



Developing Local Incentive Programs

Local incentives need to be driven by a community's vision. Professional approaches to creating and negotiating local incentives are paramount to understanding when local incentives should be offered and when they should not.

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INCENTIVES AND WHEN TO USE THEM

Economic development requires competence and trust. As the sole or one of the primary negotiators with a prospective industry, the economic developer holds the future of the community in his (or her) hands. A poor or unskilled developer can cost a state or community millions of dollars by offering unnecessary incentives. Business incentives can be divided into two general categories: statutory or non-statutory.

STATUTORY INCENTIVES

Statutory incentives are commonly offered by the state or federal government. They include incentives offered to all industry that meet specific legal qualifications. These include:

- State-level training, tax abatements and rebates
 - often provided when specific investment or employment criteria are met.
- Federal tax credits when a business locates into preferred economic zones such as:
 - Empowerment Zone
 - Enterprise Zone
 - Depressed downtown areas
 - Brownfield Areas
 - Additional federal benefits, including HubZone preferences (beneficial when competing on federal contracts). Also included is discounted bond financing, such as GO Bonds along the Gulf Coast as a result of disaster recovery efforts.

NON-STATUTORY OR “ELECTIVE” INCENTIVES

Non-statutory or “elective” incentives include benefits that are offered or negotiated on a per industry basis and are frequently offered by state and/or local governments or other community partners such as utilities or private sector participants. They may include:

- Loans
- Tax abatements
- Cash
- Rebates
- Site preparation
- Land discounts

- Any other benefits to induce an industry to locate in the community.

In many business location decisions, incentives tip the balance. In other cases they make no difference at all. Incentives (particularly non-statutory) are best used to close a deal rather than be offered in an initial discussion. When, where, and how to offer them is the essence of economic development. Learning how to mix, match, and leverage incentives is truly an art that can take many years of experience to master.

HOW AND WHEN TO USE INCENTIVES

The general rule is “never use an incentive unless you must,” for incentives represent the state and community’s resources and currency. If you use them all for one project, nothing will be left for the next. Remember, the goal is to draw an industry while incurring the least cost to the community. The following practices will guide you through the negotiating process and help determine when to employ incentives:

Much will be revealed by closely listening to the prospect. Let the prospect describe his or her needs and concerns. Why offer tax abatements if permits, training, or energy costs are of prime concern? Failure to listen is the most common negotiating mistake. Only by listening can you determine the parameters of the project:

- What is the cost of the project and is the financing in place to fund it?
- What are your competitors offering?
- What is the project’s timetable?
- What is expected from your community?
- What will it take to close the deal?
- Who is the decision-maker(s) who will ultimately decide to locate or expand?
- What partners or allies will you need to engage to successfully compete for the project?

UNDERSTAND YOUR PROSPECT AND THE PROJECT

The Internet has changed our way of doing business. Today, prospects are generally much better prepared because information is so readily accessible. Consequently, many prospects already have a general or overview knowledge of the community. Time is better spent listening to the prospect rather than giving a general demographic or statistical overview of your community. If in doubt, ask the prospect how he or she would prefer to conduct the initial meeting. If he requests an overview, give it to him. If he chooses not to have an overview, then begin by listening carefully to him describe the project and its needs.

Larger prospects have researched or identified the statutory incentives and will likely be aware of them on the first visit to your community. Many will expect to receive them from the state and local community simply as a matter of course. In most cases, statutory incentives will be offered at the initial meeting with the prospect. However, it's generally bad practice to negotiate non-statutory or elective incentives on the first visit. Better to listen to the prospect's needs and then craft an incentive package.

Recognize that a single public entity may be unable to offer all that is needed to "win the project." You'll likely need some time to identify the necessary incentives and secure a commitment from an "ED Ally" to provide them.

Write a Proposal

After understanding the project, the next step is to submit a proposal, preferably in writing, to the prospect (exhibit 1) for review and comment. The example provided is simply a statement of the community's and prospect's responsibilities. It is not a legal document, but rather an understanding to proceed further in the project. However, this proposal can and often does serve as a basis for a legal contract or formal agreement. It lists what is expected from each side and all incentives that are offered.

What Business Fits Your Community

The United States is literally composed of thousands of cities, counties, parishes, and other public entities continually struggling and evolving. Many will grow far beyond expectations; others will progress slowly and some will simply drift, stagnate, or decline. The how and why has much to do with leadership, resources, and geography. A community left to its own design may or may not develop in the manner desired by its citizens and leadership. However, by doing a little research and analysis, a community may identify opportunities that were hidden or previously unrecognized. A targeted marketing effort based on sound research will ultimately succeed given enough time and effort. One fact is certain: all communities change, and industry and businesses evolve. Consequently the current status quo, whether good or bad, is not the future. A community's economy must change. Economic developers can ensure that the change improves the quality of life for the residents and offers opportunity to the next generation.

Know Your Community

There is a reason why and how any community exists. It supports industry, commercial activity, and residents based on its history. First, determine who currently generates the wealth and inventory them and their resources. Understand what activity is there, why it is there, what skills it supports, and what resources it requires. The heart of every economy is composed of a combination of business & industry, government, education, and retirees. The mix of business

includes: mining, fishing, agriculture, manufacturing, R&D, services, retail, construction, tourism, non-profits, and – increasingly -- home-based businesses, along with others. Understand the community's weaknesses, for they will be crucial for designing a marketing effort. A community's weakness can often weigh heavily in a marketing plan. For example, if an economy is dominated by a single industry or industry group, it may raise a red flag that the economy needs to be diversified. If an economy is dominated by a governmental or educational institution, it may indicate an opportunity to recruit business that complements that institution.

What Should You Recruit or Develop?

Consider what the community has, what the region has, what geographic and political advantages the community offers, and develop a marketing plan that will leverage those assets. Or, identify what the community lacks and include that in the target marketing campaign. For example, retail or residential opportunities may be underserved and become an excellent recruiting target. The options are summarized as follows:

1. Identify the community's strengths and weaknesses.
2. Identify the community's existing industries and determine what they need.
3. Consider the resources and strength of the regional economy.
4. Determine if a weakness provides an opportunity for development (retail, residential, tourism, existing business suppliers).
5. Market from strength (labor skill concentration, interstate access, natural resources, governmental, defense or educational Institution(s), excellent schools, favorable taxes, prepared site for building, etc.).
6. Think "out-of-the-box" (Market the skills or resources of the region to promote your community, consider entrepreneurial development, establish a business incubator from an old building, etc.).

A RURAL MARKETING PLAN THAT WORKED

Covington County, Alabama, in 2001 experienced an 8-percent unemployment rate, primarily due to the demise of the textile industry in the 1990s. Over 4,000 jobs were lost in a county that supported a workforce of 16,000. The county's leadership wondered how it could reshape and diversify the county's existing industry.

Think of Your Community in a Regional Context

Although the county had no existing aviation industries, it was surrounded by both military facilities and commercial maintenance, repair, and overhaul (MRO) activities. Average wages in the aviation industry averaged \$25-\$35 per hour, and these high wage-high skill jobs tended to attract labor from a wide area. Nine military aviation facilities were located within 150 miles of the county, and three major commercial operations were present in Dothan, Mobile, and Troy, Alabama. In addition, a state-run aviation college located 50 miles east in Ozark

trained Airframe and Power Plant (A&P) mechanics to support the regional demand for skilled labor.

Based on the favorable geographic proximity of these aviation industries and activities, the county economic development commission initiated a plan to attract aviation industries to the Andalusia-Opp Airport. The plan began in 2003. Five years later, the airport (Renamed the South Alabama Regional Airport) is home to four new aviation industries that will employ over 1,100 by 2011. Three large hangars have been constructed and leased to new industries representing \$8 million in new investment. Four additional hangars are planned as well for four new aviation manufacturing facilities, together totaling an additional \$33 million. To support this industry, a small dual-enrollment aviation school was established at the airport. Dual enrollment allows high school juniors and seniors to receive college credits in aviation maintenance. The school runs both adult and student aviation training classes teaching basic A&P (Airframe & Power Plant) coursework.

This is an excellent example of marketing regional strengths to create a local opportunity, especially since there was no indication that aviation resources were available in the county to justify such a marketing strategy and that the effort would be successful.

The incentives that were engaged to make this project possible included:

- Non-Statutory
 - Direct state cash funding
 - A revenue bond issue secured by the cities and county
 - Speculative building loans from the local electric cooperative
 - USDA funds (RBEG)
 - FAA Capital Improvement funds
 - Community Development Block Grant funds (Water and Sewer)
 - State and Local cash used for site preparation and building construction
 - State education funds and direct legislative appropriation (for the Aviation Dual Enrollment School)
- Statutory
 - State and local property tax abatements
 - State training for new employees
 - Tax credits for corporate taxes

These incentives were used for training, infrastructure, and building improvements necessary to accommodate the prospects. All industries located at the airport lease facilities. In some cases this lease was discounted due to incentives received from various development partners.

THE ROLE OF STAKEHOLDERS AND COMMUNITY SUPPORT

By definition, most non-statutory incentives cannot be “pulled off the shelf”. These incentives must be created or invented to satisfy the needs of a specific project. They are routinely funded by the stakeholders in the state and community. A good method to determine precisely what non-statutory incentives are commonly offered and available is to call a meeting of stakeholders to discuss their capabilities and then determine what has been offered in other communities. Since many of these incentives may require matching funds or participation from federal, state, parish, city, business, or institutional groups, a good understanding of available resources and capabilities is mandatory. Such a meeting will help build trust among partners and recognize combined effort. It is rare when a single entity has all the resources required to secure a large project. Many projects require unconventional incentives that call for out-of-the-box thinking and creativity, usually enhanced by a small group of savvy businesses and forward-thinking minds.

TEAM BUILDING

An economic development “team” can serve as a community decision-making body and effectively recommend actions to local and state leadership. This group will not only suggest what incentives to employ but guide the economic development process in the community. A small group of three to 10 is easy to work with and has community knowledge and a history to make rational decisions.

Consider exactly who will be effective members on the development team. It’s likely that they will have the following personality traits:

- No personal agendas
- Ability to work together
- Placement of community interest above personal interest
- Ability to keep the “big picture” in mind
- Commitment and dependability
- Ability to reach a timely conclusion on an issue

This team will make business decisions, promote community acceptance, and develop policies to guide future projects. Team members need to have good judgment, knowledge of the community, and the other team members’ respect. The precise mix and number of team members depends entirely on the community and its leadership dynamics. Consider stakeholders with one or a combination of the following skills to be team members:

- Industrial buildings and sites
- Financing/funding
- Residential/commercial realtor
- Education or training
- Legal
- Engineering
- Existing industry
- Utility
- Railroads and airports
- Government/political
- Community leader/consensus builder

Depending on the community, this “team” may be an existing organization such as an industrial development board or economic development board; it may reside within a chamber of commerce or consist of a special group designated by the community to advise the leadership on incentives and other aspects of a project. It may be formally organized or simply an advisory group. To be effective, it must command the respect of the community leadership.

SELECTING AND QUALIFYING PROSPECTS

Ultimately, not every prospective business may be positive or desirable for the community. Whether to employ incentives on each prospect will require an evaluation with questions that may include:

Does the business --

1. Pay adequate wages? Does the business satisfy wage goals set in the marketing plan; how does it compare to existing industries?
2. Complement existing industry? Does this business support or supply an existing industry; is it neutral or adversarial?
3. Satisfy an existing need? Does it fit the marketing target or enhance the retail, commercial, or industrial base of the community?
4. Diversify the economy? Does the new business add service, depth, and resilience to the economy?
5. Pollute or degrade the quality of life? Do environmental problems exist or does the business create problems in a residential or commercial district?
6. Likely to grow and add jobs and investment to the community for the foreseeable future?
7. Have funding in place to finance the project? What is the prospect’s history?

These questions should be addressed by the “development team” and accepted by the community leadership before the marketing plan is executed. A consensus opinion on each of these questions will moderate controversy and serve as a guide for when to offer incentives.

Sometimes “NO” is the Best Answer

The automobile industry was expanding quickly in Alabama and suppliers were selecting rural locations to establish new facilities. Two competing communities in South Alabama were engaged in a fierce competition to locate a tier 3 supplier. These rural communities were located 40-miles apart and the competition was intense. Each community had offered maximum incentives. The prospect was well aware of the situation and played one community against the other. Finally, the City of Andalusia said, “No more”. The project announced the following week that it would locate in Evergreen. Surprisingly, the reaction in Andalusia was one of relief since the community had offered as much as it could afford in incentives. Fortunately, the situation of “over committing” had been discussed previously among those on the leadership team and all agreed that the project was too “expensive.” A cost/ benefit analysis had shown the benefits would far exceed the cost.

DEALING WITH PROSPECTS

Know Your Prospects and Their Objectives

Not all prospects are prospects. Some may be prospects and some may represent prospects. Understand who they are and their objectives. Common types of prospects may include:

- Corporate representative, i.e., CEO, COO, CFO, VP of Human Resources, Real Estate Director, or a combination thereof, etc.
 - A direct representative of corporate management may be designated to recommend a site or expansion to the CEO or Board of Directors. This person’s goal is to simply find the best location for the project. This representative generally has direct communication with the decision-maker.
- Site selection consultant
 - Many large companies employ consultants to select and recommend new sites. Consultants typically receive parameters of the project from the prospect, conduct an analysis of potential sites, and deliver a report to the prospect with recommendations. Many larger manufacturing projects employ consultants.
- Real estate professional
 - Some projects originate through real estate professionals. Commonly, local or regional real estate corporations will show facilities they have under contract. Their goal is, obviously, to sell the facility to the prospect for a commission.
- State or regional project manager
 - Many projects are generated by a state or regional development office. In this case, the project manager may become the representative for the prospect. He (she) may also be looking at

other sites throughout the state or region. Project managers normally have direct access to the prospect, its consultant, or other agents of the prospect.

- Business broker
 - This person attempts to create conditions or circumstances that will attract economic activity to a site that he controls or that will secure a commission for his services. Commercial brokers are very common in retail development where several businesses must be assembled to fill a shopping or office development.
- Owner/ entrepreneur
 - Generally this type of developer is looking to locate a business that he has created or to locate an opportunity for multiple business developments. He may be involved in purchase of a site, building, Brownfield, and facility renovation, or he may simply be looking for a site to operate a new business.

All of these prospect representatives represent valid economic development resources and have been responsible for countless prospect locations and expansions in the United States. However, it is helpful to understand their motivation. Most prospects have multiple sites and communities from which to select. They are looking for ways to eliminate sites. Consequently, when dealing with prospects or their representatives, it is a best practice to:

1. Know the type of prospect you are talking to and understand its motives.
2. Respond promptly to any information request.
3. Respond accurately only to the questions asked. Do not flood the representatives with project information that you think is important or include extraneous information not directly relevant to the project.
4. Maintain a single point of contact for the community. Similarly, limit contact with the prospect as requested by the prospect.
5. Note that confidentiality is an absolute requirement. A breach of confidentiality will likely damage your trust and relationship with the prospect and may cost you the project.
6. Keep the negotiating team small during the negotiating stage. Embrace and recognize the larger “team” for the public announcement. Remember, once the project is public it is assumed that it will be “won.” One of the most difficult economic development tasks is to UN-ANNOUNCE a project and explain to the public why it was lost.
7. Never commit statutory or non-statutory incentives until you are sure the project is securely funded. Beware of giving away land, easements, options, or other items of value that an underfunded prospect can then use to secure a loan to finance his business. Consider a reversion clause in any conveyance so property can be recovered if the project is not constructed as agreed. Always adopt restrictive covenants in an industrial

park that will limit unsightly storage, inadequate parking, smells, smoke, or other conditions that will decrease overall property value. Require setback lines for building construction and landscape maintenance.

THE PROTOCOL: WHO DOES WHAT AND WHEN?

Eventually, a project must find its home in a community and on a specific site. Consequently, those who control the site and the incentives must be involved. A prospect or project is almost always generated by a single person who makes the initial contact. It may come from almost anyone, including; a marketing team member, an unrelated individual, existing industry reference, or a prospect call. A best practice of economic development protocol is: whoever generates the project has control until yielded to another. Ultimately, every project requires a project manager or lead. This project manager may be community-, regional- or state-based. This arrangement is completely dependent on how the development structure is organized, the level of sophistication in the local community, and what works best in the community, region, and state.

Soon after the prospect lead has been generated and initial contact made, a permanent lead person should be established. This person will be recognized by all and will serve as a switching point for the entire project throughout the recruiting phase. Ideally most, if not all, information will be disseminated through this person to the development team. A single point of contact will articulate and focus the recruiting effort and ensure that both the prospect and the development team receive clear, consistent information. After determining what generally needs to be done to compete for the project, identify the allies that will be required and what their role will be. Begin the process of alerting them to commitments that you expect to need. Next, develop a preliminary proposal or answer a questionnaire based on directions from the prospect (either following an initial prospect visit or after answering a questionnaire).

Keep in mind that many recruiting efforts take months to conclude as sites are eliminated or incentives negotiated. As the project progresses, the team may be called for guidance many times. Incentives may be renegotiated, funding sought and secured, and training arranged, etc., but if the project manager remains in control and the economic development team remains committed, the project will advance as far as possible, hopefully to a successful announcement and conclusion.

Any public announcement should recognize all those who played a part in the project no matter how small. By recognizing all contributors, one spreads ownership of the project throughout the community and builds support for future projects. To summarize:

1. After initial contact, decide on a project manager or lead.

2. If the “initial lead” is a questionnaire rather than a personal visit or call, answer the questions clearly and concisely and reply by the given deadline. Send no “extra or extraneous information,” If you need help with the questions:
 - a. Convene the economic development team.
 - b. Identify the “ED allies” who will contribute to the project.
 - c. Identify incentives necessary to compete for the project.
3. Notify economic development “allies” who can assist with the project what their role is likely to be.
4. Develop a “bullet point proposal” (Exhibit 1) listing the responsibilities of the prospect along with the community’s commitments. Either discuss the document with the prospect or send it to him for review. (If the initial contact was a questionnaire and you have sent the answers to the prospect, then you must wait for it to be evaluated and be re-contacted by the prospect before the project is able to proceed).
5. If further negotiations will begin, work closely with the team to commit any further non-statutory incentives required. It is often helpful to create a spreadsheet that lists the assets the prospect will create (including: jobs, payroll, and estimated taxes generated) in the community versus the incentives committed. Many large projects or projects requiring sizable incentives may require a formal “cost /benefit” analysis. This service is available from a variety of sources including the state development office, local colleges, specialized software, or consultants (as discussed on [page 14](#), Assessing ROI).

UNDERSTANDING INCENTIVES

Non-statutory Incentives can be used for almost anything required to “close the project”. Commonly they are used for:

1. **Land and buildings:** Incentives range from financing to outright donation to discounted sale or lease of real property. Many communities have constructed “speculative buildings” to help market themselves. These facilities are often discounted for sale or leased at subsidized rates to induce industrial location.
2. **Financing of the project:** A few prospects may request financing, or at least partial or gap financing, for their project. Often, state loans, Small Business Administration loans, U.S. Department of Agriculture Rural Development loans, U.S. Economic Development loans or other federal loan/grant subsidized programs may be employed. Other options include state or regional revolving loan programs. Direct cash from communities or states is sometimes used to buy or build a facility and “lease it back” to a prospect. Using cash to finance a project is usually a last resort and a poor choice if the prospect has a questionable financial history. This option should be used judiciously
3. **Infrastructure improvements.** This type incentive is very common and

- may include access roads, water, sewer, gas, rail, site preparation, drainage, etc. State programs are normally available to defer some of these costs, but many require a match from the community. Cities and parishes are sometimes able to offer site preparation, roads, or other infrastructure improvements.
4. **Training:** Training incentives have become more prominent as new and higher paying jobs demand a higher skilled employee. States and community colleges normally offer established programs for training new or expanding industry. Rarely are the local communities asked directly for training assistance. However, unique circumstances may dictate local training assistance, such as unusual skill requirements, special educational/training relationships, courses from local schools, or travel for specialized training on machinery or equipment located out of state or overseas.
 5. **Other:** Moving expenses, employee relocation, club memberships, advertising for employees, special surveys, or temporary office space are all non- statutory incentives used to close the deal. Truly these incentives are limited only by the imagination of the community, the prospect, and the parameters of the project.

There are no absolute rules as to when and to what degree to use non-statutory incentives. The use of incentives to close a project is the true “art of the deal.” Their use varies widely with each project. They generally are not effective to “buy” a project, but rather to give a community a competitive advantage or overcome a weakness. A good rule is to negotiate the absolute minimum incentives possible. The bottom line rule is: A community should be able to “walk away” from a project that costs more than it benefits the community.

FUNDING INCENTIVES

States and communities have been very resourceful funding incentives. Public methods include:

- Cash allocations from a “closing fund”
- Earmarking of sales or property tax
- General obligation bonds
- Designation of other special taxes
- Fees for economic development

Communities that support utility boards (particularly electric or natural gas sales) sometimes use those as funding sources for incentives. Other public options include public improvement districts (PIDs) whereby all new property taxes generated by increased property value is designated to fund incentives used for the project or special taxing districts where added sales taxes are used to finance projects (these are common with retail prospects). Several states have authorized cooperative bond issues enabling multiple cities and counties to jointly participate in raising funds for economic development projects.

Private sources include corporate fund-raising drives or the designation of a portion of economic development funds for “enterprise funding.” Special incentive accounts used to “close the deal” are common. Private utilities, regional economic development, and other allies sometime cooperate to provide special incentive funding. Public/private funding can be used as incentives. A common example is funding for a facility or speculative building that involves local banks, utilities, and a city, county, or parish.

ASSESSING RETURN ON INVESTMENT (ROI)

Before making and investing in a new venture, businesses evaluate the effect that the investment will have on their bottom line. It is a good practice for economic development projects to require incentives be similarly evaluated. Conducting a cost/benefit analysis will offer some clarity on what the return on incentives is expected to be in context with the total project. Such an analysis will examine the total costs of the project to the community and state and compare it to the total benefit offered by the prospect.

There are many options; each offer varying degrees of precision. A simple analysis looks at the total value of incentives offered compared to the payroll, taxes, and construction generated by the prospect and its effect on the local and state economy over a specified period of time. A reasonably educated person can make some quick calculations and conduct a crude evaluation using the criteria listed above. A more specific analysis will require a more sophisticated method not usually done without some assistance, which can come from:

- A local college
 - Most four- year institutions and some community colleges have economics or math departments capable of conducting ROI or cost /benefit studies. Colleges offer independent verification and their conclusions are usually unconditionally accepted. (Exhibit 2)
- Specialized software and web page access.
 - Commercially available economic development software offers a template that the developer can complete to calculate the ROI or cost/benefit. Examples include:
 - IMPLAN www.implan.com
 - Regional Economic Models, Inc. (REMI) www.remi.com
 - Regional Input-Output Modeling System (RIMS II) <http://www.bea.gov/region/rims/>
 - In addition, the U.S. Federal Reserve System offers a system known as FedFIT (<http://www.dallasfed.org/sanantonio/news/fedfit.cfm>) that can be accessed from its website. It's free, easy-to-use software for estimating the fiscal impact of an economic development project. It provides a framework for identifying the general costs and benefits

of proposed projects, and it can aid decision making by providing information on the extent of support a community or region might be able to afford when looking at development possibilities. FedFIT is intended for community and economic development professionals, primarily in small and midsize communities. It is offered by each of the United State's twelve Federal Reserve Systems and tailored to be region specific.

WHAT YOU SHOULD EXPECT FROM THE COMPANY

A company and a community need to be a good match and complement each other. Both should expect honesty and timely responses during the recruiting process. It's important to know the company you are recruiting. Its financial condition, how it treats its employees, its history in other communities, and its long-range plans are all relevant issues that should be explored before incentives are committed. A company reluctant to reveal these facts should be considered suspect. Large companies that are publicly traded are easier to research online, but smaller companies must be willing to share this information. Recruiting a prospect is like proposing marriage; it's important to know your partner! Remember, once the prospect locates it becomes an existing industry and a permanent partner in your community. It's likely that the relationship that is established during the recruiting phase will be carried over permanently by the new industry.

NEGOTIATING INCENTIVES: A CASE STUDY

In April 2005, a state development office project manager called to arrange an appointment with a manufacturing prospect that was "interested" in several cities in Southern Alabama that had a suitable 30,000- to 50,000-square-foot building. The unnamed prospect agreed to meet at the building. The local developer and a state project manager met three company representatives: a real estate manager, operations director, and personnel manager. The company presented a brief outline of the project and answered specific questions on projected new jobs created, wages, and company history. The building was inspected and general information on statutory incentives offered by the state was given to company officials by the state representative.

Six months later (after federal energy legislation was passed), the company scheduled a second visit, this one by its president, who flew into the local airport. The local developer was designated as the community lead and invited two other community officials – the mayor and the electric utility manager -- to participate in the meeting. During this visit, the company requested a formal proposal from the community that included all incentives to be offered and specifics for the purchase of the city-owned speculative "shell" building. Presentations also were made by the state's training agency and the state finance department concerning available labor, training, taxes, and abatements.

Within three days a proposal that included all local and state incentives in bullet-point format was e-mailed to the company. After three weeks, the company countered and asked that the city provide a paved parking lot and some secure fencing around the facility. The city prepared a lease, whereby the company would lease-purchase the facility at the city's cost amortized over a 20-year period. The company retained the option to purchase the building after three years by retiring the outstanding balance of the lease. The city negotiated a right to cancel the lease within three years if 100 new jobs were not created. The company agreed, at its expense, to complete the interior construction for office and production space.

Agreement was reached and an announcement was scheduled at the building the following month. Over 300 local citizens and company officials attended the announcement. All those who contributed or participated in the project were recognized. The entire project took approximately nine months to complete and resulted in a successful location. The unreimbursed costs to the community totaled approximately \$250,000 and included parking and fencing. The cost to the state included start-up training of \$300,000 and property tax abatements of approximately \$40,000 (\$4,000 per year for 10 years). Total investment by the company totaled \$1.5 million (not including the building lease-purchase agreement).

Note: The company, which manufactured large fiberglass bodies (Nacelles) for wind-driven electric generators, employed 156 in Opp, Alabama, as of its three-year anniversary.

EXHIBIT 1: PROPOSAL FOR PROSPECT

September 19, 2006

Mr. XXX
President
XXX LLC
XXX Dr.
XYZ AL 000000

Dear XXX:

I have enclosed a proposal for the location of your manufacturing facility in XYZ, Alabama. This proposal supercedes any previous proposals, is the product of state and local cooperation, and is based on the following assumptions:

1. XXX LLC will occupy and lease a facility at the XYZ Industrial Park.
2. The number of full-time employees will reach at least 300 by December 31, 2007, and 500 by December 31, 2010.
3. XXX LLC agrees to invest at least \$1,000,000 (building and equipment).
4. The average wage of all employees will be between \$10 and \$12 per hour including fringe benefits.

Due to the time-sensitive nature of the project, the number of employees and their compensation, we have included a proposal that maximizes incentives to reduce the initial operating costs of the business over the short and long term. Consequently, this \$3,084,000 + incentive package is designed to allow the company to begin operation with minimal costs and to carry forward benefits for 20 years.

Summarized elements of the proposal:

1. *The City/Industrial Board will construct and lease to XYZ a 60,000-square-foot facility in the XYZ Industrial Park. Financing for this construction will be based upon the credit of XXX LLC and secured by and expenses paid by XXX LLC.*
2. *Property taxes will be abated for 10 years, valued at \$134,400. (This is based on a \$2,100,000 building, land, and equipment investment with taxes calculated at \$13,440 per year for 10 years. School taxes in the amount of \$5,880 per year cannot be abated.) www.xxx.state.xx.us*
3. *State will extend a corporate tax credit of 5% per year on the costs of the building, land, and machinery for 20 years valued at \$2,000,000 (estimated). www.xxx.state.xx.us*
4. *Sales tax will be abated on purchase of equipment and construction materials estimated to be \$80,000 (based on 8 percent of \$1,000,000).*

- www.xxx.state.xx.us
5. *Employee training* will be provided by XYZ Industrial Development Training (AIDT) in the amount estimated to be \$430,000.
 6. Construction incentive for a new building listed below (valued at \$440,000):
 - 60,000 sq. ft. to your specifications (contingent upon a lease based on actual cost of construction and secured by the building and XYZ credit)
 - All utilities to building (\$120,000).
 - 10 acres (\$100,000). In addition, the City will provide up to 2 additional acres at a price of \$10,000 per acre.
 - Road access to site (\$200,000).
 - The City will provide the Phase One environmental study on the proposed site (\$20,000).
 - The City will work with XXX LLC to secure the lowest interest rate possible with local banks based upon the building and site improvements as collateral and XXX LLC's credit.
 - The City will construct the building and site improvements (the City will seek County assistance as available to help defray costs) and negotiate with local banks to backload the principal and interest payment to the end of a 20-year lease so the first year will be without a lease payment. Lease payment to be based on cost of building, site prep, and parking lot.
 7. *Other Considerations:*
 - *XYZ is a Right-To-Work State.* For example, four large international assembly operations have moved into XYZ within the last ten years: Mercedes, Honda, Toyota, and Hyundai. All of the auto companies continue to support a union-free workplace. Locally, in XYZ County, there are no manufacturing facilities that are organized.
 - *HUBZone designation from SBA.* The SBA grants HUBZone qualification to businesses that locate in XYZ County. This designation gives preference to businesses that seek contracts with the federal government. www.sba.gov
 - XYZ County is eligible to participate, and has participated in, the *USDA Rural Development B&I Loan/Guarantee program* that can be used to finance capital projects
 - The XYZ Electric Cooperative, The Southeast XYZ Regional Planning and Development Commission and the State of XYZ all offer financing for this project.
 - There are no private schools in XYZ County. There are four public school systems in South Alabama that consistently score in the top 25% of state Stanford Achievement Tests. Three of those school systems are in XYZ County (XXX, XXX and XXX County systems).

There is also the XYZ Community College which offers a variety of educational and vocational opportunities.

The State of XYZ, XYZ County and the City of XYZ are committed to this project and the incentives listed above. If you have other concerns, let me know and I will address them as soon as possible. Of course, this proposal is contingent upon final approval by all entities involved, the parties reaching both a formal agreement in principle and a final agreement. Everyone enjoyed meeting with you in XYZ. We feel that this proposal will enable you to locate in XYZ quickly with as few start-up costs as possible. The transition to a new building will also be smooth and, with the deferral of rent for one year, will enable you to offset the costs of relocating to the new facility. We are prepared to work with you to make this happen within your time schedules.

Best regards,

EXHIBIT 2: SAMPLE COST/BENEFIT ANALYSIS

INTRODUCTION

EJM Aerospace Services will provide maintenance and repair services for aircraft of the U. S. Air Force and commercial air service firms in a new facility in Andalusia, Alabama, beginning in April 2006. Covington County and the cities of Andalusia and Opp have provided location incentives to EJM Aerospace Services in order to attract the firm to the area.

The Center for Business and Economic Services, Sorrell College of Business, Troy University, has analyzed the projected economic impact of EJM Aerospace Services on Covington County and Alabama. This analysis included projected impact on both sales and property taxes for the City of Andalusia, Covington County, and the State of Alabama. The projected property taxes were for those facilities to be owned by EJM. The ratios of the present values of projected sales and property tax collections to the present values of location incentives provided to EJM Aerospace Services were calculated. This study was carried out for the City of Andalusia.

METHODOLOGY

This study has analyzed the potential economic impact of construction and operations of EJM Aerospace Services on the City of Andalusia, Covington County, and Alabama. The economic impact was projected through 2016 and through 2021 and discounted to obtain the present value of the economic impact on local and state sales and property taxes. Present values of projected sales and property tax collections were then summed. These sums were compared to present values of tax abatements and infrastructure incentives granted to EJM Aerospace Services. The discount rate used to obtain present values for both projected tax collections and projected incentives was 5 percent.

All projected wages and salaries and other dollar denominated data are stated in current (2005) dollars.

A report on the estimated potential economic impact of plant construction and operations was prepared for EJM Aerospace Services using the IMPLAN system of input-output modeling and the most recently available (2001) county- and state-level industry data. These data, for up to 509 economic sectors of each geographic area, were prepared by the Minnesota IMPLAN Group, Inc. This system, based on methods used to acquire and estimate economic sector data at the county and state levels, was originally developed by the University of Minnesota working with the U. S. Forest Service. The economic sector data were based primarily, but not solely, on data provided by the U. S. Department of Commerce and other government agencies at the national, state, and local

levels. The IMPLAN system has been widely used by federal and state governments as well as private consultants and other firms. Study models were customized, by the author, to fit estimated and projected employment and employee compensation for this project and the study areas.

STUDY AREA POPULATIONS AND INCOMES

The U. S. Census Bureau estimated that the population of Covington County, Alabama, was approximately 36,930 in July 2003 and that the population of Andalusia, the county seat, was 8,630. Covington County was ranked 33rd in population in Alabama. The Alabama population was estimated at approximately 4,503,000 in July 2003.

The U. S. Bureau of Economic Analysis estimated the per capita personal income of Covington County to be \$23,656 in 2003, which was ranked 22nd among Alabama county per capita personal incomes. That per capita personal income was 89 percent of the average Alabama per capita personal income of \$26,505. The Alabama per capita personal income was 84 percent of the average U. S. per capita personal income and was ranked 42nd in the U. S. in 2003.

The Alabama Department of Industrial Relations estimated the Covington County labor force to be 16,860 in August 2005. The county unemployment rate was estimated at 4.1 percent.

PROJECTED ECONOMIC IMPACT OF EJM AEROSPACE SERVICES IN COVINGTON COUNTY AND ALABAMA

Introduction

EJM Aerospace Services expects to begin operating in 2006 and increase its employment in Andalusia from 100 in 2006 to 300 by sometime in 2008. Impact of this new enterprise on Andalusia and Covington County will include its effect on other local businesses selling to EJM Aerospace as well as those businesses selling to their employees.

Local governments have provided location incentives to EJM Aerospace, including cash for infrastructure improvements and abatement of non-education property taxes for a period of ten years beginning in 2007-08.

Economic Impact of Construction on Covington County

A number of new construction projects are linked to the location of EJM Aerospace Services in Andalusia. These include construction of a large plant building (a hangar), construction of additional runway space, and installation of additional landing systems.

Construction of the plant building will be finished by the first of April 2006. Total

cost of construction of this hangar is estimated at \$5,117,000.

Associated with the construction of the hangar is \$930,000 of water and sewer construction.

Runway and taxiway construction will take place over three years: 2005, 2007, and 2008.

Total runway and taxiway construction is estimated to cost almost \$13,150,000.

An instrument landing system also will be installed at the airport at a cost of \$1,625,000. For purposes of this study, 25 percent of that total cost was estimated to be construction (\$406,250).

Projected direct economic impact of this construction is shown in Table 1 below.

Table 1. Projected direct costs, employment, and wages and salaries for construction of facilities for EJM Aerospace Services and expansion of the Andalusia airport by year.

Type of Construction	Year	Cost	Employment	Wages and salaries
Hangar	2005-6	\$5,117,000	73	\$1,322,000
Water and sewer	2005	\$930,000	10	\$175,000
Runway, taxiway	2005	\$3,386,400	38	\$697,000
Landing system	2007	\$406,250	7	\$134,000
Runway, taxiway	2007	\$8,703,200	98	\$1,796,000
Runway, taxiway	2008	\$1,050,000	13	\$239,000
Totals		\$19,592,850	239	\$4,363,000

For purposes of this report, the construction impacts of the EJM hangar were divided between 2005 (80%) and 2006 (20%).

Tables 2 and 3 present total impact of the construction on selected economic data by year.

Table 2. Projected selected total economic impact of construction of facilities for EJM Aerospace Services and for expansion of the Andalusia airport in Covington County by year for 2005-08.

Year	Employment	Wages and	Small-business
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		salaries	proprietors' incomes
2005	160	\$2,861,000	\$152,000
2006	21	\$378,000	\$18,000
2007	164	\$2,929,000	\$165,000
2008	20	\$365,000	\$21,000

Table 3. Projected total impact of construction of facilities for EJM Aerospace Services and for expansion of the Andalusia airport on retail sales and sales taxes in Andalusia and Covington County by year for 2005-08.

Year	Andalusia retail sales	Andalusia sales taxes	Countywide retail sales	Countywide sales taxes
2005	\$1,349,000	\$20,000	\$2,176,000	\$50,000
2006	\$168,000	\$3,000	\$271,000	\$6,000
2007	\$1,462,000	\$22,000	\$2,359,000	\$55,000
2008	\$183,000	\$3,000	\$296,000	\$7,000

Total Economic Impact of AIDT Training in Covington County

Approximately \$5,572,000 will be provided over a 3-year period for training of EJM employees through Alabama Industrial Development Training. Projected economic impact of this training was estimated by year assuming that spending and training activity would be spread about equally over each of the years 2005, 2006, and 2007. Projected annual total impact on Covington County includes 33 jobs, \$989,000 in wages and salaries, \$29,000 in small-business proprietors' incomes, increased retail sales in Andalusia of \$287,000, increased city sales taxes of \$4,000, increased retail sales countywide of \$463,000, and increased county sales taxes of \$10,000.

Direct Economic Impact of Operations on Covington County

In a county such as Covington, the direct and induced impact of operations will likely be the most important economic impact simply because most purchases of aircraft parts and service materials by EJM Aerospace will necessarily be outside the county. Economic impact of EJM Aerospace will, however, be significant to the local economy.

Direct economic impact:

Operations by EJM Aerospace Services are projected to start on or around April 1, 2006. EJM Aerospace projects its employment to increase to 200 approximately a year later and to increase to 300 sometime in 2008.

EJM Aerospace Services projects that its employment and wages and salaries

will be as follows over the years shown below.

Table 4. Projected employment with estimated annual wages and salaries by year, EJM Aerospace Services, Andalusia, Alabama.

Year	Employment	Annual wages and salaries
2006-7	100	\$3,744,000
2007-8	200	\$7,488,000
2008-9	300	\$11,232,000

Further analysis presented in this report assumes that EJM Aerospace will maintain an employment of 300 for as many as 12 years beyond 2008-09.

Three scenarios, based on EJM employee residency, were used in preparing this report. The first scenario projects that 50 percent of EJM employees will choose to live in Covington County; the second projects that 65 percent of EJM employees will choose to live in Covington County; and the third projects that 80 percent of EJM employees will choose to live in Covington County. Each scenario is projected to have a different impact on consumer spending and retail sales in Covington County and the city of Andalusia. The same residency scenarios were used for the state of Alabama since the county is on the border with Florida.

Total Economic Impact on Covington County

Indirect economic impact:

Indirect economic impact will result from local purchases of goods and services by EJM Aerospace Services and its suppliers. Most purchases of aircraft parts and similar goods, in dollar terms, will likely occur outside the local area and even the state. But EJM will purchase some goods and services in Covington County. These local purchases will generate jobs and incomes. Table 5 presents projected indirect economic impact on the Covington County economy.

Table 5. Projected indirect economic impact of operations of EJM Aerospace Services on the Covington County, Alabama, economy by year for the first three years.

Year	Employment	Wages and salaries	Small-business proprietors' incomes
2006-7	18	\$409,000	\$40,000
2007-8	36	\$818,000	\$80,000

2008-9	54	\$1,228,000	\$121,000
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This additional employment likely would consist of both additional hours worked by currently employed workers and additional jobs in Covington County.

Small businesses affected would likely include those selling services and those selling material goods in Covington County. These projections assume that the current mix of businesses continues to operate in the county. Addition of other types of EJM suppliers moving into Covington County to supply EJM would likely increase the impact beyond what is shown here.

Induced economic impact:

Induced economic impact will result from employees of EJM Aerospace Services and its local suppliers buying consumer goods and services. Dollar amounts of these purchases will likely depend on the number of EJM employees who choose to live in Covington County and Alabama. Three scenarios were used to project the induced economic impact of EJM Aerospace Services: (1) 50 percent of EJM employees reside in Covington County; (2) 65 percent of EJM employees reside in the county; and (3) 80 percent of EJM employees reside in the county. Results are presented below by residency scenario and year for the first three years of EJM operations.

Table 6. Projected induced economic impact of operations of EJM Aerospace Services on the Covington County, Alabama, economy by residency scenario for each of the first three years.

Scenario and Year	Employment	Wages and salaries	Small-business proprietors' incomes
50% residency			
2006-7	27	\$450,000	\$72,000
2007-8	54	\$899,000	\$145,000
2008-9	81	\$1,349,000	\$217,000
65% residency			
2006-7	32	\$529,000	\$85,000
2007-8	64	\$1,059,000	\$171,000
2008-9	96	\$1,588,000	\$256,000
80% residency			
2006-7	37	\$616,000	\$99,000

2007-8	74	\$1,233,00	\$199,000
2008-9	111	\$1,849,000	\$298,000

Total economic impact:

Total economic impact includes sums of direct, indirect, and induced economic impacts on the economy of an area. Tables 7 and 8 present these total economic impacts on employment, wages and salaries, small-business proprietors' incomes, retail sales, and sales taxes on retail sales from stores.

Table 7. Projected total economic impact of operations of EJM Aerospace Services on the Covington County, Alabama, economy by residency scenario for each of the first three years.

Scenario and Year	Employment	Wages and salaries	Small-business proprietors' incomes
50% residency			
2006-7	145	\$4,603,000	\$112,000
2007-8	290	\$9,205,000	\$225,000
2008-9	435	\$13,809,000	\$338,000
65% residency			
2006-7	150	\$4,682,000	\$125,000
2007-8	300	\$9,365,000	\$251,000
2008-9	450	\$14,048,000	\$377,000
80% residency			
2006-7	155	\$4,769,000	\$139,000
2007-8	310	\$9,539,000	\$279,000
2008-9	465	\$14,309,000	\$419,000

Table 8 presents projected retail sales in stores and related sales taxes based on the residency scenarios. Projected sales and use tax collections in Andalusia were calculated by multiplying projected retail sales in stores in Covington County by 62 percent, the recent percentage of Covington County sales and use taxes collected in Andalusia. Andalusia sales and use tax rates were then applied to the resulting projected sales in city retail stores.

Table 8. Projected total impact of operations of EJM Aerospace Services on selected measures of the Covington County, Alabama, economy by residency scenario for each of the first three years.

Scenario and Year	Andalusia retail sales	Andalusia sales taxes	Countywide retail sales	Countrywide sales taxes
50% residency				
2006-7	\$943,000	\$14,000	\$1,521,000	\$34,000
2007-8	\$1,886,000	\$28,000	\$3,042,000	\$69,000
2008-9	\$2,829,000	\$42,000	\$4,563,000	\$103,000
65% residency				
2006-7	\$1,101,000	\$16,000	\$1,776,000	\$40,000
2007-8	\$2,202,000	\$33,000	\$3,552,000	\$80,000
2008-9	\$3,303,000	\$49,000	\$5,328,000	\$120,000
80% residency				
2006-7	\$1,274,000	\$19,000	\$2,054,000	\$46,000
2007-8	\$2,547,000	\$38,000	\$4,108,000	\$93,000
2008-9	\$3,821,000	\$56,000	\$6,162,000	\$139,000

Economic Impact On Alabama:

As for Covington County, the economic impact of the location of EJM Aerospace Services in Alabama is projected to include impact from construction of facilities for EJM Aerospace and for the Andalusia airport, from AIDT training of EJM employees, and from operations of EJM Aerospace Services.

Economic Impact Of Construction On Alabama:

Projected direct economic impact of construction on Alabama is the same as those for Covington County as found in Table 1.

Tables 9 and 10 present projected selected total economic impact of the construction on Alabama.

Table 9. Projected selected total economic impact of construction of facilities for EJM Aerospace Services and for expansion of the Adalusia aierport on Alabama by year for 2005-8.

Year	Employment	Wages and salaries	Small-business proprietors' incomes
2005	170	\$3,686,000	\$266,000

2006	23	\$480,000	\$31,000
2007	172	\$3,828,000	\$302,000
2008	22	\$479,000	\$38,000

Table 10. Projected employment with estimated annual wages and salaries by year, EJM Aerospace Services, Andalusia, Alabama.

Year	Alabama retail sales in stores	Alabama retail sales taxes on store sales
2005	\$2,700,000	\$93,000
2006	\$336,000	\$12,000
2007	\$2,929,000	\$102,000
2008	\$368,000	\$13,000

Total Economic Impact Of AIDT Training On Alabama:

Projected economic impact of the AIDT training on Alabama is based on assuming that the training will be spread about equally over 2005, 2006, and 2007. Projected annual total impact on Alabama will include 36 jobs, \$1,101,000 in wages and salaries, \$50,000 in small-business proprietors' incomes, increased retail sales statewide of \$530,000, and increased state sales taxes of \$18,000.

Projected economic impact of EJM operations on Alabama:

The following tables present projected indirect, induced, and total impacts of operations of EJM Aerospace Services on the Alabama economy.

Indirect economic impact of operations:

Table 11 presents projected selected indirect economic impact on the Alabama economy.

Table 11. Projected indirect economic impact of operations of EJM Aerospace Services on the Alabama economy, by year for the first three years.

Year	Employment	Wages and salaries	Small-business proprietors' incomes
2006-7	22	\$676,000	\$68,000
2007-8	45	\$1,353,000	\$136,000
2008-9	67	\$2,029,000	\$204,000

This additional employment would likely consist of both extra hours worked by currently employed workers and of extra jobs in Alabama.

Small businesses affected would likely include those selling services and those selling material goods in Alabama. These projections assume that approximately the same mix of types of businesses continues to operate in Alabama. Addition of other types of EJM suppliers moving into Alabama to supply EJM would increase this impact.

Induced economic impact of operations:

Induced economic impact will result from purchases of consumer goods and services by employees of EJM Aerospace Services and its local suppliers. Dollar amounts of these purchases will likely depend on the number of EJM employees who choose to live in Alabama.

Three scenarios were used to project induced economic impacts of EJM Aerospace Services: (1) 50 percent of EJM employees reside in Alabama; (2) 65 percent of EJM employees reside in the state; and (3) 80 percent of EJM employees reside in the state. Results are presented below by residency scenario and year for the first three years of EJM operations.

Table 12. Projected induced economic impact of operations of EJM Aerospace Services on the Alabama economy, by residency scenario for each of the first three years.

Scenario and Year	Employment	Wages and salaries	Small-business proprietor's incomes
50% residency			
2006-7	34	\$694,000	\$124,000
2007-8	69	\$1,389,000	\$247,000
2008-9	103	\$2,083,000	\$371,000
65% residency			
2006-7	41	\$818,000	\$146,000
2007-8	81	\$1,635,000	\$291,000
2008-9	122	\$2,453,000	\$437,000
80% residency			
2006-7	47	\$952,000	\$170,000
2007-8	94	\$1,904,000	\$170,000
2008-9	142	\$2,856,000	\$509,000

Total economic impact:

Total economic impact includes sums of direct, indirect, and induced economic impacts on the economy of an area. Larger areas and economies will have larger impacts from a given development since the larger economies usually offer more potential suppliers for the new firm and more variety in goods and services for consumers.

Tables 13 and 14 present projected total economic impact of EJM Aerospace Services' new plant in Andalusia on employment, wages and salaries, small-business proprietors' incomes, retail sales, and state sales taxes on retail sales from stores in Alabama.

Table 13. Projected total economic impact of operations of EJM Aerospace Services on the Alabama economy, by residency scenario for each of the first three years.

Scenario and Year	Employment	Wages and salaries	Small-business proprietor's incomes
50% residency			
2006-7	156	\$5,114,000	\$192,000
2007-8	314	\$10,230,000	\$383,000
2008-9	470	\$15,344,000	\$575,000
65% residency			
2006-7	150	\$5,238,000	\$214,000
2007-8	300	\$10,476,000	\$427,000
2008-9	450	\$15,714,000	\$641,000
80% residency			
2006-7	155	\$5,372,000	\$238,000
2007-8	310	\$10,745,000	\$475,000
2008-9	465	\$16,117,000	\$713,000

Table 14 presents projected retail sales and sales taxes based on the above residency scenarios for Alabama.

Table 14. Projected total economic impact of operations of EJM Aerospace Services on selected measures of the Alabama economy, by residency scenario for each of the first three years.

Scenario and Year	Alabama statewide retails sales in stores	Alabama state sales taxes on retail sales in stores
50% residency		
2006-7	\$1,810,000	\$63,000
2007-8	\$3,610,000	\$125,000
2008-9	\$5,420,000	\$187,000
65% residency		
2006-7	\$2,110,000	\$73,000
2007-8	\$4,220,000	\$145,000
2008-9	\$6,320,000	\$220,000
80% residency		
2006-7	\$2,440,000	\$84,000
2007-8	\$4,880,000	\$168,000
2008-9	\$7,310,000	\$252,000

PROJECTED LOCATION INCENTIVES GRANTED TO, AND IMPACTS ON TAX COLLECTIONS RESULTING FROM, EJM AEROSPACE SERVICES INTRODUCTION

Covington County, the cities of Andalusia and Opp, and the State of Alabama granted EJM Aerospace Services certain incentives to encourage its location in Andalusia. The following analysis outlines those location incentives and compares them, on a present value basis, to increases in tax revenues projected to result from construction and operation of EJM Aerospace Services. These comparisons were based on three scenarios related to the percentage of EJM employees who would live in Covington County and Alabama.

Discount rate used

The discount rate used for this project, based on current long-term interest rates being paid by state and local governments on industrial bonds, was 5 percent. This rate was used to discount both projected values of tax abatements to be extended to EJM Aerospace Services and projected values of sales and property tax revenues projected to result from economic impacts of EJM Aerospace Services.

Location incentives

In order to encourage location of EJM Aerospace Services in Andalusia, the following incentives were offered EJM by the state, county, and cities of Andalusia and Opp.

1. A cash payment of \$530,000 to cover infrastructure improvements at the

- proposed location of the EJM plant. Of this amount, \$200,000 was to be provided by Andalusia with the remaining \$330,000 to be paid by Covington County and the City of Opp.
2. Abatement of state and local property taxes, excepting those for education, for a period of 10 years after operations of the EJM Aerospace Services plant begin in April 2006. Projected amounts of these property tax abatements follow. Property tax abatements would actually begin in fall 2007 since property taxes on EJM plant and equipment would not be due until 2007.

Property tax assessments:

The value of real estate (land and buildings) which EJM Aerospace Services will own and use is estimated at \$6,235,000. The assessed value, on which property taxes will be levied, would be 20 percent of that value, or \$1,247,000.

The estimated value of machinery and equipment to be operated by EJM Aerospace Services is \$1,500,000. The assessed value on which property taxes will be levied would be 20 percent of that value, or \$300,000.

Property tax millage rates:

Non-education property tax millage rates are as follows by level of government: City of Andalusia – 15 mills; Covington County – 10.50 mills; and State of Alabama – 3.50 mills.

Education property tax millage rates are as follows by level of government: City of Andalusia – 3.0 mills; Covington County – 3.0 mills; and State of Alabama – 4.0 mills.

Projected property tax abatements:

Projected annual property tax abatements on the real estate are as follows by level of government: City of Andalusia - \$18,705; Covington County - \$13,094; State of Alabama - \$4,365. These abatements would begin in the fall of 2007 and end in the fall of 2016. This study assumes that the assessed value of the real estate will not change over the 10-year abatement period.

Projected property tax abatements in 2007 on the machinery and equipment are as follows by level of government: City of Andalusia - \$4,320; Covington County - \$3,024; State of Alabama - \$1,008. This study assumes that the assessed value of the machinery and equipment will decline gradually over time based on procedures outlined in the “Alabama Personal Property Appraisal Manual,” published by the Alabama Department of Revenue. Therefore, the value of the annual abatements also would gradually fall over time, assuming that the machinery and equipment were not replaced during the 10-year abatement period. The abatements would begin in the fall of 2007 and end in the fall of

2016. This is a very conservative assumption since it is likely that EJM Aerospace Services will purchase new machinery and equipment to replace worn and obsolete machinery and equipment over time.

Projected total undiscounted values of property taxes to be abated for EJM Aerospace Services and the present (discounted) values of those projected property tax abatements are presented below in Table 15. All present values are based on discounting future values back to 2005. The two discounting periods used, 2005 – 2016 and 2005 – 2021, were used to include the 10-year property tax abatement period (2007 – 2016) and a longer period extending five years beyond that tax abatement period.

Table 15. Projected total and discounted present values of property tax abatements on real estate and machinery and equipment of EJM Aerospace Services over the period 2005-2016.

Period of time and type of value	Level of government			
	City of Andalusia	Covington Country	State of Alabama	All
2005-2016				
Total Value	\$214,725	\$150,308	\$50,103	\$415,136
Present Value	\$159,030	\$111,321	\$37,107	\$307,458

Projected property tax collections

This study assumes that property tax revenue collections from EJM Aerospace real estate will increase by the abated amounts shown above after 2016, the end of the abatement period.

Projected annual property tax revenues for education purposes on the real estate are as follows by level of government in 2007 and thereafter: City of Andalusia -- \$3,741; Covington County - \$4,988; State of Alabama - \$3,741. This study assumes that EJM Aerospace Services will maintain the buildings and that the assessed value of real estate will not change in the future. After 2016, the last year of the abatements, total annual property tax revenues on the real estate are projected to be as follows: City of Andalusia - \$22,446; Covington County - \$18,082; State of Alabama - \$8,106.

Projected annual property tax revenues for education purposes on the machinery and equipment are as follows by level of government in 2007: City of Andalusia - \$864; Covington County - \$1,152; State of Alabama - \$864. These projected tax revenues are projected to decline over time as noted above. Once the 10-year abatement period ends in 2016, this study projects that property taxes on

machinery and equipment in 2017 will be as follows: City of Andalusia - \$1,134; Covington County - \$914; and State of Alabama - \$410. These amounts would continue to decline slowly over time.

It is reasonable to expect that EJM Aerospace Services will begin to replace machinery and equipment originally installed in Andalusia as it becomes worn and/or obsolete. However, this study made no effort to project any effects of such on property tax collections.

Projected total undiscounted values of property taxes to be collected from EJM Aerospace Services and the present (discounted) values of those projected property tax collections are presented below in Table 16 for two periods: 2005-2016 and 2005-2021.

Table 16. Projected total and discounted present values of property tax collections on real estate and machinery and equipment of EJM Aerospace Services over the period 2005-2016 and 2005-2021.

Period of time and type of value	Level of government			
	City of Andalusia	Covington Country	State of Alabama	All
2005-2016				
Total Value	\$42,945	\$57,260	\$42,945	\$143,150
Present Value	\$31,806	\$42,408	\$31,806	\$106,020
2005-2021				
Total Value	\$160,305	\$151,800	\$85,325	\$397,430
Present Value	\$91,235	\$90,282	\$53,267	\$234,784

These projected values will remain the same regardless of which of the three EJM employee residency scenarios is considered because only EJM Aerospace Services property was considered in setting up the property tax abatements and collections for the tables above and this study.

Present values of projected sales tax collections

The bulk of sales tax collections will be from sales of goods to employees of EJM Aerospace Services and to employees of its local suppliers. The three residency scenarios, based on different percentages of EJM employees living in Covington County and in Alabama, result in different projected amounts of retail sales in stores and sales tax collections in Covington County, Andalusia, and Alabama, as shown earlier in this report.

For each of the three EJM employee residency scenarios (50%, 65%, 80%), projected retail sales in stores in 2007 were projected for each year over the periods 2006- 2016 and 2006-2021 for each level of government. Then, taxes on those sales were projected for each year from 2006-2016 and from 2006-2021.

Table 17 presents projected present values of sales and use taxes on sales in retail stores in Andalusia, in Covington County, and in Alabama by time period used and by EJM employee residency scenario.

Table 17. Projected total and present values of sales taxes on retail sales in stores by level of government, by residency scenario, and by time period covered.

Scenario, time period and type of value	Level of government			
	City of Andalusia	Covington Country	State of Alabama	All
50% scenario				
2005-2016				
Total Value	\$409,500	\$1,004,250	\$1,824,250	\$3,238,000
Present Value	\$299,970	\$735,630	\$1,336,520	\$2,372,120
2005-2021				
Total Value	\$619,500	\$1,519,250	\$2,759,250	\$4,898,000
Present Value	\$406,290	\$996,360	\$1,809,883	\$3,212,533
65% scenario				
2005-2016				
Total Value	\$477,750	\$1,170,000	\$2,143,000	\$3,790,750
Present Value	\$349,950	\$857,070	\$1,569,480	\$2,776,500
2005-2021				
Total Value	\$722,750	\$1,770,000	\$3,243,000	\$5,735,750
Present Value	\$473,990	\$1,160,830	\$2,126,380	\$3,761,200
80% scenario				
2005-2016				
Total Value	\$547,000	\$1,355,250	\$2,457,000	\$4,359,250
Present Value	\$400,880	\$992,750	\$1,799,840	\$3,193,470
2005-2021				
Total Value	\$827,000	\$2,050,250	\$3,717,000	\$6,594,250
Present Value	\$542,630	\$1,344,610	\$2,437,740	\$4,324,980

Ratios of present values of tax collections to location incentives

Table 18 presents sums of present values of location incentives, sums of present values of impacted tax collections, and ratios of those sums, all by level of government, EJM employee residency scenario, and time period used. A ratio above 1.0 indicates that the present value of projected tax collections is above the present value of projected tax abatements and other incentives.

The portion of the \$330,000 for infrastructure improvements for EJM Aerospace Services to be paid by the City of Opp is included in the incentives paid by Covington County for purposes of this study.

Table 18. Projected total present values of impacted tax collections and of projected location incentives, with ratios of those values, by residency scenario, and by the time period, EJM Aerospace Service.

Scenario, time period and type of value	Level of government			
	City of Andalusia	Covington Country	State of Alabama	All
50% residency				
2005-2016				
Tax collections	\$392,470	\$921,360	\$1,631,360	\$2,889,270
Incentives	\$359,030	\$414,320	\$37,110	\$810,460
Ratio	1.009	2.22	43.96	3.56
2005-2021				
Tax collections	\$558,220	\$1,229,960	\$2,126,180	\$3,858,440
Incentives	\$359,030	\$414,320	\$37,110	\$810,460
Ratio	1.56	2.97	57.30	4.76
65% residency				
2005-2016				
Tax collections	\$442,450	\$1,042,790	\$1,864,329	\$3,293,640
Incentives	\$359,030	\$414,320	\$37,110	\$810,460
Ratio	1.23	2.52	50.24	4.06
2005-2021				
Tax collections	\$625,920	\$1,394,430	\$2,442,670	\$4,407,100
Incentives	\$359,030	\$414,320	\$37,110	\$810,460
Ratio	1.74	3.37	65.83	5.44
80% residency				

2005-2016				
Tax collections	\$493,370	\$1,178,480	\$2,094,670	\$3,710,610
Incentives	\$359,030	\$414,320	\$37,110	\$810,460
Ratio	1.37	2.84	56.45	4.58
2005-2021				
Tax collections	\$694,560	\$1,578,210	\$2,754,040	\$4,734,720
Incentives	\$359,030	\$414,320	\$37,110	\$810,460
Ratio	1.94	3.81	74.22	6.13

Note that the ratio of present values of projected tax collections to present values of projected location incentives is greater than 1.00 by 9 percent for even the 50 percent residency scenario and the City of Andalusia from 2005 through the 10-year term of the non-education property tax abatements (2005- 2016). When the term over which present values are determined is extended to 2005-2021, then the ratio is 56 percent above 1.00 even for the City of Andalusia in the 50 percent residency scenario. For Covington County and the State of Alabama, the ratio of benefits to location incentives is even greater regardless of which scenario is considered.

CONCLUSIONS AND IMPLICATIONS

The economic models used to evaluate economic impacts of EJM Aerospace Services were designed to be conservative in that the model assumed that most of the activities of the operations in Andalusia would be maintenance service and research and development with the remainder being aircraft engine and aircraft body manufacturing. In fact, the manufacturing component likely will generate more of the activity in the plant. Manufacturing will likely generate more impacts on both goods production and services than services and research and development both statewide and locally.

This conservative analysis indicates that Andalusia, Covington County, and the State of Alabama will all receive benefits in the form of property and sales taxes which are significantly larger than the location incentives granted to EJM Aerospace Services by these entities.

For the City of Andalusia and the 2005-2016 period, the ratios of present values of benefits to present values of location incentives range from 1.09 for the 50 percent residency scenario to 1.23 for the 65 percent residency scenario to 1.37 for the 80 percent scenario. For the City and the 2005- 2021 period, the ratios range from 1.56 for the 50 percent residency scenario to 1.74 for the 65 percent residency scenario to 1.94 for the 80 percent residency scenario.

For Covington County and the 2005- 2016 time period, the ratios of present values of benefits to present values of location incentives range from 2.22 for the 50 percent residency scenario to 2.52 for the 65 percent residency scenario to 2.84 for the 80 percent scenario. For the County and the 2005- 2021 time period, the ratios range from 2.97 for the 50 percent residency scenario to 3.37 for the 65 percent residency scenario to 3.81 for the 80 percent residency scenario.

For State of Alabama and the 2005- 2016 time period, the ratios of present values of benefits to present values of location incentives range from 43.96 for the 50 percent residency scenario to 50.24 for the 65 percent residency scenario to 56.45 for the 80 percent scenario. For the State and the 2005- 2021 time period, the ratios range from 57.30 for the 50 percent residency scenario to 65.83 for the 65 percent residency scenario to 74.22 for the 80 percent residency scenario.

None of these ratios adequately takes into account the fact that the Andalusia Airport will be upgraded significantly with additional runway, taxiway, and instrument landing facilities funded with a federal grant obtained in large part because of the location of EJM Aerospace Services at the airport. These added facilities should help attract more industrial firms to Andalusia and Covington County in the future.