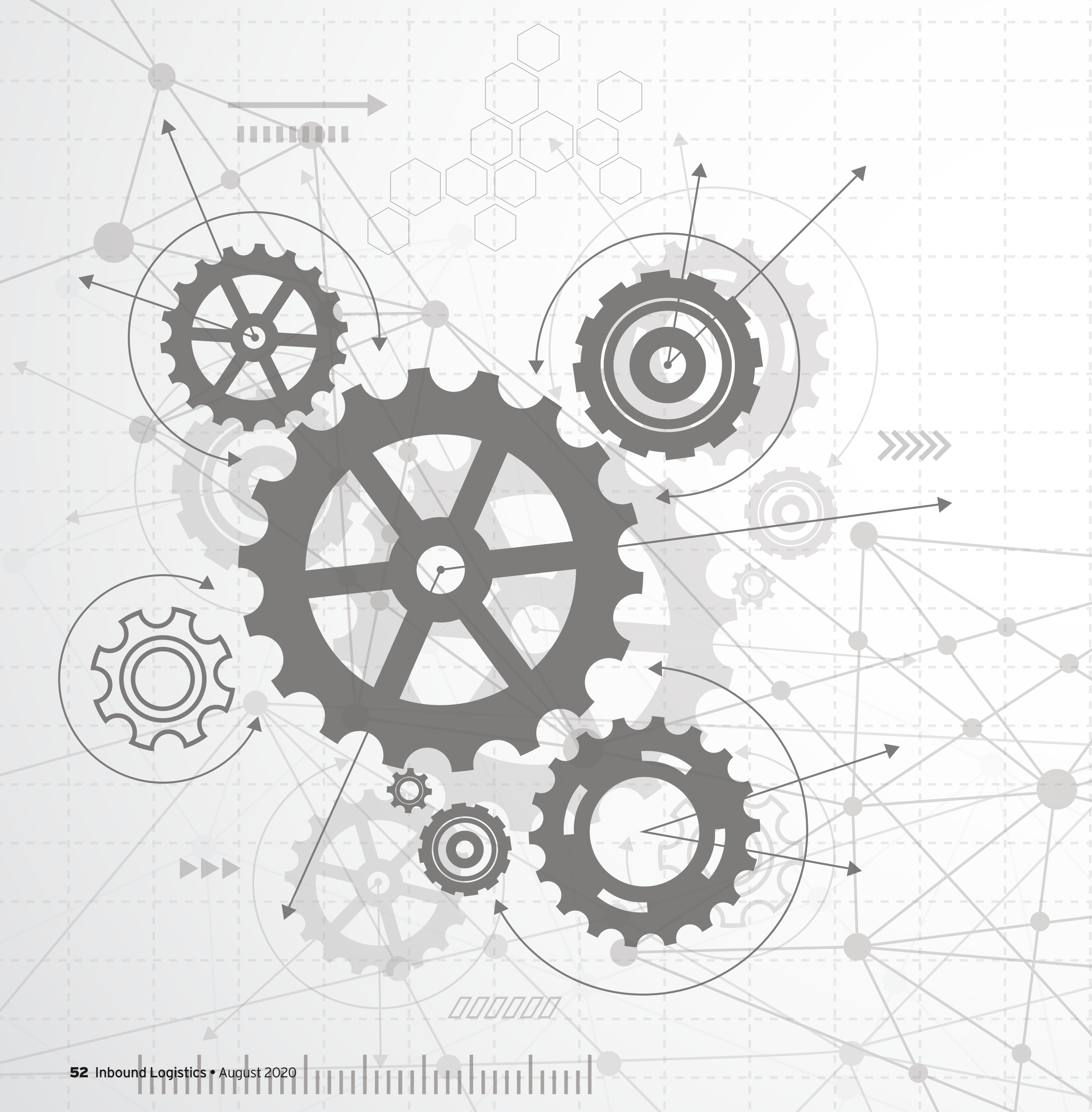
Economic Development in High Gear

Incentives Propel Projects Forward



Regional organizations draw companies to their sites with incentive packages and other enticements, securing site selection decisions and driving investment.

Site selection requires companies to examine and analyze an array of crucial components in depth. Among these myriad elements, the incentive package often plays an integral role in the final decision.

Incentives frequently enter the decision-making process after a company identifies qualified locations. At that point, incentives become instrumental for their potential cost savings and cost avoidance impact on other site criteria, says Linda Burns, incentives practice leader for Wadley Donovan Gutshaw Consulting, a Bridgewater Township, New Jersey-based advisory services provider for location decisions.

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Private and public officials welcomed Aircraft Solutions to the Global TransPark in Kinston, North Carolina, on Dec. 19, 2019. ElectriCities worked with Aircraft Solutions for two years to bring them to North Carolina. The aircraft recycling company will invest nearly $100 million into Kinston, creating 475 jobs. ***Pictured from left to right: Jim Trogdon, secretary, Dept. of Transportation; John Rouse, executive director, Global TransPark; Dontario Hardy, mayor of Kinston; Gov. Roy Cooper; and Sven Daniel Koechler, Ph.D., general manager of Aircraft Solutions.***

Incentives play an increasingly prominent role in site selection since the pandemic because companies are considering factors such as financing and loan guarantees earlier as part of a site's business case, says Jason Hickey, president and CEO of Hickey & Associates, a Minneapolis-based site selection company. This is also true because companies need more support to hire, train, and retain workers than ever before.

"Companies need more help to make site selection decisions on the financial side, and incentives go way beyond just the tax breaks and the grants that make the news," Hickey says. "There are many other factors that transcend the more stereotypical or traditional incentive base."

The value of specific incentives varies depending on a company's needs. Incentives that can be quickly realized typically are more attractive, but some locations may be able to provide a greater total benefit with longer terms, such as through property tax abatement, tax credits, or utility discounts, notes Brandon Talbert, managing director of Austin Consulting, site selection consultants based in Cleveland.

Tax credits that can be refunded or sold at near-market value are attractive to companies, particularly those that do not carry the tax liability to fully utilize the credits.

Among the most appealing incentives, "cash is still king, especially in the current economic climate," Burns says.

"The ability to negotiate a cash grant incentive brings the greatest benefit to a company, especially if it is performance-based to minimize default recovery," Burns says.

Talbert says he has seen an increased focus on new and expanded workforce training incentives as many businesses struggle to hire and retain qualified workers. Workforce incentives often are directed to regional technical colleges or institutions rather than companies, and their offerings may not translate to a company's specific needs, which may include specialized training.

> **WE WORK WITH DISTRIBUTION COOPERATIVES, MUNICIPALITIES, AND THE STATE TO ENSURE WE ARE PARTICIPATING AS A FULL PARTNER AND OFFER THE APPROPRIATE INCENTIVES FOR EACH INDIVIDUAL PROJECT.**
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> **—Harold Gutzwiller**
> **Manager, Economic Development and Key Accounts**
> **Hoosier Energy**

"States that can offer greater flexibility in targeting incentives in a way that aligns with the company's needs and schedule have a leg up in this area," Talbert says.

The workforce's current prominence as a site selection consideration means "a more forward-looking approach is needed to help companies better prepare to minimize future risks," such as a pandemic, Burns says.

"Regions should work together to develop and promote labor talent pipelines to support retention of existing businesses and recruit others," Burns says. "State and county-based incentive programs should be modified to return to earlier practices where the cash was given directly to the companies versus channeled through community colleges or managed via state training."

Incentive packages often emerge from a cohort of community partners. The stalwart efforts of two regional power organizations demonstrate the value of that kind of collaborative commitment to economic development.

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Grain Processing Corp. broke ground in 2019 on the $70-million expansion of its plant in Washington, Indiana. It received economic development assistance from Hoosier Energy, a generation and transmission electric cooperative based in Bloomington, Indiana.

A VALUABLE PARTNER

ElectriCities of North Carolina is a not-for-profit membership organization comprising public power communities in North Carolina, South Carolina, and Virginia and providing management services to North Carolina's two municipal power agencies. As part of its efforts, ElectriCities supports its communities with an in-house economic development team that provides a variety of services, including extensive site selection advocacy to attract business investment.

Brenda Daniels, manager of economic development for ElectriCities, says its services are free to companies and site selectors considering North Carolina for a project.

"We will make sure that site selectors are picked up at the airport and taken to each site to meet with the county and/or municipality and at some point with state officials," Daniels says.

A recent success story for ElectriCities came at the end of 2019 when Aircraft Solutions, an aircraft recycling company, announced plans to invest nearly $100 million into the community of Kinston, creating 475 jobs. Aircraft Solutions' new center will be located at the Global TransPark—a 2,500-acre multimodal industrial property. Daniels says ElectriCities worked with the company for two years to bring them to North Carolina.

"After intensive research and great support from various sites, such as the ElectriCities Business Relocation Program, as well as excellent communications with each of the involved public departments, we are confident that Global TransPark is the right location for our tremendous project," said Sven Daniel Koechler, Ph.D., general manager of Aircraft Solutions USA Inc., at the time of the announcement.

SMART CERTIFICATION

ElectriCities' Smart Sites program is a major incentive for companies considering the area. If they pass a rigorous engineering review, pieces of property in public power communities across the state are designated as "Smart Sites," meaning they are ready for new tenants. The certified sites program eliminates approximately six months of work for clients, Daniels says. All engineering work is completed. A key aspect of Smart Sites is each property's on-site municipal electric service; sites also have water and sewers within 500 feet and are within five miles of an interstate or interstate-quality highway.

"It adds up to encourage faster construction with fewer uncertainties and less risk," Daniels says. "It is effective for those companies looking to identify the one site for their new facility quickly since all the work has been completed."

ElectriCities also offers funding for community improvement projects that can help attract economic development. For instance, its Smart Communities Grant is a matching grant of up to $5,000 for anything related to economic development within its member communities. The more extensive Downtown Revitalization Grant is offered at the $10,000 non-matching level and dedicated for projects in downtown districts.

ElectriCities collaborates with local partners to develop incentive packages for companies considering the area.

"We work directly with our members on their incentives and then work with the counties on helping match the incentives for the clients," Daniels says. "We try to encourage them to provide the best package first rather than waiting for the company to come back for another round. Sometimes you don't get that chance."

GENERATING INCENTIVES

Hoosier Energy, a generation and transmission electric cooperative based in Bloomington, Indiana, can offer an array of incentives tied to electrical power to businesses considering its region for a new site or investing in improvements to an existing one.

Those incentives start with economic development riders (EDR) that discount electric costs for facilities for a period of six years.

Harold Gutzwiller, manager of economic development and key

TOA, a Japan-based auto parts supplier, began a $72-million expansion of its plant in Mooresville, Indiana, in 2014 with the support of Hoosier Energy and other regional partners.

accounts for Hoosier Energy, says the EDRs have proved helpful in attracting businesses to the cooperative's region.

Hoosier Energy provides wholesale power and services to 18 member distribution cooperatives in central and southern Indiana and southeastern Illinois. The cooperative's energy resources deliver power through a nearly 1,700-mile transmission network.

SUBSTANTIAL BENEFITS

"Projects we participated in with the EDR have resulted in hundreds of millions of dollars of new investment and created thousands of new and retained jobs," Gutzwiller says.

The discounts start at 30% in year one and decrease by 5% per year. The average savings over the six-year period is 17%. Hoosier Energy currently has "a number of EDRs in force at this time," Gutzwiller says.

"The EDR is particularly helpful for consumers with high energy use," he adds. "With the savings being front-loaded, it is especially helpful to new facilities as they begin operations."

In addition to EDRs, Hoosier Energy has a robust rebate program related to new facility construction and existing facility upgrades to encourage the installation of high-efficiency equipment and lighting. The company has provided millions of dollars in rebates.

"Rebates continue to be popular as commercial and industrial consumers desire to become more efficient in their use of electricity," Gutzwiller says.

FOCUS ON RENEWABLES

Renewable energy is critical to Hoosier Energy's future. Earlier this year, the cooperative's board of directors voted to close its last coal-fired power plant in 2023.

With the closure, Hoosier Energy expects to reduce its carbon footprint by nearly 80% as renewable energy plays a major role in replacing existing coal generation. That emphasis on renewables benefits its customers.

"Hoosier Energy and our member/owner cooperatives offer new and existing consumers a number of renewable options—anything from renewable energy credits to onsite renewable generation," Gutzwiller says.

Among its newer incentives offerings, Hoosier Energy has the capacity to provide a market-based rate for new projects with a minimum demand of 20MW. Hoosier Energy will act as the load-serving entity for the new load.

Ultimately, Hoosier Energy's focus in economic development is about assisting its member/owner distribution cooperatives in their efforts to attract new investment and employment opportunities.

"In this role we work with the distribution cooperatives, municipalities, and the state to ensure we are participating as a full partner and offer the appropriate incentives for each individual project, understanding one size does not fit all," Gutzwiller says.

Crucially, Hoosier Energy has the flexibility to tailor incentives to fit the needs of individual projects.

"Hoosier Energy and our member/owner distribution cooperatives are governed by a board of directors that, if necessary and warranted, can quickly develop individualized incentive packages based on the specific requirements of a project," Gutzwiller says.

WINNING TOGETHER

An incentive package should be "win-win" for both company and community because it's in the parties' best interests that each succeeds, says Hickey.

"There needs to be the right amount of accountability and transparency on both sides of the deal," he says.

In pursuit of win-win agreements, post-performance incentives are on the rise. These incentives kick in after a company has opened a new site and met predetermined milestones. If they don't meet the milestones, companies don't earn the incentives—but they also don't face penalties or clawbacks.

"Companies want to make sure that the government doesn't take on too much risk and governments don't want businesses to take on too much risk," Hickey says. "This is part of that evolution."

Flexibility is an essential element of incentive programs that align with both parties' interests. Locations that tailor their incentives to provide the greatest value to a company will be the most appealing, Talbert says.

"Having the flexibility to tailor incentives that fit a particular project's needs or that target a specific location weakness will send a positive message to the company and can be the difference-maker in their final decision," Talbert says.

Incentive programs must remain in step with trends to properly serve businesses, notes Burns. As an example, she points to the rise of home-based workers.

"This was an increasing trend due to enhancements in technology that have exploded with the onset of the virus pandemic," Burns says. "Economic development organizations must modify their practices and policies to factor in those jobs when determining eligibility and amount of incentive benefits."

The current downturn has illustrated that incentive packages can be undermined with steep penalties when companies fail to comply with an agreement, noting that "penalties or clawbacks at a time when companies are struggling is not ideal for either the company or the location in the long run," notes Talbert.

On that point, Burns says incentive programs should be re-examined and revised in the current environment to increase flexibility and modify existing agreements to avoid default penalties.

Ultimately, incentives are a key element of a site location package but should always be viewed within the full perspective of a site's advantages and shortcomings.

"There is often significant variability in operating costs and one-time costs from one location to another," Talbert says. "Furthermore, selecting a location with suboptimal logistics or that can't support a company's workforce needs, can have significant negative ramifications on the business.

"Conversely," he adds, "selecting the right location can pay dividends for years to come, irrespective of incentives." ■