

**BIGGINS**  
**LACY**  
**SHAPIRO**  
& COMPANY, LLC



SPECIALISTS IN  
LOCATION ECONOMICS

**An Overview of  
THE SITE SELECTION AND INCENTIVES PROCESS**

**Prepared for:  
Maryland Tax Reform Commission**

**December 3, 2009**

# AGENDA

---

- Location drivers
- The site selection process
  - Review of requirements, location criteria
  - Location screening
  - Overview of communities that do well
  - Secondary screening
  - Community Visits
- The Incentive process
  - Launching and completing the incentives process
- How incentives rank in the site selection process
- Overview of Maryland from site selector's perspective

# What Drives Location Decisions?

## Adding a Location

Response to changes in business needs (e.g., get closer to new customers or talent pool)

Growing businesses may want to reduce dependence on one labor market or contract manufacturer

To reduce overall costs and risks by diversifying geographically

## Relocating an Operation

To leave behind operating problems (inflated salaries, competition for talent)

To get away from challenging business environment (high taxes and other costs)

To find a more business-friendly environment (more predictable regulation, lower cost)

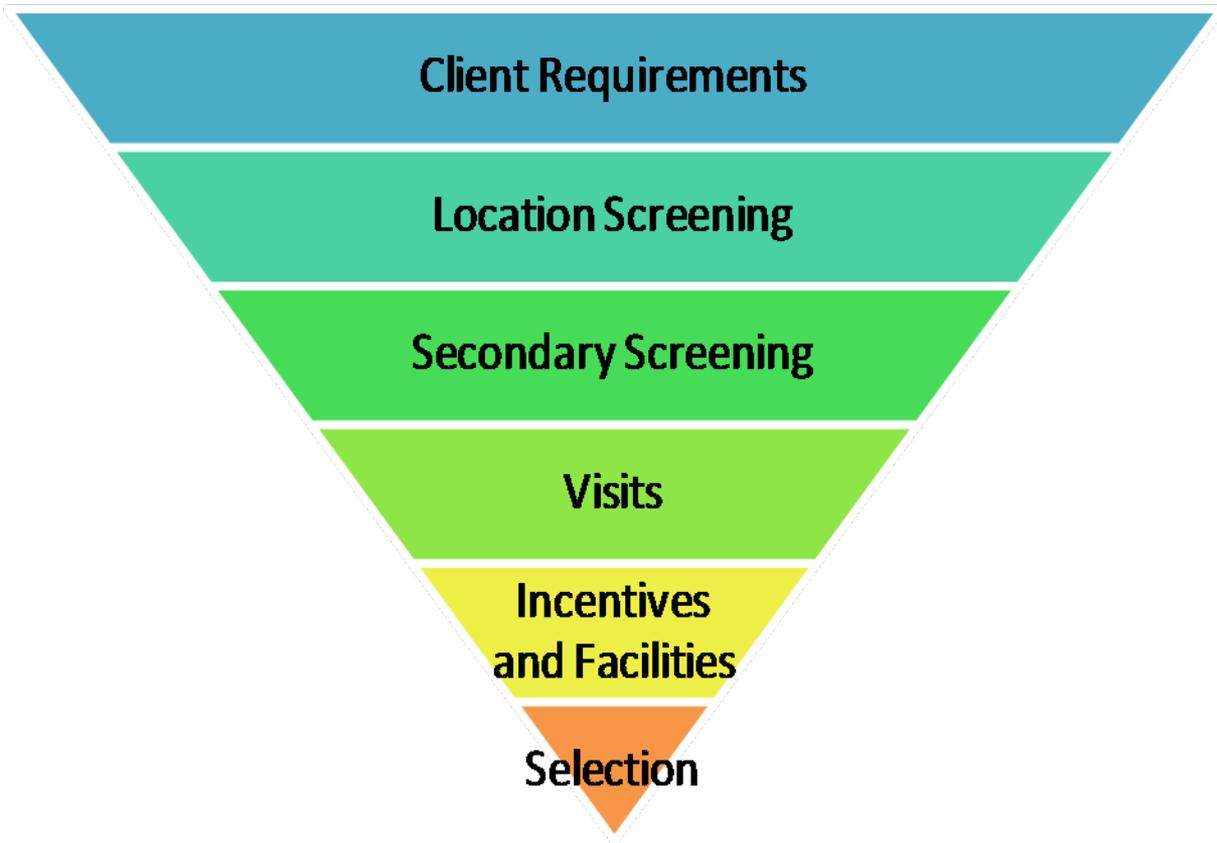
## How Does Site Selection Process Work?

---

- Procurement of a location – “place” is the product
- Multi-phased collaborative process; typically involving a select informed management team, often with the assistance of a consultant
- Confidentiality is key
- Intensely competitive
- Final decisions approved by senior management and board

# The Company's Objective: Eliminate all but the Best Destination(s)

---

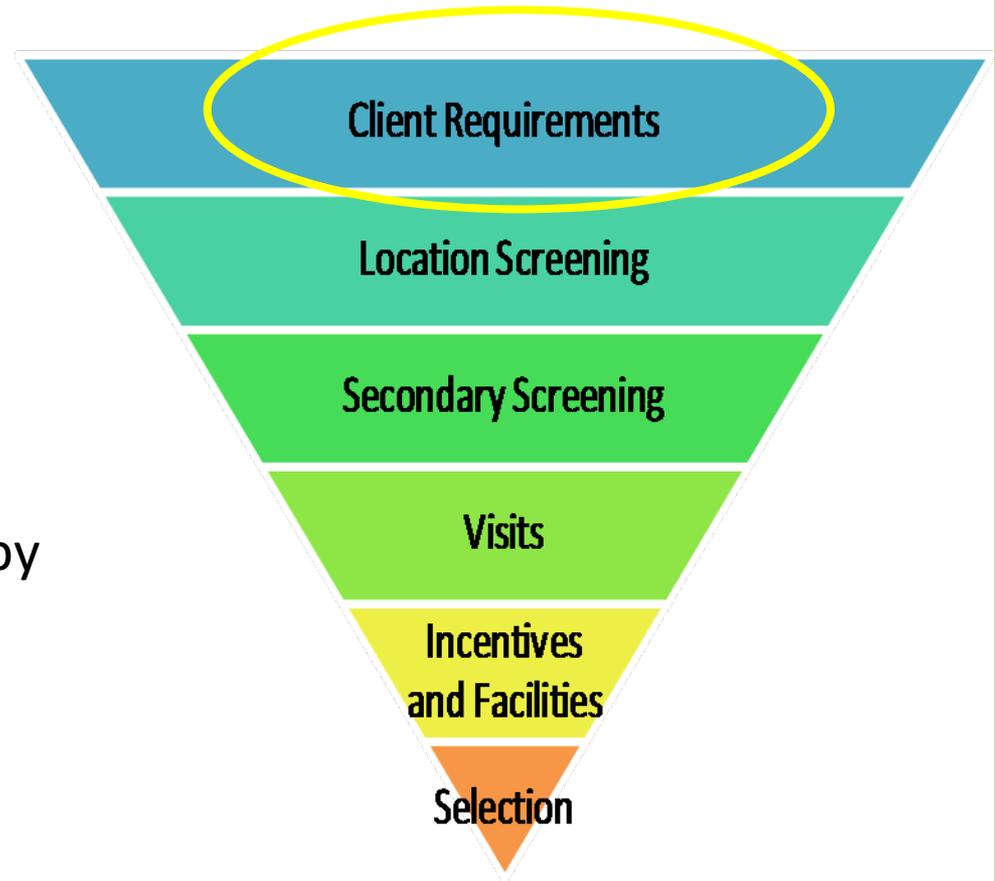


**The Community's Goal is to Avoid Elimination**

## Review of Requirements

---

- An initial meeting to discuss factors that are particularly important to the company:
  - Desired area of search
  - Timing
  - Workforce needs (will vary by type of operation)
  - Facility requirements (e.g., office space, data center, plant, labs)
  - Locational criteria

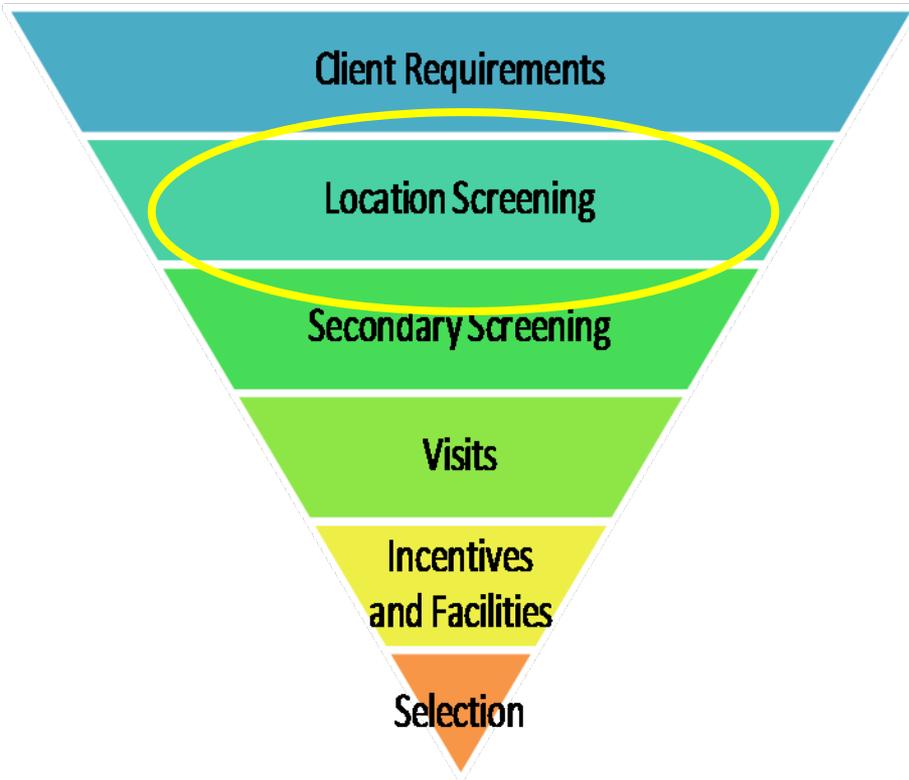


# Location Criteria Evolve from Project Objectives and Vary by Type of Organization

But costs and labor are universally important

	Costs	Talent	Real Estate	Infrastructure	Quality of Life	Regulation
Mfg	X	X	X	X		X
R&D	X	X	X	X	X	X
Office	X	X			X	

# Location Screening



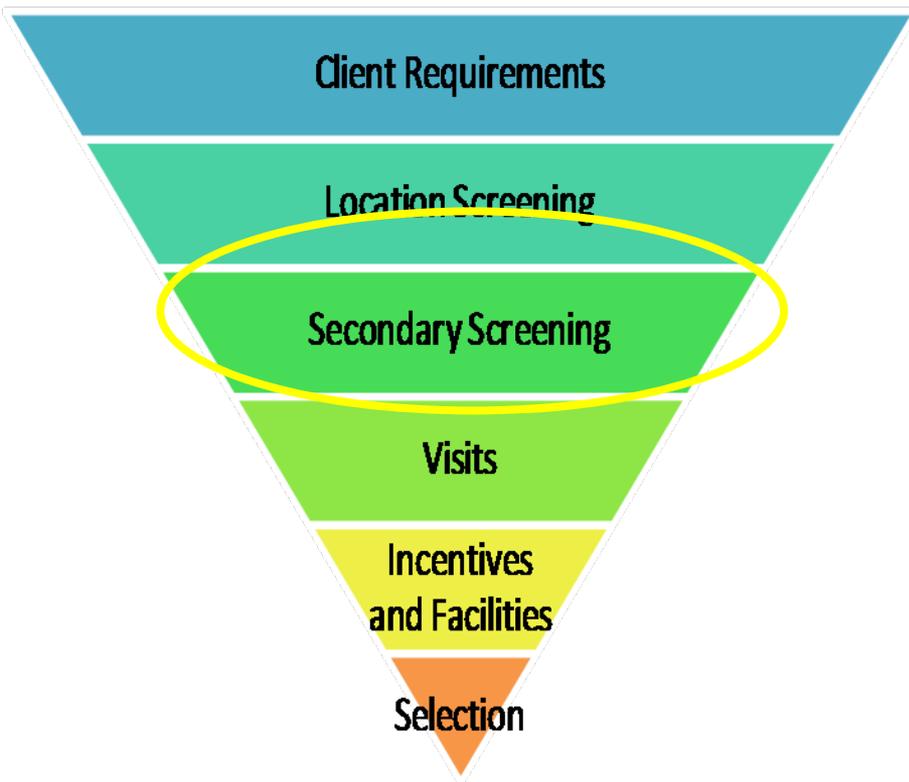
- Initial comparison of a large number of locations accomplished through a screening model.
- Types of data modeled include:
  - Population
  - Age
  - Income
  - Employment (industry & occupation)
  - Unemployment
  - Wages and benefits,
  - Educational attainment and enrollment
  - Logistics (pertinent to mfg)
  - Type of R&D
  - Access, etc.
- Projections are run in 5, 10 and 15 year scenarios.

## Communities that Usually Do Well

---

- Moderate size metropolitan areas and communities
- Areas of higher than average population growth  
(particularly growth in the 19-45 age cohorts)
- Rate of job growth balanced against labor force growth
- Moderate rates of unemployment
- Labor calm
- Wage levels that do not exceed industry or national averages
- Moderate Household Income growth
- High level of educational achievement (often focused on specific disciplines)
- Good access for movement of raw materials and finished product (and to facilitate commutation and labor access)
- Good regional, national or international air access
- Quality of infrastructure
- Manageable level of natural disaster risk

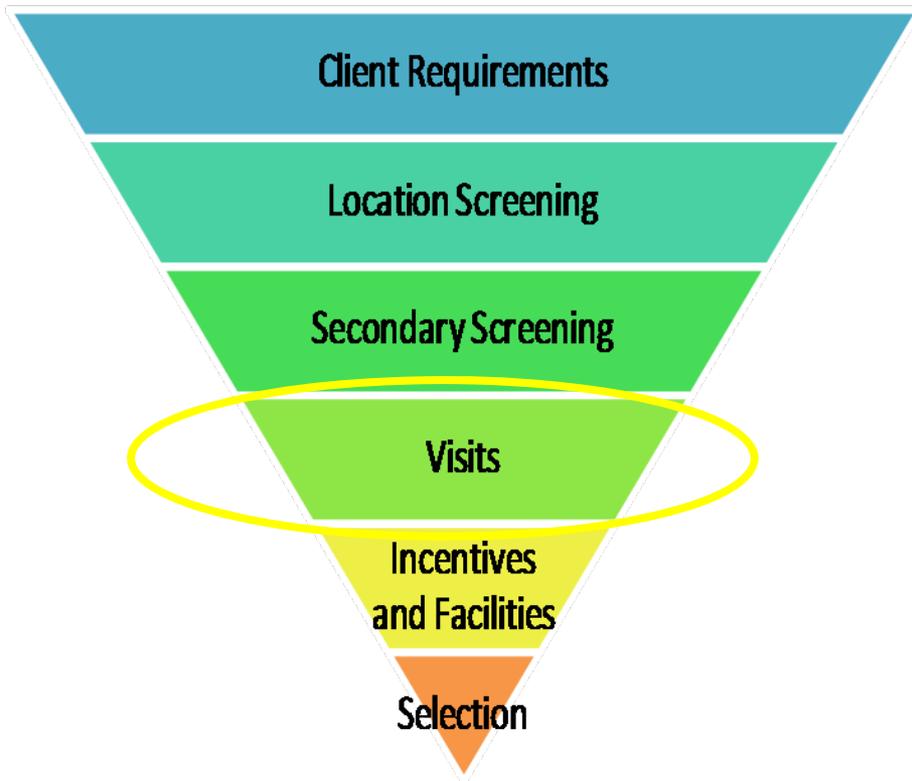
# Detailed screening with Comparative Costs



- Usually focuses only on strongest communities from Phase II
- Relies on data gathered through proprietary collection sources
  - Employment by industry sub group and occupation
  - Salary levels by job type and experience level
  - Utility costs and reliability
  - Environmental and other regulations
  - Costs of real estate
  - State/Local tax rates (and direction)
  - Quality-of-life data
- Phase II includes comparison of all-in costs among candidates, thus....
- Analysis of potential incentives becomes more critical

# Community Visits

---

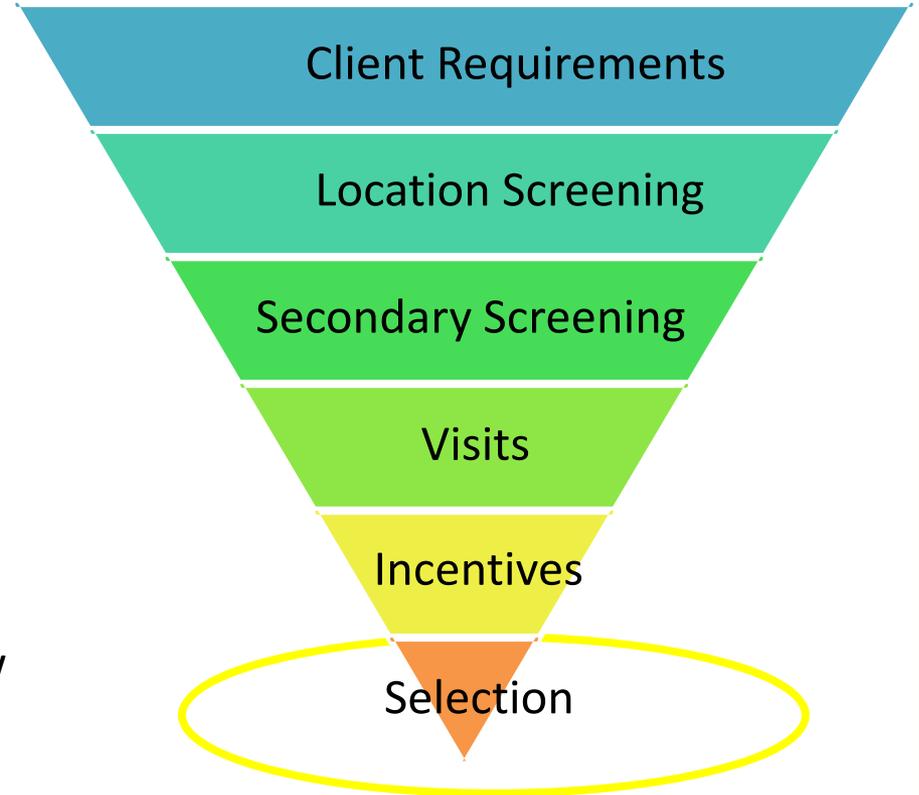


- Usually a short-list of communities (4 to 5) remain as candidates
- Visits concentrate on meetings with comparable employers, educators and various government agencies as needed (BRAC)
- Also site/facility tours
- Provides an opportunity to engage in more detailed investigations of project costs/benefits and possible incentives to offset costs
- Consultant may be accompanied by client representatives (1<sup>st</sup> trip or 2<sup>nd</sup> )

# Incentives

---

- At this stage costs become the dominant driver
- Typically two or more “finalist” locations are being considered
- Incentives are a “pricing” tool – the only cost variable a community can control in the short term
- Most incentives value is at the state level – investment justified with new job creation/retention; and enormous potential ROI



# Launching the Incentives Process

---

- Launch competitive process
  - Integrate with site selection and negotiations for buildings or sites
  - Estimate potential value (including factors affecting usability)
  - Understand corresponding commitments
  - Gauge time and effort necessary to pursue and close on incentives
  - Complete gap analysis (NPV & P&L)
  - Rank Locations



# Presenting and completing the incentives process

---

- Present case to public officials
  - Jobs: both primary and secondary employment
  - Payroll: Direct contributions and any secondary wealth created
  - Economic Impact: Total contribution (direct and multiplier effects)
  - Fiscal Impact: Direct and indirect tax effects generated by the project (corporate and individual income taxes, payroll taxes, sale taxes, property taxes, etc.)
- Complete incentives process:



# Where Incentive Rank Among the Site Selection Factors

According to 2008 Site Selection's annual corporate survey, among a list of 25 site selection factors:

- State and local incentives ranked #7 in importance, up one from #8 in the previous year.
- Tax exemptions rose up in importance, ranking at #4, up from #10 in the previous year.
- Corporate tax rate ranked at #8, down from #7 in the previous year.

Type of incentives considered most important:



Companies who have received incentives



Among those who received incentives:

- 63% indicated that they were satisfied with the incentives they received
- 37% felt the incentives have fallen short
  - Of those, half claimed that the tax incentives expected *failed to materialize*.

## Overview of Maryland – Site Selector’s Perspective

- Maryland Rankings
- Recent events
- Current budget Issues
- Potential Tax Reform
- Maryland Incentives – what’s left?
- Competitive Landscape

## Maryland Rankings

---

- 12th in Forbes survey of best states for business in 2009
- 45th in 2010 State Business Tax Climate Index by the Tax Foundation, 49<sup>th</sup> for individual
- 3rd in the 2008 State New Economy Index (innovation, creativity, technology)
- Grade of “B” in the Corporation for Enterprise Development’s 2009-2010 Assets and Opportunities Scorecard (broad picture of how Maryland families are fairing)
- 40th in the nation for energy costs, according to the Small Business and Entrepreneurship Council
- 31st in Chief Executive Magazine’s ranking of state business climates (33rd for costs)

## Recent Events

---

- Recent positive announcements:
  - Emergent BioSolutions anthrax vaccine plant in Baltimore
    - 56,000 sf
    - Up to \$20 million investment
    - 25 – 50 employees
  - Morgan Stanley
    - 1,000 new Baltimore jobs by 2018
    - \$42 million investment
    - \$5.5 million incentive package including total of \$4 million from Sunny Day fund and \$1.5 million from Industrial Training Partnership
- But recent announcement of Black & Decker HQ moving to Connecticut in connection with merger.
  - 1500 jobs, mainly in the power tools division
  - 250 corporate jobs
- State's ability to compete is hamstrung as incentive programs lack replenishment of funds.

### Fiscal problem present challenging context for Economic Developers

- Projected \$2 billion gap in 2010
- Potential for \$1.4 billion from slot parlors, but 3 years away
- More cuts expected in biotechnology and historic preservation tax credits and MD Venture Fund.
- Concerns over new taxes/fees on business, though apparently little support for resurrecting proposal to impose sales tax on computer services
- MD Transportation Trust Fund tapped for \$2 billion over last 2 years – not for infrastructure projects.

## Potential Tax Reform

---

- MD Business Tax Reform Commission weighing overhaul – report expected in 12/10. Subcommittee will report to full Commission on 6/10.
- Commission created in 2007, at same time the corporate income tax rate was raised from 7% to 8.25%
- But revenues hampered by recession (\$551 million of corporate income tax revenues in FY '09 vs. \$846 million in FY '06)
- Issues being reviewed by the Commission are:
  - Combined Reporting
  - A Gross Receipts Tax (based on revenue, not profit)
  - Alternative Minimum Tax
  - Single Sales Factor Apportionment
- Additional Initiatives: Senate Bill 274 and House Bill 300, no impact expected on the state. Local Impact primarily for small businesses.

# Maryland Incentives – what's left?

## FEDERAL FUNDS

- MD allocated \$4.2 in Federal Stimulus Funds. Of the current \$3.2 billion spent, a total of 6,774 new jobs have been created. Many states having trouble deploying funding in timely and productive ways.



Type	# of Awards	Amount	Jobs Reported
Contracts	614	\$689,018,886	1,344.34
Grants	1670	\$2,489,488,635	5,430.15
Loans	4	\$7,149,000	0.00
Total	2288	\$3,185,656,521	6,774.49

Roll over type to view source Updated 10/30/2009

## STATE INCENTIVE FUNDS

- \$20 million in MD Economic Development Assistance Authority Fund – generally structured as low-interest loans, but it can be a forgive-able loan based on the company's commitments.
  - Down from \$30 million in FY '09. Additional \$6 million cut proposed; potentially more
- \$1 million in Maryland Economic Adjustment Fund for FY2009, \$0 for FY2010
- \$0 in Maryland Industrial Training Partnership
  - Not funded this year
- \$0 in Partnership for Workforce Quality
  - Not funded this year
- \$200,000 in the Sunny Day Fund
  - No additional funding since 2002
- \$2 million in the Maryland Venture Fund for current FY

## STATE TAX CREDITS

- Except for Biotech Investment Tax credit, all other tax credit programs expected to remain intact

## Comparisons with key competitive states

	MD	PA	NJ	VA
Project	Morgan Stanley Baltimore	Westinghouse Electric Company , Cranberry, Butler County	The Depository Trust & Clearing Corporation (DTCC) – Jersey City	AREVA Newport News LLC, AREVA and Northrop Grumman Joint Venture – City of Newport
Jobs Created	1000 new jobs	931 new jobs	1600 new jobs	540 new jobs
Investment Made	\$42 Million	\$200 Million	\$80 Million	\$363.4 million
Key Incentives Used	Sunny Day fund and Industrial Training Partnership = \$5.5 million	Industrial Authority Loan, Opportunity Grant, Infrastructure Development Grant, Customized Job Training = \$6Million	Economic Redevelopment & Growth Grant - \$100 Million over 10 yrs	Governor’s Opportunity Fund, VA Investment Partnership = \$4.5 million. Training assistance and also qualifies for a Major Business Facilities Job Tax Credit and road access funding.

## ABOUT BLS

---

Biggins Lacy Shapiro's (BLS) specialized skills create value on both the demand and supply side of the market for corporate location decisions.

BLS' professionals help evaluate financial and operational location variables, manage the regulatory challenges to development and negotiate incentives which can make a difference in the financial performance of our client's projects.

- **Location Advisory:** We help clients optimize their location choices, bringing deep proven expertise and the most effective analytical tools and databases available to evaluate labor markets, logistics, costs and regulatory environments and other location variables.
- **Incentives:** We develop creative incentives strategies in support of our client's corporate relocations and expansions, while positioning projects for business flexibility and positive ongoing community and government relations. BLS also manages incentives-related opportunities and risks on a portfolio basis in connection with acquisitions and consolidations.
- **Land Strategies and Approvals:** We create value through redevelopment and rezoning strategies, guiding clients through the complex and potentially controversial land use regulatory process, and securing public sector funding for infrastructure to reposition properties for development or sale. BLS also manages the inevitable public affairs and grass roots variables that impact the development process.



**BIGGINS**  
**LACY**  
**SHAPIRO**  
& COMPANY, LLC

*Specialists in Location Economics*

Assists companies with location and incentives strategies,  
and helps jurisdictions design and implement economic  
development incentives programs

New York

Princeton

Tampa

[www.BLSstrategies.com](http://www.BLSstrategies.com)

609.924.9775

