Connecticut's State-Owned Assets Can Be Put to Better Use

Michael R. Press, President, SCOUT Economics

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Michael R. Press
Relevant Credentials

- 6 Years as Director of Economic Development Policy and Chief Economist in New York City
  - Authored Koch-era programs that led to the renaissance of downtown Brooklyn and the post 9-11 recovery in Manhattan; Zone Administrator of 4 Economic Development Zones
- 8 Years leading the national and international Economic Development Incentives Practices at Ernst & Young
- 10 Years as President of SCOUT Economics, a national site selection and government incentives advisor to private business, based in Connecticut

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CT Ranks in the Bottom Third of States as a Business Location

There are more than a dozen organizations that publish a Ranking of the States as a business location each year. They all agree that Connecticut leaves much to be desired.

I have chosen the one published by CNBC for us to consider today, but it is in no way atypical of the group in its methods or findings.

CT ranks 37th overall as a business location:

Workforce	16th
Infrastructure	47th
Cost of Doing Bus	46th
Economy	45th
Quality of Life	22nd
Tech Innovation	17th
Education	9th
Business Friendly	26th
Access to Capital	18th
Cost of Living	43rd

MA ranks 8th overall. If you're looking for reasons we lost GE to MA, they are on this page.

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Neighboring States Offer Higher Value Economic Development Incentives

SCOUT Economics estimates the Value of Economic Development incentives offered by state and local governments. For example:
The following result shows maximum available incentives for an office project providing 50 positions paying an average of $70,000 in total compensation, with related capital expenditures of $1 million.

NY	NJ	MA	VT	CT
$2,940,000	2,828,000	168,000	815,500	728,000

SCOUT Economics' Incentives Calculator is available on-line at www.scouteconomics.com/calculator .
Other scenarios can be run through the calculator which is available to the public free-of-charge.

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Incentives Case Study

Remington Firearms Production Realignment

Marlin Acquisition

- In 2008 Remington Arms acquired Marlin, and thus two of the most storied rifle manufacturers in the world were merged. In 2010, the production of the Marlin product lines, including the historic lever-action rifle (the favorite of Annie Oakley), was consolidated into Remington facilities in New York and Kentucky. The relocation of Marlin production presented an opportunity for a variety of cost-saving measures, including accessing government-funded grants and incentives.

Challenge

- Improve operating cost efficiencies and cash flow with government–funded incentives in the face of the worst state and local fiscal crisis in decades..

The Incentives Results

- **$18.5 million over 10 years**
- **Nearly 2X ROI** (cap ex = $9.8m)
- Two of the highest yielding incentives packages on a "new job" basis in the U.S. in 2011.
- Deep Discount electricity provided by the TVA (Kentucky plant) and Niagara Falls (New York plant).

	New Jobs	Incentives Secured	$/job over 10 years
KY	100	Wage Subsidy, Tax Credit, Sales Tax Refund, Property Tax Abatement, Capital Grant, Training Grant, electricity Discount	$ 62,000
NY	70	Capital Grants, Hydro-power allocation	$ 177,000

SCOUT Economics' Consulting Role

- Developed a strategic plan for a "managed competition" among host communities eager to offer incentives to grow Remington's local presence.
- Prepared and presented economic and fiscal impact analyses demonstrating the importance of Remington's existing presence in the host communities.
- Projected incentives package value under alternate scenarios and time-frames, including the after-tax impacts of capital grants, tax credits, abatements, utility discounts and training grants.
- Negotiated incentives packages in Kentucky and New York on behalf of Remington Arms.

Turning the Tide is Not Impossible

- Companies were fleeing NYC in the 1980's because of inordinately high business costs;
- Changing the cost environment for all companies would have been way too expensive;
- City government targeted specific parcels in deteriorated areas in which new employers would find greatly reduced business costs for labor, taxes, electricity and interest on business loans.
- The value of development sites in these areas (Downtown Brooklyn, Long Island City Queens) have sky-rocketed.

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NYC Relocation and Employment Assistance Program: REAP

- Enacted in 1985 to spur development outside Manhattan CBDs.
- Highly focused geographically (parcel specific)
- Excluded captive industries (retail, doctor's offices) and start-ups
- $36k/job over 12 years regardless of wage rate
- Refundable to companies with low corporate tax liability
- Immediately spurred the development of Downtown Brooklyn

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Boosting Value While Publicly Owned

- A frequent criticism of location incentives is that their value is captured by the site owners, not passed along to their business tenants.
- In this case the Pension Fund is the owner, and the objective of the program is to build the site owner's value while the asset is in the Fund.

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Other Value-Enhancing Strategies

- Assemblages/Eminent Domain where necessary
- Planning and Zoning Alignment
- Augmentation of Public Transportation Alternatives
- Discounted utility and fiber service
- Bring state government, local government, utility companies, transportation authorities together with each contributing to the plan to enhance value

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Which Industries Could Grow in CT?

- States should set up programs that are, for the most part, industry-agnostic. (Retail and other industries with "captive" markets should be excluded.)
- But targeting specific industries for aggressive outreach has no down-side and might bring huge economic benefits.
- Industries recommended as targets:
  - Battery-Electric truck assembly
  - MSW-to-fuel
  - Software development

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Good Government Principles

- Since the NYC financial crisis of the mid-seventies it has been deemed “irresponsible” to use non-recurring (one-shot) revenues such as those from selling publicly owned assets, to balance the operating budget.
- Using such proceeds to offset long-term liabilities is preferred policy and would be rewarded in the credit markets for CT’s state and municipal debt.
- If the assets were placed beyond the reach of the annual state budget, this too, would be noticed and rewarded by the credit markets.

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Professional Credentials

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Professional Experience:

- More than 30 years of experience in economic development and tax incentives, having served in both government and private consulting roles including:
  - Founded and led the world's leading Business Incentives advisory Practice while serving as Tax Partner at Ernst & Young.
  - Built and led similarly highly successful Practices at PriceWaterhouseCoopers and Duff & Phelps.
  - Supervised incentives advisory engagements for Fortune 100 Companies in the aerospace, automotive, consumer products, financial services, telecommunications, energy, pharmaceuticals, food and beverage production and packaging industries;
  - Assistant Director of Tax Studies, Senate Finance Committee, New York State Senate (Majority);
  - Chief Economist and Deputy Commissioner for Policy in the New York City Office of Business Development;
  - Chairman of the Enterprise Zone Administrative Boards of four Enterprise (Empire/Empowerment) Zones in New York City.
- Engagement highlights include:
  - Led the team negotiating incentives for Remington Arms as they moved production lines into Kentucky and New York, resulting in two of the highest yielding incentives packages on a "new job" basis in the U.S. in 2011(including State-controlled hydro-power).
  - Led the negotiating team that brought the Boeing company's world headquarters from Seattle to Chicago with a fully discretionary package worth $100 million – sufficient to cover 100% of Boeing's capital costs;
  - Led the site selection and negotiating team in support of the largest industrial project of 2009 in Pennsylvania on behalf of a Fortune 100 Consumer products manufacturer – savings included a large grant for energy efficient design;
  - Secured the benefits package sufficient to induce a 3,000-contingent Citigroup campus to relocate to New Jersey;
  - Secured first-of –its-kind incentive in States of: Connecticut, New Jersey, North Carolina, Florida and New York;
  - Authored "Speed Your Recovery with Negotiated Incentives", *the LEADER (Corenet Global), 2010*

  -- Authored "'Mine' Your Own Business: Discover and monetize the government incentives buried in your capital budget", *Site Selection Online, 2013*

Education & Certifications:

- M.S. - Economics, SUNY Albany *(Full Graduate Fellowship)*
- Bronx High School of Science

Professional Associations & Affiliations:

- Industrial Asset Management Council, Member
- Council on State Taxation (COST), Member
- Editorial Advisory Board, *Tax Incentives Alert,* Member
- Editorial Board, Incentives Section, *Journal of Multi-State Taxation*, Member

Clients Served By Industry

Defense/Transportation

- Safariland, Delta, Boeing, Lockheed Martin, Sikorsky, ITT, Raytheon , JetBlue, United Airlines, Dealertrack, Firth Rixson, Ford, Alcoa, Mercedes USA, TRW, Johnson Controls, Eaton, Timken, Lear Seating, Engelhard, Jabil Circuit, Visteon, Diebold, Dana, Thyssen Krupp, Remington Arms, Bluebird Buses

Energy/Chemicals

- Dupont, Arco, REG, United Solar Ovonics, Calpine, Keyspan, Sun Chemical, PPG, NRG, Shell

Consumer products and Pharmaceuticals

- Avon, Black Diamond, Dutchland Plastics, Meow Mix, Church & Dwight, General Mills, Tyson Foods, Sealy, Pepsi Bottling, Pfizer, Ranbaxy, Cabot, Graybar Electric, Interstate Brands, Tempur World, Lipton, Breyers, Olympus, Tyco, GFT USA, UTC, Carrier,

Retail (big box/clothing/department stores)

- Men's Wearhouse, Staples, Sears, the Gap, Limited, Barnes & Noble, Dunkin Donuts, Borders, Amazon, Homegrocer, Christie's, Service Merchandise, Yum Brands, Kohl's, Kinko's

Communication/Media/Entertainment/

- Verizon, AT&T, SBC, NBC, Cisco, McGraw-Hill, Oneida Nation, Lucent, Nortel, Omnipoint, Dow Jones, Time Inc, RR Donnelly, Time Warner Turner, IQOR

Insurance/Financial Services

- Broadway Technology, Marsh, Accenture, Citibank, Fidelity, Knight Securities, Lord Abbett, Ernst & Young, IndyMac, ING, Countrywide, Bear Stearns, Vertical Lend, Phillip Morris Capital Corp, Amerix, AIG, Lehman Brothers, PWC

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