Incentive Negotiations

Incentive negotiations can yield both financial benefits and schedule advantages for a project, but a company needs to understand who offers these incentives and when to negotiate them. Incentives are available for new locations as well as expansions and consolidations. While the specific incentives available vary by location and project, with many subject to negotiation, this Insights piece gives an overview on leveraging incentive negotiations to minimize risk and maximize return on investment for capital projects.

STATUTORY VS. DISCRETIONARY INCENTIVES

There are two types of incentives – statutory and discretionary. **Statutory incentives** are available by right if a company meets certain thresholds or performs certain activities. While statutory incentives are earned, some may require additional paperwork to be completed in order to claim the incentive while others are automatically provided when the thresholds are met.

Discretionary incentives are at an economic development entity's discretion and require advance negotiation and procurement. Many discretionary incentives require a project to be competitive, and in some cases, "but for" the incentive, the investment would not occur. To capitalize on discretionary incentives, all negotiations and documentation should occur prior to any investment such as hiring employees, signing real estate agreements, filing for permits, etc.

EXAMPLES OF THE VARIOUS TYPES OF INCENTIVES

Electric Rate Rider
Potential new investment, and the associated electric load increase, could qualify for an electric rate rider which saves on electric cost for the new load. (A credit is applied to the electric bill.)

Utility and Transportation Infrastructure Upgrades
Upgrades to the infrastructure serving a site that are necessary to enable construction of a new facility or an existing facility expansion are opportunities for incentives. (Grants are available for infrastructure upgrades.)

Expedited Permitting
Economic development projects can often receive expedited permitting review in order to get the project up and running in a quicker timeframe.

Fee Waivers
Waivers for utility connection fees and building permitting costs can be negotiated in some jurisdictions.

Tax Savings
Capital investment incentives for real property (land and building) and personal property (equipment) can significantly reduce the tax liability on new investment for many years. Financial benefits may also be available for the creation of new jobs.

Workforce Training
For new jobs, grants and programs are available to train the workforce for a company. For existing employees, there are often retraining programs available for process improvements such as equipment upgrades or new technology.

NEGOTIATING INCENTIVES

Before beginning incentive negotiations, a company needs to define the project with the location(s) under consideration, the project investment, the number of jobs anticipated, the proposed timeline, etc. The incentives offered by economic development organizations will be based on the project specifications so it's important that these are as accurate as possible.

If the economic development organizations have not been involved at this point, the project will need to be introduced to the appropriate entities. If the economic development organizations are already involved, it will be important to provide updated project specs if anything has changed since the project was originally introduced. At this time, most organizations will require you to disclose the company's identification in order to receive any discretionary incentives.

Once the finalist locations have provided written offers, a company needs to understand which incentives are realizable. For example, a community may offer a company income tax credits, but if the company does not have any tax liability, those credits will not be applicable. At Quest, we run three cost comparison models in order to evaluate the realizable value of financial incentives – the cost before incentives, the value of the incentive package, and the cost after incentives. It is important to note that just because a community has offered the biggest incentive package, does not mean it is the lowest cost location.

Once all negotiations have been completed, it is important for the final details to be documented in an agreement(s) with the applicable entity(ies).

KEY CONSIDERATIONS

As incentives are negotiated for a company building a new facility or expanding an existing facility, there are a few key things to remember. First, understand which incentives will offset your initial costs versus the incentives that will be recurring. For example, fee waivers will offset your upfront costs, but utility rate riders will reduce your electric cost over a period of years.

It's also important to remember that discretionary incentives are only available prior to a project committing to a location. A project becomes ineligible for discretionary incentives if a company makes a public announcement of the location decision, applies for construction permits, or purchases/receives equipment prior to the incentive negotiations.

Just because a company is offered incentives, it does not mean the company can automatically capture or utilize those incentives. It is also important to understand any clawbacks, or recapture provisions, if a company does not meet the required commitments.

While incentives can be lucrative to a project and help offset substantial costs, understanding how the negotiations occur is important to being able to capture all of the available incentives.

Lindsey Cannon is a Director at Quest Site Solutions (Quest) where she assists companies in identifying, evaluating, and selecting the optimal location for their capital investment. Before joining Quest, Lindsey was a Principal with McCallum Sweeney Consulting. With more than 15 years of experience in site selection and economic development, Lindsey provides specialized skills and services to clients in the areas of detailed location evaluations including properties, infrastructure, transportation, labor and demographics, state and local taxes, and incentives.

QUEST
SITE SOLUTIONS
WWW.QUESTSITESOLUTIONS.COM