

Site Location 101: How Companies Decide Where to Expand or Relocate

[As a businessman] I never made an investment decision based on the Tax Code . . . [I]f you are giving money away I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements, they do it because they can see that they are going to be able to earn the cost of capital out of their own intelligence and organization of resources.

—Paul O’Neill, former CEO of Alcoa
and President George W. Bush’s first Secretary of the Treasury ¹

How companies decide where to expand or relocate is not rocket science. Their decision-making process is driven by business basics; subsidies rarely make a difference. The trouble is, the way the system is rigged, companies are getting huge subsidies to go where they would go anyway.

Here’s a typical search process. A company of substantial size will usually hire a site location consultant to perform the research on new locations. If the company doesn’t use a consultant, it will assign lead duties to one of its divisions, usually real estate or finance. In either case, a management team will coordinate with the consultant or internal lead, providing input about what the company needs, from operations, sales, and other departments.

The company—let’s call it Acme Widget—says to the consultant: to make widgets, we need a location that has plenty of workers who

know how to make widgets or who have comparable skills and can be readily trained. We also need a location with plenty of access to the main ingredients of widgets. And we don't want to be far from our widget customers or from transportation systems to reach them.

Business Basics: What Really Drives Site Location

The factors that drive site location—access to key inputs, suppliers, and customers—vary depending on the nature of the company's products or services. Three-gigabyte widgets are cutting-edge high-tech, so they need to be close to a research university or government lab, in a large metro area with cultural amenities. Titanium widgets require a lot of electricity, so they need a place with cheap (probably hydro) power. Software widgets require a lot of code writers, so they'll go to a city with similar companies, a labor market with code writers. Commodity widgets are low-margin, so they need a place where labor is cheap. Chemical widgets require a lot of oil, so they need to be in an oil patch, or on the coast where imports arrive. Paper widgets need to be near forests and fresh water. Fresh-caught widgets get put on ice and delivered rapidly to customers, so that widget-packing plant needs to be close to a freight airport hub.²

You get the idea. Companies base their decisions on business basics—affordable supply of key inputs and proximity to suppliers and customers. Key inputs vary and so do linkages. Boeing built up in the Seattle area because of the cheap hydro power from the Bonneville Power Administration for its complex metallurgy. Food processing companies locate facilities close to the farms and ranches that supply them and close to interstate highways and railheads to get product to market. Emerging high-technology companies need engineering schools and venture capital; Silicon Valley had both. Financial wheeler-dealers thrive on gossip and face-to-face meetings, so New York's Wall Street zoomed in the 1980s and 1990s. Lobbyists want to be on K Street in Washington, DC, where the power-lunch crowds throng. Sports franchises want the fattest TV

contracts, so they go to the biggest metro area that is not already taken.

There are, of course, further complexities to the process. Different kinds of companies and facilities have different needs, even within the same industry. Headquarters are very different from branch plants. Headquarters usually need to be close to centers of finance or marketing; they need major airport hubs, cultural amenities, and a high quality of life to attract and retain key executives. Manufacturing companies' issues are different from those of service-sector companies or retailers.

Another factor is where the company is in its "life cycle." Newly emerging companies (as in Silicon Valley in the 1980s) are more likely to cluster together, sharing talent pools and capital sources; mature companies may be more concerned about costs and so are more willing to disperse geographically. Some companies, like utilities and hospitals, are tied to their markets, so they rarely move (except perhaps to change offices within a metro area). Companies facing a lot of technological change have special concerns—in particular, maintaining access to highly skilled workers. All of these industry-specific and facility-specific issues drive the location criteria.

Increasingly, the supply of skilled labor is a key issue, and the work of site location consultants often involves detailed analyses of labor markets. This became true in the tight labor market of the late 1990s, and it remains true today in many cases. As the Baby Boom generation approaches mass retirement, skilled labor supply will become a huge, chronic site location issue (see chapter 9).

At the early stages of screening, companies look at major cost issues, such as labor, transportation, and occupancy. At this first cut, companies may ask the consultant to weigh lots of factors. Some consultants claim they'll handle their clients' laundry list of 50 to 100 issues; other consultants say they have software packages that can account for as many as 200 variables. But there is usually a much smaller number of make-or-break issues. For example, if the company needs to be close to a university laboratory with a life sciences

specialty, a labor market with a lot of web-software code writers, a major airport hub serving national markets because its sales representatives travel a lot, or a place with a lot of fresh water to make steel or paper, then many locations will be eliminated right off the bat.

Taxes: The Least Important Factor

The company and its consultant will also look at major kinds of taxes, but only to see if there are big differences that might be unfavorable to a site. Since corporate taxes have been cut in so many ways in so many states, and because subsidies reduce them even further, that is not often an issue.

Robert Ady, a longtime Fantus Company executive and now the head of his own company, Ady International, is said to have assisted more site locations than any living person. Here is what he says, based on hundreds of face-to-face dealings with companies deciding where to go: “[I]n the facility location process, taxes are not relatively important when compared with other cost factors such as labor, transportation and utility and occupancy costs. . . . In summary, site selection data do not suggest any correlation between low taxes and positive economic growth, or between high taxes and slow growth. The location requirements are too many, the process too complicated, and other factors too important to justify a strong relationship.”³

Ady’s finding is consistent with those of others: tax-rate differences and tax incentives are too small to make a difference. Subsidies cannot make a bad place a good place. Good places are competitive because they have the long-term business basics that a company needs to produce supply to meet demand. So if cities and states want to grow good jobs, instead of cooking up more tax breaks, they should focus on improving their business basics—the valuable inputs and linkages they have.⁴

There are other screening issues. Some companies, mostly manufacturers, seek to avoid unions, so they may seek either rural areas

with few unions or locations in “right to work” states. This is a smaller issue now than in past decades, and less often an issue in non-manufacturing industries that are less unionized. (Today, 13.5 percent of factory workers belong to a union, and the overall rate of unionization in the private sector is 8.2 percent.)⁵ Of course, for industries that are tied to specific markets—such as utilities, transportation, construction, and many parts of the service sector—moving to avoid unions is a moot issue.

There are often personal factors in location decisions. Executives especially like to create a short commute for themselves. They may also locate for amenities such as golf courses or good schools for their children. The smaller the company, the more likely it is that such factors will come into play, but they are sometimes evident at bigger companies, too. For example, a study of 38 companies that left New York City found that 31 moved closer to their chief executive’s home, reducing the average CEO commute to eight miles.⁶ When the founder of Kinko’s sold the company to a group of New York investors, the company moved its headquarters in 2000 from Ventura, California, to Dallas, where the new CEO lived.⁷

At the next cut, the consultant provides a more detailed list, with information about communities within a chosen area that could be as big as a multistate region or as small as a metro area (with the explosion of web-based data, the early-cut research is increasingly an armchair exercise). Ady has written that the list at this stage could include as few as 15 communities or as many as 100, but other sources rarely mention such high numbers. The bigger the project, the wider the search is likely to be. For a medium-sized project, the list might narrow to half a dozen sites. For each site, the consultant develops a cost model; Ady says his models project 15 or 20 years out.⁸

Bruce Maus, a veteran site location consultant based in the Twin Cities with Corporate Real Estate, Inc., says he uses a 10-year spreadsheet model for the client, factoring in all of the company’s projected costs in each competing space. He cautions his clients not to give

economic development subsidies too much weight, because on a 10-year basis, they wash out; that is, they are dwarfed by the business basics—the big-ticket items that really drive the decisions.⁹

As a weighted cost factor of importance, Ady rates taxes a distant fifth—and last (see table 2.1).¹⁰

Table 2.1. Site Location Cost Factors, According to Robert Ady

Factor	Manufacturing Project	Office Project
<i>Labor</i>	36%	72%
<i>Transportation</i>	35%	0%
<i>Utilities</i>	17%	8%
<i>Occupancy</i>	8%	15%
<i>Taxes</i>	4%	5%

Federal tax statistics suggest that even Ady's low ranking of taxes is overweighted. They provide even stronger evidence on why taxes—and therefore tax breaks—can rarely influence corporate location decisions. Internal Revenue Service statistics show that all state and local taxes make up only 1.2 percent of the typical company's cost of doing business, far less than labor, materials, marketing, overhead, transportation—the business basics. And then companies get to deduct those state and local taxes when they file their federal tax returns, so Uncle Sam actually foots up to 35 percent of the bill. The bottom line: after federal deductibility, state and local taxes make up only 0.8 percent of the average company's costs.¹¹ (And whatever companies pay in taxes, it does not all come out of their profits. To the extent that market forces allow, companies pass on their taxes in the form of higher prices to customers and lower wages to their employees.)

But back to our example company's site search. The list is narrowed again, based on feedback from the company, including subjective issues as well as other factors that might not be obvious to the

consultant. The company may eliminate a location because a competitor is located there, for example, or because it thinks the quality of life is not good enough. Taxes remain in the spreadsheet analysis, but may matter even less. For example, if the company is looking at different suburbs in the same metro area, many tax rates (corporate and personal income, sales and excise, utility) are going to be identical, though property taxes may vary.

So now the decision is down to the finalists—say, three to five places. Then the consultant goes on site to gather more data and knocks on the door of the local economic development agency. He probably won't even identify his client but will describe the proposed facility only in broad terms of jobs and dollars and physical specifications. And he will almost certainly start asking about subsidies available for the deal.

How Public Perceptions Get Distorted

Pause the tape! Freeze the frame! What just happened here? Notice how the development officials' perspective just got incredibly distorted. Someone just appeared at their door and said, "We might have a bunch of jobs for you, but first we need to talk about subsidies." The development officials—and their bosses, the politicians—haven't seen all that happened before that knock on the door. They don't see that the only reason the consultant is spending any time with them is because their community is an inherently profitable location for the company—*it has the business basics!* Any subsidies are icing on the cake, but the cake is already baked.

This system leads the public officials to believe that if they do the subsidy dance just right—and if they behave in ways that consultants like to describe as "sending business-friendly signals"—they will land the deal.

This "business-friendly signal" stuff is mostly about speed. Consultants and their clients like to see localities compete not only on subsidies, but also on how quickly they can snap to attention, keep

the project secret, produce customized data overnight (not next week!), and expedite application paperwork. Part of this dynamic, frankly, seems to be about groveling; some companies want to see who will suck up the most, to see which community has the most “pro-business attitude.” In fairness, though, a lot of it seems to reflect the fact that companies feel driven to make site location decisions faster than they used to, reflecting the accelerated pace of business life in general.¹²

Site location consultants don’t even have to raise the issue of subsidies when they come knocking. Public officials have gotten so used to subsidy demands, they roll them out voluntarily. In one breath, the development officials brag about their schools and roads and workers and quality of life and other public goods that rely on taxpayer support. And in the next breath, they tout all the ways the company can dodge paying its fair share for those public goods. All the while sending those business-friendly signals. It’s one twisted dance.

But back to the finalists. Chances are the company has already pretty much decided where it wants to go. In fact, it may have made its mind up before the consultant even went on site. Absent some big surprise when the consultant kicks the tires, City A is going to get the deal.

So why bother with Cities B through E? To maximize the subsidies! You need straw men with which to “whipsaw” City A.

Putting Public Officials in the “Prisoners’ Dilemma”

Dennis Donovan is a nationally prominent site location consultant with the Wadley-Donovan Group, a big firm that was founded in 1975. In an obscure magazine called *Expansion Management*, he laid out a 30-point checklist in “Trade Secrets Revealed: An Insider’s Look at Incentives Negotiations.” Point #3 advises: “Negotiate incentives for the new project in two or three finalist locations, preferably in different states. Generally speaking, spend the most time ne-

gotiating in the preferred location. Use offers from the alternate areas for leverage.” In Point #4 he further recommends pitting two cities against each other in the same metro area: “In the preferred area, tie incentive negotiations to a couple of sites, ideally in separate communities.”¹³

Game theorists call this the “prisoners’ dilemma.” In such a dilemma, two people who ought to cooperate—crime suspects who acted together, but who have now been captured and separated—fail to cooperate, because each is being promised more lenient treatment in return for confessing and ratting on the other prisoner. For the individual caught in such a trap, the expedient course is to confess, to try to save your own skin. But if both confess, both go up the river. Applying this dilemma to our hapless public officials in competing locations, if all of them capitulate to the site location consultant’s manipulation, the outcome is worse than zero-sum; it is lose-lose.¹⁴

Cities competing for deals are living this game. The consultant doesn’t tell any of the finalist cities who they are competing against. Even if the deal is so high-profile that the news media identify the competing places, it is clearly understood that the cities (or states) will not compare notes or cooperate in any way. That leaves the consultant and the company in info-control—especially about competing subsidy bids—as they play the sites against each other to up the ante. But if the public officials stood fast and didn’t accede to the consultants’ game, they could both spend less on subsidies and gain more market power.

Given how this system is rigged, all the power rests with the site location consultants and their corporate clients. No wonder there have been recurring grumbles that consultants sometimes exaggerate the subsidy bids from one place to coax higher sums from another.

This is where corporate control of the system really pays off in outrageous returns on investment (ROIs). For the cost of a one-time

fee to a consultant (or a lobbyist if special legislation is necessary) and depending on the size or prestige of the deal, a company may be able to extract a huge multiyear subsidy, producing an ROI greater than it might get from developing a new product or investing in new equipment. This is why companies are so willing to say or do almost anything to preserve the practice of lavish company-specific deals. Considered in isolation, they can be fantastically lucrative.

These prisoners' dilemma games also enable companies to create fictions about cause and effect. These fictions can be used to create public versions of how deals happened that no one can credibly contradict, because the company's real decision-making process will never be revealed. The most important fiction to maintain, of course, is that subsidies matter in deciding where a company expands or relocates. For example, being able to send secret signals to competing cities means companies can tell contradictory stories to different cities and have no fear of being exposed. If a company really has its heart set on City A, it can tell that city that it is in the hunt, but needs to do better. Meanwhile, it can send less urgent signals to Cities B and C, even if they offered bigger packages at first. Eventually, City A offers the biggest package, and the company announces its decision to go there.

This system can also be used to soften up a state, although exact corporate motives rarely get revealed. Consider the Boeing story. As described in chapter 1, Scam #9, the aerospace giant announced in 2001 that it would relocate its corporate headquarters from Seattle. It proceeded to conduct an unusually public auction between Chicago, Dallas, and Denver. It got a package estimated at \$56 million from Chicago and Illinois. The episode sent chills through the Puget Sound region; leaders there feared that by reducing its civic profile in Seattle, the company was signaling its intention to disinvest production as well. That fear of disinvestment likely softened up Washington state for the company's next auction. Two years later, Boeing launched a 20-state bidding war for its next-generation passenger jet, the 7E7 "Dreamliner" project. The Evergreen State en-

acted a \$3.2 billion aerospace-industry subsidy package to “win” the sweepstakes.¹⁵

Consultants, Commissions, Correlations, and Objectivity

Besides fantastic ROIs for the companies, there is an even darker motive afoot here: some site location consultants work on commission; that is, they get paid largely or in part by a percentage of the subsidies they negotiate for the company—*as much as 30 percent of the subsidy package!* And the industry trend is that pay by commission is becoming increasingly common. So of course, the consultants are highly self-interested in maintaining the fiction that subsidies matter, so they can run up the subsidy tab and get bigger fees.¹⁶

Commissions also raise the issue of the consultants’ objectivity. As veteran site location consultant Bruce Maus puts it, “When the deal is incentive-driven, we lose our objectivity. I wish I had a nickel for every time a broker said she won’t show the client the property unless he agrees to the commission. That means the client doesn’t get to see all the options. The same is true with consultants paid by incentives. They only show the sites with high incentives. They lose the objectivity in the deal and may steer the client to the wrong place or not the best place.”¹⁷

What does this all really mean for subsidies and jobs? Candid site location consultants will admit that the only time subsidies can actually tilt the scales is when a company has two equally compelling choices. But that rarely happens. So subsidies are a really crude tool that can only affect a really tiny percentage of deals. All the other times, the subsidies are just wasted windfalls, paying companies to do what they would have done anyway. That means less money for things that really do help create jobs, like skills and infrastructure.

Long-term statistical studies of the relationship between taxes and growth confirm this. Large “metasurveys” have looked at dozens of such studies on what economists call “elasticity,” or how much the

differences in taxes among states affect growth. They conclude that the correlation between taxes and growth is about -0.2 percent.¹⁸

Professor Peter Fisher of the University of Iowa explains what this statistic means. The coauthor of two books and numerous studies and articles on economic development incentives, he is one of the nation's foremost experts on the issue, especially on multiple-subsidy enterprise zones. During the 1990s, he says, for every 100 business establishments in the United States, about 10 new ones were born every year. If the elasticity rate is -0.2 percent, this means that if a state enacted a subsidy for new investment that reduced companies' corporate tax rate by a whopping 20 percent, the state could expect its growth rate to increase by 4 percent (20 times 0.2). In other words, instead of getting 10 new establishments per 100 each year, it would get 10.4 new ones. The trouble is, by lowering your tax rate for all newly arriving corporations, you just gave a tax break to 10 establishments to gain the additional 0.4. In other words, 96 percent of the businesses that benefited from the tax break just got a wind-fall for doing what they would have done anyway.¹⁹

I think of it like using dynamite to catch fish, or using a chainsaw to cut butter. We're talking *bad* technology.

Fisher and other experts also caution taxpayers to watch out for common flaws in studies that look at the relationship between taxes and growth. Many of them assume that even though corporate taxes go down, the quality of public services stays the same. That, of course, is not a realistic assumption, and it makes such studies questionable on their face. If corporate tax revenue goes down, the state has to either reduce the quality of public services or raise the revenue from other sources, and both of those options could also affect jobs. Cutbacks in education or infrastructure would be especially harmful. They also warn that studies often fail to factor in whether a state has lucrative tax loopholes, such as those that allow companies to hide their profits in Delaware or Nevada (see chapter 4). Some studies suggest that such loopholes can be just as

profitable to a company (and just as harmful to public revenues) as development subsidies.²⁰

Additional Evidence That Subsidies Don't Matter

In his autobiography, former Idaho governor Cecil Andrus recounted how he dealt with a knee-jerk subsidy demand from a high-tech company:

Hewlett-Packard was pondering whether to put a plant in Boise or pick a site in Medford, Oregon. I had David Packard visit my office. He was a remarkable guy, a computer entrepreneur, Silicon Valley pioneer, deputy defense secretary—and somebody who spent years trying to persuade California's Republican Party to put up competent moderate candidates instead of right-wing ideologues.

While no one had made this discovery yet, went my spiel, Idaho was an excellent place to make computers. We had low taxes, and we had a workforce with many people who were first-generation off the farm. They were willing to deliver a full day's work for a day's pay.

Packard listened politely and then asked in a level voice, "What type of tax concessions is the state willing to give?" He was obviously alluding to inducements offered by Oregon. I took a deep breath and set out to sell him on a difficult argument. "We don't believe in existing businesses subsidizing new businesses," I told him. "When you come to Idaho you become a citizen, and we all play by the same rules. A few years down the line and you'll be an old-timer. Do you want to subsidize the next guy who comes along?"

It was a nervous moment. After a brief pause, Packard grunted: "Makes sense. That's the way to go." He moved on to other questions. We captured the computer plant and gained a top-notch corporate citizen. Hewlett-Packard put up front-end money on a sewage treatment plant, practiced recycling, and was an innovator in heavy metals extraction.²¹

Besides such recollections, there is lots of other case-specific evidence that subsidies don't determine where companies choose to lo-

cate. Privately, economic development officials often speak of deals in which things happened that made it clear subsidies weren't the deciding factor. Perhaps the most damning systemic evidence comes from state auditors, who have repeatedly found either that subsidies do not cause companies to invest or that it is impossible to establish any cause-and-effect relationship. A survey of state audits in the 1990s found that in at least a dozen program investigations, the green-eyeshade folks found or opined that companies would have invested without the subsidies.²²

An especially contentious series of audits has taken place in Vermont. In 1999 and 2000 there, the state auditor and a legislative oversight committee found massive problems with the Vermont Economic Progress Council (VEPC), a group of nine business people appointed by Governor Howard Dean to give out tax credits. The legislative report questioned the validity of VEPC's claim that none of its deals would have occurred "but for" the tax break. Most of the money intended for small businesses went to four of the largest companies in the state, and most of the subsidies went to the most prosperous counties of the state. VEPC hunkered down and tried to stonewall the auditor on his request to see the books; he sued and, after a great brouhaha, the attorney general backed the auditor. The final report found that VEPC made no effort to verify any information from the companies when they claimed "but for." It also found that VEPC had been issuing tax credits for investments *before companies even applied for them!* When asked by the *Wall Street Journal*, only 2 out of 21 subsidized companies would say the credits were decisive for their expansions.²³

A third Vermont audit, issued in December 2004, still found the same kinds of problems. The 21 companies examined had gotten \$20.9 million in tax credits—but created fewer than 7 percent of the jobs they promised. The audit also found that the VEPC was still not looking hard at the "but for" claims. "The Council does not review financial statements, business plans, or tax records to assess the financial necessity of a tax credit authorization," the auditor found.²⁴

In 2003, Toyota chose San Antonio for its new pickup truck assembly plant, getting a subsidy package estimated at \$133 million. It chose the Alamo City even though it had higher subsidy offers from Alabama, Arkansas, Mississippi, and Tennessee, one of which was reported to be \$500 million—almost four times the amount of the Texas deal. Local reports at the time stressed business basics, such as the fact that Texas is the nation’s #1 market for trucks, and local officials agreed to install a second rail line (in other words, San Antonio offered proximity to markets and access to competitive shipping). The company even volunteered to pay \$34 million in taxes to the school district and didn’t seek abatements from other taxing districts.²⁵

In a refreshing moment of civic-minded candor, Toyota’s senior vice president in charge of site selection in North America said, “If you pull too many incentives out of the community in the beginning, you pay the price down the road. It’s a pennywise but dollar-foolish thing to do. We believe it is in our best business interest to be a good corporate citizen and contribute to the community right away.”²⁶

Even a company staying in Lower Manhattan after the attacks of September 11 admitted this. Upon receiving a \$25 million grant for staying put, an American Express spokesman said: “Our decision to return downtown, which has been our home for more than 150 years, was not predicated on financial incentives.” But then he hastened to add backside coverage, as if to say: we’re no fools if people are going to throw money around. “Once those financial incentives became available, we chose to participate, as did other companies,” he said.²⁷

In other cases, deals get explained and companies cite the business basics that drove their decision—without mentioning subsidies.

In 2004, Citgo (which is 100 percent owned by the nation of Venezuela) got \$35 million in subsidies to relocate 700 headquarters jobs from Tulsa to Houston. But the company readily admitted that the subsidies didn’t matter. Citgo CEO Luis Marin said that strategic and operational concerns outweighed the incentives from Texas.

“The energy business is the cornerstone in the state of Texas and the city of Houston,” Marin said. (Translation: we want to be in the nation’s biggest petrocluster.) “This decision was not based on [subsidy] economics,” Marin said.²⁸

In 1999, America Online announced it would build a half-billion-dollar technology center in Prince William County, Virginia, even though Cobb County, Georgia, had offered a subsidy package almost twice as large (over \$40 million versus \$22 to \$24 million). Cobb County officials were ticked off: half a year earlier, they had announced AOL was coming there. As *Site Selection* magazine saw it, “In the end, AOL’s decision seemed to come down to proximity . . . Anxious to avoid the cyberspace hell it hit in 1996 when lack of capacity threw its network for a loop, AOL now seems intent on keeping its critical knowledge workers close to one another.”²⁹

Money Left on the Table: More Evidence That Subsidies Are Irrelevant

Perhaps the most damning evidence that subsidies don’t matter comes from site location consultants, some of whom pitch their wares by pointing out that companies routinely leave subsidy dollars on the table. In other words, subsidies have become so numerous, and companies making rational decisions pay them so little attention, that they routinely go unclaimed. Of course, that creates a market niche for consultants to help companies scour the public trough—for a fee, of course; preferably a commission.

Location Management Services, founded by James Renzas, bills itself as “a world-class leader in incentive negotiations for corporate America.” In a 2003 press release announcing its web-based Incentives Management System to help companies get all the giveaways they have coming to them, the company claims that “the U.S. government has noted that over \$10 billion of available tax credits and incentives go unused annually.”³⁰

Renzas made a gut-level appeal in a magazine article:

A majority of CFOs recently polled reported that they experience a sinking feeling when they consider whether their company is receiving all of the tax benefits that it is eligible to receive. Many will spend their entire career with a lingering fear they are missing something important, or perhaps not getting all that is due their corporation.

I'd love to see that polling question! Was it multiple choice?

When considering whether your company will receive all the financial incentives and tax credits it is entitled to, do you:

- a) Have a sinking feeling?
- b) Worry that your boss will cut your annual bonus if he finds out you missed a giveaway?
- c) Fret about private school tuition bills because the schools at the new location will be so underfunded?

Location Management Services also said:

Corporate America typically leaves millions of dollars on the table when it expands, relocates, or finds new sites . . .

LMS has offices in 31 communities nationwide . . . Each LMS staff member has more than 17 years average service and has realized greater than a billion dollars in incentives for clients.

Unless you have an expert on your team to handle negotiation and collection of financial incentives and tax credits for your new company location, you may be leaving millions of dollars on the table.

Location Management Services . . . has helped hundreds of companies gain millions of dollars through strategic site selection. Its proprietary Incentives Management System ensures that all available financial incentives and tax credits are reviewed and capture[d] prior to making a facility investment.

A check with your name on it could be waiting . . .

It's like the Publishers' Clearinghouse Sweepstakes! Is that Ed McMahon at the door?

Without naming names, Location Management Services posted brief case studies that unwittingly suggested that subsidies are windfalls, not determinants. It said it helped a “Fortune 500 big box retailer with hundreds of locations around the country” to “collect more than five million dollars in credits and incentives that went directly to the company’s bottom line.” In another case, a “major national retailer was planning on expanding its California distribution center. It had already budgeted \$1.5 million to acquire the 147-acre parcel next door.” After Location Management Services got done, “the client received the entire 147-acre parcel for \$1 per acre as well as other infrastructure construction grants. The benefit to the company was over \$6.5 million.” Finally, “a major national bank was consolidating multiple operations in its downtown core,” and Location Management Services “was able to obtain Enterprise Zone status for the new development, resulting in over \$6 million in state and local tax benefits without e[v]er relocating a single seat.”³²

Finally, the company’s website suggested it works on commission: “. . . we are compensated based on the results we deliver.”

Renzas, the company’s founder, was not always so gung-ho about subsidies. In a 1995 talk, he said he strongly disapproved of the trend toward more subsidies. “If it were up to me and if it were a perfect world, I would pass a law prohibiting it,” he said.³³

Cabela’s: Subsidies Increase Our Profits

Occasionally, companies admit the truth: subsidies rarely affect where they locate, but they *do* increase profits. Of course, the truth comes out more readily if the document in question is a shareholder filing with the Securities and Exchange Commission. Falsify an SEC statement, and you could get into serious legal trouble.

Cabela’s is the nation’s largest direct marketer of outdoor sporting goods. It sells by catalog and Internet and in nine megastores as big as or bigger than many Wal-Mart outlets. It competes with other chains like Bass Pro and Gander Mountain. It touts its megastores as

economic development “destinations,” like Disney World or Six Flags. The stores feature “museum-quality wildlife displays” and “large aquariums.” “Our destination retail stores . . . reinforce our outdoor lifestyle image . . . and provide exciting tourist and entertainment shopping experiences for the entire family,” it gushes.³⁴ The stores also feature “gun libraries, restaurants and educational centers.” With an average of 4.4 million visitors per store per year, “our Kansas City, Kansas and Owatonna, Minnesota destination retail stores rank among the top two tourist attractions in their respective states.”³⁵

And here I thought Dodge City and the Boundary Waters were the places to see.

In 2004, Cabela’s filed an Initial Public Offering (IPO) prospectus with the SEC as it prepared to convert from being privately held to being publicly traded on the stock market. In an IPO prospectus, a company must disclose a great deal about its business plan, so that potential investors are fully informed about both the opportunities and the risks. Because subsidies are integral to Cabela’s strategy, the prospectus discusses them several times. Cabela’s makes extensive use of tax increment financing (TIF), so that increased property and/or sales tax—revenue that would normally go to schools and other local services—is instead used to pay back bonds that subsidize the megastores.

The company’s overall message is clear: subsidies give us higher profits.

Historically, we have been able to negotiate economic development arrangements relating to the construction of a number of our new destination retail stores, including free land, monetary grants and the recapture of incremental sales, property or other taxes through economic development bonds [i.e., TIF], with many local and state governments.

The government grants have been recorded as deferred grant income and have been classified as a reduction to the cost basis of the applicable property and equipment. The deferred grant income is amortized to earnings, as a reduction of depreciation expense . . .³⁶

In other words, Cabela's is saying, subsidies make our stores cheaper to build and therefore more profitable. In its cautions to investors, Cabela's says it plainly:

We may not be able to obtain similar economic development packages in the future. The failure to [do so] could cause us to significantly alter our destination retail store strategy or format. As a result, we could be forced to invest less capital in our stores which could have an adverse effect on our ability to construct the stores as attractive tourist and entertainment shopping destinations, possibly leading to a decrease in revenues or revenue growth. In addition, the failure to obtain similar economic development packages for stores built in the future would have an adverse impact on our cash flows and on the return on investment in these stores.³⁷

In other words, without subsidies, Cabela's would have lower profits. And America might experience slower growth in museum-quality shopping destinations. Imagine!

Do the Cabela's packages pay off for taxpayers? Well, to justify subsidizing a tourist destination, you have to attract shoppers from outside the state, so you capture new sales tax revenue plus new hotel and restaurant business. If you only draw local dollars, that would mean you are merely shuffling those dollars among local vendors. (Of course, on a multistate level, shuffling is exactly what you are doing.)

The *Allentown Morning Call* set out to determine if the \$32 million package for the Cabela's in Hamburg, Pennsylvania, is paying off. It opened in 2003, has 247,000 square feet—the company's biggest yet—and employs 600 people, mostly at low pay. The newspaper went back to the state and local agencies that had bragged about the taxpayer benefits of the original deal. But the Pennsylvania Department of Economic and Community Development said it was not tracking sales tax revenue. And Tilden Township said it had no data on local property tax revenues. So no one knows whether the deal is stimulat-

ing other new development. None of the public officials could provide any specific numbers about the deal's outcome.³⁸

And what about that tourism strategy, with the store projected to attract six to seven million visits a year? (That's a lot of road wear and air pollution!) Merchants in downtown Hamburg said they are not getting much spillover traffic. Reporter Sam Kennedy counted license plates in the parking lot, finding more than two-thirds were in-state. Cabela's responded by claiming that by dollar volume, less than a third of the store's sales go to Pennsylvanians. A few competing sporting-goods merchants said the deal is hurting them. One, located nearby on the Appalachian Trail, said it is losing business, especially because Cabela's sends a courtesy van to the trailhead. Another store owner reported losing a fourth of his sales.³⁹

Ultimately, the *Call* couldn't make a call. "The impact of Cabela's is nearly impossible to assess because Pennsylvania, like many states, doesn't pay close attention to such projects after the ribbon-cutting ceremonies have ended, the news cameras have stopped rolling and the politicians have gone home," it concluded.⁴⁰

Clearly, the public officials who take credit for high-profile deals are not about to go back and look to see if they are wasting taxpayers' money. By failing to keep records, they also make it hard for others to discover the truth.

Finally, a truly weird footnote: in some cases, the stuffed animals and dioramas—*the visual centerpieces of Cabela's stores*—are actually owned by state or local government as part of the subsidy deals. ". . . in connection with some of the economic development packages received from state or local governments where our stores are located, we have entered into agreements granting ownership of the taxidermy, diorama, or other portions of our stores to these state and local governments."⁴¹

Can you say "taxpayers' taxidermy," five times, really fast?