



# Incentives in Site

By Thomas A. Moore and George Hutchinson

**W**ould a \$500,000 grant for new equipment affect your distribution center (DC) site selection? How about a \$200,000 grant to lower site acquisition costs? And what about tax abatements worth \$340,000 per year to offset ongoing operating costs? Now consider the impact on your decision if all of these benefits were combined in a single government incentives package. Since this represents an actual project, then you would probably agree that your site selection decision should include a carefully coordinated effort to pursue government incentives.

## A GOVERNMENT INCENTIVES PACKAGE CAN BE A TIE BREAKER WHEN YOU'RE WEIGHING THE ATTRIBUTES OF COMPETITIVE DISTRIBUTION SITES.

(DCs) based on such criteria as shipping times, customer service, and fixed and operating costs. However, they usually do not give sufficient attention to government-related factors in this important decision. Among these are:

- Real estate taxes
- Municipal and state income taxes
- Inventory taxes
- Personal property taxes
- Payroll taxes.

Taxes and other burdens imposed by regulatory authorities may not be key decision criteria in and of themselves. However, their overall impact may have a major influence on a company's choice of DC location. Most firms approach government-related cost factors and incentives after developing a short list of one or two general site locations based on conventional business analysis. However, significant advantages can be gained by addressing government-related cost factors and incentives much earlier in the site-selection process using a thorough sensitivity-analysis approach.



## CONSIDER INCENTIVES EARLY

Regulatory and tax impacts should be considered at the beginning of the site-selection analysis for two primary reasons:

First, certain tax and other government-related factors and incentive programs can have effects on overall location and operating costs equal to—or even greater than—such obvious elements as land, construction, utilities, and labor.

Second, understanding government-related factors and incentive programs for candidate sites early in the process provides a powerful edge in negotiating tax abatements and other allowances with regulatory authorities. Government and private economic development authorities at all levels tend to move slowly because they are hampered by a maze of bureaucratic rules and political constraints. A company that does its homework well in advance will understand how to cope with the slow pace of bureaucracy and politics better than one that waits until the last minute.

## SEEK—BUT BEWARE

Governments offer incentives to attract new or expanded commercial ventures because, in theory at least, such ventures broaden the tax base, provide training and employment for area workers, and contribute positively to an economic climate that attracts even more business. However, a firm considering the location of its new DC needs to understand how incentives really work and what rules and deadlines they

must meet to take full advantage of them.

Examples of government incentives include:

- Low-interest loans (a long-term, fixed rate of four or five percent is common)
- Grants for machinery and equipment
- Grants for land purchase
- Grants to offset worker training costs
- Real estate tax abatements (be aware, however, that abated taxes in one location could be higher than unabated taxes in another location)
- Personal property tax abatements
- Inventory tax abatements.

Many incentive programs have the proverbial



strings attached. These include requirements such as prevailing wage rates on construction projects or future hiring requirements. A company should take the time and make the effort to understand the strings and quantify their impact on a DC planning project.

### ATTENTION TO TIMING

As some companies found out too late, the final decision regarding the site for a new DC must be carefully coordinated with negotiations for government incentives. Some incentives cannot be granted after a project is underway but only before location decisions are made. Ignoring or misunderstanding this point can result in substantial cost penalties.

One example of the multi-million-dollar value of careful timing can be seen in the case of a Midwestern manufacturer of consumer products. This company was finalizing a short list of four locations, including Mexico, for its new 450,000-sq-ft office, manufacturing, assembly, and distribution center. However, when it conducted a detailed sensitivity analysis with the help of outside consultants, it discovered serious shortcomings in its plans. It needed to factor the impact of several important government programs—and the timing required to apply for those incentives—more carefully into its decision-making process.



The sensitivity analysis revealed which incentive programs would have the most significant impact on the project. Consequently, a new shortlist had to be developed to find locations that would offer the preferred incentives. These included grants for equipment, real estate tax abatement, and the establishment of a general-purpose foreign trade zone which would eliminate all inventory taxes in perpetuity. The analysis also helped define a carefully scheduled set of action steps and a critical decision timeline for both the company and the government entities involved.

As a result, the company secured a complex package of incentives worth millions of dollars in capital and operating costs. Equally important, it completed the relocation project in time to meet seasonal production and distribution requirements. The final location decision also helped government authorities ensure the existence of more than 500 jobs for area workers—a win/win situation for all parties involved.

### POLITICAL ENVIRONMENTS

The goals and objectives of political entities may vary. Some may be eager to offer incentives to businesses seeking to build a new DC, while others may have a very different agenda. Some entities may concentrate on developing inner-city areas, while others



see no need to offer incentives for further development in their jurisdictions. To be effective in choosing the best location for a new DC, a company must assess the political environment and skillfully drive the project through, using cooperation rather than confrontation. Political authorities have the obligation—and the power—to serve their constituents in the best way they see fit. As a result, there must almost always be a direct relationship, for example, between the incentives offered and the positive impact to be expected from new jobs in the community where the DC will be located.

Although DCs do not usually generate new jobs and other economic benefits on a scale comparable to those resulting from new office headquarters or manufacturing plants, they still may involve a major investment in equipment, construction, and inventory which, when combined with the new jobs being generated, should stimulate serious interest in the offering of incentives by governments and other economic development authorities. To succeed in this process, the company seeking the optimal new DC site should be fully leveraged with facts that clearly demonstrate why it deserves such consideration. Political leaders, who are and should be under scrutiny from their constituents, must be able to justify incentives as a measurable

means of attracting new investment and jobs.

#### WHERE TO GET HELP

Many companies that have successfully obtained both a winning package of government incentives and a DC site that meets their business needs have done so with the help of outside real estate consultants and logistics specialists who work with dozens of clients in various industries. Using this type of resource goes a long way toward successful negotiation, especially when considering the many different (and sometimes conflicting) government and private entities that control parts of the puzzle. In addition, such specialists offer advantages over traditional commercial real estate brokers, who usually cannot or will not offer the type of knowledge and insight into local government realities—or DC site-selection—needed to structure and win the best deals possible. **T&D**

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### METRO AREA OPERATING COST SIMULATION

*Deregulation of the trucking industry, corporate downsizing, consolidation trends, and tax incentives have a major impact on site selection for new distribution operations. To cut costs, many companies serving national markets are shifting from a multi-distribution center network to one or two strategically located facilities.*

*With deregulated shipping costs moving away from artificial rates set by government toward the actual costs of mileage and logistics, midcontinent states are emerging as increasingly popular locations for distribution operations designed to serve wide, multi-regional North American markets.*

*The following figures are based on an annual distribution operating cost study by The Boyd Co., location consultants in Princeton, NJ.*

	CHICAGO	MILWAUKEE	OMAHA	KANSAS CITY	DENVER	DALLAS	MINNEAPOLIS/ ST. PAUL	ST CLOUD	DULUTH	
<b>Transportation Costs (\$1,000)</b>										
Inbound Shipping	\$2,062	\$2,146	\$2,022	\$2,081	\$2,105	\$2,322	\$2,352	\$2,441	\$2,333	
Outbound Shipping	\$1,876	\$1,984	\$1,947	\$1,964	\$2,179	\$2,183	\$2,258	\$2,363	\$2,266	
<b>Total Transportation Costs (\$1,000)</b>	<b>\$3,938</b>	<b>\$4,130</b>	<b>\$3,969</b>	<b>\$4,045</b>	<b>\$4,284</b>	<b>\$4,505</b>	<b>\$4,610</b>	<b>\$4,804</b>	<b>\$4,599</b>	
<b>Nonexempt Labor</b>										
Weighted Average Hourly Earnings	\$11.12	\$11.98	\$11.03	\$10.43	\$11.03	\$10.08	\$11.46	\$10.51	\$10.00	
Annual Base Payroll Costs (\$1,000)	\$4,765	\$5,134	\$4,726	\$4,469	\$4,726	\$4,320	\$4,911	\$4,504	\$4,284	
Fringe Benefits (\$1,000)	\$1,620	\$1,745	\$1,607	\$1,519	\$1,607	\$1,469	\$1,670	\$1,532	\$1,457	
<b>Total Annual Labor Costs (\$1,000)</b>	<b>\$6,385</b>	<b>\$6,879</b>	<b>\$6,333</b>	<b>\$5,987</b>	<b>\$6,333</b>	<b>\$5,789</b>	<b>\$6,581</b>	<b>\$6,036</b>	<b>\$5,741</b>	
<b>Electric Power Costs (\$1,000)</b>	<b>\$302</b>	<b>\$151</b>	<b>\$154</b>	<b>\$185</b>	<b>\$214</b>	<b>\$213</b>	<b>\$156</b>	<b>\$156</b>	<b>\$156</b>	
<b>Occupancy Costs (\$1,000)</b>										
Amortization	\$2,373	\$1,877	\$1,808	\$1,949	\$2,025	\$1,835	\$2,294	\$1,977	\$1,900	
Property Tax Costs	\$676	\$466	\$280	\$282	\$403	\$304	\$1,118	\$652	\$775	
Heating and Air Conditioning	\$563	\$313	\$283	\$308	\$370	\$237	\$360	\$385	\$407	
<b>Total Occupancy Costs (\$1,000)</b>	<b>\$3,612</b>	<b>\$2,656</b>	<b>\$2,371</b>	<b>\$2,539</b>	<b>\$2,798</b>	<b>\$2,376</b>	<b>\$3,772</b>	<b>\$3,014</b>	<b>\$3,082</b>	
<b>Total Annual Geographically-Variable Operating Costs (\$1,000)</b>	<b>\$14,237</b>	<b>\$13,816</b>	<b>\$12,827</b>	<b>\$12,756</b>	<b>\$13,629</b>	<b>\$12,883</b>	<b>\$15,119</b>	<b>\$14,010</b>	<b>\$13,578</b>	
	ATLANTA	CHARLOTTE	CINCINNATI	AKRON	CLEVELAND	DETROIT	ST. LOUIS	DES MOINES	FARGO	SIoux FALLS
<b>Transportation Costs (\$1,000) ' </b>										
Inbound Shipping	\$2,476	\$2,582	\$2,205	\$2,272	\$2,255	\$2,209	\$2,083	\$2,031	\$2,333	\$2,182
Outbound Shipping	\$2,206	\$2,277	\$1,955	\$2,009	\$1,995	\$1,996	\$1,799	\$1,909	\$2,323	\$2,140
<b>Total Transportation Costs (\$1,000)</b>	<b>\$4,682</b>	<b>\$4,859</b>	<b>\$4,160</b>	<b>\$4,281</b>	<b>\$4,250</b>	<b>\$4,205</b>	<b>\$3,882</b>	<b>\$3,940</b>	<b>\$4,656</b>	<b>\$4,322</b>
<b>Nonexempt Labor</b>										
Weighted Average Hourly Earnings	\$10.43	\$10.26	\$11.72	\$10.60	\$11.89	\$11.98	\$11.81	\$11.53	\$9.31	\$8.62
Annual Base Payroll Costs (\$1,000)	\$4,468	\$4,395	\$5,022	\$4,543	\$5,095	\$5,134	\$5,061	\$4,941	\$3,988	\$3,693
Fringe Benefits (\$1,000)	\$1,519	\$1,494	\$1,708	\$1,545	\$1,733	\$1,745	\$1,721	\$1,680	\$1,356	\$1,256
<b>Total Annual Labor Costs (\$1,000)</b>	<b>\$5,987</b>	<b>\$5,889</b>	<b>\$6,730</b>	<b>\$6,088</b>	<b>\$6,828</b>	<b>\$6,879</b>	<b>\$6,782</b>	<b>\$6,621</b>	<b>\$5,344</b>	<b>\$4,949</b>
<b>Electric Power Costs (\$1,000)</b>	<b>\$244</b>	<b>\$151</b>	<b>\$216</b>	<b>\$322</b>	<b>\$309</b>	<b>\$237</b>	<b>\$167</b>	<b>\$152</b>	<b>\$144</b>	<b>\$153</b>
<b>Occupancy Costs (\$1,000)</b>										
Amortization	\$1,731	\$1,740	\$1,843	\$1,838	\$1,975	\$2,229	\$2,083	\$1,755	\$1,733	\$1,695
Property Tax Costs	\$228	\$142	\$288	\$246	\$272	\$506	\$347	\$424	\$264	\$306
Heating and Air Conditioning	\$275	\$175	\$330	\$576	\$543	\$437	\$257	\$297	\$372	\$344
<b>Total Occupancy Costs (\$1,000)</b>	<b>\$2,234</b>	<b>\$2,057</b>	<b>\$2,461</b>	<b>\$2,660</b>	<b>\$2,790</b>	<b>\$3,172</b>	<b>\$2,687</b>	<b>\$2,476</b>	<b>\$2,369</b>	<b>\$2,345</b>
<b>Total Annual Geographically-Variable Operating Costs (\$1,000)</b>	<b>\$13,147</b>	<b>\$12,956</b>	<b>\$13,567</b>	<b>\$13,351</b>	<b>\$14,177</b>	<b>\$14,493</b>	<b>\$13,518</b>	<b>\$13,189</b>	<b>\$12,513</b>	<b>\$11,769</b>

NOTE: Includes all major geographically-variable operating costs. Start-up and relocation costs not considered.