



Government Strategies Group LLC

OHIO CCIM CHAPTER & U.C. REAL ESTATE ROUNDTABLE

Presented by:

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Background

- Highly competitive market between jurisdictions to attract and retain companies, jobs and associated capital investment
 - Everyone fighting to create the best incentive programs
 - Incentive packages have continued to grow in volume and monetary value
- Companies forced to assess long-term feasibility of U.S. operations due to global cost constraints
- Corporate executives placing significant emphasis on incentive packages as they consider expansion and/or relocation strategies.
 - *Area Development Magazine's Annual Corporate Survey* ranks state and local incentives as the #7 factor in the site selection decision-making process.
 - Over 87% of respondents cite incentives as “very important” or “important”

Typical Incentives

- Real & Personal Property tax exemptions
- Corporate tax credits
- Sales tax credits
- Low-interest financing
- Tax exempt or taxable bond financing
- Tax Increment Financing (TIF)
- Sale-lease back agreements
- Job training grants
- Grants to offset the purchase of new machinery or equipment
- Roadwork/Infrastructure improvement grants
- Joint Economic Development District (JEDD)

Typical Incentives (cont.)

- Performance vs. Direct Subsidy
 - Trend is to use more performance-based incentives
 - Partly because of increased scrutiny and changing economy (manufacturing to high-tech, service economy)

Role of Incentives

- Inducement vs. Entitlement
 - Eligibility requirements: years of operation, number of jobs created, capital investment
- What policy issue/problem is the incentive designed to address?
- “But for” clause
 - Is there competition or is it a done deal?
 - Difficult to determine whether “real” competition exists
 - Are jurisdictions willing to call company’s bluff?
- Attracting new business vs. retaining existing business
 - Approximately 85% of all new job growth in a given community is from existing business
 - Little fanfare from media or government for existing businesses
 - Political pitfalls for job retention efforts
 - Very few incentives designed for retention where company is unlikely to add new jobs
 - Only so many big deals at a time so only a few communities can win
 - Time, energy and money spent wooing the “whale”
 - Negative response from existing business
 - Loyal corporate citizen, pay 100% of my taxes, regularly adding good paying jobs, what about me?



Return On Investment

- Government's calculation
 - Financial models often useful but cannot predict the future
 - How much public money is being allocated to generate each job/dollar of investment?
 - Direct investment- grants, abatements, credits, etc.
 - Indirect investment- infrastructure capacity increases with increased demand, public services increases with increased population
 - Policy decision to determine what the numbers need to be
 - Does the government need to make money on the deal?
- Taxes accruing to government from business and its employees
 - Sales Tax
 - Use Tax
 - Motor Fuel Tax
 - Cigarette Tax
 - Spirits Tax
 - Table Wine Tax
 - Beer Tax
 - Corporate Franchise Tax
 - Corporate Income Tax
 - Real Property Tax
 - Public Utility Personal Property Tax
 - Tangible Personal Property Tax
 - Employee Withholdings Tax
 - Estate Tax

ROI (cont.)

- City of Cincinnati Riverfront TIF District Example
 - Total TIF District value: \$725,649,650 (total market value less abated/exempt parcel value)
 - 30-yr threshold value (amount of loss that must be recovered by increases in state tax revenues generated by TIF district): \$10,300,169
 - 30-yr new state tax revenue (generated as a result of TIF district): \$216,783,423
- Projects create buzz for community
 - Reinforces real/perceived strength of a community in the eyes of site selectors and other decision makers
 - Lands community on the radar screen
 - PR goldmine: awards, rankings, etc.
- Impact of development on quality of life
 - Community involvement
 - Investment in community assets
- Secondary development
 - Vendor/supplier network

Company Commitments

- Location of project
 - Site/address specific
- Timing of project
 - Must be completed in 3 yrs
- Jobs to be created
 - Net new jobs (total & number of employees from within jurisdiction)
 - Average wage & benefits (new payroll)
 - Minority/disadvantaged persons
- Jobs to be retained
 - Number of jobs
 - Existing payroll
- Jobs to be relocated within the state
 - Relocation waiver (Director of Development discretion)
 - 30-day notice period to impacted jurisdiction
 - Opportunity for impacted jurisdiction to dispute relocation or provide competitive offer
 - Meeting between Ohio Department of Development, company officials, involved jurisdictions
 - ODOD determination of consolidation, expansion, or market conditions (just-in-time supply, change in production methods, etc.)
- Impact of recent job reductions of business or related entities and ability to seek incentives
 - Policy Decision vs. Statute

Company Commitments (cont.)

- Capital investment
 - Land
 - Building
 - Construction costs
 - Machinery & equipment
- Letter of credit, collateral, personal guarantee (in case of loan)

Government Commitments

- Type of incentive (grant, loan, tax credit, tax abatement, etc)
- Value of incentives (rate & term)
- Permitting assistance
- Workforce issues (i.e. partner with regional job center, screen candidates)
- Legislative support (any changes needed to state/local law to make the close the deal)

Compliance

- Major issue that is not often or seriously enough considered by company when negotiating incentives
- Annual Reporting
 - Mandatory filing to be eligible for incentive
 - Maintains accurate record of project
 - Filing includes:
 - Jobs created & associated payroll/benefits
 - Jobs retained & associated payroll/benefits
 - Capital investment
- Clawback provisions
 - Contractual benchmarks for project
 - Percentage of incentive at risk if benchmarks/commitments are not met
 - Usually on a sliding scale
 - Often at discretion of authority or governing body to issue waiver for one-time default as a result of market conditions
 - Company can voluntarily withdraw from program to avoid ongoing filing and non-compliance
 - Government can cancel agreement if company in non-compliance for extended period of time

Compliance (cont.)

- Can become complicated process
 - Needs to be a clear, mutual understanding of what needs to be reported and when for company to receive full benefit of incentive package
 - Statute vs. policy
 - Both business and government representatives have long memories
 - Hesitancy to consider company/jurisdiction for the next project
 - Voluntarily withdraw from program to shorten/reduce compliance period
 - Political fallout if/when benchmarks not met

Politics & Economic Development

- Whenever public funds are involved, politics inevitably will come into play
 - Not necessarily partisan politics
- All elected officials support increased tax base and jobs but some debate whether incentives really work
 - Are they critical to attracting/retaining jobs and investment?
- Elected officials ultimately held responsible for any expenditure of public money by electorate
- Just because administration likes it, does not mean the elected officials who must approve project do
 - Failure to account for role of elected officials can doom project
- Elected officials can alter administration's proposed package
 - Zoning related issues, amounts/rates/terms of incentive packages, hiring/contracting requirements, etc.

On-Going Review of Incentive

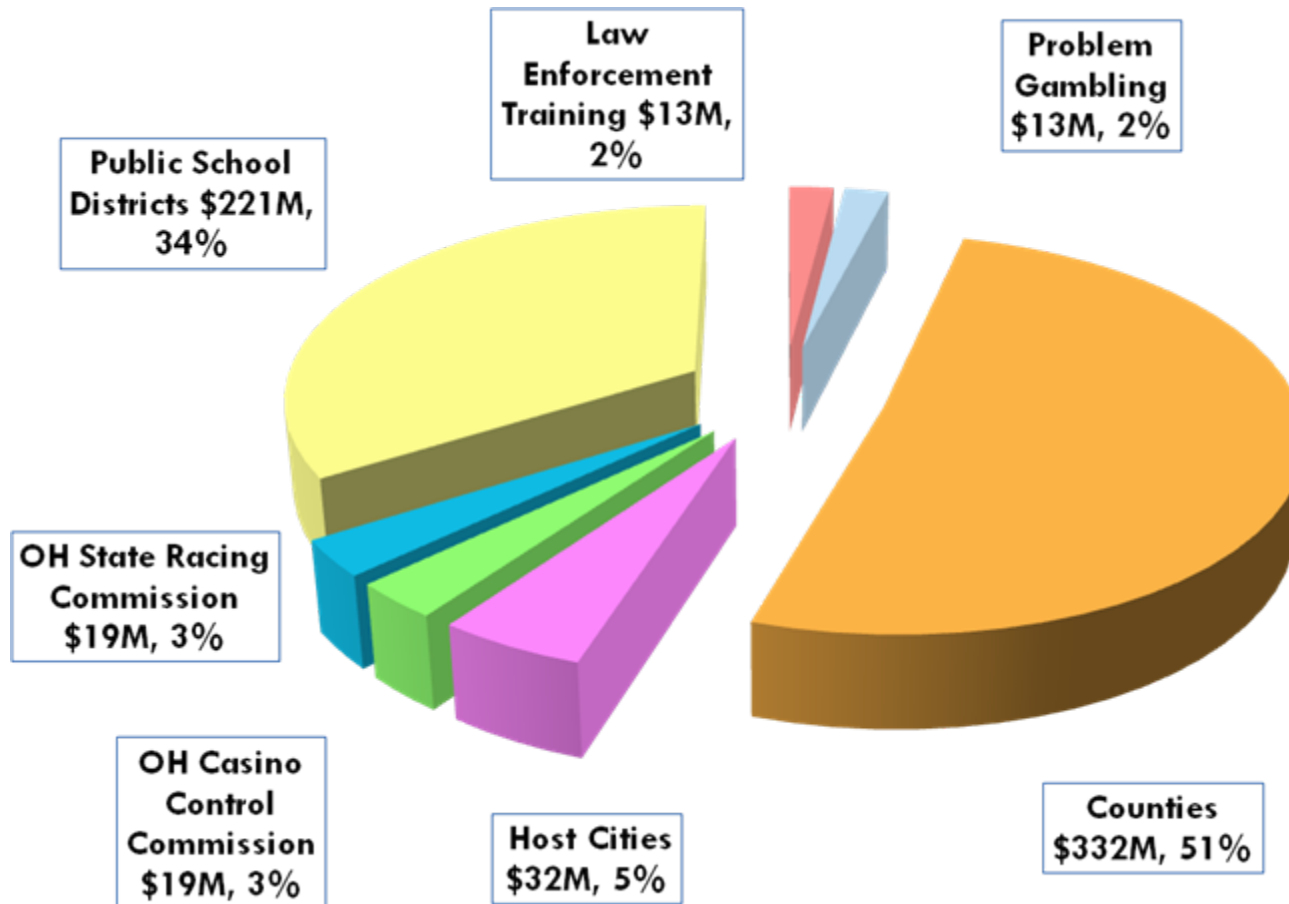
- Is the policy issue that the incentive was originally designed to address still present or has the landscape changed?
 - Adjustments to the tax code
 - Ohio
 - Ohio's Commercial Activity Tax (CAT)
 - » Tax on gross receipts (sales, performance of services, rentals/leases)
 - » Retailers are the biggest losers
 - Phase out of corporate franchise tax (5 yrs, 20% per); phase out of personal property tax (4 yrs, 25% per); 21% reduction in state income tax from 2004 (4 yrs); State sales tax reduced to 5.5%
 - Transition from old economy, hourly wage, manufacturing workers to new economy, salaried service/R&D/high-tech employees
- Are the expectations for particular programs realistic?
- Are there enough resources being used to maximize value of the incentive?
 - Who is the target audience and how are you reaching them?
 - What happens when you throw a party and no one shows?
- DaimlerChrysler Corp. vs. Cuno
 - Lawsuit regarding Ohio's ability to offer machinery and equipment tax credit
 - 6th Circuit Court of Appeals upheld ruling that the incentive violating the Commerce Clause of the U.S. Constitution
 - U.S. Supreme Court vacated the decision saying that the Ohio & Michigan taxpayers did not have standing to challenge use of incentive

State Issue 3 – Overview

- Ohio ballot initiative to authorize one, first-class casino in each of Ohio's four largest cities – Cincinnati, Cleveland, Columbus and Toledo
 - Broadway Commons is Cincinnati location
- More than **34,000 new jobs** at a time when Ohio's unemployment tops 11%.
 - In Cincinnati, this will include 2,134 construction jobs and 2,754 jobs ongoing.
 - These are well paid jobs averaging over \$30,000.
- **\$11 billion in economic impact** generated during construction and the first five years of operations
- **Minimum \$1 billion in private investment** that is ready for immediate action – Mandated \$250 million minimum for each of the casinos. **The investment in Cincinnati will exceed \$300 million.**
- **\$1 billion** currently being spent on gaming in other states **will be repatriated** to Ohio annually
- **\$200 million in guaranteed upfront license fees** to the state for workforce training
- It's fair, guaranteeing Ohio 33% of all revenues
- Local control of tax revenue: \$651 million to counties, 8 largest cities and every public school district in Ohio.

Issue 3 – Where the Tax Dollars Will Go

Tax Revenue Distribution
(Based on estimated **\$1.97 billion** gross casino revenues)



State Issue 3 – SW OH Impact

Community	Revenue for County Government	Revenue for School Districts	Revenue for Host City	Revenue for Largest City (Pop > 80,000)
Hamilton County	\$12.2 million	\$14.1 million	-	-
City of Cincinnati	-	-	\$8.7 million	\$12.2 million
Butler County	\$10.4 million	\$7.5 million	-	-
Clermont County	\$5.6 million	\$3.5 million	-	-
Warren County	\$5.9 million	\$4.3 million	-	-
Brown County	\$1.3 million	\$1.0 million	-	-



Q & A

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