In September, Amazon announced its search for a second North American corporate headquarters, known as HQ2. The scale and scope of the project — the e-commerce giant is expected to invest more than $5 billion in the facility and employ up to 50,000 high-paid workers — captured not only headlines, but the attention of state and local officials.

A very public competition has ensued, and at least one Midwestern state, Illinois, is right in the middle of it.

“I’m excited about our chances for [landing] HQ2,” Illinois Rep. Mike Zalewski says. Earlier this year, he was part of an effort to reform and reinstate a long-standing Illinois incentives program known as EDGE, which is among the programs that the state could use in its pursuit.

“For every Amazon, there’s a lot more 40- or 50-person manufacturers looking to move to Illinois or to grow their business here, and we want them to succeed,” Zalewski says. “EDGE is designed ... to help both the big fries and the small fries.”

The role of state incentives (tax credits, tax exemptions, grants, low-interest loans, etc.) has gotten increased attention in the Midwest during the latter part of 2017. In September, around the same time Illinois began making its Amazon pitch, Wisconsin was closing the deal on what lawmakers say is the biggest economic development project in that state’s history.

“Foxconn will bring an entirely new industry to Wisconsin and to North America,” Rep. Adam Neylon says. “This is a dawn of a new era in manufacturing. And it’s frankly something that is needed for our economy.” He and other Wisconsin legislators met in special session in August to craft a $3 billion incentive package for Foxconn, which, in turn, has promised to make a $10 billion investment in a new manufacturing facility and create 13,000 jobs, with average annual salaries of more than $50,000. Liquid crystal displays (for electronic devices) will be made at the Wisconsin plant, and Neylon views Foxconn’s presence as a building block for making his state a high-tech manufacturing hub.

“We hope that it will actually be a brain gain for Wisconsin,” he says. “We are going to need the skilled workforce from outside of Wisconsin as well because we simply won’t have the workforce supply to reach [Foxconn’s] full capacity.”

(Funding for workforce development is part of the incentive package.)

Building on economic strengths

The Midwest and its 11 states have some built-in strengths that make them attractive to many large businesses — for example, relatively cheap land, strong workforces, quality schools, plentiful water resources and connected transportation systems.

Specific government policies such as taxes and incentives also can make a difference in site selection. As a result, state lawmakers often get involved in trying to attract a corporate headquarters such as Amazon’s or a big manufacturing company such as Foxconn’s, and the incentives that legislatures create are not without controversy.

Wisconsin’s economic package for Foxconn was the largest in the state’s history, and led to questions about whether the planned new manufacturing facility was worth the $3 billion. A Legislative Fiscal Bureau analysis showed that it would take at least 20 years for the state to realize a return on its investment. However, a separate analysis by Ernst and Young showed different returns when accounting for various spin-off economic activities.

“There is a projected $4.26 billion in new purchases to the supply chain with Foxconn moving in, with at least one-third
having to be spent in Wisconsin,” Neylon says. “People who are judging these deals based only on an equaling out in
government revenues are looking at it in the wrong way,” he adds. “They are looking at how it will benefit government,
and not how it will benefit the supply chain, the infrastructure and [create] good jobs.”

Neylon, chair of the Assembly Committee on Jobs and the Economy, says Foxconn initially became interested in
Wisconsin because of its water resources, workforce and past use of incentives. “But a lot of other states have similar-
type incentives and workforces,” Neylon says, “so what we did was take it a step further by putting together a package
of refundable tax credits.”

Making the credits “refundable” means Foxconn can receive tax refunds (once its tax liability reaches zero). These
credits will be awarded over time, for both building the plant and creating new jobs.

“That number of $3 billion is basically a cap of what is possible for them to receive from Wisconsin; it is not necessarily
the amount that they will receive,” Neylon says. “That will be based on performance.”

For example, under AB 15, only jobs that pay at least $30,000 are eligible to receive tax credits, and the average
annual salary at the plant must be $53,900. The incentive agreement also requires Foxconn to meet employment
targets: 5,200 jobs by 2022; 10,400 by 2027; and 13,000 by 2032. Foxconn’s owner will be personally responsible for
paying 25 percent of the penalty if the company fails to meet these job numbers. According to Neylon, this inclusion of
performance standards and clawback provisions was essential to garnering support inside the Legislature.

Landing the ‘big fish’

The end result for Wisconsin was landing the Foxconn plant, and Illinois is hoping for a similar outcome in its pursuit of
Amazon’s second corporate headquarters. “The concept of the large incentive package for a big fish is nothing new,”
says Chris Magill, who works in Ohio as economic development director for the consulting firm Ice Miller, which assists
the public and private sectors with site selection and growth strategies.

The difference in the Amazon case, he says, is the manner in which the company gave everybody the opportunity to
compete by submitting a bid. “That type of activity is going to bring the entire incentives game to the forefront,” Magill
says. Amazon reports having received 238 proposals from jurisdictions in nearly every state in the nation, as well as
north and south of the U.S. border.

The fact that Illinois is a legitimate contender amid all of these proposals, Rep. Zalewski says, “helps solidify our
reputation as an incubator for tech jobs.” Illinois has suggested 10 Chicago-area locations as potential sites, and though
the announced proposal to land Amazon did not include detail on the incentives, they are likely in the multibillion-dollar
range. Part of the package will likely involve Illinois’ reworked EDGE tax credit, which is the primary tool that the state
can use to attract a business such as Amazon.

Before passage of HB 162 in September, however, EDGE had been allowed to expire, a reflection of concerns among
lawmakers about the program and its efficacy. For example, was there enough evidence of job creation and growth from
the tax credits? Was there enough transparency about how tax dollars were being used?

The EDGE tax credit began in 2001 and, before expiring in April, had awarded more than $1.4 billion worth of tax credits
through 859 agreements with businesses. According to the Illinois Department of Development and Economic
Opportunity, over the program’s initial 15 years, EDGE tax credits helped create approximately 37,000 jobs.

Some lawmakers, though, questioned whether the evidence of job creation/growth was so clear. Still, this year’s HB 162,
which revived EDGE while making changes to the program, received bipartisan support. Under the law, businesses
receive a corporate income tax credit of either 50 percent of the additional income tax withholdings from new
employees, plus 10 percent of training costs for those workers, or 100 percent of the additional income tax withholding
from new employees (whichever is less).

To help more Illinois businesses vie for the tax credits, lawmakers lowered the minimum capital investment to qualify —
from $5 million to $2.5 million. And there is no such investment requirement for companies with fewer than 100
employees. In addition, higher levels of incentives will go to businesses that locate or expand in low-income areas of
Illinois (the 50 percent income tax capture increases to 75 percent).
“It’s a better incentive,” Zalewski says, “and I think it’ll end up bringing more jobs to the state as we rebound from these last few years of difficult budget situations.”

HB 162 also includes language to address concerns about transparency. For example, details of the deal must be made public within 10 days. One other hope is that the program allows the state to take a different approach to attracting and retaining businesses. Rather than responding to demands as they come, Illinois will have a strong mix of incentives already in place.

This “proactive mindset,” Magill says, is becoming more common in states across the country.

“In the past, incentives were much more of a reactive thing, meaning that the company would come to the state and say, ‘I want to come here or I want to go there, what can you do for me?’” he says. “And then the states would react.”

Still, decisions on incentives (how much? who should get them?) sometimes have to be made on a case-by-case basis. Peter Evangelakis, an economist with the economic modeling organization REMI, suggests that lawmakers take as broad a view as possible when deciding whether incentives are worth the investment.

“If there’s a big influx of new, relatively high-paid workers, that’s going to be a relatively large increase in the tax base, and so the [state] should probably be more willing to give relatively higher incentives,” Evangelakis says. Furthermore, he says, it’s important to look at factors beyond an increase in the tax base. Will there be a bump in construction activity, for instance, or improvements in the local infrastructure? Will the business provide workforce training to area residents?

‘Michigan is open for business’

Earlier this year, Michigan lawmakers decided to expand their state’s use of incentives, with a three-bill package (SB 242-244) [7], signed into law in September) that focuses on larger employers looking to move to or expand operations.

“We were not necessarily attracting or even being considered part of the bid process on large investments of 250- to 500-plus jobs,” says Jim Stamas, vice chair of the Michigan Competitiveness Committee. One reason: Unlike most other states with a corporate income tax, Michigan did not have incentive programs for these types of projects. But under the new law, businesses now can keep or capture the state income tax paid by workers who are hired as the result of a new or expanding business.

The length of the incentive depends on how many new jobs are created and the wages being paid to these new employees. For example, a company that creates at least 250 new jobs and pays a wage that is 125 percent of the regional average is eligible to receive 100 percent of its new employees’ tax withholding for 10 years. Businesses that create 500 or more jobs need to pay wages of at least 100 percent of the regional average and can receive the tax capture. A business creating 3,000 or more new jobs is eligible for the tax capture for a full 10 years. This new law limits the state program to 15 projects per year, with total annual incentives capped at $200 million.

According to Stamas, performance-based standards in the three-bill package helped get it through the Legislature. “No new jobs means no incentive,” he adds, noting that if recipient businesses fall below specified job numbers and wage requirements, they lose that year’s tax capture. (Businesses can, however, regain the benefits if they meet the requirements again.)

These new incentives for larger-scale projects mark the latest effort to position the state for economic success, Stamas says. He cites tax and regulatory reform, as well as recent investments in job training and the skilled trades, as other parts of Michigan’s growth strategy.

“We are saying, ‘Come on in, Michigan is open for business,’” he says.

The recent changes are the result of Michigan lawmakers evaluating their state’s competitive strengths and weaknesses. According to Magill, many other states are doing this type of in-depth analysis as well, particularly in light of the high-profile chase to land projects such as Foxconn’s and Amazon’s.
“It’s understanding what you have and if you are actually prepared for some of these opportunities,” he says.

Annual survey of corporate executives highlights factors behind selection of business sites

Because of their large scale and huge economic impact, the Foxconn manufacturing facility and Amazon’s new corporate headquarters are not typical economic development projects. However, they do highlight the intense competition among states and localities for businesses that can bring in new jobs. Every year, Area Development magazine surveys corporate executives about the factors that influence business-location decisions. Government taxes, exemptions and incentives make the list of top-10 factors but, according to survey respondents, aren’t necessarily as important as other considerations such as labor force and location.

Top-10 factors in site selection

1. **Highway accessibility** — “Very important” or “important” to 94.4 percent of survey respondents
2. **Availability of skilled labor** — “Very important” or “important” to 89.8 percent of survey respondents
3. **Labor costs** — “Very important” or “important” to 89.6 percent of survey respondents
4. **Occupancy/construction costs** — “Very important” or “important” to 86.0 percent of survey respondents
5. **State and local incentives** — “Very important” or “important” to 84.0 percent of survey respondents
6. **Corporate tax rate** — “Very important” or “important” to 82.3 percent of survey respondents
7. **Tax exemption** — “Very important” or “important” to 79.7 percent of survey respondents
8. **Energy availability and costs** — “Very important” or “important” to 78.5 percent of survey respondents
9. **Proximity to major markets** — “Very important” or “important” to 78.1 percent of survey respondents
10. **Quality of life** — “Very important” or “important” to 76.4 percent of survey respondents

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