

Don't Count Your Chickens...

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MOST COMPANIES that pursue state and local incentives without the assistance of an experienced incentive negotiator realize only 10–15 percent of the potential incentives available, according to a study by Pollina Corporate Real Estate, Inc. Negotiating a successful incentive project requires not only knowledge of the state programs, but also a firm understanding of the incentive process to ensure that the company ultimately receives the incentives expected. Knowing how to secure incentives is as important as knowing which incentives are available.

Most state programs have procedural requirements that can operate to block receipt of the designated funds. For example, incentive programs often require state legislature or city council approval. It is vital to resist pressures from political leaders for an early decision and press release. Beware of state or local governments with policies that incentive commitments cannot be given in writing; always have offers approved in binding written form before any announcement about the chosen location is made. If an announcement is made prematurely, the politician's goals have been achieved and the company has little, if any, recourse if the incentives are not given.

One of the more costly examples of this would be the case of Boeing, which negotiated a \$41 million incentive package with the state of Illinois. Boeing made the mistake of announcing its relocation to Illinois before the package of grants, relocation costs, and other financial incentives was approved by Illinois lawmakers. Unfortunately for Boeing, during a subsequent state budget session, the package was slashed to only \$30 million.

Thoroughly Examine the Offer

It is important to examine thoroughly all statutory programs offered by a state to determine which programs are truly useful to a company and which are merely window dressing. Too often, states create what we at Pollina Corporate refer to as "fluff legislation." These are programs that offer great benefits but become so difficult to qualify for that very few companies ever use them. Such fluff legislation is often promoted heavily by state and local economic development personnel who, despite the best of intentions, may not truly understand their own programs — thus creating false expectations.

For instance, Pollina Corporate recently examined a state as a possible location for a large manufacturing operation. The state's economic development representatives heavily promoted what appeared to be a very attractive incentive program to the client. When reviewing the details of this statutory program, we discovered that our client did not qualify. The requirements included such restrictions as the employer's having fewer than 100 employees and not being a publicly traded company. Those very same economic development representatives were told from the beginning that there would be more than 450 employees and that the company's stock was publicly traded.

There are many wonderful statutory programs available that can be worth tens of millions of dollars to a company. However, it takes skill and training to sift through the rough to find the diamonds. Beyond the statutory incentives are the often more lucrative negotiated incentives, which may include cash grants, free or subsidized land or buildings, and infrastructure improvements.

Based in Park Ridge, Ill., Pollina Corporate Real Estate is a leading expert in state and local incentive negotiations and exclusive tenant representation.