



Why Kentucky doesn't have to give as many tax breaks as other states

by David A. Mann – Reporter, *Louisville Business First* - November 10, 2017



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Kentucky has a lot to offer companies that are shopping sites for a new headquarters or operation, according to John Boyd, founder of site-selection firm The Boyd Co. That means the Bluegrass State can be less aggressive than others when considering tax incentives in order to land such companies.

Each month in Frankfort, the Kentucky Economic Development Finance Authority considers tax incentives for companies for the sake of creating new jobs and investment.

"For a low-cost state like Kentucky, incentives are less important," Boyd said.

The Boyd Co. is based in New Jersey, and its major clients include The Boeing Co., Chevron Corp., Pratt & Whitney and JPMorgan Chase & Co. It recently completed a site-selection study that compares the cost of operating in the contiguous 48 states, which found that Kentucky compares favorably.

The study looked specifically at operating a plant in the advanced manufacturing industry — an industry sector where Gov. Matt Bevin believes Kentucky can stand out. In the study, Boyd Co. considered costs for labor, real estate, power, taxes and other categories for a hypothetical 225,000-square-foot plant with 500 workers.

Such a plant had an estimated annual operating cost of \$30.9 million in Kentucky, the study showed, making it the eighth lowest of the 48 states. South Carolina was the lowest, with annual operating costs of \$30.1 million; New Jersey was the highest, at \$39.8 million.

"Kentucky really fits the profile of a winning state today," Boyd said.

This is important as an increasing number of manufacturers are choosing to locate operations in North America, rather than overseas. He cited as examples Toyota Motor Corp.'s major expansion in Georgetown and General Motors Co.'s Corvette plant expansion in Bowling Green.

"These are all wins, and we see more wins on the horizon" for Kentucky, he said.

In the past, the limiting factor for Kentucky, and Louisville, has been labor, he said. There have been projects where his clients were considering Louisville as a finalist, but the shallow pool of skilled workers tipped the scales in favor of another place.

"I sense that's starting to change" because of programs such as the Kentucky Manufacturing Career Center and other efforts to create a pipeline of job-ready workers, Boyd said.

Costs for a company are an important factor, but they're not the only factor, Boyd told me.

Companies want to locate in a destination that can offer their employees a high quality of life. Louisville is making gains in this department, mostly because of new development in the downtown area. Attractions such as Churchill Downs, University of Louisville basketball and the state's bourbon culture are usually standard parts of the city's pitch to prospective companies, he said. And those factors are more important now than ever, he said.

It should be interesting to watch how Kentucky's tax-incentives policy evolves as a result of some of these developments.

Tax incentives for the sake of economic development have become the subject of political contention in recent months, as cities and states around the country have entered a bidding war to land Amazon.com Inc.'s proposed second headquarters. New Jersey famously pitched Amazon \$7 billion in incentives for its second headquarters, for example, while economists and commentators — and sometimes comedians — have questioned the efficacy of these giveaways.

In this story about Amazon's Northern Kentucky air hub, I spoke to an economist who said the money funding those incentives might be better spent on infrastructure or lowering taxes for everyone.

Boyd sees incentives as a necessary evil in what he calls a battle between states. Companies want to work with state and local governments not only on incentives, but also on investments in infrastructure and workforce programs. By providing these perks, states might be working against each other — but they also are helping the company.

"Our clients expect cities and states to be partners," Boyd said.