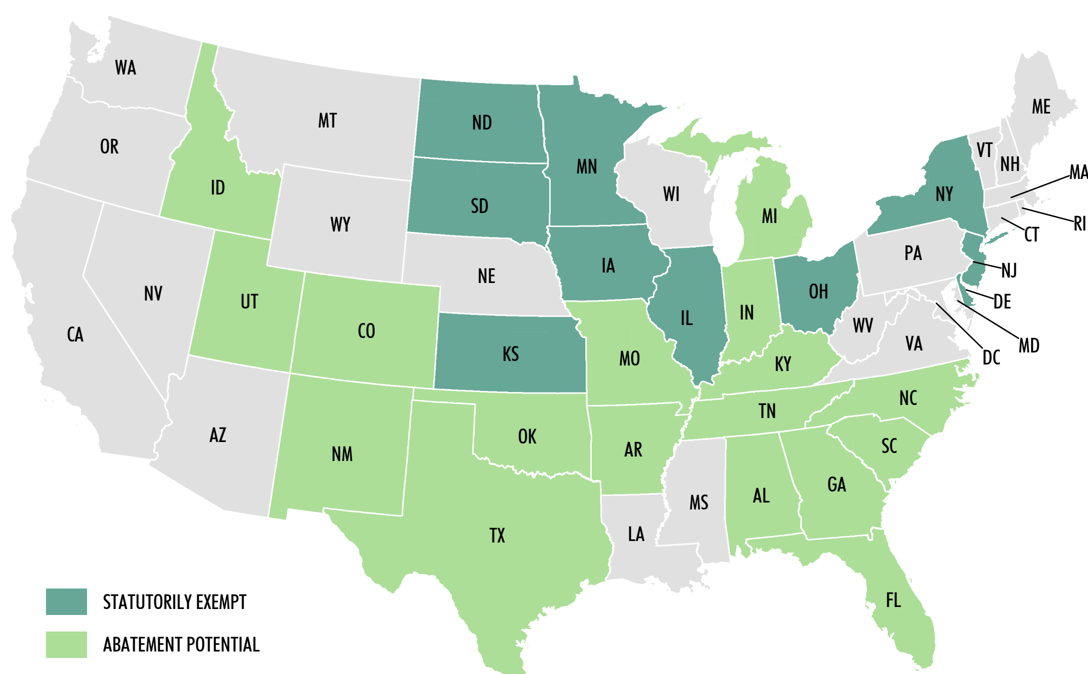
BUSINESS PERSONAL PROPERTY TAX EXEMPTION

Recognizing the need to help reduce a company's total cost of doing business, about 10 states have statutorily eliminated ad valorem taxes on business personal property for commercial and industrial uses. This means that neither a municipality, county, nor school district accrue property tax revenue from business personal property. The statutorily exempt states include Delaware, Illinois, Iowa, Kansas, Minnesota, and New Jersey. Other states include New York, North Dakota, Ohio, and South Dakota.

Additionally, there are 16 states that have granted counties and municipalities the ability to offer discretionary abatement of business personal property taxes. Abatement incentives can typically range anywhere from 20% to 100% for up to 10 years in these states. Abatements apply to municipal and county property taxes only. School district property taxes are not allowed to be abated with a few exceptions.

The states that allow for local abatement of property taxes on business personal property include Alabama, Arkansas, Colorado, Florida, Georgia, Idaho, Indiana, and Kentucky. Other states include Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Utah.

BUSINESS PERSONAL PROPERTY TAX INCENTIVES



SOURCE: CBRE ECONOMIC INCENTIVES GROUP

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TAX INCREMENT FINANCING

49 states and the District of Columbia have enabled the use of Tax Increment Financing for qualified economic development opportunities. Arizona is the only state without a tax increment financing law.

Tax Increment Financing (TIF) allows cities to help offset a company's start-up investment by capturing increased property tax revenues generated by an economic development project. These tax revenues are used to pay back city funds (with interest) injected at the front end of the development of new industrial or commercial facilities. TIF may be used to offset the cost of public improvements and utilities that will serve the new private development, to finance direct grants or loans to a company, or to provide the local match for federal or state economic development assistance programs. There are three general ways that cities finance TIF projects.

Bond Financing: Cities that wish to quickly spur development often issue municipal bonds to provide upfront financing for TIF projects. The net new tax revenue from the new development is used to pay off the bonds.

City Pay-As-You-Go: A city can specially designate an area or district that is already slated for new development and increasing property values. TIF allows the city to reinvest the increased property tax revenues from this specially designated area into other projects elsewhere in the same area or district. On an annual basis, the city estimates how much the area's tax revenue will increase and can fund improvements based on these estimates.

Developer Pay-As-You-Go: In situations where one company is leading an economic development project, a city may rely on the company to finance its own improvements. The city and company enter into a reimbursement agreement where a negotiated proportion of future net new property tax revenues generated by the project are paid directly to the company until all debts are paid off.

While bond financing is the most popular TIF method, properly implemented pay-as-you-go options are generally considered less risky of all three options because of the zero opportunity cost feature. Expenditures are closely tied to the amount of net new tax revenue generated by an area or district. The main taxing jurisdictions in a region (city, county, school districts) become partners in development and ensure the completion of project that would not occur but for the public participation. Once all the project costs are repaid, the TIF designation for a project is terminated and all of the taxing jurisdictions receive tax revenue from the full improvement value (original plus new investment).

Overall, TIF can be a highly effective and zero opportunity cost economic development tool for communities to spur development that otherwise would not occur. In addition to increasing property value growth, TIF projects can create new jobs and payroll, act as a catalyst for further development, and leverage other funding sources (federal/state grants, foundation contributions, private matches) to fill financing gaps.

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NEW INCENTIVE PROGRAMS ENACTED DURING 2009 AND 2010

Despite projected state budget deficits across the U.S., 9 states proactively passed new legislation during 2009 to enhance existing incentive programs or enact new programs. These states continue to look for ways to remain competitive in business recruitment and retention. The states that passed incentive legislation during 2009 include Arizona, Virginia, Arkansas, Colorado, New Jersey, Oklahoma, Kentucky, Kansas, and Missouri.

- Arizona passed the Renewable Energy Tax Incentive program to provide corporate income tax credits and property tax reductions to renewable energy manufacturing and headquarters operations.
- Virginia added funding to the Governor's Opportunity Fund.
- Arkansas added funding to the Quick Action Closing Fund.
- Colorado passed the Job Growth Incentive Act which allows corporate income tax credits to businesses that otherwise would not locate in Colorado.
- New Jersey passed the Economic Stimulus Act of 2009. A new revitalizing grant program was established to allow financing of redevelopment through net new tax revenues. In addition, the Urban Transit Hub Tax Incentive Program was enacted to provide corporate income tax credits to promote capital investment and development near mass transit centers.
- Oklahoma passed the 21st Century Quality Jobs Act to attract high wage jobs to the State of Oklahoma. The incentive is based on the standard Quality Jobs Program which provides a payroll rebate for qualifying jobs.
- Kentucky passed the Incentives for a New Kentucky Bill. This bill consolidated a number of existing incentive programs into one enhanced incentive program.
- Kansas passed the PEAK Act which provides payroll rebates to companies that relocate a major operation from outside the state into Kansas.
- Missouri enhanced its existing Quality Jobs Program to increase the annual cap of tax credits allowed under the Program. In addition, Missouri passed the Build Act which provides refundable tax credits and below-market financing to a company in lieu of the creation of new jobs and payroll.

Overall, enacting new economic incentive programs during a recession is not a new thing. There is recent precedent.

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E. FINAL THOUGHTS

For many decades, some states' economic development strategy loosely consisted of its quality of life, sunshine, good transportation system, skilled workforce, and pro-business governments just to name a few. Times have changed and most states find themselves behind the curve when it comes to strategic economic development. States east of the Mississippi River are providing a broader palette of more flexible economic incentive tools designed to have "real time" influence on business decisions. In combination with aggressive and strategically targeted business development efforts, these incentive tools have been implemented to respond to a company's primary concern of finding the best overall net economic opportunity. From a corporate site selection standpoint, harnessing the value of State and local incentives can make a good business case better and enhance the economic viability of an operation. The trick with the world of incentives is asking the right questions to the right people.

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Economic Incentives Group

States across the United States compete to attract, recruit and retain corporations that will expand business and investment within their boundaries. Economic incentives can greatly enhance a company's return on investment and continue to play a significant role in the location and investment decisions of corporations. Serving clients in all industries, the Economic Incentives Group of CB Richard Ellis offers a proven quantified approach which delivers the following client benefits:

- Reduced start-up costs
- Lower operating costs
- Less federal and state tax liability
- Lower risk from clawbacks and conditions
- Subsidize job training and recruitment assistance

Since 2004, the Economic Incentives Group has created over $700 million in economic incentive savings for clients in all industries across the Unites States and Canada.

ECONOMIC INCENTIVES GROUP MISSION:

To maximize and secure significant financial incentives, tax incentives and economic incentives for all industries relocating business or expanding business within the United States and Canada.

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