Approved 3-24-87
Date

MINUTES OF THE JOINT HOUSE AND SENATE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Senator Wint Winter, Jr. (Chairperson) at

12:40 ~~a.m.~~/p.m. on March 16, 1987 in room 313-S of the Capitol.

All members were present except: Senator Feleciano - Excused

Committee staff present:
Arden Ensley, Revisor of Statutes
James Wilson, Office of Revisor of Statutes
Lynne Holt, Legislative Research Department
Ramon Powers, Legislative Research Department
Mary Allen, Secretary to the Committee

Conferees appearing before the committee:

Tom Ticknor, Fantus Company, Chicago, Illinois

A joint meeting of the Senate and House of Representatives Committees on Economic Development was called to order by Senator Wint Winter, Jr., Chairman of the Senate Committee on Economic Development, at 12:40 p.m..

Chairman Winter called on Tom Ticknor, Director of Development and Advisory Services for the Fantus Company in its Chicago office, to talk to the Committees on the current thinking and practices of businesses in respect to site selection.

Mr. Ticknor said that with the terrific attention that has been put upon incentives, it is important to keep in perspective that incentives are not the lead part of any state's or locality's economic development arsenal. He stated that he wished to discuss how site selection works, what role incentives play and which incentives play a role in site selection. He cautioned that incentives only make sense in terms of marginal analysis. He noted that one must consider how much job growth is going to come from within the existing economy and how much emphasis should be put upon rapidly expanding small firms. He cautioned that no state should lose track of the small business growth side affect. He stated that he does not want his remarks to be construed that a state should pay attention to incentives without paying an even broader attention to root business climate issues which affect all companies. Incentives must be taken care of after dealing with vocational education, infrastructure and over-all educational issues.

Mr. Ticknor discussed incentives which have been offered by other states to businesses. He observed that incentives are discussed more now because of the alleged size of the incentive packages and also because site locations are becoming much more competitive. He noted that there are fewer companies which are picking up and moving and there is more reinvestment back home than there once was. He observed that the federal dollars, which are available for incentives, are being depleted and states and cities are becoming immensely creative in coming up with their own particular mechanisms for offering incentives.

Mr. Ticknor presented a series of slides to the Committees. The first one listed the things which incentives cannot do: (1.) Incentives cannot overcome fundamental cost differences among areas. Even very aggressive incentive packages will not move facilities across the country; (2.) Incentives cannot overcome fatal locational flaws; (3.) Incentives do not lead to very precise "but for" tests. It is very difficult to know whether the total incentive package has been too large. The company knows but the administrative agency, Governor's office, over-sight Committee of the Legislature really do not. It is also difficult to know whether a larger incentive package might have led a business to certain locations in the state when that business located elsewhere.

The second slide described the site selection process. Mr. Ticknor said that a company first decides that it has a need for a new facility, usually it is an expansion facility rather than a relocation one. Many cities and states want that facility. The company begins a relatively arbitrary process of elimination of potential sites. The initial process of elimination is by state and is sometimes by drawing concentric circles around cities. Once this is done, initial data is gathered. He said that Fantus Company then does cost modeling concerning freight, inbound and outbound transportation, labor costs, utility costs, investment amortization costs and property taxes to locate a few states and then regions within those states which might have proper sites for a particular facility. He pointed out that if a particular location is not among one of the two or three cost competitive locations, incentives are not going to make any difference at all and, up to this point, incentives have not been discussed in the site selection process. He said that the companies will define where their markets are, where their suppliers are and what kind of labor force they need. On this basis they cut their list of site selections down to a manageable number of sites. He stated that states do not have much ability to "swing" a selection from one site to another by abating property taxes.

Mr. Ticknor presented the next slide which contained graphs and noted that the biggest cost differences are ones that you do not have control over day by day or month by month and those costs are labor costs, both direct labor costs and fringe benefit costs. He pointed out that the only way a state can affect labor is not on the cost side but on the supply side and labor quality side. This means a state must invest very heavily in elementary and secondary education to meet the quality of the work force in the future. He also mentioned that the labor force can be affected by the state having a statewide vocational education system to complement the local community college system.

Mr. Ticknor listed what he termed to be very important factors which are considered qualitatively in site selection. He listed the following:

(1.) What will the future labor supply be?
(2.) Will the town have a tight labor market in the future?
(3.) What is the stability of the power company?
(4.) Is there any problem with water, sewage?
(5.) Is the industrial site suitable?
(6.) What is the site's exposure to the expressway?
(7.) Can all types of labor be recouped?
(8.) Is the common motor carrier service superior and do they negoitate? Is it competitive and is it deregulated?
(9.) If a heavy user of the telephone company, how many fiberoptic options are open?

He also listed such factors as labor management relations, labor attitudes, productivity, vocational education, property tax costs, corporate income tax, community cooperation, machinery and equipment tax costs, and highway accessibility. Only a few of these factors, particularly property taxes and the ability to deliver a very cooperative vocational training system, are ones subject to public policy over the six month time period in which a company is taking a very serious look at a site location.

Mr. Ticknor presented a slide showing factors for site selection when dealing with a high technology location instead of the traditional manufacturing location and factors when dealing with an office location. He observed that the list of factors for high technology locations shows much more attention paid to: (1.) professional managerial labor availability and recruitment potential including spousal employment opportunities; (2.) the personal income tax level and much less to property taxes; (3.) college and university education with the flexibility of nationally significant graduate engineering technical programs and ability to deliver on-site, remote off campus continuing education and masters degree programs; (4.) vocational education; (5.) air service; (6.) elementary and secondary education. He pointed out that tax incentives for research and development are not the primary search criteria at all in site location for research and development facilities. Mr. Ticknor discussed factors in site location for office facilities and said that the new factors gaining importance are spousal employment and alternative future job opportunities for the technicians.

Mr. Ticknor said that incentives probably count more for the growth of smaller companies because many of them do not have access to seed and venture capital. A state needs to find ways to identify and assist emerging companies. He presented another slide which listed where incentives make a real difference in the site selection process.

He observed that when the site search is narrowed down to maybe three or four commumities, typically in adjoining states, they now begin to pay attention to incentives and, at this point, incentives make a real difference. He said that incentives will make a difference: (1.) Among closely competing localities or states; (2.) To make project feasible; (3.) In a go or stay decision to spur negotiations and to offset relocation costs; and (4.) If you have the right state, right region, but with local deficiencies. He listed two uses as the best uses for incentives as follows: (1.) Offer certain types of incentives if there will be a quick payback to the locality and to the state. These incentives typically are in the form of job screening, job training, write down of land costs, allocation of a certain amount of Department of Transportation funds to build access roads, if needed, to the industrial site itself and perhaps the access road into the industrial site; (2.) Psychology of closing. You can improve this if it is done prudently. You need to analyze pay back. The conservative approach is to allow certain tax abatements for certain infrastructure expenditures as long as the direct sales revenue with property taxes or through local pay back sales taxes takes place within a two to four year period of time. This sort of incentive can be offered only to companies who clearly have locational options and clearly will create jobs by the selling of products beyond the region and beyond the state.

Mr. Ticknor told the Committee that incentives are not a leading part of economic development policy. Incentives are helpful at the end of the site selection process but they do not mean nearly as much as stable tax rates and a solid business climate. He stated that incentives count for less than small business programs and for less than the basic educational capabilities at all levels. He recommended that when incentives are offered in the job training area that they are of long standing benefit to local workers as well as to the prospective business. There should be a generous state pool of job training funds that can be customized, site preparation assistance dollars, and transportation funds set aside.

Mr. Ticknor urged the Committee to think beyond seed and venture capital to look to a system of either loan guarantees or public funds from a lottery or some sort of royalties, or from general revenue fund appropriations that can package a deal financially to a rapidly expanding mid-sized company. He said that he would allow local options for property tax abatement and would offer incentives at the state level.

Mr. Ticknor stated that states which have favorable property tax treatment, machinery and equipment, and sales tax treatment relative to their neighbors will, on the margin, be able to have some gain in marketing and in retention.

The meeting was adjourned at 1:45 p.m..

D: 3/16

March 16, 1981

GUEST REGISTER

Senate ~~HOUSE~~

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
Alvie Price	KBA	Topeka
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Tom Whitaker	Ks Motor Carriers Assn	Topeka
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Jim McBride	observer	Topeka
Chris Imming	City of Topeka	Topeka
Bob Radcliffe	observer	Lawrence
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