

Incentives—A Double-Edged Sword

By Robert Nelson and Frank Bennett

For the past thirty years or more, economic and community development organizations have been offering a broad range of incentives designed to attract new industry. In today's competitive environment, it is no longer a question about whether or not to extend an incentive but rather which community can offer the best deal.

Incentives today include: cash rebates of sales taxes; property tax abatement; tax increment financing; free land; free extension of utilities; subsidized rent / below market leases; and in some cases free buildings and employee training/retraining.

The community offering the best incentives often wins out over those who are unable to "match the offer." There is a saying attributed to President Ronald Reagan—*Trust but Verify!* That should be the mantra of every organization actively seeking to locate new businesses in their communities.

As economic developers we need to ask the important questions about the company. "How long have they been in business?" "Why are they looking at your area?" "Is this an expansion or relocation?"

If they are relocating, it is important to know what they are looking for in a new facility that they could not accomplish in their existing location. Do your homework. Relocating companies move for different reasons so it is important to be cautious before you discuss possible incentives. If your organization owns property that you are going to give to the new company make sure you have a reversion clause in the document that allows you to retain ownership if the company ceases operations in your community.

Two stories:

The Good...

A community faced with the possible closure of their local military base offered the US Government free land purchased by the local development organization. The Government accepted the offer and the base was saved. Sixteen years later the base was closed and the

adjoining land was intended to be sold as surplus property. However, the donated land carried with it a reversion clause and was returned to the local development organization instead of being sold.

Five years later the development organization received a substantial cash infusion from the natural gas produced on the site. The organization today still owns the property and the well is still productive.

...The Bad and the Ugly

A rural county of 5,000 faced with the loss of agricultural jobs, furniture manufacturing, and textiles was approached by a telecom manufacturer with a proposal to locate a new plant that would employ 750 people. The state committed \$5 million with the understanding that the local community would match the state's offer by passing a local bond issue for \$15 million.

The company built a new facility and began operations. At the end of its first year, its job objective of 100 new jobs was met. At the end of its second year, the company announced it was having trouble competing in the global marketplace and that it would not be able to maintain its hiring projections. At the end of the third year the company was bankrupt and went out of business leaving the residents of the county with a \$15 million tax bill and a vacant specific use building.

The moral of all this is that while it is important to offer incentives, development professionals MUST protect the citizens of the communities they serve first and foremost.

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