

# Pinellas County Florida

## Business Incentive Program

PAY TO THE ORDER OF \_\_\_\_\_ \$ \_\_\_\_\_ DOLLARS

\_\_\_\_\_ 19\_\_

FOR \_\_\_\_\_

---

---

---

---

October – 2003

---

# **Business Incentive Program**

**Pinellas County, Florida**

Prepared for the  
**Pinellas County Planning Council**

**October - 2003**

Prepared by  
**William H. Fruth**  
**POLICOM Corporation**

2740 SW Martin Downs Blvd #279  
Palm City, FL 34990  
772-781-5559  
[www.policom.com](http://www.policom.com)

---

## *Table of Contents*

Introduction	Page 1
Nature of Business Incentives	Page 2
Tax Abatement	Page 3
Low Interest Loans	Page 4
Grants or Gifts	Page 5
Regulatory Relief	Page 6
Importance of Incentives to Businesses	Page 7
Why Do Communities Offer Incentives	Page 8
Should Pinellas County Offer Incentives	Page 10

---

## ***Introduction***

The Pinellas County Planning Council, in cooperation with the Pinellas County Board of Commissioners, is creating a plan to maintain and enhance the Pinellas County economy and the standard of living for the residents.

In conjunction with this effort, POLICOM Corporation has prepared the following studies:

1. ***“Economic Impact of Reaching Physical Build-Out on the Pinellas County Economy”*** which determined the overall size and quality of the economy will decline after the area absorbs the existing “Greenfield” industrial property. An important component of the plan being developed by the Planning Council is to find means to redevelop areas of the county to create more industrial property to prevent this from happening.
2. ***“Historical, Comparative Economic Analysis of Pinellas County”*** which describes the components and the comparative history of the economic growth of the county .
3. Utilizing the information in the *Historical, Comparative Study*, POLICOM Corporation created an ***“Economic Development Goal Setting Study”*** which provides economic projections for the county. It also provided an economic goal for the future, relative to the size and the quality of the economy. In order to reach the goal, annual milestones for the number and type of new primary industry jobs were created. If the area is able to meet the annual milestones, the goal should be achieved. As an example, the county needs to have a net gain of 2,449 primary jobs which pay a wage of \$45,745 in 2004.
4. It will be the responsibility of the Pinellas County Office of Economic Development and all the other economic development organizations in the county to conduct a vigorous economic development program in order to achieve the milestones. There are three basic activities regarding economic development: 1) Existing Industry Program, 2) Recruitment Program, and 3) a Start-Up Program. One of the key elements of a Recruitment Program is to focus upon “primary” businesses which will most likely move to Pinellas County and pay a wage which will meet the annual milestones. To assist in determining these sectors, POLICOM created a ***“Target Industry Study”*** which identifies, to the 6-digit NAICS code, specific sub-sectors which are growing, will be able to utilize the assets of the area, and will likely pay a wage at or above that determined by the annual milestones.

---

An example of a specific target sub sector is: **NAICS Code 334516 - Analytical Laboratory Instrument Manufacturing**

This U.S. industry comprises establishments primarily engaged in manufacturing instruments and instrumentation systems for laboratory analysis of the chemical or physical composition or concentration of samples of solid, fluid, gaseous, or composite material.

In 2001 the average wage paid in this sub sector was \$64,600 and employment has been growing approximately 2% per year for the last ten years.

Nationally, there are thousands of economic development organizations all attempting to improve the condition of their local economies. Never in our history has there been such an effort. Competition for a limited number of expanding or relocating “contributory” businesses is extremely fierce. Community leaders have learned how important these wealth generating companies are to the quality of life and standard of living for their local residents.

As a result, over the last fifteen to twenty years, the amount and type of business incentives being offered to companies by communities and states has ballooned to billions of dollars annually.

The purpose of this paper is to make recommendations to Pinellas County regarding whether to offer financial incentives to businesses as part of its economic development program.

### ***Nature of Business Incentives***

For the purpose of this paper, a “business incentive” is a financial benefit, which reduces the initial, short term, or long-term costs of a private company offered by a community as an inducement to remain in, expand in, or locate to an area.

There are basically four different types of incentives, which are offered to businesses by communities. These include:

- 1) Tax Abatement
- 2) Low Interest Loans
- 3) Grants or Gifts

---

#### 4) Regulatory Relief

### ***Tax Abatement***

Some communities reduce or eliminate completely taxes levied by the community as an incentive or inducement for a company to locate or expand in the area. The abatement of the tax might be permanent or for a limited number of years.

One of the most popular business incentives, tax abatement can cost a local community no tax money and at the same time provide a monetary benefit to a company.

Some communities abate all of the taxes available for reduction, as the benefit of the project outweighs the loss of tax revenue. Other areas discount the amount of "new taxes" created by a project, so there is no loss of revenue to the local government as a result of the abatement.

As an example, if a new factory is to be constructed, taxes on the value of the new building might be abated while the taxes on the existing land might not be reduced. If a company constructs a facility on a piece of land which presently yields \$10,000 in property taxes and, as a result of the construction of the building, would yield \$50,000 in taxes, the community might abate only the "new tax" portion (\$40,000).

Abatement might be permanent or for a specific number of years. The above "new tax" portion might be abated for just ten years, after which the company would pay the normal tax. The abatement might also be "phased." Over a ten-year period, the abatement might begin at 100% of the tax, but be reduced to 90%, 80%, 70% and so forth over a ten-year period.

The legal ability of an area to abate local taxes might also be limited. While in many areas, the county government leads the way in tax abatement, it many times can only affect a small portion of the local taxes. As an example, for most places in the United States, local schools are supported by property taxes. The school tax oftentimes comprises the largest portion of the overall property taxes levied. Most of the time, the county government cannot abate the school tax portion.

Many other local taxes are mandated by the state government and there is no provision in the law to abate or reduce these taxes unless specifically provided by the state legislature.

---

## *Low Interest Loans*

Many communities have established revolving loan funds to assist in reducing the costs or expediting the process of a company's relocation or expansion.

Low interest loans can be granted for many reasons based upon the needs of the company. Sometimes the loan is used to close a "gap" in the amount a private lender is willing to loan to a company for a project and what is actually needed by the company. As an example, if a company needs \$2,000,000 to be fully operational in a community but its lender will only provide \$1,500,000, the community loan fund might provide the additional \$500,000 and accept a subordinated position to original lender.

Money may also be loaned by the community for items, which would not otherwise be considered by a private lender, such as moving expenses for equipment or environmental mitigation required by government.

Additionally, a community may loan money to a business, which is considered a poor credit risk by private lenders. In such cases, the community weighs the risk of default against the short and long-term benefit the company will provide to the community.

A community may loan a company the full amount of the cost of a project at an interest rate considerably less than a private lender as an incentive. Loans for 1% interest are not uncommon.

The original funding for a loan pool comes from a plethora of sources such as the general fund of the local governments, Federal revenue sharing, community development block grants, or from contributions from local private sector businesses interested in economic growth.

By creating a revolving loan pool, communities have this incentive available for many years. As the loan is paid back to the community, it can be "re-loaned" to another company. By adding to its loan fund a little bit each year, a community can build a fund or bank from which it can make several loans to desirable companies.

---

## *Grants or Gifts*

The ultimate business incentive, direct cash gifts or grants given to companies as an inducement to locate or expand in a community are growing in frequency and importance.

Differing significantly from a low interest loan, a direct cash gift is in essence an investment by the community with the financial return being measured by the social and/or financial benefit to the community over the long or short term, as a result of the presence of the company.

The "return" might be increased tax revenue via property and income taxes. Additionally, the new jobs created contribute to the overall economy of the area and many times help to mitigate socio-economic problems in the area.

In order to qualify for a direct grant, companies many times must meet strict employment and wage level criteria. Formulas are created which establish the amount and distribution of cash grants.

As an example, a community may offer \$1,000 per new job created which pays 125% of the average annual wage in the area. The distribution of the funds might come over a multi-year period, such as \$200 per job per year for five years.

Each year employment records are audited by the community and disbursement is made after employment and earnings levels are verified.

A unique twist on a "cash grant" program is a "dollar a year" lease of a community owned facility to a company. The "no rent" program is made to a company as long as certain employment and wage levels are maintained. If the company falls short of established criteria, it might be charged "market" rent for that portion of employment or earnings, which did not meet the standards in the agreement.

Additionally, the type of industry also helps to determine the qualification for a gift. Most areas limit cash grants to "primary" or contributory industries, those, which import money to the area.

---

It is extremely rare a grant is given to a consumptive industry, such as a retail store, unless it is part of a community redevelopment program designed to cure economic blight within a specific geographic pocket in a community.

Cash grants or gifts as an incentive are not as frequent as low interest loans, but have grown significantly in popularity over the last several years.

### ***Regulatory Relief***

In order to limit or control population growth and residential and commercial development, some communities in the United States have adopted rigorous land development regulations. The regulations are designed to cause land development to occur in a manner and under a time table directed by a growth management plan. Most plans feature extensive reviews of projects and require significant fees prior to approval.

The merits of such plans will not be discussed here, but the impact upon economic development can be significant. While the plans are typically specifically designed to control residential and commercial development, they usually affect industrial type projects as well.

Due to world wide competition, the time necessary for a business to get established in a facility many times is one of the most important concerns of a company. Areas with laborious, time consuming, and expensive review procedures are shunned by these enterprises and not considered during the community selection process.

As a result, many communities have created procedures for “fast-tracking” the development review process for qualified companies. These procedures can include truncating the review time for the site plan and building permit, the waiver of fees, and adjustments to building requirements which are not necessary for a “contributory” business.

As an example, procedures for site plan approval of a normal project might require a series of reviews and hearings which require 90 to 180 days in the community. Under fast tracking, this period of time can be shortened to 30 days or even a week.

---

Fees for a normal project, such as building permit application or traffic impacts, can total thousands of dollars, which, as an incentive, can be waived for a special project.

Even the waiver of certain land development requirements can assist a company. As an example, the area's regulations might require a parking stall to be 10' wide. This width was determined by land planners as desirable for the consumer visiting a retail store at a shopping mall. However, for a production facility to which only the employees of the company travel, such a wide parking stall is not necessary. Reducing the width from 10' to 9' enables 10% more parking spaces on a parcel of land, reducing the amount of land necessary for the project, and thus the cost to the company.

### ***Importance of Incentives to Businesses***

From these four core incentives, a plethora of incentive packages are offered by communities. In April of 2001, POLICOM Corporation conducted a nationwide ***Business Incentives Survey*** which identified what was being offered on a local basis as an inducement for primary businesses to expand in or locate to an area. More than ten percent of the counties in the United States participated in the survey.<sup>1</sup>

The results of the survey showed virtually every county offered some type of incentive. The most frequent incentive was the abatement of locally levied real property taxes and the issuance of Industrial Development Revenue Bonds.

However, the most important incentives offered, those which had the greatest impact, were discounting the price of land for a community owned industrial park and paying for worker training.

The type of incentive offered to a company varies according to the company's needs. As an example, a semiconductor manufacturer invests hundreds of millions of dollars in its facility. For a company like this, abatement of real and personal property taxes is important.

For a company which needs a simple shell facility, but a skilled workforce which does not presently exist in a community, community sponsored worker training might be the most important incentive a community can offer.

---

Another organization might need a facility as fast as possible to meet an immediate market need. In this case, expediting the building permit process and regulatory relief could be the most important feature a community can offer.

As a result, communities need to have available a “palette” of incentives which they can use to customize a package for a specific organization.

This is not to say all contributory businesses expect and receive incentives. For many, the cost of the incentive in paperwork and delays is not worth the effort. Additionally an area might have such exceptional geographic economic assets that the assets themselves are a sufficient incentive to expand or local in an area.

However, many times a business incentive offered by a community is the determining factor for the location of a company.

### ***Why Do Communities Offer Incentives***

As previously mentioned, there are a large number of economic development organizations attempting to improve the condition of their respective local economies. Communities realize that the contributory, primary businesses, those which sell their goods or services outside the area, import most of the wealth to the area. From this wealth, almost all other economic activity occurs.

When primary businesses decline, less money flows into the area. As a result, property values, revenue to government, retail sales, and the overall standard of living all decline. If existing primary businesses do not grow, the amount of money entering the local area does not increase and the economy becomes stagnant. If the number and volume of contributory businesses increases, the overall size of the economy grows, revenue to government increases, property values improve, and the overall standard of living for the people becomes much better.

However, as a result of changes in the economic system in the United States and around the world, the number of wealth generating businesses expanding or relocating in the United States is declining. The problem, for communities all around the country, is **there are not enough of them to go around.**

---

<sup>1</sup> The entire text of the Business Incentive Survey can be found at [www.policom.com](http://www.policom.com) Go to Economic Development.

---

So, market forces, a limited supply of companies and a large demand by communities, have fostered the creation of business incentives.

The need to offer financial inducements most of the time is determined by the condition of the local economy and the community's geographic economic assets.

If a local area is in chronic economic distress, community leaders many times will do anything they possibly can do to lure a contributory employer to the area, including giving a company a free building. Some communities, with static economies, might be located in an area which lacks transportation assets, a skilled workforce, or sufficient telecommunications capability for a company's needs. The community's incentives would be directed toward overcoming the lack of geographic assets. Even dynamic areas, with growing economies, offer incentives as the community leaders know they must continually attempt to grow or they will surely decline.

The most asked questions raised by community leaders are whether incentives are necessary and are they worth the expense. Sometimes offering incentives, government money, to a private concern can be controversial.

Offering an incentive to a company may or may not be the primary motivating factor for the relocation. This is determined on a case by case basis. Sometimes, it is indeed the principal reason. Sometimes it is a "tie-breaker" among communities seeking the same company.

Determining whether or not the financial investment made by the community is worthwhile is a much easier task, as economic impact calculations can be made relative to the company's monetary contribution to the community versus the value of the incentive.

Most importantly, however, is the fact communities are becoming very aggressive at rewarding incentives as they have become very much aware of how dependent a vast majority of the people are on the contribution primary employers make to the economy of the area.

In October of 2003, the residents of Tulsa County, Oklahoma voted to increase sales tax by 1 cent for the purpose of economic development programs. Of the revenue to be generated, \$350,000,000 is set

---

aside as a cash contribution to the Boeing Aircraft Company “if” they choose Tulsa as the location for the production of Boeing’s new 7E7 jetliner. Additionally, \$22 million will be given to American Airlines to expand its airline maintenance center, which presently employs 8,300 workers.

The “Jeep,” in one form or another, had been manufactured in Toledo, Ohio since 1910. Some of the original buildings were still being used when the Chrysler Corporation determined in 1997 it had to have a modern facility. The company employed 4,900 people and accounted for approximately 12% of all of the City of Toledo’s tax revenue.

In order to keep the production of the “jeep” in Toledo, along with its 4,900 production jobs, the State of Ohio, Lucas County, and the City combined to offer the company an incentive package worth \$224 million. This was not a cash gift but a combination of training money, property tax abatement and free land (most of the site was a former landfill, yielding no taxes), expedited permitting, and a series of state tax credits relating to “Brownfield” redevelopment.

Annualized over the 20 year term of the abatement, the incentive is equivalent to approximately \$10 million per year.

As a result, Chrysler constructed a \$1.2 billion facility and presently manufactures the Liberty and Wrangler in the City.

Had Jeep left the community, more than 10,000 jobs and a \$1 billion in economic activity would have been lost, both population and property values would have declined, and revenue to all levels of government would have been severely impacted.

### ***Should Pinellas County Offer Incentives?***

At the present time, the Pinellas County economy is not in distress, like that of Toledo, Ohio. However, as a result of reaching build-out in the future, the economy will decline.

In order to prevent decline and to continue to improve the quality of the economy, new, high-wage contributory jobs must be created.

---

The Target Industry Study has identified the business sectors which, if they expand in or locate to the area, will achieve this goal. The list includes rapidly growing, high technology, high paying businesses. **They are the most desirable and most coveted business types by communities across the United States.** As a result, they are routinely offered incentives by communities.

In order to compete for these companies, Pinellas County should give serious consideration to developing an array of incentive packages, which if needed, can be offered to businesses which are being targeted.

This is not to say the area will automatically award incentives to every company.

An incentive qualifying matrix is being developed which scores the benefit to the community versus the cost to the community for each project. From this scoring system, a decision can be made as to the amount and type of incentive which can and should be offered to a company, if the company desires an incentive.

Given the nature of the economy, the shortage of available real estate in the future, the sophistication of the companies being targeted, the following should be considered in developing this scoring matrix:

1. What percentage of the payroll of the company is contributory in nature?
2. What percentage of the area average wage will the business pay?
3. How many workers per square foot of building?
4. How many workers per acre of land?
5. Capital investment per acre?
6. What is the anticipated real and personal property tax throw-off per acre?
7. What is the number of new jobs to be created by existing companies in the county or new companies which will have to locate to the county which will be **direct suppliers** to this business?
8. What is the anticipated wage to be paid by the workers employed by supplier companies?
9. Does the project qualify for “bonus points?” Additional points can be awarded to a company which retrofits an existing facility or locates in a distressed area.

---

The matrix will create a point system, which is presently being tested, which will provide for “optimum benefit” to the community. The greatest benefit is 1) all jobs are primary in nature, 2) they pay a wage well above the average, 3) there will be a large number of workers both per square foot of building and 4) per acre, 5) a significant capital investment per acre, 6) considerable taxes paid, 7) and lots of supplier jobs created which also pay a 8) high wage.

The incentive scoring system will reward businesses which utilize the least amount of real estate per payroll dollar, since the shortage of real estate is Pinellas County’s biggest problem.

Each project will be measured against the desired threshold. Based upon the score, the community can then decide the type of incentive to be offered. If the score meets basic thresholds, perhaps the only incentive offered is “expediting the building permit process.” If the score is “off the charts,” then the whole collection of possible incentives could be presented to the company.

The array of incentives which Pinellas County should be able to offer, pending legislative approval, should coincide with those previously described, including abatements, loans, grants, and regulatory relief. There should be flexibility in the use to of the incentives, so they can be directed toward the specific needs of the company.