

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

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## **Introduction**

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 of this article 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.

And in particular, the intended takeaway is the notion that corporate legal counsel, whether in house GCs or their outside legal counsel, have a tremendously valuable role to play in securing these financial incentives as well as guiding C-suite executives to lead the charge in critical place building initiatives.

## **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.<sup>1</sup>

And yet, somehow, 90% of businesses miss available incentives all together in assembling their deals when building new locations or growing employment.<sup>2</sup> 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 it's first US manufacturing campus (\$10 Billion investment with 13,000 jobs) in Wisconsin as announced by Governor Scott Walker last year.<sup>3</sup>

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

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<sup>1</sup>"Incentives for the Twenty-First Century", International Economic Development Council, 2015

<sup>2</sup>"Incentives", Silverlodeconsulting.com, April 2014

<sup>3</sup>"Governor Walker, Foxconn Chairman Gou Sign historic agreement to bring \$10 billion manufacturing campus to Wisconsin" Wisconsin.com, November 2017

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 general counsel and their ALFA outside counsel to provide a hugely impactful service to **your** clients by leading them through this very competitive process. It means working with and understanding the nuances of<sup>4</sup>:

- Job Creation Tax Credits
- Property Investment Reimbursement Credits
- CRA Commercial Tax Abatements
- Tax Increment Financing
- Sales Tax Exemption Structures
- Forgivable Loans
- Infrastructure Grants
- Revitalization Grants
- Innovation Grants
- Workforce Training Programs
- Lodging Tax Bonds
- Private Activity Bonds
- PACE Bonds
- New Markets Tax Credits

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<sup>4</sup> [“Incentives”, Jobs-ohio.com](#), [“Economic Incentives-Greater Houston” Houston.org](#) [“Incentives | Nebraska Department of Economics”](#); [Nebraska.com](#) [“Incentives-Indiana Economic Development Corporation”iedc.in.gov](#)

- Historic Tax Credits
- And More

While these 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.<sup>5</sup>

For now, this industry of competitive negotiation of incentives under the umbrella of site selection remains as robust as ever. So whether a one floor new office lease with a modest payroll or a new skyline headquarters facility, serious financial support to the company may be available. A good example is a new headquarters call center office project in Cincinnati just now under final planning which competed with Charlotte for 2,000 jobs at a \$47,000 average annual base salary per job. The state and local incentives to the company to be earned over the next 15 years are \$52 Million. This will offset the capital cost of the 330,000 square foot office building. This is also a good example of incentives used in the right ways. The financial benefits are earned each year as the

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<sup>5</sup> [“House panel votes to kill Visit Florida, Enterprise Florida”](#), [Orlandosentinel.com](#), February 2017

company employment levels and salary targets are met as promised. It is all new payroll for the City, some \$95 Million annually before normal inflation growth. This project would not have come to the City but for this incentive support. Companies in this case are buyers, not sellers. They have choices as to where to locate. And very importantly, this company brings a dynamic CEO to the community to engage in the role of building a better city, now his city, to be more livable and more attractive for the millennials he needs to make his company successful.

Clearly, 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 it's public announcement that it would position every state and local community against each other in a very public competition.<sup>6</sup> Last November, 238 communities 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. Some of the incentive packages are wildly unprecedented. New Jersey offering \$7 Billion to Amazon, Tulsa offering over \$2 Billion alone and Tucson shipping a 21' tall segora cactus to the office of CEO Jeff Bezos to let him know personally of their interest in this project. Even just taking New Jersey's initial \$5 Billion response,

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<sup>6</sup> "Welcome to the Amazon Games", Site Selection, November 2017

that works out to be \$100,000 in incentives per job compared to average incentives of between \$10,000 - \$15,000 per job for Amazon's other projects over the past five 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.<sup>7</sup> 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.

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<sup>7</sup> ["Volvo factory to bring 4,000 jobs to South Carolina"](#), Money.cnn.com, May 2015

Similarly, is the priority of the distribution and logistics industry in many other US markets. Distribution centers and fulfillment centers are becoming much larger with 500 to 2,000 employees being more routine. These higher employment levels in these facilities will continue to be of more serious community value particularly as the retail industry continues to move from bricks and mortar stores to omnichannel.<sup>8</sup>

In the United States, logistics is a \$250 Billion industry and accounts for just under 9% of the total US GDP. At the international level, the value of US imports and exports have more than doubled since 1989 to now exceed \$3 Trillion. Studies indicate that 95% of US CEOs believe they should have some form of logistics strategy and nearly 50% of them incorporate supply chain planning into their overall business strategies.

And here again comes Amazon, today's Walmart. Amazon is now the sixth most valuable brand. Walmart is now only twenty fourth. In Chattanooga's Enterprise Industrial Park alone, Amazon is expanding its distribution center from a floor space of 17 football fields to 28 football fields. And that's not enough. Amazon Prime is taking on Fed Ex and UPS. In January, 2017, Amazon leased 950 acres from the Cincinnati Northern Kentucky International Airport where it is quickly building a \$1.49 Billion major global hub with 100 aircraft in and out daily.<sup>9</sup>

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<sup>8</sup> "Retail Distribution Centers: High Community Value Commands Multiple Incentives", Trade & Industry, June 2012

<sup>9</sup> "Amazon to create \$1.4B air hub at CVG", Cincinnati Business Courier, January 2017



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 working with and understanding nuances of a multitude of incentive programs. These programs cover all types of income, sales and property tax credits, exemptions and abatements. They also include numerous programs to attract talent, provide training and incentivize innovation and research.

It may often involve creating new legislation at state and local levels as well as new ownership structures for facilities including ownership by port authorities and various types of development corporations. It means deal making with Mayors, County Commissioners, and Governors. It means knowing when premature statements to the press can kill a deal. 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.

In addition to financial support from the Kentucky Business Investment Program which provides corporate income tax credits and wage assessments for meeting job and investment targets on an earned basis, along with resources from the Kentucky Skills Network, and financial participation from Kenton County and the City of Covington, the

Commonwealth of Kentucky pushed this deal over the goal line by creatively satisfying a major employee training need of CTI. Kentucky in partnership with the Northern Kentucky Convention Center is building a facility inside the Convention Center called the Northern Kentucky Life Science Training Center under an exclusive 15 year deal with CTI for the Company's use for its staff at its headquarters as well as for its teammates in 25 countries globally. This new Life Science Training Center will also be available to the public and will be marketed as a business attraction resource for the Northern Kentucky community.

But beyond the job growth numbers and the Company's capital investments of over \$36 Million and this new 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.

One great early example of this leadership was the CEO's partnership with Kenton County in helping to drive the creation of a new technology strategy for Kenton County and the City of Covington. It was the location of CTI's headquarters and the leadership of its CEO, along with the vision of the Kenton County Judge Executive, Kris Knochelmann, that made the development of this technology strategy possible. And it is this strategy that will now propel the next generation of urban redevelopment for Downtown Covington.<sup>10</sup>

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<sup>10</sup> "[Kenton County Looks To Increase Its Tech Footprint](#)", WVXU.org, June 2017

Similarly, the Medpace new headquarters transaction which will facilitate doubling the size of the Medpace employment level to some 2,000 members on their campus in Madisonville, is the third phase of that campus development, originally reclaiming that site from an old, abandoned manufacturing facility. This last phase adds a fourth office building on the heels of a new on campus \$80 Million convention hotel 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 entire campus development process was led by RBM Development which is owned by Medpace's CEO. The first phase of this project called for Medpace to relocate 535 employees to this Madisonville location and then create another 804 jobs in eight years starting in 2011. Adverse economic conditions

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"Kenton County Turns to Outside Experts for Economic Development Efforts", rcnky.com, September 2016

caused this growth target to be amended without penalty. In order to maintain the Company's 55% income tax credit it had already earned and to continue to earn at that rate, the Company agreed to stay in Madisonville through 2022 with a gain to the City of another \$8.3 Million in income tax revenue. All of this was part of the Company's phase 2 development for another eight acres of the site calling for the creation of a \$60 Million 217 room hotel and conference center, two new office buildings totaling 160,000 square feet at a cost of \$40 Million, and multiple commercial buildings totaling 75,000 square feet costing \$23.8 Million including retail space and multiple restaurants. This phase envisioned 220 temporary construction jobs and 774 permanent office jobs.

The City created a Tax Increment Financing District for the infrastructure improvements to include property acquisition, parking lots and garages, roadway improvements, relocating utilities, bicycle paths, and conference center public meeting spaces.

However, the vision expanded. The hotel which is now opening this month grew to \$80 Million and 239 rooms. It is opening to incredible rave reviews and has exceeded all expectations. The third 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

to keep Medpace's General Counsel busy, 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.

## **Best of Class**

What happens with companies in terms of a longer history in their communities with respect to the opportunity it provides to reinvent cities on a broader scale? The poster child for this example is the Cincinnati Center City Development Company known as 3CDC. On the north end of downtown Cincinnati is a neighborhood called Over The Rhine, which was in 2001 the site of civil unrest following the shooting of an unarmed black man by a police officer and later in 2009 was labeled the most dangerous community in the United States beating out Compton in Los Angeles.<sup>11</sup>

In the aftermath of the 2001 riots, not only did Over The Rhine hit rock bottom, but the private sector CEO leadership group known as the Cincinnati Business Committee, realized that the public sector was not equipped on its own to handle the massive task of

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<sup>11</sup>“[Cincinnati: 2001 Year of Unrest](#)”; Enquirer.com, June 2016  
“[Over-the-Rhine Most Dangerous Neighborhood in U.S.](#)”, Amren.com, June 2009

urban redevelopment that the City of Cincinnati desperately needed. In addition to Over The Rhine, which by 2007 had fallen to under 5,000 in population, a mere ninth of its earlier peak and being labeled one of the nation's most endangered places in the country, the center of downtown known as Fountain Square needed big revitalization; and the area to its south along the Ohio river between two new professional football and baseball stadiums, paid for through a county wide sales tax, needed its own new development in the 30+ acres laying in between as the new front door to the City.

Looking at this rather vast canvas of opportunities, the CEOs, along with the leadership of the City's Mayor, Charlie Luken, formed 3CDC as a private not for profit and recruited the City's top corporate CEO to be the first board chairman. The CBC injected this new 3CDC with an initial \$17 Million in funding while the City agreed to support it through various tax incentives and access to federal community development grants. Procter and Gamble, headquartered in Cincinnati, with its CEO, A.G. Lafley, as the board chair of 3CDC along with other corporate players kicked in \$50 Million for real estate acquisitions in Over the Rhine while committing another \$1.2 Million annually for operating expenses. The CEOs of the companies comprised the 30 person Board of Directors which to this day remains a completely private organization. The board hired arguably the best urban redevelopment staff leader in the country from Pittsburgh, Steve Leeper, and set out to focus on two designated set of boundaries, the area around Fountain Square and Over the Rhine.

Following Fountain Square's rehabilitation, 3CDC pivoted to Over The Rhine beginning in 2007. The incredible transformation that has occurred in Over The Rhine has moved this neighborhood from the endangered list into something that looks like and feels like Greenwich Village. And it was 3CDC that orchestrated everything that's occurred there, from the placement of the trees in the park to the creation of ground floor businesses, all meticulously planned and engineered. With no political constraints and only focused on reversing the City's slide, well over \$1.2 Billion has been invested in 3CDC projects within Cincinnati's urban core which has led to:

- The purchase of 1,000 pieces of real estate
- Rescuing 130 historic buildings
- The renovation of three major civic spaces – Fountain Square, Washington Park and Ziegler Park
- Restoration of two major cultural facilities – Memorial Hall and Music Hall
- Managing and maintaining over 850 free family friendly events annually in these civic spaces
- The creation of three comprehensive residential and service facilities as part of the five shelter Homeless to Homes Plan, which aims to help homeless individuals obtain and maintain housing
- A 50% reduction in crime in Over The Rhine
- The restoration of 155 buildings
- The creation of more than 900,000 square feet of commercial space



Gourmet restaurants and night life abound in Over The Rhine. If you're from out of town, this is where you go. If you're from Cincinnati, this is the neighborhood to be in. Condominiums now go for a million dollars while office rents rival those in the high rises of the central business district.

In the middle of Over The Rhine sits a renovated office building that opened in 2015 as the Center of Cincinnati's entrepreneur, innovation and venture capital partnership housing three organizations that collectively have put the City on the map as a legitimate player in the start up innovation space.<sup>12</sup> The collaboration of Cintrifuse, the Brandery, one of the nation's most acclaimed accelerators and CincyTech, the region's most powerful seed stage investor is another major story about the ability of business leadership to build a place where millennials want to live and businesses want to locate.

Of particular relevance is the story of Cintrifuse. In 2010 the Cincinnati USA Regional Chamber commissioned a Regional Indicators Report which ranked 11 cities in ten different categories. Cincinnati did not do particularly well in this comparison and found itself near the bottom of the rankings with respect to venture capital. This caught the attention of the CBC and became the motivating factor in the corporate CEO group taking a much more visible role in driving the economic development agenda in the community.

In particular with respect to venture capital, the CBC formed a Regional Innovation Task Force which was charged with building a strategic framework and action plan to

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<sup>12</sup> "[City Grants \\$4.5 Million to Cintrifuse Project](#)", 3cdc.org, August 2013

accelerate the development of the innovation economy in the Greater Cincinnati region. The Task Force was chaired by Procter & Gamble CEO Bob McDonald and Cincinnati Children's Hospital Medical Center, the City's largest employer, CEO Michael Fisher. Following a McKinsey & Company study, the CBC created Cintrifuse. This new 501(c)(3) organization was launched in July of 2012 to enable a sustainable innovation ecosystem to allow Cincinnati to successfully compete globally for innovation driven start up businesses and jobs. Once again, the CEO leadership, like they did in forming 3CDC, committed themselves to the notion that they needed, with their checkbooks, to continue to work together to create an environment where businesses big and small could succeed and grow. And this certainly includes making the City attractive and prosperous for entrepreneurs.

Cintrifuse's first investment fund closed at \$57 Million with 15 limited partners. The fund is making 10 – 12 investments into venture capital funds across the Country focusing on life sciences, consumer goods and services, technology, and energy. This effort is developing significant relationships with major venture capital funds on both coasts, Chicago, and other major markets. And it is generating much more attention from those funds to consider investments in Cincinnati start ups.

Concurrently, Cintrifuse has created a formal structure to connect local start ups with the region's public and private companies. A program known as LEAP helps start ups compete for corporate pilot projects while a program called STEP allows start ups to identify top business prospects with those connections facilitated by Cintrifuse. This

access to flagship customers, enabling these start ups preferred, screened access to big companies like Kroger, Procter & Gamble, Macy's, etc. is huge for entrepreneurs. And a pre-screening provided by Cintrifuse and supported by CincyTech gives them the credibility to be more efficient and more effective with these big public companies.

So here again is corporate leadership building a competitive, livable, attractive place for talent and for business growth and for families to flourish. Whether it's urban redevelopment or an entrepreneurial and innovation ecosystem, leadership from the business community is making all the difference, and it is the business leaders just like Dr. August Troendle and Tim Schroeder, whose companies are the recipients of major incentive packages which allow them to grow in the Cincinnati market, that are the ones at the center of driving these major place making agendas.

The Over The Rhine success story is one of national acclaim and has been used as a model for urban redevelopment by other cities with more cities coming to visit and see first hand this incredible success story.<sup>13</sup> While this is amazing indeed and something for which Cincinnati is very proud, it occurred because corporate leaders collectively recognized and agreed that it was their responsibility to save their city. And while these CEOs embrace their city with their checkbooks and sustained passion for building a better place, many of them have taken advantage of, and continue to take advantage of, incentives to locate new facilities and to expand employment in the Cincinnati market. So while 3CDC is a tremendous example of corporate leadership for urban redevelopment,

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<sup>13</sup> "[36 Hours in Cincinnati](#)" The New York Times, August, 2017

it is also an outstanding example of how corporate incentives can come full circle back to the benefit of a community and its citizens and its local government originating incentives for company growth.

## **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 general counsel as well as for ALFA law firms in supporting their clients.