

Incentives: A Crucial Factor in Site Selection Decisions

As we await the ever elusive decision on Tesla, the question of incentives often comes up. Why would a company like Tesla, or any other company for that matter, make incentives such an important part of their site selection decision? For decades, other factors such as proximity to customers or markets, or work force availability were tops on the site selection list. The new reality is that incentives are more important now than ever before, for several reasons:

Changing Global Dynamics has increased emphasis on cost controls. According to Thomas J. Stringer, Esq., Ryan & Company, “In a seamless world where barriers to transportation, markets, capital, and talent have disappeared, controlling cost has become a dominant means of sustaining growth, and providing returns to shareholders. Simply put, tighter budgets, fewer customers, more choices, and equal services/talent lead to a situation where cost is the only metric that decision-makers can exercise control over. So, today, in a world with this equal economic landscape, incentives as a major component of cost control have arrived at the top of the (site selection) list.”

Companies better understand the value of their jobs and the investment they bring to a community. While jobs have always been important to a community, the unusually slow job growth associated with this current recovery has placed a premium on jobs and companies know it. When states conduct national advertising campaigns that come with the promise of incredible tax breaks and job attraction incentives, unheard of in the past, the “value” of these jobs goes up; it is simply the rule of supply and demand. Smaller companies are even asking for incentives, as incentives have become an expectation rather than an afterthought.

Incentives are used early in the site selection process to shorten the list. Getting on the short list is the priority of every economic development program. Once on the “short list” a company physically visits each community to determine the best fit for them. We don’t get that shot if we don’t make the short list. In early prescreening, which is often done by site selectors, communities that don’t play the “game” and offer some incentives are unlikely to make the short list, regardless of all their other advantages.

Communities are more competitive, even desperate to attract quality jobs to their region. During this recent recession, the significant loss of jobs and subsequent loss of tax revenue has crippled government services in most communities. The lost jobs and revenue have been very slow to return, so communities are trying everything they can to spur on this much needed economic growth. Additionally, the national economic impact models make it easier to detail the long term economic impacts of a project, enabling elected officials to support the use of incentives as a win-win for the community.

No one likes incentives, but in this globally competitive economy, the attractiveness of a community now includes its willingness to offer some form of incentive. Not unlike other forms of sales, the buyer wants to feel like they are getting a good deal. Additionally, when an incentive is performance-based, the

jobs must be created before the incentive is paid or the tax reduced, thus, there is a guaranteed win for the community, as the company adds jobs and investment to the community for many years to come.