



## SITE LOCATION, CREDITS AND INCENTIVES: A COMPLETE ANALYSIS YIELDS BETTER RESULTS

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Identifying new site locations for a company's relocation, expansion or strategic realignment involves numerous and complex factors. In addition to considerations such as available and skilled workforce, transportation, land suitability, and proximity to suppliers or markets, companies often look to maximize their investments with credits and incentives from communities. Although information on credits and incentives programs is often publicly available, these programs represent only a portion of what is available to companies that are prepared to make a significant investment in a community. Furthermore, relying on existing programs is problematic as funding is not always assured nor might the programs match a company's needs. Therefore, companies considering relocation, expansion or strategic realignment require an experienced advocate in site selection, credits and incentives identification and negotiation.

Site selection firms bring different degrees of knowledge and expertise to the site selection and incentive identification process. Firm types range from boutique firms that provide research to real estate firms that are focused on the ultimate real estate transaction to firms that focus on negotiating credits and incentives to full-service location analysis and incentives negotiation firms. While each of these types of firms offer important services, those that have a narrower scope neglect the more intangible yet highly valuable benefits of optimizing site selection as a part of a complete expansion or relocation strategy. Moreover, some firms believe because they have successfully won packages in the past, they can standardize and repeat the process the next time a relocation or real estate development project is planned. They soon discover, however, that how incentives are understood, structured, and negotiated differ state by state, county by county and municipality by municipality.

A comprehensive approach to relocation or development takes all factors into consideration and properly positions a company's presence in a community. For most communities, economic development is highly desirable. These communities may not be aware of all the opportunities available to successfully incentivize a company's relocation or expansion. In addition to identifying these opportunities, a firm should verify these opportunities work in tandem to support the company's goals and business strategy in that community. This approach ensures all opportunities are identified and leveraged and that negotiations result in long-term benefits to the company and to the community.



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### Every Situation is Unique

Although the processes of site location, and credits and incentives identification and negotiation are replicable, no two projects are identical since the business goals and strategies of companies differ. Some companies want to decentralize personnel regionally; while others want to co-locate particular divisions to maximize business synergies. Likewise, some businesses prefer to lease with as much infrastructure as possible already at the site; while others prefer to build to suit their own needs, including construction contracting in the community as part of their arrangements with local political representatives and revenue authorities. Successful negotiations require not only a thorough understanding of a community's threshold for credits and incentives, but also of the interplay and dynamics involved between a community and neighboring communities or jurisdictions, as well as with a community's desire for and reception of a new business presence.

### Site Selected. Now What?

Few site locators and negotiators of credits and incentives remain with a client through this process. Once the negotiations have been finalized, many site selection firms conclude their services. This departure leaves the company with little guidance on how to collect funds or implement benefits according to agreed-to terms. SC&H stays with its clients through the implementation process of a credits and incentives engagement. SC&H ensures companies that have forged commitments with communities receive their benefits in a timely manner.

Understanding that a business is operating in a community for the long term, SC&H works closely with both the newly located company and community authorities to ensure open communications and the honoring of commitments. SC&H often negotiates with community authorities to collect on pre-agreed commitments by staying informed of communities' fiscal standing, budget closings, credit and incentives payment options and the state legislation backing these communities' accounting practices. It is important to take communities' challenges into consideration while remaining aware of additional funds, statewide and locally, as they become available.



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### Case Study: Search for Optimal Value

A global technology company had reason to consider repatriation of hundreds of high functioning positions for its shared services division. The company wanted up to 50,000 square feet of turn-key space so that its infrastructure investment would be minimal. The location would serve as an operations center – including customer service and accounting functions – with an initial equipment investment of \$2.5 million. The company also had set criteria for labor costs, cultural assumptions, and commutability expectations for its prospective employees. A multi-state national selection process ensued for a suitable site based upon these criteria. Locations – up to three – in each of five eligible states were found and research conducted regarding each of these locations. This included other companies' experiences, state and local tax structures as well as credits and incentives packages offered. Deeper research into public perception of a new, substantial business presence and key labor market characteristics was conducted.

Based upon these criteria, SC&H identified three facilities in three separate regions as optimal locations. SC&H did not simply uncover and request available credits in these regions. Because SC&H fully understood the company's strategic goals, SC&H approached local political representatives and revenue authorities emphasizing the company's goals and community benefits that would be derived from this relocation. In each location SC&H successfully negotiated significant property tax abatement, cash grants, training assistance grants, usable tax credits and payroll tax rebates. The negotiated incentive packages ranged from \$6 million to \$4.5 million.

As mentioned before, a successful incentivization depends upon the company's goals. For the global technology company, the most valuable incentive package was not the highest total, but rather the one that met the company's goals in terms of key labor force characteristics, local taxation and commutability. Though offering less tangible benefits in terms of cash grants or tax deferments, this region would prove to be an advantage for this company as it pursued its goals in customer service as a global company.



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### Other SC&H Services

SC&H provides a host of other services related to accounting, tax, profitability and strategy solutions. Site location and credits and incentives negotiations were one of several services, including internal audit, compliance consulting, and contract compliance for which SC&H was retained by the global technology company. Specific services for which SC&H was engaged were business improvement consulting, erroneous invoicing identification and funds recovery, and most recently, providing cost-efficient economic development recommendations.

The company retained SC&H for several contract compliance audits, in which \$6 million in overbillings was identified over a two-year period. The company did not want to pursue recovery of all non-compliant billings, so \$2 million, or 33 percent, was recovered. Over the next two-year period, \$1.1 million in non-compliant billings were identified, demonstrating how thoroughly the company had adopted SC&H's recommendations to tighten financial leakage with its supplier contracts. Of this amount, SC&H recovered almost the entire amount, just short of 100 percent identified as non-compliant.

As with many other clients, SC&H began by focusing on the company's highest priced, recurring billings. These included contracted labor, various office supply contracts, and full-time equivalent (FTE) contracts in advertising and marketing spend. For this client, there were other significant supplier contracts with computer hardware and software providers, especially with value-added resellers that provided the company with computing equipment on a recurring basis. SC&H identified freight charges paid that should not have been, and contracted rebates based on order size and frequency that should have been paid to the company, but weren't, and was able to recover both.



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### Asset Strategies, Not Matches

A holistic approach to helping this company meet its business challenges has yielded nearly \$10 million in cost savings and in reduction of operational expenses over a history of several years. As with its other practice areas, SC&H's successful engagements in site location, and credits and incentives services are closely tied to its understanding of a marketplace in which there are many drivers and interests. With clients' goals in mind, SC&H leverages clients' interest in this marketplace for maximum benefit, including the implementation of a method for its clients to collect on pre-agreed arrangements made with local authorities.

As part of economic development, credits and incentives are not merely to be identified and claimed, but to be understood as a starting place for companies to best meet their business goals given the real choices available to them. Combined with ensuring local authorities can also bring tangible benefits to the communities they serve, everybody wins.

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SC&H Locations, Credits, and Incentives is a practice within the State & Local Tax division of SC&H Group, LLC, an audit, tax, and consulting firm applying "expertise that works" to minimize risk and maximize value. SC&H Group's practices advise companies from emerging businesses to the Fortune 500 on accounting, tax, profitability, and strategy solutions. Clients in all states and worldwide benefit from SC&H Group's commitment to delivering powerful minds, passionate teams, and proven results on each and every engagement.

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