KMK Consulting Company LLC

THE CEO RESOURCE

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Cincinnati Fountain Square

Lots Going on in Cincinnati

Normally articles in this newsletter would be much more geographically dispersed. In fact, we are currently actively working in six different states at the moment.. But this particular issue is Cincinnati centric because of a series of initiatives and projects providing a number of particularly valuable learning opportunities and items of interest which we thought our readers would appreciate. So pardon us pitching our hometown of Cincinnati. We think it's worth the attention.

Thank you Site Selectors Guild and Baton Rouge Leaders

The Site Selectors Guild had its annual meeting in Cincinnati in March this year. KMK Consulting was proud to be one of the sponsors. It was a productive few days for the several hundred attendees and reinforced why this event has become very important in the business attraction agenda of economic development.

More cities continue to bring their leadership to Cincinnati. One hundred leaders from Baton Rouge was the most recent visit this past week. Again, much of the focus was on the success of downtown Cincinnati's redevelopment and its thriving urban livability vibe balancing residentially, entertainment and corporate headquarters.

Using Economic Development Incentives to Better Align Business Executives in Building Competitive Cities

By James J. McGraw, Jr.

This article encompasses excerpts of a presentation I recently gave at the ALFA International Annual Conference in Scottsdale to an international audience of General Counsels and their corporate clients. It articulates a value proposition for incentives in economic development deal making which is underutilized as an important element in building competitive communities.

Incentives to attract or retain business in any community are often met with visceral responses encompassing inequality, injustice, zero sum game, race to the bottom, corporate welfare, and much more. While across town, if not across the street, in city after city, is the crying need for more attention and support for urban revitalization. Indeed, this mountain of redevelopment work is a long journey, and it's very expensive. And the underpinning of the success formula for most urban revitalization agendas is private sector partners. This is where financial incentives to attract and grow companies take on a critical value proposition.

The objective here is to suggest the win-win relationship between companies and communities through the use of economic development incentives that spawn the growth of business in a given market while concurrently building the private sector leadership base to drive the place making of more livable, vibrant cities.

Incentives – Big Money, Big Impact

At the outset, consider some realities about incentives, what they mean and how they are used to compete for company growth, talent growth and community prosperity. States and local jurisdictions spend approximately combined, all in, $70 Billion on incentives annually.

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Largest Incentive Package In Ohio In 2017 Reflects JobsOhio's Success Competing For Major Deals

By Thomas Seward

Over the past three years, KMK Consulting has been honored to serve some wonderful companies negotiating over $350 Million of incentives for our clients. More importantly, just looking at Ohio, our home market among 31 states in which we have worked, our efforts have produced incentives packages over 600% above average for 2015-2017. Closing out 2017 we were honored to negotiate the following largest incentive package in Ohio for this year, a distinction we also held in 2016.

Ensemble Health Partners, which specializes in the management and collection of patient service revenue for Mercy Health and other hospital systems nationwide, will build an enormous regional headquarters in Greater Cincinnati and create 1,100 new jobs here.

The North Carolina-based firm already has hundreds of employees in a satellite office that opened in Greater Cincinnati's Deerfield Township in 2016, and Ensemble expects continued growth at the Warren County location until the new regional HQ opens in 2019.

Ensemble is now finalizing its location in Greater Cincinnati to build the office building, which is to include a state-of-the-art training center and have room to accommodate planned growth. The facility will be sized to accommodate 2,500 employees.

"The access to top talent, central U.S. location and affordable lifestyle and business environment that Southwest Ohio offers are very attractive," said Judson Ivy, CEO of Ensemble Health Partners. "Ensemble Health Partners specializes in innovative revenue cycle solutions, and we are excited to be a part of the entrepreneurial ecosystem in Greater Cincinnati."

The Ohio Tax Credit Authority approved an agreement with Ensemble Health Partners, which worked on the deal with the local economic development agency REDI Cincinnati and its state counterpart JobsOhio.

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Do Community Benefits Agreements Enhance A Community's Economic Development Competitiveness?

By James J. McGraw, Jr.

The community benefits movement began in California in the early 2000s. Since that time over a dozen cities across the country have pursued Community Benefits Agreements (CBA) for major economic development projects. Many of these CBAs have been crafted and implemented with much success to enhance local neighborhoods, in particular. Currently, with a major surge in real estate development in most regions across the country, local stakeholders, neighborhood leaders and local elected officials have become interested in pursuing binding CBAs.

The theory is simple. Community Benefit Agreements are grounded in the notion that public and private sector investment promoting economic development, its growth and prosperity, should be shoulder to shoulder with measurable improvements to the lives of affected residents. Almost always, this is particularly focused, in these CBAs, on low income communities tied to diversity inclusion, MBE participation in the project, the creation of good jobs, affordable housing and financial support from the development project into neighborhood initiatives and services. For an excellent summary of the history and growing use of community benefits agreements take a look at "*Common Challenges in Negotiating Community Benefits Agreements and How to Avoid Them*" January 20 2016, Partnership for Working Families and the Community Benefits Law Center.

Cincinnati is a good example of where CBAs have recently generated significant discussion and publicity. Specifically, a Community Benefits Agreement is an important requirement to the public infrastructure package approved by City Council to support a new MLS stadium for FC Cincinnati. Beyond this major private investment to build a soccer stadium in a lower income neighborhood, some community leaders have opined on the value of CBAs as an important step much more broadly wherever public support is involved in any private development project.

Certainly, CBAs embrace many good ideas, principles and values. At the baseline of development, developers and their principals and their users want to make communities better. So listing these benefits in a document should be a good thing.

However, it can be a slippery slope. Elected officials, in particular, need to remember that companies have choices to make in where to locate their headquarters, back office support centers, logistics facilities, etc. These decisions relate to the ease of conducting business within a market where talent availability may be the same within different public subdivisions. You get the picture. It is pretty obvious. All else being equal, will a developer or a company with its facility and its jobs opt out of a jurisdiction employing a Community Benefits Agreement in favor of a neighboring jurisdiction without a CBA?

Maximizing The Team Approach To Successful Community Marketing

By James J. McGraw, Jr.

You may have noticed that the New York Times listed Cincinnati, Ohio and specifically it's Over The Rhine (OTR) neighborhood in its list of top ten places across the globe to visit in 2018. Indeed, this national recognition for OTR and its massive reinvention over the past ten years, led by Cincinnati Center City Development Corporation (3CDC) is an accomplishment for which everyone in Cincinnati is extremely proud. OTR has gone from the most dangerous community in the United States in 2009 to one of the hottest areas in the US with world renowned arts, trendy restaurants, family parks and million dollar condos.

But there is another factor at work here presenting a valuable learning for other communities. It is the way Cincinnati's economic development and convention and tourism organizations have leveraged their marketing message. The unification of the strategy and the actual message delivery is through a young organization called Source Cincinnati. It is a partnership among REDI Cincinnati, The Cincinnati USA Chamber and the Cincinnati USA Convention and Visitor's Bureau. They are all sharing the funding for Source Cincinnati and they are all shaping together the unified messaging strategies, targeting the Cincinnati brand nationally and internationally.

As just one example, Source Cincinnati coordinated, in partnership with the Cincinnati/Northern Kentucky International Airport, the recent marketing events celebrating the launch of WOW Airlines with its inaugural flight on May 10, 2018 to Iceland along with WOW's multiple connecting non-stops from Reykjavik to 13 European and Middle East destinations. This multiple day marketing opportunity brought twenty journalists from seven international countries to Cincinnati.

Source Cincinnati is a wonderful example of how a CVB and a Chamber can leverage the resources with their local economic development organization in a fully collaborative and coordinated way to maximize impact. These organizations in almost every community are always looking for more revenues and more effective ways to utilize those revenues for marketing. Unfortunately, in most cases, they do not take advantage of the strength afforded by a team approach in combining their resources and unifying the message. Source Cincinnati is a great example of how this should work.

Cincinnati also has a similar organization focusing on the regional tourism audience through a partnership between the Cincinnati USA CVB and the Northern Kentucky CVB (Meet NKy) called the Regional Tourism Network. This is another great example of an organization which is dedicated to leveraging tourism marketing resources in this case across both sides of the Ohio River, versus competing with each other in an environment where both are otherwise constrained with limited resources.

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Incentives to Better Align Business Executives

By James J. McGraw, Jr.

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And yet, somehow, 90% of businesses miss available incentives all together in assembling their deals when building new locations or growing employment. It's a sobering thought indeed that 10% of businesses secure $70 Billion in financial benefit. Certainly, such numbers are skewed by one off massive projects like Foxconn getting a $2.85 Billion state incentive package to build its first US manufacturing campus ($10 Billion investment with 13,000 jobs) in Wisconsin as announced by Governor Scott Walker last year.

Be assured that there are numerous programs to support the more common company transactions and decisions on how, when, and where to grow business. Average incentive deals are often in the range of $1.8 Million to $2.7 Million per project. In simple terms, depending on the jurisdiction under consideration for a company expansion project, if it involves just 10 – 25 new employees over a three year term, it is worth seriously investigating incentives. And if only capital investment in new or rehabilitated structures with no job growth, it is wise to investigate property tax incentive support which can be significant.

It all can mean big money. It means an opportunity for C-Suite executives to provide a hugely impactful service to their stakeholders by leading their companies through this very competitive process.

While various types of incentives and public finance support programs can be negotiated and leveraged in a multitude of combinations in a single transaction, there continues to be much debate at the local and state level across the country as to assuring better mechanisms to guarantee their proper use with metrics that demonstrate annual return on investment for the communities and their taxpayers. There have been numerous studies and numerous challenges legislatively to the validity of these types of incentives. Just a year ago the Speaker of the House in Florida led a Bill which passed in the House but died in the Senate which would have abolished the state's economic development office called Enterprise Florida and would have abolished all 23 of that state's economic development incentives.

Notwithstanding Florida, there is an amazing race across the United States, North America and the globe both for incentives to accelerate growth as well as for community building to attract talent. And the biggest disruption to this central core of economic development was Amazon's announcement last September publically launching a search for a second headquarters home, upending this industry as it has done repeatedly in other industries. Amazon decided through its public announcement that it would position every state and local community against each other in a very public competition. Last November, 238 communities

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Largest Incentive Package

By Thomas Seward

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The 2.31 percent, 15-year tax credit approved by the Ohio Tax Credit Authority is contingent on Ensemble adding $47.3 million in payroll by the end of 2022. That means the new jobs will pay average annual salary of $43,000.

Ensemble also must retain about $26 million in existing payroll. The estimated value of the tax credit is a total of $16.2 million and will grow as total employment grows.

While headquartered near Charlotte, N.C., the company is committed to the growing its presence in Greater Cincinnati, said Shannon White, senior vice president of Ensemble Health Partners. She oversees Ensemble's operations in Ohio.

"We set out with the goal in mind to find a location that would best position us for continued growth while ensuring we can continue to innovate and deliver the exceptional results our current and future clients expect form our team," White said.

Ensemble Health Partners specializes in full revenue cycle outsource solutions, accounts receivable acceleration and run down, denials and underpayments, complex claims, invoice and vendor analytics.

REDI Cincinnati (Regional Economic Development Initiative) views financial technology as an important economic engine. "We believe they are a true success story that will help us to attract even more high-growth health and technology companies to locate in Greater Cincinnati." Johnna Reeder, REDI CEO says.

Aaron Pitts, senior managing director of JobsOhio, said the relationship developed with Ensemble exemplified how JobsOhio uses creative resources and non-traditional solutions to grow the state's economy.

Incentives to Better Align Business Executives

By James J. McGraw, Jr.

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submitted formal proposals to secure this second headquarters called the HQ2 project which promises to deliver up to 50,000 jobs and $5 Billion in capital investment over 15 years.

In addition to headquarters, call centers, back office support centers and other offices, manufacturing along with distribution and logistics take up significant space in the world of incentives and competitive site selection. The Volvo manufacturing plant outside of Charleston, South Carolina is a great example as that project falls on the heels of a Mercedes Benz manufacturing facility and preceded by Boeing's 787 Dreamliner assembly facility at the Charleston International Airport projected to reach 10,000 jobs, all of this causing major transformation in that beautiful region and historical city. Volvo's first U.S. manufacturing site will create 4,000 jobs and encompass a $500 Million capital investment. South Carolina beat out 60 competing locations with its support of $204 Million in state incentives.

Again, what is so encouraging in this trio of major manufacturing facilities is Boeing's local executive leadership stepping up so impressively as a full partner in building a better Charleston, working arm and arm with fellow business and community leaders and non-profits greatly strengthening the private sector side of that region's public private partnership, all working together to build a better place for talent, prosperity, inclusion, and sustainable success. Mercedes Benz and Volvo are expected to follow suit as they become fully operational.

While all of this means big money for companies and clients, it also means an opportunity for general counsel as well as outside counsel to provide a hugely impactful service to their clients by leading them through this very competitive process.

It means appreciating that it is very easy to make costly mistakes. It requires taking nothing for granted and putting together the company's team including both legal and incentive counsel, to address this process very early in the overall planning strategy for the company's growth. All in, it means millions and millions of dollars for company clients to make their capital projects and their employment alignment decisions much more cost effective.

Business Leaders – Building Cities

There are two great examples of fast growing global companies, each of which went through their own exhaustive incentive procurement process for their new world headquarter campuses and are now leading the transformation of the communities in which they chose to locate. Both are Contract Research Organizations in the healthcare industry. One is a private company by the name of CTI who moved to its new global headquarters in 2017 and is now having its transformational impact on Covington, Kentucky. The second is a global public company by the name of Medpace Holdings, Inc., who just began construction on its new headquarters building as part of its $300 Million campus transformation of an old brownfield site within a Cincinnati neighborhood called Madisonville. Undeniably, this company has saved and completely caused the rebirth of this part of Cincinnati.

CTI as a gazelle private company, which has worked on over 2,700 projects across six continents and contributed to more than 100 new drug and drug device approvals by regulatory agencies around the world, outgrew its space in a northern suburb of Cincinnati and undertook a site location and incentive process involving Ohio, Kentucky, and North Carolina. The analysis, competition, and ten month incentive negotiation process was finally won by Governor Matt Bevin of Kentucky and the local jurisdictions of Kenton County and the City of Covington. This office headquarters project will produce 1,200 jobs for this community and was the largest job creation incentive package in Kentucky in 2016.

But beyond the job growth numbers and the Company's capital investments of over $36 Million and a new state sponsored training center, arguably the most important impact of this deal was the addition of CTI's CEO, Tim Schroeder, to the leadership fabric of that community. His personal leadership as well as that of his general counsel, Paul Ritter, are already providing vast impacts across Northern Kentucky. The value of this leadership in building a better community is worth its weight in gold.

Similarly, the Medpace new headquarters transaction will facilitate doubling the size of the Medpace employment. This phase adds a fourth office building in a neighborhood that would have never seen this type of financial risk taking but for the vision of Medpace's founder and CEO, Dr. August Troendle. This entire project was led by his general counsel, Steve Ewald, who not only drove the complex financing structure and surrounding infrastructure development, but here again, perhaps most importantly, developed the consensus from the community to create a valuable, dynamic public private partnership to propel the future success and sustainability of this Cincinnati neighborhood. In addition, Medpace has invested in buying and refurbishing abandoned real estate in downtown Madisonville and made a major financial investment in a partnership with Cincinnati Public Schools to promote and support Medpace job learning experiences for students at a nearby public elementary school.

In 2008 Medpace, then a private company embarked on creating its new campus on a former 22 acre Nutone manufacturing site. The first phase of this project called for Medpace to relocate 535 employees to this Madisonville location. The Company's phase 2 development called for the creation of a $60 Million hotel and conference center, followed by two new office buildings totaling 160,000 square feet and multiple commercial buildings totaling 75,000 square feet including retail space and multiple restaurants.

However, the vision expanded. The hotel which just opened

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Incentives to Better Align Business Executives

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grew to $80 Million and from 139 rooms to 239 rooms. The current phase of the project has transformed into a major global headquarters office tower for Medpace from what was to be a multi-tenant use. This will result in a Medpace campus of over 2,000 company associates growing the building from 160,000 square feet to 220,000 square feet to add to its first three office buildings, who's 350,000 square feet were overflowing. The campus overall size has now increased to over 34 acres. For this final phase of office expansion, JobsOhio negotiated the second largest Job Creation Tax Credit deal in the state in 2016. And if all of this wasn't enough, Medpace Holdings, Inc. filed its Form S-1 on June 24, 2016 for its IPO.

The stories of CTI and Medpace are instructive for a number of reasons. In both cases, the incentive packages were creative, competitive, very large in scale and, in each case, made it possible for the projects to proceed to fruition. And in each case, the corporate leadership is enabling, through their own dedication to their communities, tremendous economic impact, change, redevelopment, and rebirth.

Summary

Leadership trumps everything. It underpins successful companies, and it underpins successful communities. Leadership growth is born out of companies locating in and expanding in worthy cities and regions. To make this work for the benefit of your own communities, seize public support. Seize financial incentives. Don't fear this opportunity. Don't miss this opportunity. Public incentives are designed and legislated to help projects get done successfully and to keep them from locating in other jurisdictions. Incentives help communities connect more effectively. They help build successful, thriving, prosperous places where talent wants to live and businesses want to locate.

This relationship between government financial incentives, growing markets, and growing business leadership for community competitiveness and prosperity is a critically valuable process. It is worth a fortune for companies and for communities. Embracing this area of work and this specialty of economic development incentives and place making is a huge opportunity both for corporate C-Suites, their general counsel as well as for outside advisors in supporting their clients.

Community Benefits Agreements

By James J. McGraw, Jr.

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If your company is considering a new location for an expansion or relocation, be sure to fully investigate the applicability of Community Benefits Agreements so there are no surprises or a last minute deal breaker. And if a CBA is in the mix for your project, it's much better to negotiate it earlier in your process rather than later.

And if you are a community with a CBA program, use good care as you set the parameters of engagement for the developer so not to accidentally lose a business growth, job growth, economic expansion opportunity for your city.

Economic development and Community Benefits Agreements can work together. But not without good and careful principles of engagement as to use and scope. Remember, jurisdictions without CBAs are very happy with those jurisdictions who decide to employ them.

Community Marketing

By James J. McGraw, Jr.

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There is so much to learn from cities and markets elsewhere from good people willing to share successes and failures but not afraid to launch new initiatives and new partnerships. Check out Source Cincinnati and check out the RTN. One more reason why a leadership trip by your own CEO group or Chamber to Cincinnati may be very valuable.

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