

THE WALL STREET JOURNAL.

U.S. CITIES BATTLE EACH OTHER FOR JOBS WITH \$45 BILLION IN INCENTIVES

Already depleted by foreign competition, states and cities offer increasingly lucrative tax breaks and other benefits to keep companies local, sometimes squaring off with neighboring municipalities

By Ruth Simon
March 16, 2017

When Elyria Mayor Holly Brinda learned that Riddell Inc. was looking to leave this small city in northeast Ohio, she came up with a \$14 million package of tax incentives and offered to lease land to the company for \$1 a year.

It wasn't enough. Riddell, which makes the football helmets used by many NFL and college players, decided to move its roughly 320 employees just over 2 miles down the road to a neighboring town, which offered its own bundle of incentives and lower corporate and individual income-tax rates.

Riddell is one of a string of local businesses that Ms. Brinda, now in her sixth year as mayor, is struggling to hang onto. These days, the competition often isn't Mexico, China or some other country promising cheap wages and low taxes. In many cases, Elyria, which celebrates its 200th birthday this month, is vying with cities that aren't very far away.

The race to woo companies has intensified as state and local governments struggle with a slow economic recovery, sluggish new business formation and job losses resulting from automation. Many older industrial cities see tax incentives as one of the few levers they can pull.

The fight to attract and retain companies "is probably as competitive as it has ever been in the 30 years I have been doing this type of work," said Lawrence Kramer, managing partner with Incentis Group, the consulting firm that helped Riddell with incentive negotiations.

Economic-development tax incentives more than tripled over the past 25 years, offsetting about 30% of the taxes the companies receiving incentives would have otherwise paid in 2015, compared with about 9% offset in 1990, according to an analysis of incentives covering more than 90% of the U.S. economy.

By 2015, the total annual cost of these incentives was \$45 billion, according to the analysis, by Timothy Bartik, a senior economist at the W.E. Upjohn Institute for Employment Research in Kalamazoo, Mich. The study looked at 47 cities in 32 states plus the District of Columbia.

Total incentives are likely higher because the analysis didn't include some used by cities, including Elyria, such as city income tax rebates for companies.

"The national headwinds are not in favor of these older, industrial small-to-midsize places," said John Lettieri, senior director of policy and strategy at the Economic Innovation Group, a

nonprofit, bipartisan research and advocacy organization. The cities are often tied to a single sector and tend to have more-static economies, with a low rate of firm formation and little growth or even declines in population, he said.

During his January news conference, then President-elect Donald Trump seemed to bless efforts by manufacturers and other big companies to pit states or cities against each other, even as he warned them against moving American jobs across the border.

"You can move from Michigan to Tennessee and to North Carolina and South Carolina," Mr. Trump said. "You've got a lot of places you can move. And I don't care as long as it's within the U.S."

A clearer picture of incentive use should begin to emerge later this year as new Governmental Accounting Standards Board rules take effect. They require state and local governments to disclose for the first time information about their tax incentive programs, including the dollar amount of taxes being abated.

Incentives climbed after the financial crisis, but their growth slowed in 2016 as some state and local governments began re-examining the effectiveness of the programs, said Christopher Steele, chief operating officer of Investment Consulting Associates, a site selection and management consulting firm. Mr. Steele said he is seeing some early signs of a pickup in incentive use this year.

Critics say tax incentives do little to spur job creation or economic growth. Most incentives are "redundant," meaning, "they have no impact on behavior," said Nathan Jensen, a professor of government at the University of Texas, Austin, who compared job creation numbers for firms in four states that received tax incentives to similar firms that didn't receive the benefits.

The Florida House of Representatives this month approved legislation to eliminate the state's main provider of tax incentives and other development assistance. Florida has attractions such as a good climate and no income tax, said Paul Renner, a Republican who sponsored the bill, and would be better off focusing on other forms of economic development, such as education and infrastructure.

Columbus, Ohio, last year agreed to pay a consulting firm \$150,000 to analyze for the first time how the results of the city's tax incentive programs stack up against the programs of other midsize cities across the U.S. and against those of neighboring communities.

St. Louis in 2015 began reworking its formula for development incentives, raising standards for approval and shifting more attention to struggling neighborhoods, said Otis Williams, executive director for the city's economic development arm. St. Louis is now re-evaluating its corporate-incentive program, "to make sure we raise the bar for that as well," he said.

Some mayors don't feel they have a choice. "We would be dead in the water without economic incentives," said Virg Bernero, the mayor of Lansing, Mich. Old, vacant buildings and contaminated industrial properties can be impossible to redevelop without incentives because they aren't cost competitive, he said. The competition is heightened because suburbs now routinely offer tax incentives, too, he said.

Manufacturing still accounts for roughly twice as many jobs in smaller, heartland Ohio cities as in the nation as a whole, according to a November 2016 report by the Center for Community Solutions, a nonpartisan think tank based in Cleveland.

The greater Cleveland metro area, which includes Elyria, posted the nation's largest drop in the number of firms between 2010 and 2014, losing 712 of its companies, the Economic Innovation Group found.

Ms. Brinda, the mayor, said her priority is to focus on the larger companies that are likely to provide more of Elyria's jobs. "We have big companies, old plants. We are all built up," explained Ms. Brinda, who grew up in Elyria, a town of 54,000. The challenge, she added, "is how to keep who we have and to help them grow."

Elyria has relied heavily on tax incentives and has also tried to assemble contiguous pieces of land that might appeal to employers looking to expand. Over the past 18 months, the city has offered roughly \$50 million in incentives to companies it is seeking to attract or retain.

Such deals hurt city revenues, the mayor said, but "I can't say no to a global giant who wants an incentive package." Proponents say the corporate tax loss is offset by more employed people paying income tax and consuming goods and services in the local economy, and by taxes the company still pays.

The city's Lorain County Community College operates a startup incubator with the help of state and county funding. Over the past decade, the incubator's startups have created more than 1,200 jobs, mostly in biotech and software, said Cliff Reynolds, co-director of the program. But only about a third of those jobs have remained in Elyria, he estimated. Often ventures move to nearby Cuyahoga County to get closer to programming talent and funding in the Cleveland area, he said.

The latest blow to Elyria's manufacturing base came in November, when 3M Co. announced it would close a plant that employs 150 to make cellulose block used in sponge production. The company, which says it wants to get out of the cellulose block business, plans to shift the work to a larger and more efficient plant in western New York where the product is also made, a company spokeswoman said.

Bendix Commercial Vehicle Systems LLC, a supplier of safety and braking systems for commercial vehicles that had been headquartered in Elyria since 1941, in 2015 turned down an offer worth as much as \$17 million to stay. It is moving its headquarters and roughly 460 jobs to a new site 10 miles away in Avon, Ohio, also in Lorain County.

Bendix will receive roughly \$11 million in tax abatements from Avon plus \$363,000 in state tax incentives. A spokeswoman for Bendix, a subsidiary of Germany's Knorr-Bremse Group, declined to comment.

"If we lose them from the county, that's bigger than losing them from Elyria," said Avon's mayor, Bryan Jensen.

In a success story for Elyria, Dura-Line Corp., a maker of plastic conduit that protects fiber optic cable, agreed in January to an expansion that will add 60 jobs in the next five years. The company will receive tax credits and incentives worth more than \$1.4 million from the city and state.

A Dura-Line spokeswoman said the company also considered sites in Missouri and Kentucky. "All things being equal, the preference was to stay" in Elyria, she said. "We were looking to offset the cost of expansion."

Elyria is currently in discussions with three other large, local employers, Ms. Brinda said. The mayor declined to identify the companies but said discussions are focused on retention and expansion.

Riddell, a unit of BRG Sports Inc., determined it needed more space in early 2015 and started exploring location options. It liked Elyria, but "the geometry and size of that lot could not accommodate our plans," said Allison Boersma, BRG and Riddell's chief operating officer. Parking space was also a problem.

The company hired a site selection firm that brought in Incentis to consult on tax incentives. Riddell looked at 17 sites in Ohio, plus options in Illinois and Texas, weighing 30 criteria including access to and visibility from the interstate, quick movement on permits, services such as roads, sewage and electric, and the possibility of future expansion. It also said it valued moving quickly into a new facility and retaining its existing workforce.

Ms. Brinda, Elyria's mayor, said Riddell's decision to hire a site selection firm was a red flag, because it meant the company was seriously considering other options. In November 2015, Elyria offered Riddell the best alternate locations it could find, including one that straddled the Elyria-North Ridgeville line. The mayor said she also asked county officials for assistance.

The deal, the city said, would reduce the costs of expanding the existing facility or building a new one by as much as 50%.

In the meantime, Riddell's representatives had approached North Ridgeville about a company "engaged in light manufacturing," without naming the company, according to North Ridgeville's mayor, G. David Gillock. "They asked what incentives could we put on the table," he said.

The community had an undeveloped site that could be built to company specifications and offered up to \$7 million in tax incentives.

Ms. Boersma said the company saw it as the best option, and Riddell will make the move across the railroad tracks to the new site next month. Riddell said it is adding about 50 new positions, which will increase its workforce by roughly 15%.

None of Riddell's current employees will have to sell their homes or move their children into a different school system. Employees are also happy about "additional parking, a fitness center and overall improved work environment," Ms. Boersma said.

"If we had said we don't have any incentives, but we have a low income-tax rate and we would love to have you, they would not be here," said North Ridgeville's Mr. Gillock. "If you don't have something on the table, you are going to lose."