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Amid debate, Austin incentive deals for businesses are fairly rare, closely monitored, documents show

Kirk Ladendorf

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By Kirk Ladendorf

AMERICAN-STATESMAN STAFF

The City of Austin's approval of an incentives deal for tech giant Apple Inc. has reignited a long-running local debate: whether it makes financial sense for the city to offer financial sweeteners to try to lure jobs to the area.

Amid that debate, a review by the American-Statesman shows that the city has used business recruitment incentives relatively rarely in the eight years since the officials adopted a new economic development policy in 2004.

Including the Apple deal — in which Austin is offering $8.6 million in tax abatements to persuade Apple to locate a 3,600-job expansion project here — the city has made 12 incentives deals in eight years to help persuade businesses to move new jobs to town or to build substantial expansions here, data from the City of Austin and the Greater Austin Chamber of Commerce show.

That means only about 1 of every 16 business relocations and expansions in Austin during that period — about 6 percent — received city tax incentives.

Seven of the dozen deals by the city have involved less than $1 million in rebated city tax revenue.

Three of those deals have been suspended, apparently because they fell short of jobs or investment goals set forth in their contract with the city. As a result, their incentives payments were cut off, city records show. City records don't specify why companies fell out of compliance; they simply say the companies stopped providing the information required to demonstrate they had complied with their incentives contracts.

There are no hard and fast guidelines on which projects win incentives and which do not. Traditionally the city has looked favorably on projects that brought either sizable investment or significant numbers of jobs. Over the past four years, Austin has not offered incentives to any company that promised to deliver fewer than 200 new jobs.

Incentives have helped lure to Austin such well-known companies as eBay, Facebook Inc. and Samsung Electronics. Those companies have brought in billions of dollars in investment and thousands of jobs. Samsung's investment alone stood at $7 billion in factory and equipment since it won its incentives deal in 2005. And the company announced plans to invest an additional $1 billion or more this year, mostly on new equipment.

‘A necessary evil'

Despite those signs of success, the planned Apple deal has drawn fire from critics, who say Austin doesn't need to offer incentives to lure companies and jobs to the area.

If Apple decides to put its new operations center here — the technology giant is expected to announce its decision in the coming weeks — the company would get more than $35 million in state, city and county incentives if it meets its employment goals over the life of its contracts. Its deal with the city is for 10 years while its deal with Travis County extends to 15 years. The package includes $21 million from the Texas Enterprise Fund, $8.6 million from the City of Austin, and between $6 million and $7 million from Travis County.

The deal is the second-largest financial inducement offered in Austin over the past decade, trailing only the package offered to Samsung in 2005 for its massive factory expansion project.

Critics say that too often, companies like Apple push for incentives deals even when they are going to put a project in the city with or without inducements.

One such critic in Austin, former Travis County Judge Bill Aleshire, said he is skeptical that Apple really had viable alternative sites to Austin for the latest project.

Others involved with the incentives process say prestigious companies like Apple that are contemplating a major expansion could have their pick of hundreds of cities and towns around the country that are eager for their jobs. Such companies, economic development consultants say, know that they can demand local and state incentives for their major projects.

"Incentives are a necessary evil," said John Boyd, principal of the Boyd Co., an economic development consulting firm. "Our clients have come to expect incentives for major projects. They know that they are bringing value to the community that they choose. (Asking for incentives) is not something that they feel bashful about."

On the national economic development scene, Boyd said, there are 10 or fewer sizable "trophy project" business expansions looking for locations in any given year. Apple's project, Boyd said, "clearly is a trophy" because of the size of the project and the reputation of Apple. "It is an endorsement (of a community) by the most successful private company ever."

"Apple is very judicious in their site selection and they are very smart," Boyd said. "And every incentive that they earn is well-earned."

Apple, as is its habit, has said little publicly about its proposed project or its incentives negotiations.

Mayor Lee Leffingwell described Apple's talks with the city as "tough."

"They were as tough of negotiations as we have ever had," Leffingwell said. "It was an agreement that was reached with a little stretching on both sides."

Dave Porter, senior vice president for economic development at the chamber of commerce, said incentive offers "are a part of the process" of competing for big expansion projects.

"At the end of the day, nobody likes incentives, and nobody wants to do incentives," Porter said. "For the major deals, companies want to know what cities and states are offering. I hate incentives, but it is part of what we do. It is part of the reality of economic development. Certain companies and certain projects are going to request and require incentives."

People close to economic development say Austin typically has done fewer incentive deals than other major cities in Texas.

The City of Austin's survey of comparable cities in Texas indicated that Austin had far fewer incentive deals than Dallas, Houston, San Antonio or Fort Worth. Comparable data since 2006 are not available, but Austin has done eight incentive deals since then, including the Apple project.

"We have been very judicious with the use of incentive agreement in Austin," said Gary Farmer, head of Opportunity Austin, a nonprofit group that supports business recruitment work done by the chamber of commerce.

Formalized process

While big companies with big projects have a built-in edge in the incentives game, experts say more cities, including Austin, have learned how to play their side of the game more adroitly than they once did.

Austin and other cities rely on formal incentive contracts that specify companies must reach job growth and investment targets for every year during the life of the agreement before tax rebate payments are made. Economic development experts say this type of performance contracts minimize the risk to the city and force companies to prove they have met the terms of their deals.

The city has one employee who supervises compliance for incentive contracts. The city also hires an outside firm to do detailed compliance reviews at a cost of about $6,000 per contract reviewed.

In addition to performance contracts, more cities, including Austin, have begun using sophisticated software analysis tools to assess the effect of a new expansion project on city revenue and costs over a period of years.

Austin uses such a software tool called Web LOCI, which was developed at Georgia Tech in the 1990s.

The software was developed by Georgia Tech's Enterprise Innovation Institute to "level the playing field" between cities and companies when analyzing economic development offers.

"It has been used for a long time. I think it has done a lot of good," said Robert Lann, a retired executive at the institute who led the development effort for the software in the mid-1990s.

"It has made decision-makers in communities understand what it means when they OK these tax abatements to give up a future stream of tax revenue from a company. Now they are asking questions before they rubber-stamp it. These deals are getting better because of the software."

City staffers examined the Apple project using Web LOCI and concluded that over 10 years, Apple's new project was likely to generate $14.5 million more in city revenue, including taxes, than its expected costs, which include the proposed $8.6 million in city incentives.

The analysis looks at 10 different revenue categories that an expanding company and its new employees would generate to the city and looks at 11 areas of city costs — everything ranging from public safety to wastewater costs.

All the city's tax abatement deals in recent years have been structured so new revenues outweigh expected costs. The analysis does not count any spillover benefits that an expanding company might have on other local companies that do business with it.

"The biggest thing that people don't understand (about tax incentive deals in Austin) is that all the agreements we do must be cash-positive for taxpayers," Leffingwell said. "We have to make money. It doesn't cost the taxpayer any money. This is money that the taxpayer otherwise would not have."

Enforcing the terms

Not every incentives contract pays off as originally expected.

The City of Austin has compliance staffers who make sure that companies with incentive contracts prove every year that they are living up to their agreements. Payments have been suspended for three of the dozen corporate incentive deals the city has made since 2004.

The largest of those discontinued deals was for Home Depot Inc., which proposed to invest $404 million and employ 500 people in an Austin technology center in 2005.

The city did make three years' worth of incentives payments to the company totaling slightly more than $400,000, but it stopped those payments four years ago after the company stopped providing sufficient information to the city. In theory, the company could qualify for incentive payments in future years if it can demonstrate that it has come into compliance.

The city's enforcement of the terms of its incentives contract saved it more than $6.3 million in incentive payments that otherwise could have gone to Home Depot over the 10-year lifetime of the contract.

Two other incentives deals also have been discontinued by the city. One was for the Hewlett-Packard data center project built in East Austin in 2006.

The city paid more than $206,000 in incentives toH-P compared with an original agreement to pay $3.2 million.

The city suspended future payments at the company's request.

In another deal in 2005, the city agreed to $6.3 million in property tax abatements plus other incentives for ATDF, which formerly was a silicon processing center for the Sematech research consortium. In return for the incentives, Sematech promised to invest $100 million in the chip fabrication center and create 100 jobs.

But payments for that project were halted after the city paid $226,456 over the first three years. Sematech sold the ATDF facility to a private company in 2007.

All together, the city saved more than $15 million in incentive payments on those three deals by enforcing compliance with the terms of its incentives contracts.

Jon Hockenyos, an Austin economist who worked with the mayor's task force that helped create a new city economic development policy nearly a decade ago, said such performance-based contracts are the best way to structure incentive deals because they give local government the most control.

"The community holds all the money, and you force the company to perform under the conditions of the tract. That is the better way to do it. That is why we recommended it."

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