SEYFARTH SHAW LLP
ATTORNEYS

TRENDS
in projects and incentives

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FIRST- THE BIG QUESTION
WHY DO WE USE
BONDS FOR TITLE?

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WHY- BONDS FOR TITLE

- PROPERTY TAX ABATEMENT IS A LOCAL INCENTIVE
  - A TRANSACTION IS REQUIRED BECAUSE OF THE STATE CONSTITUTION
    - "UNIFORMITY OF TAXATION"
    - NO "GIFTS OR GRATUITIES" FROM PUBLIC SECTOR TO PRIVATE SECTOR
      - A BOND IS PART OF THE BARGAIN THAT JUSTIFIES GRANTING THE PROSPECT A $1 PURCHASE OPTION ON THE PROJECT WHEN IT CONVEYS THE PROJECT TO THE DEVELOPMENT AUTHORITY
      - WITHOUT THAT…

      “A gift of any portion of access rights to the property owner would be a prohibited gratuity under the Constitution…” Op. Ga. Att’y Gen. No. 97-14 (April 7, 1997)(GDOT wanted to reconvey access rights to the property owner from whom GDOT had originally acquired the property).

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WHY- BONDS FOR TITLE

- ALSO WANT TO AVOID TAXPAYER SUITS OVER "SHAMS“
  - SOME QUOTES FROM THE ATTORNEYS FOR THE PLAINTIFF TAXPAYER AND THE DEVELOPMENT AUTHORITY AFTER THE GEORGIA SUPREME COURT RULED IN FAVOR OF THE COUNTY’S 10 YEAR RAMP-UP TAX SAVINGS FORMULA
  - PLAINTIFF: "would expect continuing assaults on this illegal tax abatement scam, not only in Fulton County, but also in Cobb where it is starting to grow like black mold."
  - DEVELOPMENT AUTHORITY: “They might try to go after discrete projects arguing as to whether or not the ramp-up fits the specific transaction in future bond deals…”
    Source: Fulton Daily Report
- THE BOND STRUCTURE IS PART OF LEASEHOLD VALUATION
  - FROM AN AGREEMENT WITH THE ASSESSORS RELATED TO FULTON COUNTY’S FORMULA: [The] ten (10) year schedule… has been determined based on the precedent established in the Harris Case and utilizes approximate percentages to reflect the discounted cash flow analysis, with a seven percent (7%) discount rate over the successive years of said ten (10) year schedule…”

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IT'S NOT JUST GEORGIA!

Industrial Revenue Bond/ Tax-Exempt Entity Ownership

- Typically an arrangement structured where a tax-exempt entity holds title to a new facility
- Could allow the tax-exempt entity to construct the facility free of property tax and sales tax
- Actual project owner would enter into a lease with the tax-exempt entity for a certain number of years, may be up to 30
- Property taxes are not assessed; however, PILOTs would typically be made as lease payments
- Everything is negotiated in advance
- This arrangement is typically found states that allow local tax exempt entities the abilities to enter into such arrangements, including Arkansas, Georgia, Louisiana, Tennessee, and Texas

NO SALES TAX EXEMPTION OCCURS IN GEORGIA

ACTUAL TAXES APPLY IF LEASEHOLD VALUATION USED

ALSO KANSAS

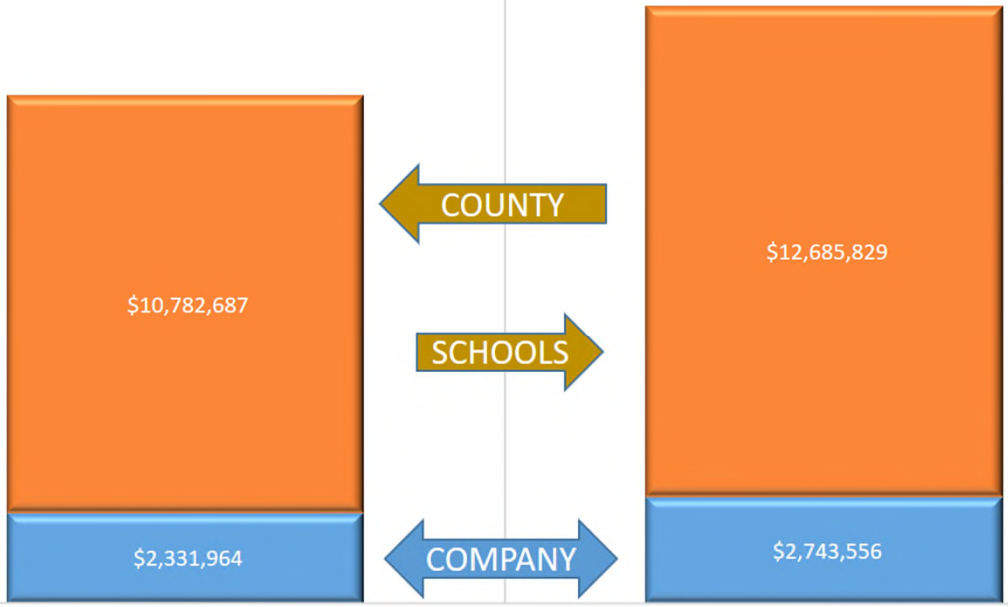
THE WHOLE IS GREATER THAN THE SUM OF THE PARTS

A FISCAL IMPACT STUDY SHOWS HOW

- ❑ IN THIS EXAMPLE, THE TAX BENEFITS AFTER A PROPERTY TAX ABATEMENT FOR A GOOD ECONOMIC DEVELOPMENT PROJECT REMAIN VERY POSITIVE FOR BOTH PUBLIC BODIES
- ❑ PRIVATE SECTOR ONLY BENEFITS FROM LIMITED PROPERTY TAX SAVINGS ON PROJECT
- ❑ PUBLIC BODIES BENEFIT FROM UNABATED PROPERTY TAXES AND OTHER PUBLIC REVENUES GENERATED BY PROJECT

REALLOCATION OF COUNTY TAXES

- 82% still go to county
  - consist of unabated property taxes and other public revenues generated by project
- 18% go to company
  - consist only of saved property taxes



REALLOCATION OF SCHOOL TAXES

- 82% still go to school district
  - consist of unabated property taxes and other public revenues generated by project
- 18% go to company
  - consist only of saved property taxes

Data Visualization: Dan McRae, from anonymized fiscal impact studies; results will vary from study to study

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MACRO TRENDS

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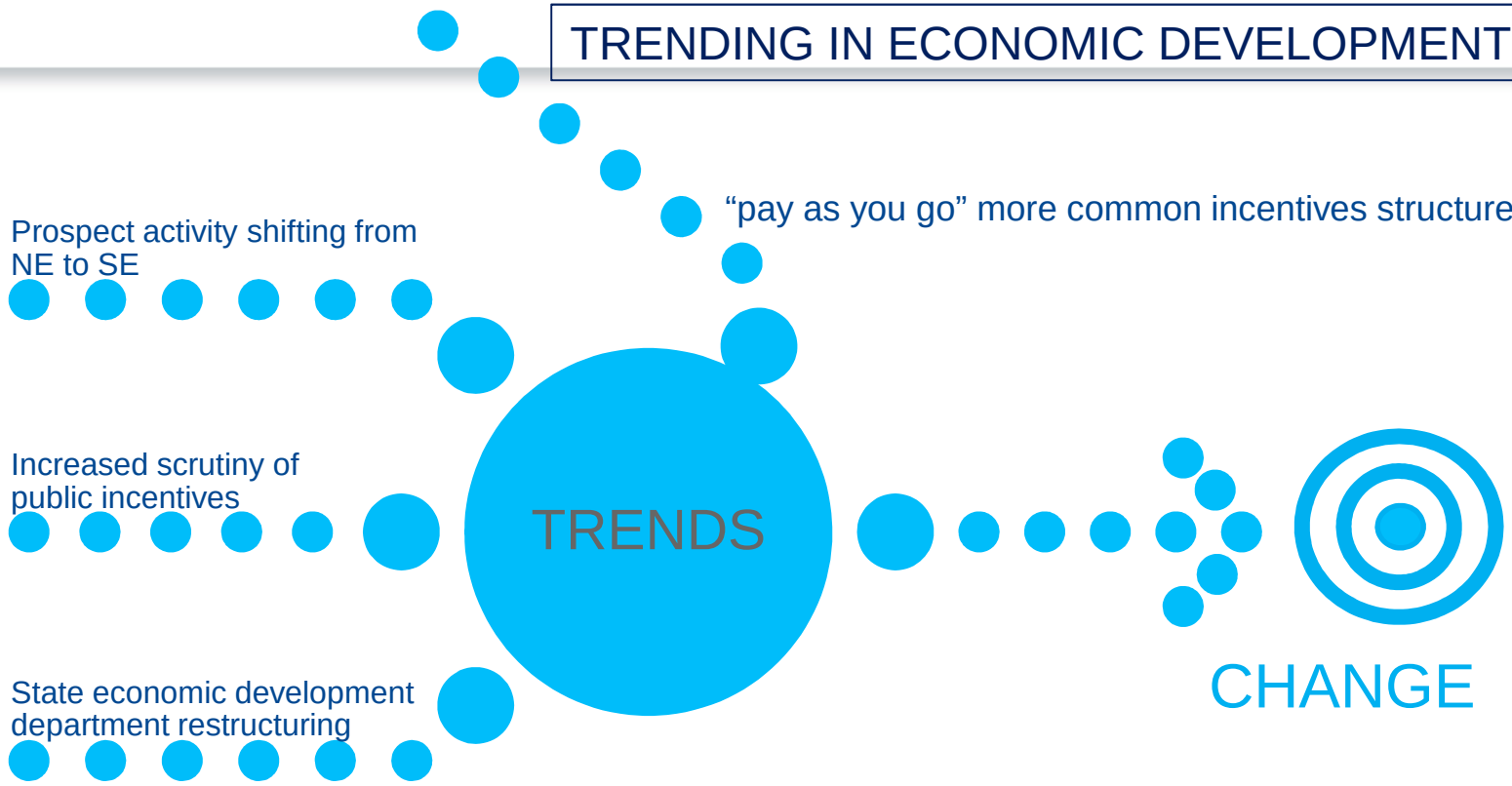
TRENDING IN ECONOMIC DEVELOPMENT



FL- Enterprise Florida
MD- Dept. of Bus. & Econ. Devel. -> Dept. of Commerce
NC- Dept. of Commerce -> Econ. Devel. Partnership

Data Source:
Paul Lo, Ryan, and Matt Lowell, Ryan
Data Visualization:
Dan McRae

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HOW DO YOUR COMMUNITY'S INCENTIVES COMPARE TO ROME, GEORGIA?

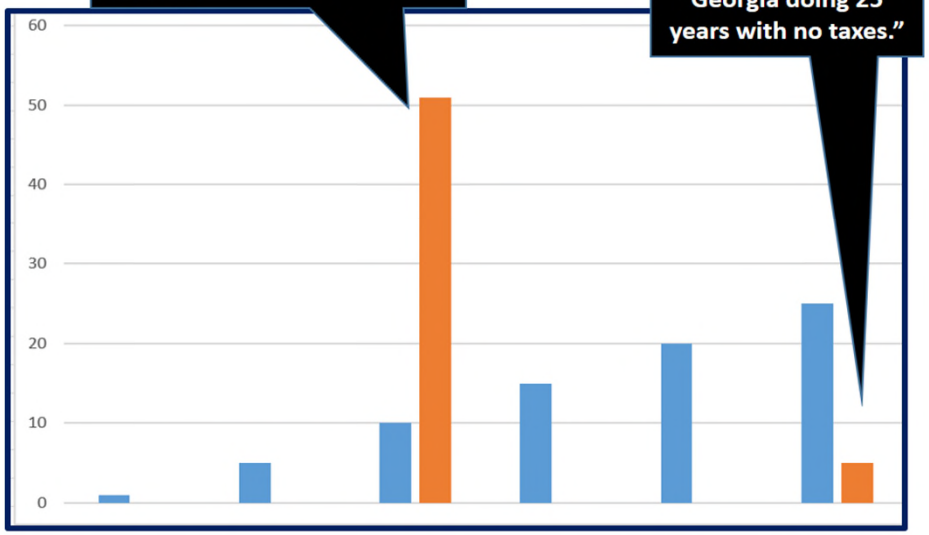
Tax Savings
- Retained by Company

Payments In Lieu Of Taxes
- Paid to Development Authority

"PILOT fees are paid to the Rome-Floyd County Development Authority. The Authority uses the money to fund environmental studies at potential industrial sites and extend infrastructure — water, sewer, gas lines, access roads — to sites."

"Ten years with no taxes is almost the norm in this current frenzy."

"There are communities in Georgia doing 25 years with no taxes."



"Rome and Floyd County have so far not been willing to give away land."

Data source: http://www.northwestgeorgianews.com/rome/business/competition-is-intense-to-attract-new-jobs-big-industries-to/article_11afc054-1960-11e6-b4d0-1f07ce6120cb.html?mode=jqm

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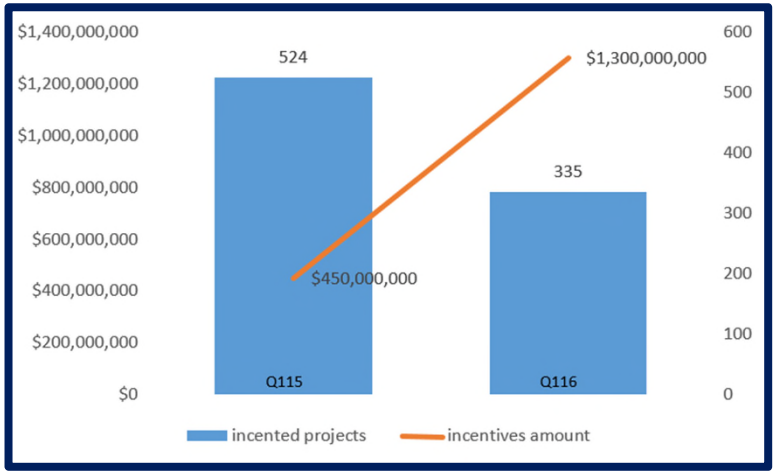
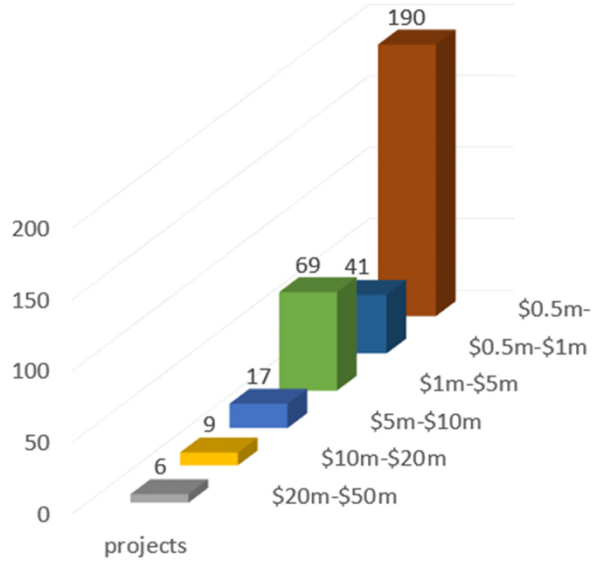
INCENTIVES- HOW MUCH IS ENOUGH?

AT THE SAME TIME THAT THE NUMBER OF INCENTIVIZED PROJECTS IS DECLINING, THE TOTAL AMOUNT OF INCENTIVES IS INCREASING.





BUT MOST PROJECTS RECEIVED LESS THAN $500,000 IN INCENTIVES.

Data Source: Site Selection Group

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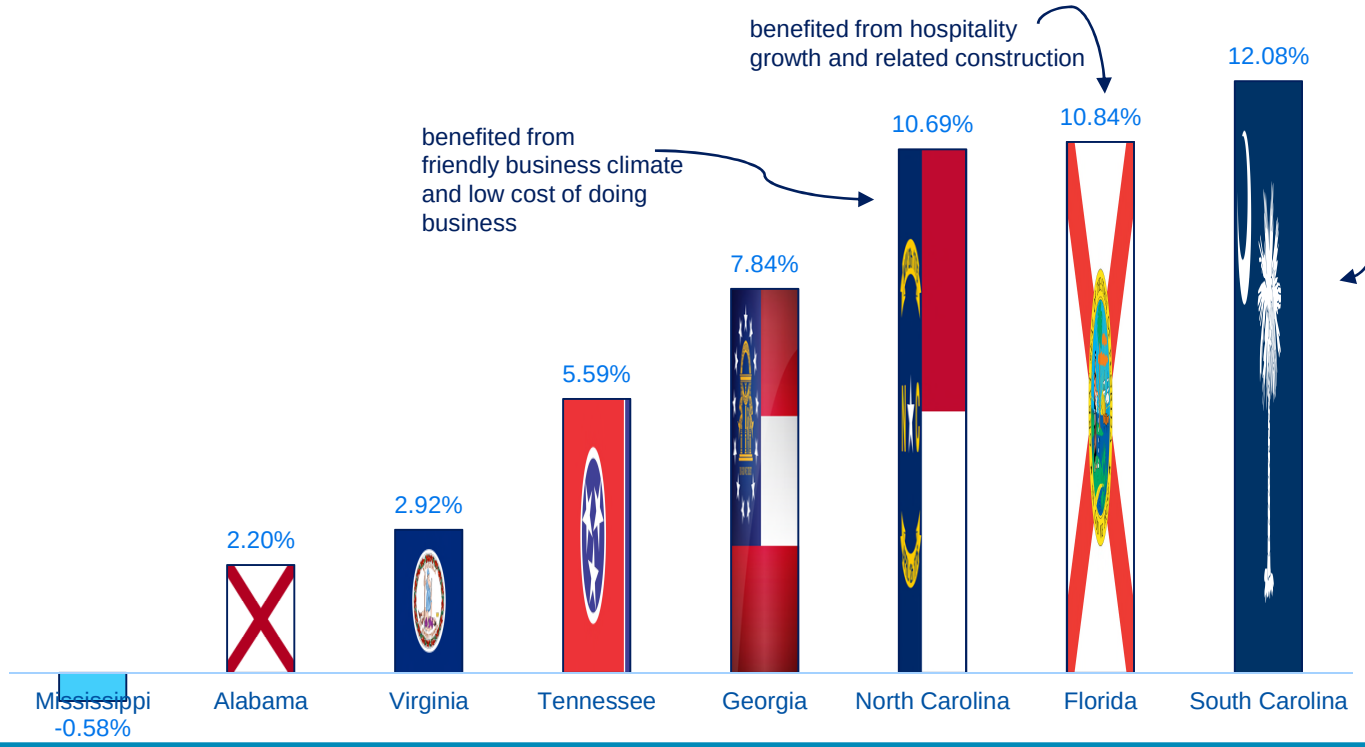
THE TEST RESULTS ARE IN

WHICH STATES IN THE REGION HAVE SUCCESSFUL ECONOMIC DEVELOPMENT PROGRAMS MEASURED BY JOB GROWTH



Data Source:
Site Selection Group,
for percent growth
in employment, 2011-2016
Data Visualization: Dan McRae

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LOOKING AT COMBINED STATE AND AVERAGE LOCAL SALES AND USE TAX RATES SHOWS RELATIVE COMPETITIVENESS ON A GROSS LEVEL

Tennessee, 9.45%

Alabama, 8.97%

South Carolina, 7.23%

Mississippi, 7.07%

Georgia, 7.00%

North Carolina, 6.90%

Florida, 6.66%

Virginia, 5.63%

BUT INCENTIVES GURUS KNOW TO DRILL DOWN

ALABAMA HAS A BROAD STATUTORY EXEMPTION FOR BUILDING MATERIALS

GEORGIA RESERVES THE EXEMPTION FOR CERTIFIED COMPETITIVE PROJECTS

IT MAKES A BIG DIFFERENCE

pennies out of a construction dollar actually spent on building materials

Data Source: Tax Foundation
Data Visualization:
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MANUFACTURING

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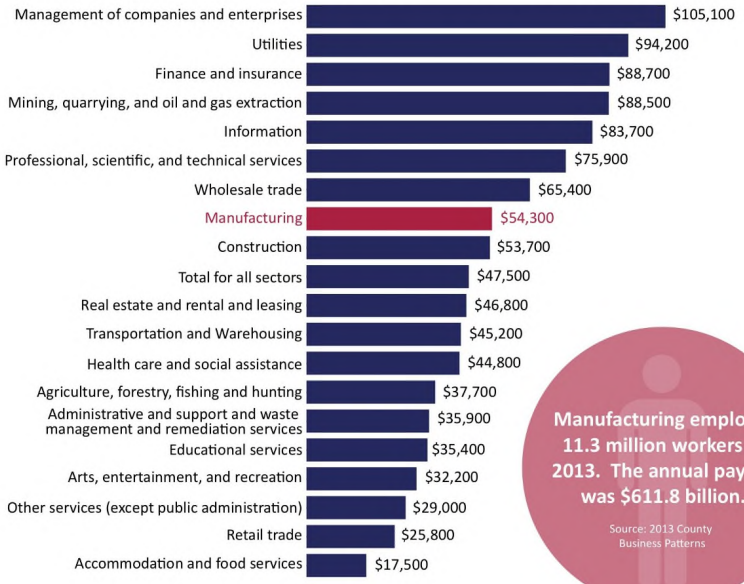
MANUFACTURING QUESTIONS FOR "JEOPARDY"

30% of key workforce have at least BA degree
4th largest employer
8th highest payroll
concentrated in Ohio, Texas and California

Average Annual Payroll per Employee by Sector

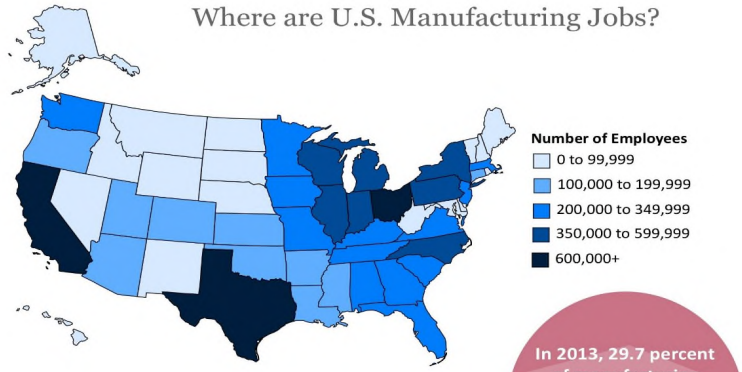


Source: 2013 County Business Patterns

Manufacturing employed 11.3 million workers in 2013. The annual payroll was $611.8 billion.

Source: 2013 County Business Patterns

Where are U.S. Manufacturing Jobs?

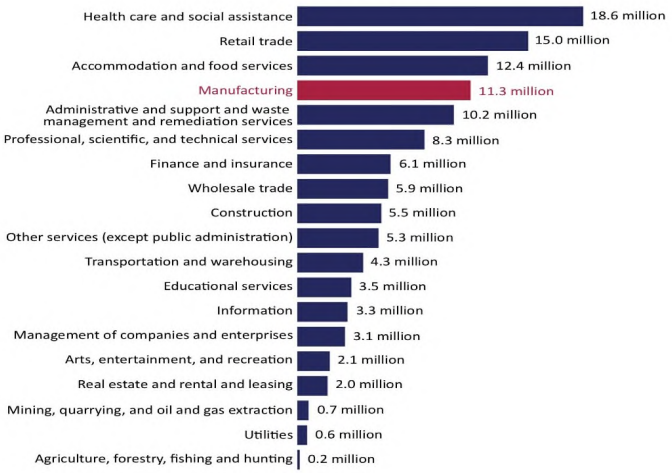


In 2013, 29.7 percent of manufacturing employees 25 and older had a bachelor's degree or higher.

Source: 2013 Current Population Survey

Manufacturing Is the Fourth-Largest Employer

(Number of employees)



Source:2013 County Business Patterns

Data Source: Census Bureau

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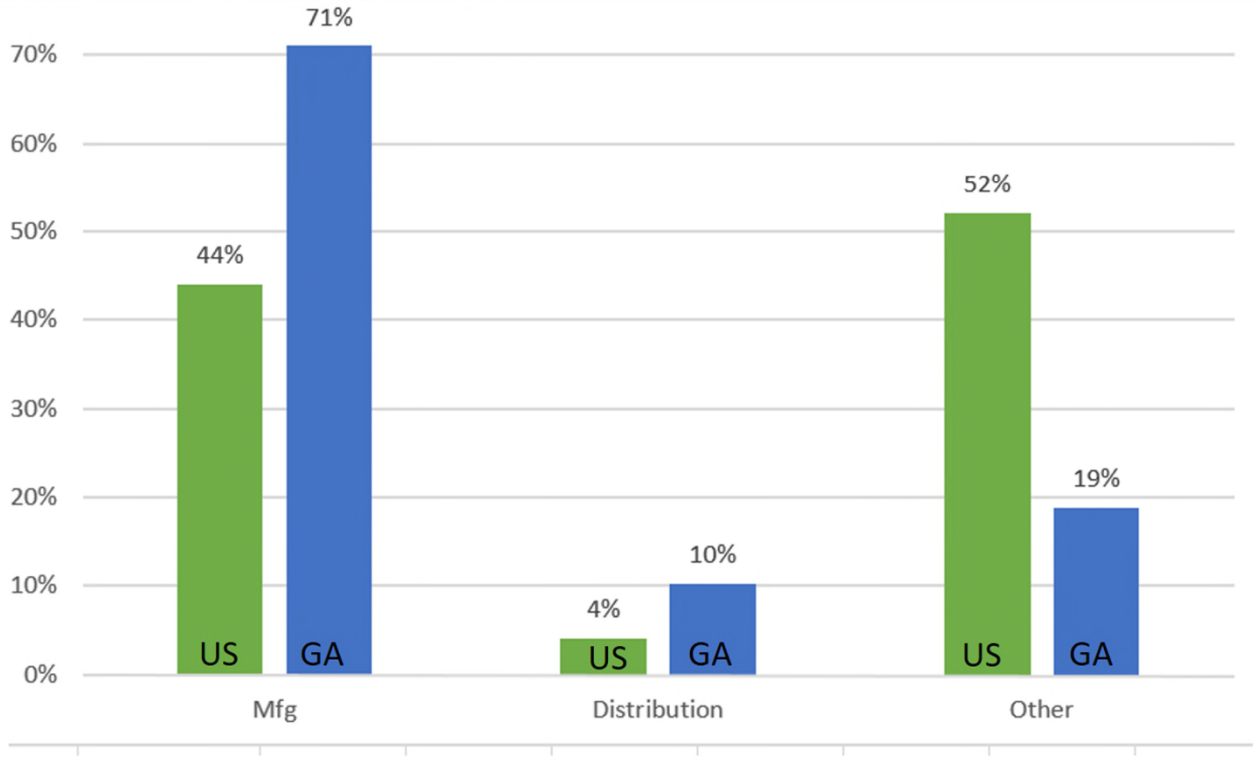
MANUFACTURING IS BY FAR THE LARGEST SOURCE OF PROJECTS IN GEORGIA.
AND MANUFACTURING HAS THE LARGEST INDIVIDUAL SHARE OF THE LARGEST US PROJECTS
(when "other" is broken down into its components).



Data Sources: GA: GDEcD announcements 2010-2015; US: Site Selection Group Q12016 25 largest projects

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MANUFACTURING HOT SPOTS

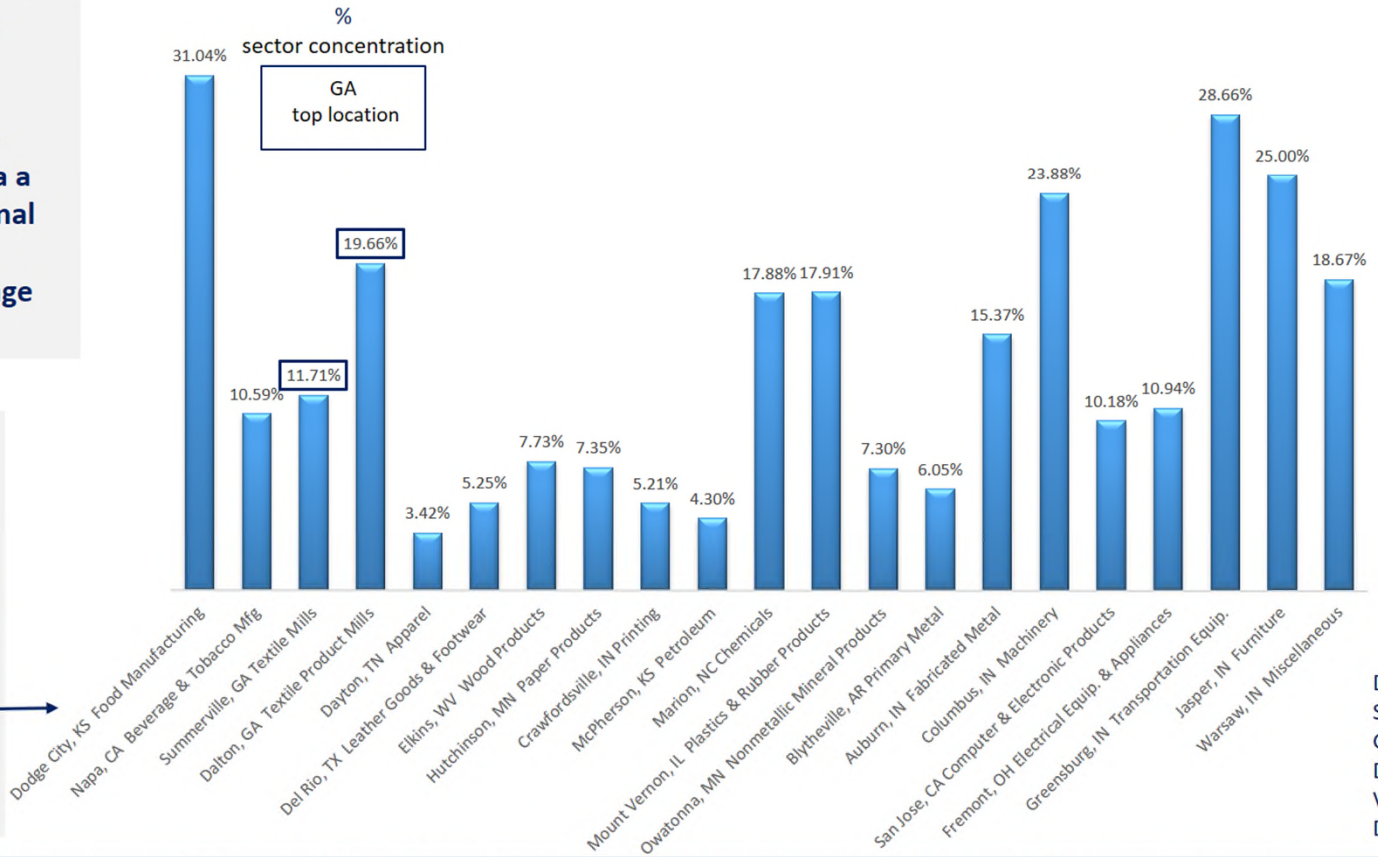
WHERE HIGHEST MANUFACTURING EMPLOYMENT COMBINES WITH MOST CONCENTRATED SECTORS

Manufacturers look for locations with

- **good existing manufacturing base**
- **pipeline of talent via a technical or vocational school**
- **low to moderate wage pressures**

And many prefer areas where similar manufacturers have operations for clusters of unique processes and skill sets.

These cities are tops for total manufacturing employment and concentration in the associated sector.



Data Source: Site Selection Group
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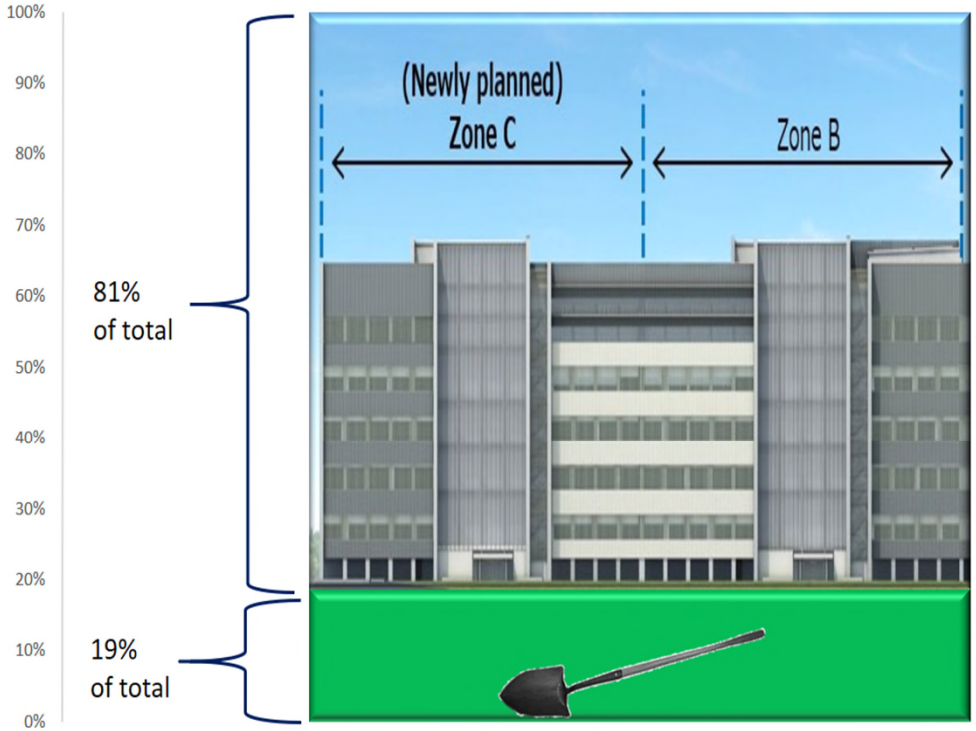
MORE THAN 3/4 OF ALL MANUFACTURING PROJECTS ARE EXPANSION PROJECTS



184 manufacturing expansion projects

42 new manufacturing projects

Data is for Georgia.
Data Source:
GDEcD for FY2015.
Data Visualization:
Dan McRae.

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E-COMMERCE

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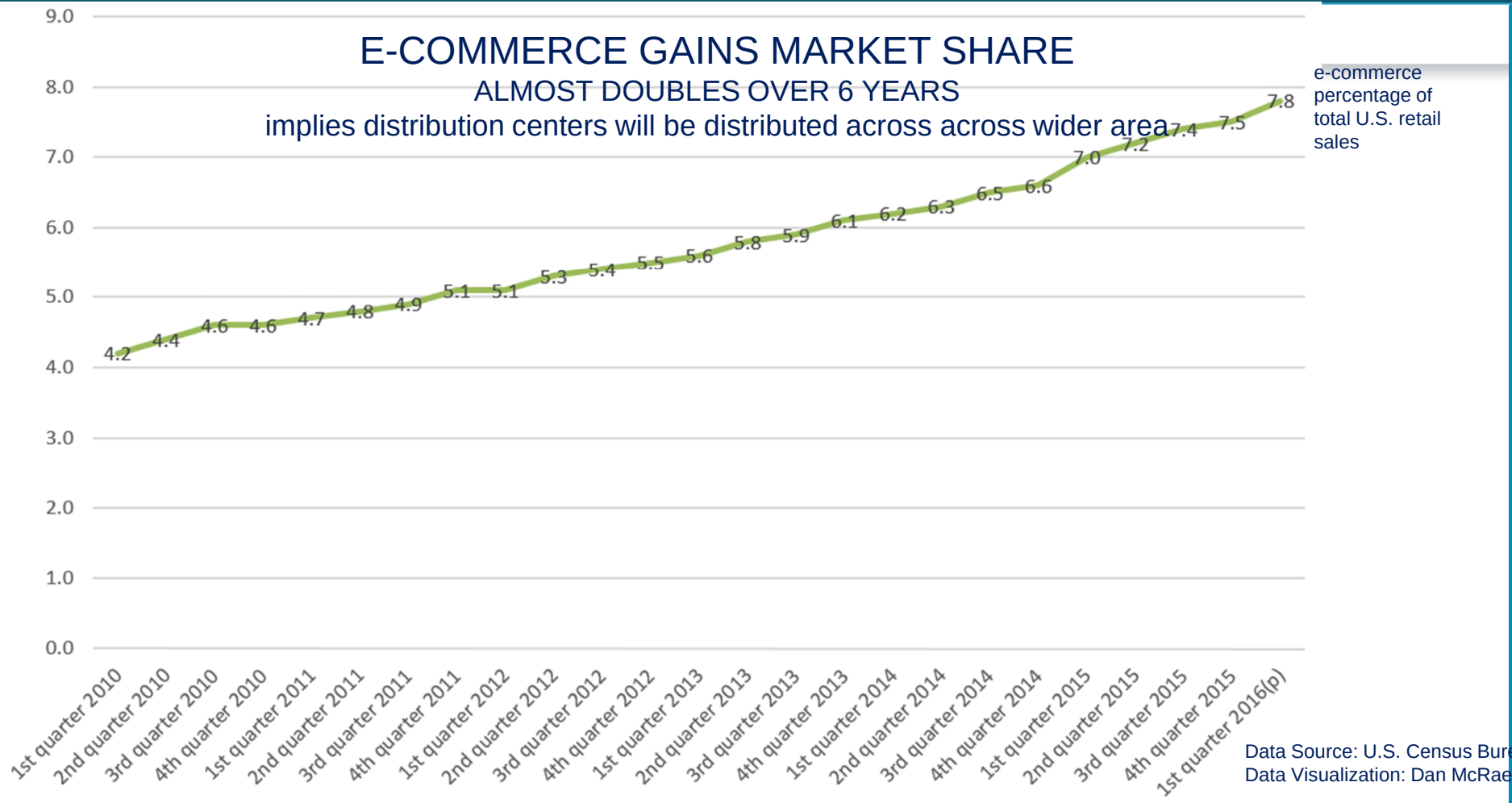
E-COMMERCE GAINS MARKET SHARE

ALMOST DOUBLES OVER 6 YEARS

implies distribution centers will be distributed across across wider area



Data Source: U.S. Census Bureau
Data Visualization: Dan McRae

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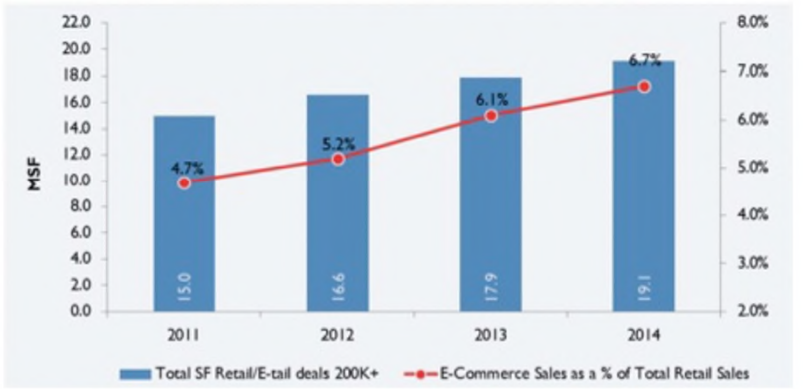
GO SMALL, OR GO HOME

E-COMMERCE IMPACT ON COMMERCIAL REAL ESTATE

- Mega-big boxes landing well outside major metropolitan areas
- Mid-sized distribution/fulfillment centers seeking to locate inside the "ring of faster gratification"
- Medium to large sortation centers popping up within major urban centers to accelerate delivery and mitigate risks
- Small depots emerging seemingly on a corner near you, where the last mile really begins.

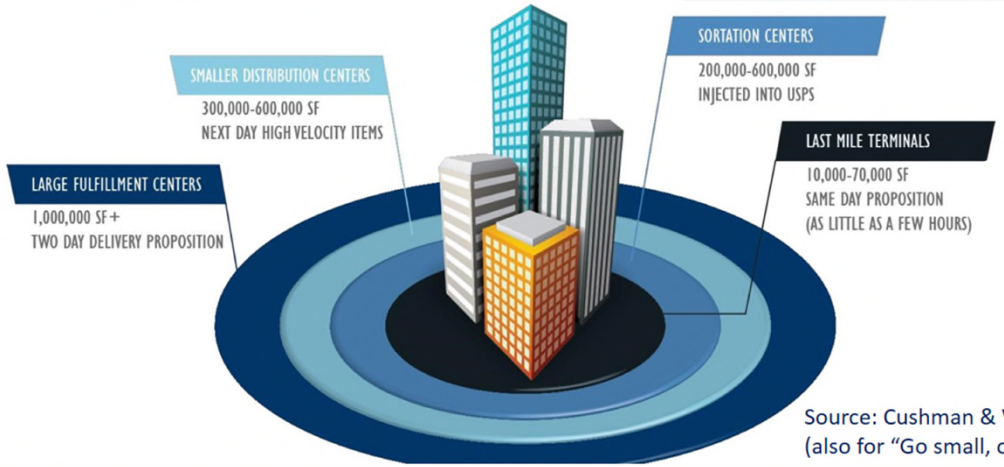
Source: Site Selection Magazine

U.S. E-COMMERCE ACTIVITY IN TOP U.S. INDUSTRIAL MARKETS



Source: Site Selection Magazine

THE RING OF GRATIFICATION



Source: Cushman & Wakefield
(also for "Go small, or go home.")

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CALL CENTERS

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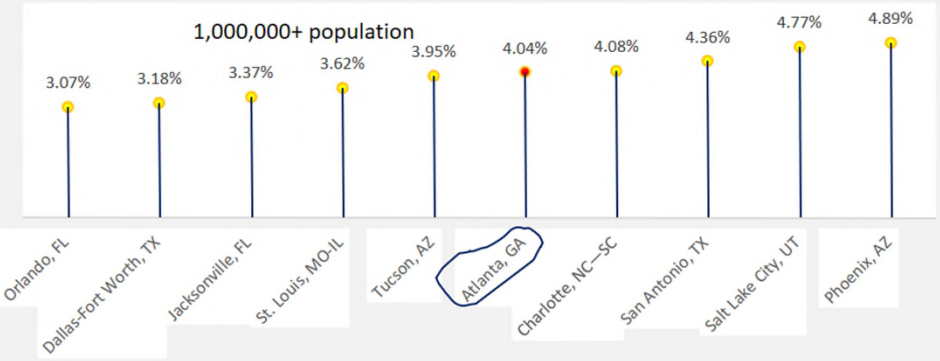
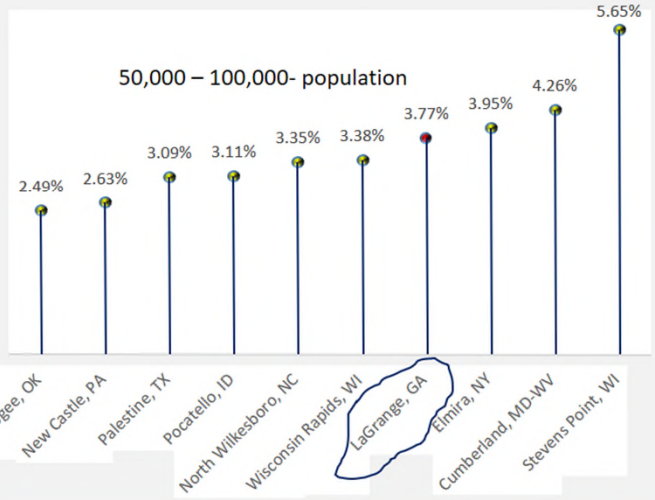
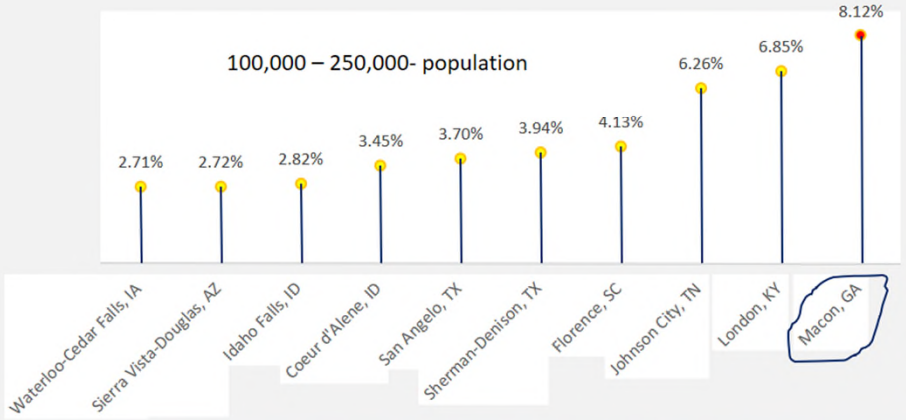
CALL CENTERS

- Georgia ranks 8 nationally (jobs and number of call centers)
- But in 3 out of 5 population categories
  a Georgia city is among the top 10 for saturation rate
- Not good- this is the percentage of call center workers compared to the commutable labor force
  - Sensitive to call center operators because labor is typically 80% of a center's operating budget
  - Could affect future site location decisions







Data Source:
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Data Visualization:
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IN CONCLUSION

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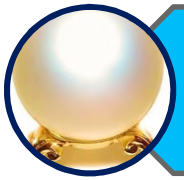
FREE MONEY- HOW MUCH IS TOO MUCH?

TO AVOID CLAWBACKS LATER

INCENTIVES GURUS KNOW TO ASK THE COMPANY THESE QUESTIONS BEFORE THE MOU IS SIGNED

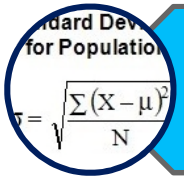
Are there plans to relocate portions or all the business within the next few years?



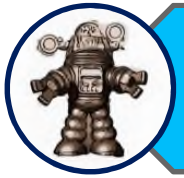
What are the market predictions for your industry over the next few years?

What is the company's strategy for addressing market risks?

What is your company's rate of attrition?



Does the attrition vary by location, department, sector, etc.?



Are there plans to upgrade or automate?

Data Source:
Mike Eickhoff, Grant Thornton; Brandon Hayes, Altus Group

Data Visualization: Dan McRae

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FAIL OR SUCCEED?

INCENTIVES GURUS KNOW WHAT WILL HAPPEN WHEN STATES CHANGE THEIR INCENTIVES POLICIES

POLICIES AND POLICY CHANGES

- Florida, North Carolina, and Louisiana are at risk
- Alabama, Mississippi and Georgia are well positioned
- The “at risk" states are cutting back on incentives
  - Cuts can involve both statutory incentives (credits) and discretionary incentives (grants)
- The "well positioned” states are expanding or preserving effective incentives
  - Both statutory and discretionary

cutbacks violate a basic rule

we will always have incentives

UNINTENDED CONSEQUENCES

- Cut backs can be due to policy changes (to lower overall tax rate) or fiscal issues (balance the budget)
- Either way, there is blowback
- Incentives alone don’t locate an economic development project
- But there is no substitute for them
- And incentives are what the public wants

6 REASONS WHY WE WILL ALWAYS HAVE INCENTIVES

- Even if the dollars are the same, the public supports tax code incentives over outright governmental spending
- The public believes tax expenditures are cheaper than equivalent spending programs
- Simplification of a program does not affect the public's view
- But "who benefits" does matter
- Partisanship and ideology matter
- Keeping in place programs that are already publicly accepted also does seem to matter

Data Sources for 6 reasons: Conor Clarke; Smart Incentives
Data Visualization: Dan McRae

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MORE INFORMATION

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QUESTIONS?

If you have any questions or comments on this presentation, please do not hesitate to let me know.

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SCOPE

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