2018 Business Climate Rankings • Ports & Free Trade Zones • FDI in America • Aerospace • China

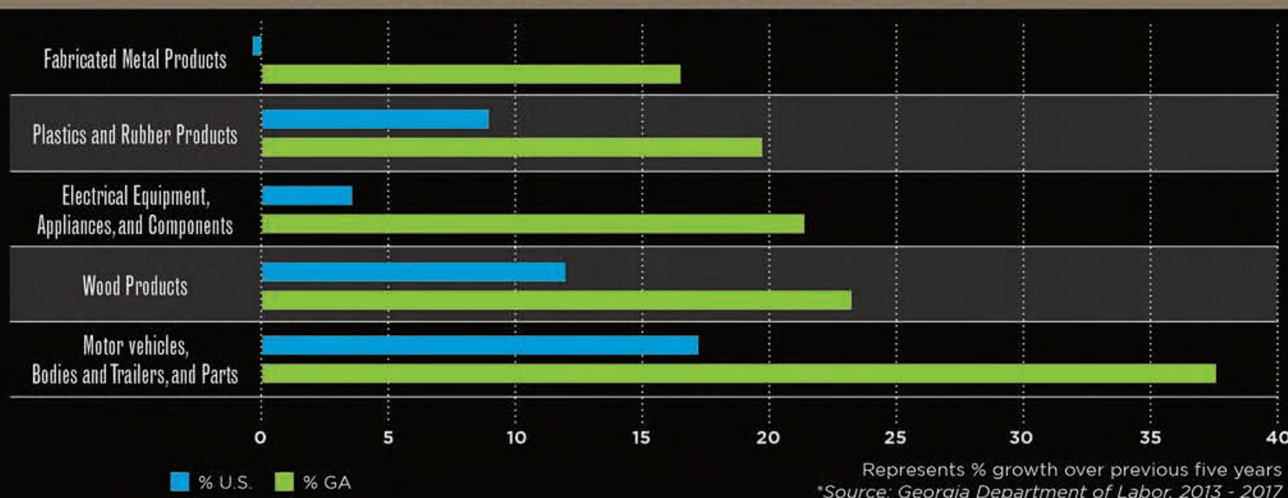
SITE SELECTION

November 2018


#1
STATE
FOR BUSINESS

GEORGIA MANUFACTURING INDUSTRIES OUTPACING U.S.*

GEORGIA INDUSTRIES SURPASSING U.S. IN JOB GROWTH*



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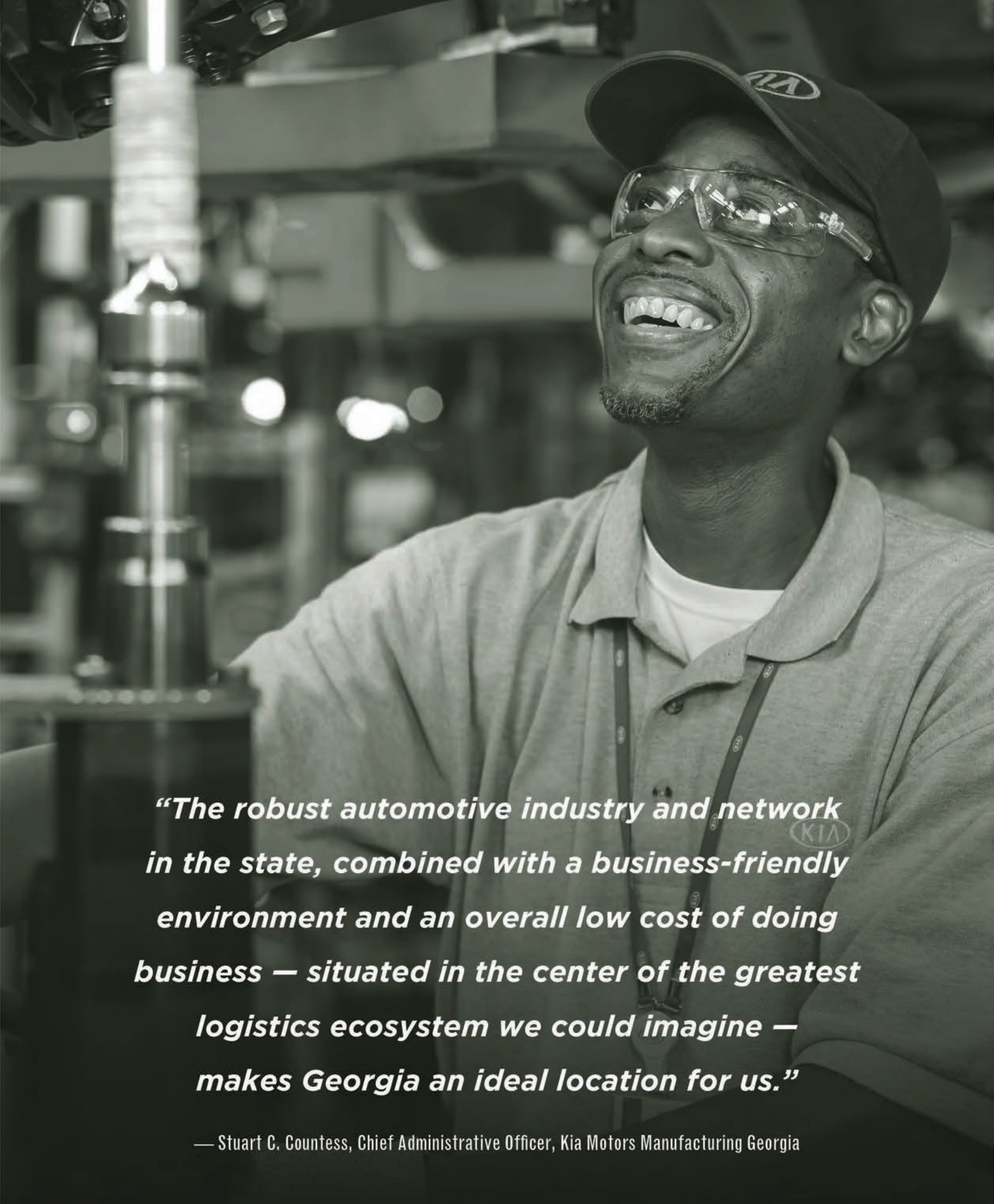


"The robust automotive industry and network in the state, combined with a business-friendly environment and an overall low cost of doing business — situated in the center of the greatest logistics ecosystem we could imagine — makes Georgia an ideal location for us."

— Stuart C. Countess, Chief Administrative Officer, Kia Motors Manufacturing Georgia


DELTA

An Oasis of Opportunity

With six consecutive Top Business Climate wins to his credit, Gov. Nathan Deal reflects on overcoming state transportation challenges, how to invest wisely in education and workforce resources, and his hope that Georgia's business climate benefits businesses and their workers long after he's gone.

by MARK AREND
mark.arend@siteselection.com

Talk about an opportunity zone. The term has a specific definition in the context of economic development, as the article beginning on page 80 explains. But the entire state of Georgia could be considered a zone of opportunity for companies seeking the nation's best business climate — year after year. A string of six consecutive first-place finishes means Georgia's performance in this annual exercise in any year since 2013 was not an anomaly. It's a pattern, and one that outgoing, term-limited Governor Nathan Deal helped set in motion.

Certain ingredients were already in the bowl when the governor came to office in 2011: the world's busiest airport with direct access to business destinations around the globe; bustling seaports; a diversified economy in the Atlanta area and statewide; top universities; and an already business-friendly environment thanks in part to his predecessor, two-term Gov. Sonny Perdue, now the U.S. Secretary of Agriculture.

What did Chef Deal add to the mix? Among other things, a commitment to fiscal soundness, economic predictability, smart investment in education and transportation and to championing the state's agriculture, film production and other key industries. He elaborated on these points in his last such interview with Site Selection in mid-October, not long after Hurricane Michael had ravaged a large swath of the state with devastating effects (losses north of $2.5 billion, conservatively) on its cotton, peanut, pecan, timber and other crops. We covered that topic first.

"We have numerous people working to make sure that debris is removed from our roadways so utility crews can get in and restore power, especially to vulnerable institutions like hospitals," noted the governor. "Fortunately, we did not have flooding from this storm. But the high winds passed through the heart of our agricultural community. We are trying to get people back to normal as quickly as possible."

Trains and Boats and Planes

A big part of Georgia's business climate is transportation-based. Could Georgia do as well in this ranking without Hartsfield-Jackson International Airport with its fortress Delta Airlines hub and global passenger and cargo reach? No way. Countless businesses, large and small, are in Georgia thanks to that connectivity. Interstate highways in the Atlanta metro may be a daily thorn in commuters' sides, but investment in those, including reversible express routes that bypass local exits, is helping. By the way, it's not Atlanta's fault — nor its Interstate highways' — that the occasional livestock truck overturns during rush hour, sending cows, pigs or chickens onto the highway. That can happen anywhere.

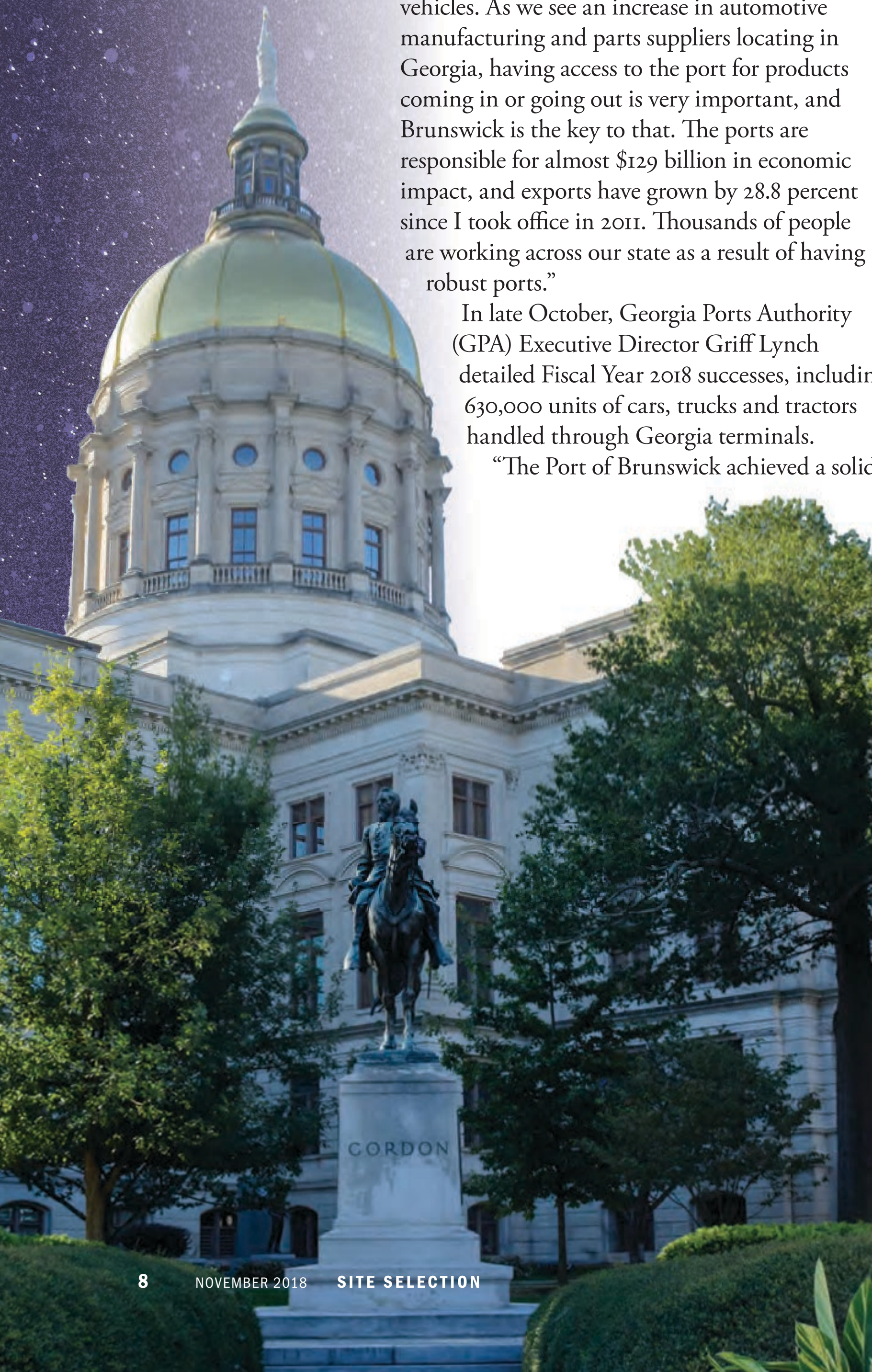
"Infrastructure and transportation are essential ingredients to having a successful state for business," says Gov. Deal. "Our focus there has been to make sure we provide the necessary things government can and should do to make the business community grow and prosper."

The Port of Savannah has record container volumes year after year and efforts to deepen the Savannah River and the port are ongoing. "The state has put in more than $300 million as its share of that cost, and the federal government is contributing its share, and we're hopeful that project will be complete by 2020 or 2021," the governor reports. "The Port of Brunswick is the second busiest auto port, and we have made some changes there to expand space for those vehicles. As we see an increase in automotive manufacturing and parts suppliers locating in Georgia, having access to the port for products coming in or going out is very important, and Brunswick is the key to that. The ports are responsible for almost $129 billion in economic impact, and exports have grown by 28.8 percent since I took office in 2011. Thousands of people are working across our state as a result of having robust ports."

In late October, Georgia Ports Authority (GPA) Executive Director Griff Lynch detailed Fiscal Year 2018 successes, including 630,000 units of cars, trucks and tractors handled through Georgia terminals.

"The Port of Brunswick achieved a solid performance across all cargo categories over the last fiscal year," Lynch said. "As GPA adds new terminal space, we will expand our service area in the Southeast and beyond."

During the event hosted by the Brunswick Golden Isles Chamber of Commerce, Lynch outlined a series of infrastructure projects that will increase capacity and provide new opportunities in Roll-on/Roll-off cargo handling. Over the next 12 months, GPA will add 60 dockside acres to the Ro/Ro operation. The new space will increase car storage by 8,250 spaces.



About that Traffic ...

What does this mean for Georgia's Interstate highways, which next to rail are the chief arteries from the ports to points west and vice versa? The Interstates in and around Atlanta are so clogged at times the region loses points in the quality-of-life and logistics categories.

Atlanta traffic?

"It's a sign of growth," says the governor, returning the serve with more than a little topspin. But it's a fair point. More than 700,000 private-sector jobs have come into being and Georgia has jumped from the 10th most populous state to 8th most populous since he took office.

"With that comes traffic and congestion," he points out. "That's why the Transportation Act of 2015 was so important. It was the first time in 40 years that the state of Georgia had looked at how we finance infrastructure improvements. We're making progress on completing the 11 major projects that were part of that, most of which were Interstate-related. The reversible express lanes on I-75 south of Atlanta and now on the north side, too, are proving to be very successful in traffic congestion relief." Other measures include extending paid express lanes on I-85.

"To fund these efforts, we're using public-private partnerships in a unique fashion, in which we engage the private contractor to carry part of the debt until the project is completed," the governor explains. "That is proving to be very successful. We believe we have saved a lot of money on the design-build concept we're using, which allows us to extend the HOT lanes on I-85 north considerably farther north than we had originally planned."

The role of inland ports in unclogging Interstates will soon become apparent, adds the governor. One has been operational in Cordele, in southern Georgia, for a number of years, but mainly for agricultural use. The Appalachian Regional Port (APR), in Murray County northwest of Atlanta, opened in August 2018. It is designed to provide logistics solutions for customers in a four-state region and remove an estimated 50,000 trucks and 15 million truck miles from local highways every year.

APR already is triggering development. The Foxfield Company, based in Bluffton, South Carolina, is developing a 750-acre (304-hectare) industrial park in Cartersville, on I-75, that will accommodate 7 million sq. ft. (650,300 sq. m.)

Site Selection's 2018 Top State Business Climate Rankings

	Overall Ranking	Executive Survey Rank	Competi-tiveness Rank	2017 New Plant Rank	2017 New Plant Rank Per Capita	2018 New Plant Rank (Jan. - Aug.)	2018 New Plant Rank Per Capita (Jan.- Aug.)	Mature Firm Tax Index Rank	New Firm Tax Index Rank	Final Total Points
1	Georgia	1	3	4	5	1	2	3	6	101
2	North Carolina	2	1	5	7	4	10	7	13	99
3	Texas	4	4	1	11	5	32	12	42	90
4	Ohio	11	6	2	3	9	19	5	3	89
T5	South Carolina	3	10	16	9	8	5	32	34	88
T5	Tennessee	5	2	14	13	11	9	29	29	88
7	Virginia	10	6	9	18	2	4	11	39	87
T8	Alabama	7	18	19	15	21	15	13	19	83
T8	Indiana	6	13	10	10	17	17	43	15	83
T10	Kentucky	17	8	7	2	6	3	18	7	82
T10	Louisiana	14	16	17	8	22	16	10	2	82
12	Florida	11	20	12	36	10	29	19	36	70
T13	Utah	8	22	34	34	41	48	6	10	69
T13	Arizona	13	15	22	29	24	23	14	31	69
15	Oklahoma	15	27	28	25	25	18	16	5	68
16	Mississippi	9	21	32	28	33	30	37	21	65
17	South Dakota	21	26	38	17	37	12	2	11	64
T18	Michigan	29	5	11	22	7	13	25	25	63
T18	Nevada	23	23	31	21	19	6	4	38	63
T20	Iowa	23	9	21	6	20	7	40	41	61
T20	North Dakota	17	30	41	16	44	31	15	18	61
22	Wisconsin	31	23	20	20	14	11	35	4	57
23	Missouri	31	11	15	14	16	14	36	26	56
24	Kansas	20	14	24	12	30	25	47	48	55
25	Pennsylvania	26	17	8	23	12	22	50	49	53

Source: Conway Projects Database

of industrial space when completed. It’s just 25 miles from the new port. Foxfield President Harry Kitchen, Jr., identifies several competitive advantages the ARP affords, including an efficient alternative to an all-truck dray to and from the deep-water Port of Savannah for target markets in Georgia, Alabama, Tennessee and Kentucky; lower transportation costs; and the ability to move hundreds of containers at once.

“While the needs of each industry and customer differ, the efficiencies gained through inland terminals means port customers would be wise to investigate the benefits of using the inland rail hubs,” says Kitchen. “Lower costs for long-distance drays, convenient access to empty containers and the reliability of Georgia Ports Authority terminal operations make the inland ports important new supply chain assets.”

The Foxfield Company mainly develops projects in Georgia, so we asked Kitchen for his take on Georgia’s business climate, or its competitive advantage. It turns out it’s about the state’s economic development team.

“Major prospects are very savvy when it comes to assessing the positives and negatives of site selection,” he relates. “Each state needs to identify the key drivers for each project and bring their best opportunities to the table. The site selection game is more about site elimination than site selection, and the best sites always rise to the top. Georgia does an excellent job in identifying the true needs of a prospect and putting the best team together to make the short list of candidate sites and close the deal.”

Investment in the state’s aviation infrastructure — its ability to staff the world’s busiest airport and the state’s aerospace-related companies — is ongoing. In October, Gov. Deal announced that the Technical College System of Georgia (TCSG) will establish an Aviation Academy to operate at Silver Comet Field at the Paulding Northwest Atlanta Airport. Chattahoochee Technical College will oversee operations and build a new facility to house the Aviation Academy, where students will train in aviation mechanics and maintenance.

“Here in the No. 1 state for business five times over [the sixth such win had not yet been announced], we are strategically building upon the economic assets that set us apart from other states and investing in academic resources to produce a highly skilled workforce,” said Deal at the announcement. “With an investment of approximately $35 million, Chattahoochee Tech’s Aviation Academy at Silver Comet Field is yet another example of a partnership between the state and local levels creating a resource that will benefit both the economy of the local community and that of our entire state.”

Delta Air Lines, Gulfstream and Pratt & Whitney are among Georgia’s leading aviation-related companies with major operations in the state. “To remain a suitable home for employers such as these and to connect Georgians with high-paying, quality jobs, we are investing in aviation mechanics and maintenance training through TCSG, which has a proven record of success in providing specialized training,” says Deal.

Georgia ranks fourth in the nation for the number of individuals employed in the aviation field, and the job growth outlook for the industry exceeds national averages over the next 10 years. The programs will help fill an aerospace mechanic jobs deficit that in late 2018 stands at about 2,000 positions.

What Matters Most: Site Selectors’ Most Important Location Criteria

1	Workforce skills
2	Transportation infrastructure
3	Workforce development
4	Higher education resources
5	Utilities (cost, reliability)
6	Right-to-work state
7	State and local tax scheme
8	Ease of permitting and regulatory procedures
9	Quality of life
10	Incentives

Source: Site Selection survey of corporate real estate executives, October 2018

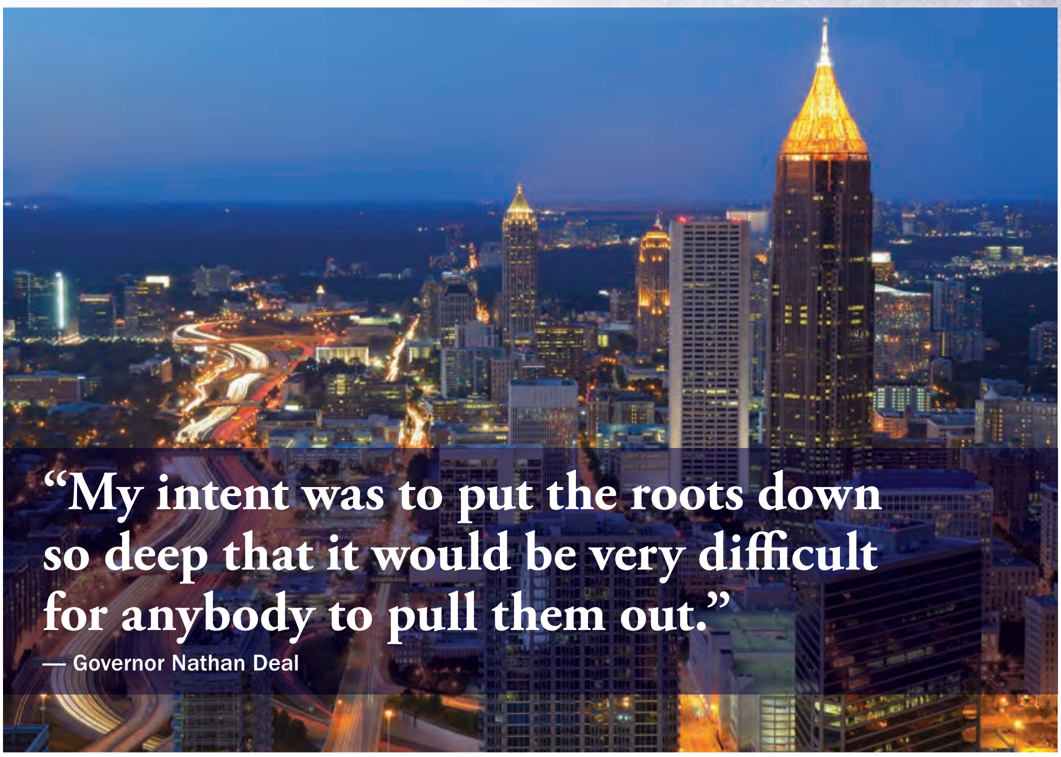


Photo: Getty Images

2018 Executive Survey Business Climate Rankings

TOP TEN

1	Georgia
2	North Carolina
3	South Carolina
4	Texas
5	Tennessee
6	Indiana
7	Alabama
8	Utah
9	Mississippi
10	Virginia

It's a Wrap

A final interview with Site Selection was an opportunity for the governor to take stock of progress made in areas discussed in previous interviews about Georgia's top national business climate. Following are highlights of that segment of the interview.

On education: "I asked the question back at the height of the Great Recession, when we were at 10.4 percent unemployment — we're now at 3.8 percent — do we have jobs in Georgia that are going unfilled because we don't have enough skilled people to take them? The answer was yes. We started the HOPE Career Grant Program, where 100 percent of tuition is paid for through our HOPE scholarship program. We started with four certificate or diploma areas and we're now up to 17, and I'm sure those will be added to in future sessions of the General Assembly."

On the film industry: "One of the 17 categories is in the film industry. We wanted permanency associated with the film industry, and the first sign of that came with the Pinewood Studios project in Fayette County, where they've built sound stages and have been very successful.

RANKING METHODOLOGY

Fifty percent of the overall Business Climate Ranking is based on a survey of corporate site selectors who are asked to rank the states based on their recent experience of locating facilities in them. The other 50 percent is based on an index of seven criteria: performance in Site Selection's annual Prosperity Cup ranking (formerly the Competitiveness Award); total Conway Projects Database-compliant facility locations and expansion projects in 2017; total projects in 2017 per capita; total 2018 projects year to date; total 2018 projects year to date per capita; state tax burdens on mature firms and on new firms according to this year's Tax Foundation and KPMG Location Matters analysis.

They're filling them with movie companies that want to use them. We also wanted a workforce made up of Georgians, not crews coming into town from somewhere else. That's where the Georgia Film Academy came in for teaching those behind-the-camera skill sets." It's a collaborative effort of the University System of Georgia and Technical College System of Georgia supporting workforce needs of the film and digital entertainment industries.

"The next big area we're anticipating is on the creative writing side of things," says the governor. "We want resources for the bright minds who will figure out what the next television series will look like. We want them to be here in Georgia and to be Georgians if possible." The film industry has an economic impact well north of $9 billion. It employs more than 92,000, a third of which are direct Georgia jobs.

On workforce and the Quick Start training program: "It continues to be one of the great ingredients available to us, to be able to train prospects' workers to the skill sets they need without any cost to the company."

On fiscal soundness: "We have hopefully laid the foundations we needed to — we're now in excess of $2.5 billion dollars in our rainy day fund," says Gov. Deal. "I originally set a goal of $2 billion. It's one of those indicators of how financially solvent a state is — along with maintaining our AAA bond rating for 21 consecutive years. Very few states can make that claim."

On whether investors used to thinking of Georgia as consistently having the top business climate should view the state any differently as new leadership prepares to assume office in January 2019: "I don't think so. My intent was to put the roots down so deep that it would be very difficult for anybody to pull them out," says Deal. "I believe that has occurred. Members of the General Assembly, regardless of party affiliation, supported almost every one of these areas, because they are good for their constituents. When you put politics aside and realize your real purpose is to do the best you can for the future of the citizens that elected you and for their children and families, then I don't believe you will depart from the principles we have put in place." ▼

Staying Power: How Winning Communities Keep Winning

Charleston, South Carolina Photo: Getty Images

Amping up engagement with the C-suite nurtures home-grown business expansions.

by GARY DAUGHTERS
gary.daughters@siteselection.com

Among successful economic developers it has become a truism that attracting new businesses, while sexy, pales in value in comparison to retaining existing companies and helping them grow. It's easier and less expensive to keep an existing business than to recruit a new one, and the rewards can be enormous.

"Eighty-five to 90 percent of our growth is expansions as opposed to attractions," says John Urbahns, executive vice president for Greater Fort Wayne, Inc., which promotes economic development in an 11-county area of northern Indiana.

Face-to-face meetings with C-suite executives remain the bread and butter of any retention effort. Beyond that, development agencies are crafting individual strategies that play to their region's strengths and shore up weaknesses, with an increasing emphasis on demonstrating support for the needs of individual enterprises.

Charleston, South Carolina: Customer Care

Charleston County won a major prize in October when MAHLE Behr, a supplier to the automotive industry, announced plans to add a new assembly line to its facility in North Charleston. The $36-million investment is projected to create 115 jobs.

"We always love to see new companies locate in North Charleston, but nothing tops seeing an existing company expand their operations within our city," said North Charleston Mayor Keith Summey.

Charleston County Economic Development (CCED), with a staff of 11, devotes two full-time specialists strictly to business retention and expansion. Another staffer kicks in part-time, while executive director Steve Dykes oversees the operation. Dykes says the focus on retention has "paid off in spades."

Since 2013, 26 existing companies have launched expansions in the Charleston region representing $674 million in capital investment and 3,216 jobs. Coming on the heels of a record 17 expansions in 2017, Charleston had accumulated a dozen more through the first 10 months of 2018, accounting for $80 million of investment.

The heart of CCED's retention strategy is its award-winning "Business Concierge Program," which caters to the needs of local industries. Jennifer Brown, CCED's director of business retention, calls herself a "case worker" on behalf of area businesses.

"Once a company chooses Charleston County," Brown tells Site Selection, "we hold their hands for the life of the company. We keep tabs on our companies and help where we're needed. Nothing is too large or too small. If they need welders, we can help them with that. If their parking lot's

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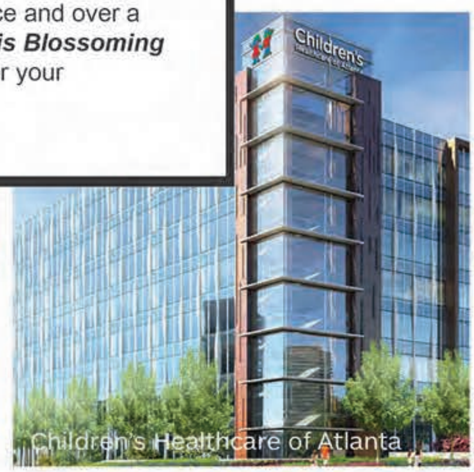

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OGLETHORPE UNIVERSITY

The Weather Company
An IBM Business

Brookhaven CHERRY BLOSSOM Festival

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flooded or there's a tree down and they don't know who to call at the city, we'll fix that for them."

In some cases, the best offense is a good defense.

"We've had more than one occasion," says Dykes, "where we pulled one out of the fire, so to speak — where we had local leadership at a company reveal to us that there were plans afoot that could jeopardize their existence or pull them off to another city or even another country. And we've been able to intervene and stave off that type of thing."

Another loud validation of the CCED strategy occurred in September, with the completion of an expansion by Mercedes-Benz Vans, which came to North Charleston in 2006. The $500-million project is projected to create some 1,300 new jobs, with suppliers adding an estimated 600 jobs around North Charleston.

Bowling Green, Kentucky: Workforce Development

Bowling Green, Kentucky, is a perennial top-10 finisher among Site Selection's Top Metros with populations under 200,000. In 2017, the city tied for second, and for the first 10 months of this year, Bowling Green ranks first in the nation for business expansions per capita.

Ron Bunch, president and CEO of Bowling Green Area Chamber of Commerce, initiated a heavy emphasis on business retention when he took the job nine years ago.

"One of the first things I did when I came on board," Bunch says, "was to put existing business retention and expansion programs directly under my leadership." He devotes some 70 percent of his time to retention and talent development, which he considers to be inextricably linked. "Our focus on talent," he says, "is our number one tactic for what we do in economic development. That's what will determine the strength of our existing companies."

The Chamber tracks and publicizes job openings and runs a training consortium that can craft instructional classes for businesses on demand.

The Chamber raised $1.5 million to launch The Leader in Me in public schools in 2011 to teach leadership skills sought by employers to all K-12 students. Last year, the Chamber and local school systems kicked off SCK Launch, which aims to instill hard skills to make high school graduates immediately employable in a number of sectors.

"SCK Launch can help us identify talent in high schools for hiring as soon as students graduate," says Steve Minns, president of the Bowling Green division of Illinois-based Reinhart Foodservice. Reinhart in August launched a $14.2-million expansion of its Warren County operations, and expects to add 50 workers to its current staff of 100.

Fort Wayne, Indiana: Instilling a Sense of Place

For a city of 265,000, Fort Wayne, Indiana, has punched above its weight this year. With six qualifying expansions gleaned from the Conway Projects Database, Fort Wayne ties for fourth in expansion projects per capita.

Fort Wayne's biggest business retention challenge, Urbahns says, is one common to the Upper Midwest: demographics. The city's population, he says, has been growing at a paltry 0.7 percent, which exacerbates prevailing workforce issues.

"Talent is a big challenge for our employers," says Urbahns. "We're focused heavily on domestic migration issues to try to position the community as a place where people want to come as opposed to a place people want to move away from. We've made a lot of efforts on quality-of-place improvements within our community because we feel that's a major piece of migration."

Parkview Field, completed in 2009 as a home for the Fort Wayne Tincaps of minor league baseball, has served as a catalyst for downtown renewal, spurring a mini-housing boom.

"We've seen about $350 million of investment since the ballpark went in, with buildings being improved and new ones being built," says Urbahns.

"When we go out and talk to companies, we talk to them not just about their business, but we give them a sense of what's going on in the community and the ways that they can get involved. We feel as though we're starting to turn a corner." ▼

WHAT YOU NEED TO KNOW ABOUT OPPORTUNITY ZONES

Pay as little as $0 in capital gains on your next decade of investment returns.

by SEAN GARRETSON
editor@siteselection.com

Economic development consultant and developer Pegasus Planning and Development is always looking for new ways to revitalize communities and reduce tax liability for investors. The latest tool for investors and community developers is the community development and tax deferment program referred to as Opportunity Zones. In order to attract investors, cities will need to prepare for the potential investment infusions and will need to market their respective Zones for development. Developers, investors, and businesses must be informed of where the Zones are located and how to utilize this new tool in different cities.

Opportunity Zones were developed as a response to the uneven economic recovery from the Great Recession from 2007-2009. While the U.S. national economy is celebrated for its strength and resilience today, far too many communities are still being neglected in the midst of a prolonged economic expansion.

The geographic distribution of jobs, businesses, and wage gains during the economic recovery has been highly concentrated in urban areas. As of the end of 2016, less than one-quarter of U.S. counties had re-acquired all of the businesses that were lost to the recession. This regional inequality within the United States has been recognized as one of the defining economic challenges of our era. Opportunity Zones are the first major federal effort to address this obstacle, and most pundits believe this will pay dividends for communities and investors across the U.S.

The Tax Cuts and Jobs Act of 2017 established Opportunity Zones in low- to moderate-income census tracts in urban and rural areas. Every state now has designated Opportunity Zones. The IRS just recently published the latest set of rules and regulations for Opportunity Zones (10/15/2018) and they can be found here - *https://www.irs.gov/pub/irs-drop/reg-115420-18.pdf.*

How Opportunity Zones Work

The Opportunity Zones program is designed to incentivize patient capital investments in low-income communities nationwide. All of the underlying incentives relate to the capital gains tax. These incentives are tied to the longevity of an investor's stake in a qualified Opportunity Fund, providing the greatest return for those who hold their investment for 10 years or more. Opportunity Zones are designed to spur economic development by providing tax benefits to investors. First, investors can defer tax on any prior gains until the earlier of the date on which an investment is sold or exchanged, or December 31, 2026, so long as the gain is reinvested in a Qualified Opportunity Fund. Second, if the investor holds the investment in the Opportunity Fund for at least 10 years, he will be eligible for an increase in basis equal to the fair market value of the investment on the date that the investment is sold or exchanged.

This IRS program will allow any taxpayer to defer paying tax on capital gains from the sale of property if those gains are invested in Qualified Opportunity Funds. Further, these investors must devote 90 percent of their assets to businesses located or property used in a low-income community.

The Opportunity Zones program offers three tax benefits for investing in designated low-income census tracts through a qualified Opportunity Fund:

1. A temporary deferral of inclusion in taxable income for capital gains that are reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the Opportunity Zone investment is disposed of or December 31, 2026.
2. A step-up in basis for capital gains that are reinvested in an Opportunity Fund. The basis is increased by 10 percent if the investment in the Opportunity Fund is held by the taxpayer for at least five years and by an additional 5 percent if held for at least seven years, thereby

excluding up to 15 percent of the original gain from taxation.

3. A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in an Opportunity Fund.

An Opportunity Fund is easy to create. To become a Qualified Opportunity Fund, an eligible taxpayer self-certifies — no approval or action by the IRS is required. To self-certify, a taxpayer merely completes a form, which will be released before the end of 2018, and attaches that form to the taxpayer's federal income tax return for the taxable year.

Opportunity Funds:

- must be certified by the U.S. Treasury Department.
- must be organized as a corporation or partnership for the purpose of investing in Qualified Opportunity Zone Property.
- must hold at least 90 percent of their assets in Qualified Opportunity Zone Property.
- Qualified Opportunity Zone property includes newly issued stock, partnership interests or business property in a Qualified Opportunity Zone business.
- Opportunity Fund investments are limited to equity investments in businesses, real estate and business assets that are located in a Qualified Opportunity Zone. Loans are not eligible for the tax incentives. Opportunity Fund investments in real estate are subject to a substantial rehabilitation requirement.

For example: Jane sells her business for a $12-million capital gain in December 2018. She finds a limited partnership that is seeking investors in the qualified Opportunity Fund and invests all $12 million within 180 days of the sale of her business.

If Jane keeps her investment in the qualified fund until December 31, 2026, instead of paying $671,000 in federal tax by April 15, 2019, $570,000 of tax will be due by April 15, 2027.

The tax reduction is attributable to the 10-percent basis bump after holding the Qualified Opportunity Fund for five years and an additional 5-percent basis bump for holding the Qualified Opportunity Zone for seven years. Additionally, she will pay $0 tax on any profit she makes of the $12 million.

Rural vs. Urban Opportunity

A great divide in economic opportunity between rural and urban areas has been in place since the Great Depression. The Opportunity Zones legislation seeks to change this inequitable narrative. Opportunity Zones are misconceived as only providing economic benefits to rural areas. In fact, many Opportunity Zones are in urban areas.

To illustrate this point, it is important to understand how three cities are preparing for investments as part of the Opportunity Zone legislation. Bruce Katz and Jeremy Nowak have been instrumental in the creation of Opportunity Zones legislation. Both individuals have been working with Accelerate for America to help three U.S. cities develop an urban investment prospectus tailored for use in the Opportunity Zones. Mr. Nowak passed away this year, but Mr. Katz continues to work with Accelerate for America in bringing investments to Oklahoma City, Oklahoma; Louisville, Kentucky; and South Bend, Indiana. Oklahoma City is focused on overall revitalization and economic development, while Louisville is targeting social impact. South Bend is concentrating on improving the town-gown relationship with University of Notre Dame.

Spotlight: Oklahoma City's Opportunity Zone and Innovation District

Through its work with Oklahoma City, a current client, Pegasus was afforded the opportunity (no pun intended) to learn firsthand how Oklahoma City is preparing for the Opportunity Zones. Pegasus is part of a team led by Perkins & Will, working for the Alliance of Oklahoma City, to create a land use and strategic development plan for creating an Innovation District adjacent to downtown Oklahoma City. The Innovation District is a 1.5-square-mile area (roughly 1,400 acres) where the Oklahoma Health Sciences Center, OU Medical School, and other health-related institutions are located, along with private companies working on research and development. Much of this land was acquired through years of urban renewal, where neighborhoods adjacent to the Innovation District are now impoverished.

The majority of the OKC Innovation District also happens to be within an Opportunity Zone. The OKC Urban Renewal Authority (OKURA) also owns a significant amount of land within the Innovation District. The Innovation District is poised to attract significant private investment for research and development, office, retail and residential development. Pairing the OKURA properties with a TIF District (tax increment finance zone), the Opportunity Zones' incentives create a uniquely attractive investment opportunity, which OKC is capable of implementing.

"The Accelerate for America program is working with Oklahoma City to create an investor prospectus to spur economic development," says Alliance Executive Director Cathy O'Connor. "OKC is in the vanguard of the next new investment tool for community reinvestment. We are very excited to be chosen for this program, as it complements the many other projects OKC has seen in and around downtown over the last 10 years. We anticipate that the Opportunity Zones will help with reinvestment throughout OKC, but are very excited about how this incentive can complement the Innovation District strategy we will begin implementing in 2019."

1031 Exchange or Opportunity Zone?

Some investors call the Opportunity Zones a "1031 exchange on steroids." The ability to reduce tax liability and not incur taxes on sale proceeds in the future is a massive benefit. Additionally, the tax deferral is available for any capital gain, not just "like kind" real estate. The "catch" is that these investments must be through a qualified Opportunity Fund as designated by the Treasury.

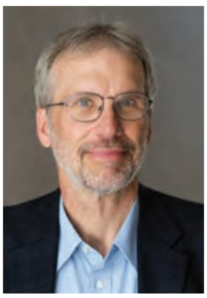
Most experts agree that this tax incentive will not only provide communities with an infusion of capital investment, but it will also offer investors a tremendous tax deferral incentive. The final regulations should be released before the end of 2018, after which many cities (in addition to Oklahoma City, Louisville and South Bend) are expected to capitalize on these incentives. Investors can participate today in Opportunity Zone funds and begin realizing the long-term economic gains of their investments. ▼

Sean Garretson, AICP, is President at Austin, Texas-based Pegasus Planning and Development, specializing in economic development analysis and policy, land development and plan implementation. For more information, visit www.pegasusplanninganddevelopment.com.

Have We Reached Foxconn Level 5?

Four reforms could help governments dial back incentives to sustainable levels.

by TIMOTHY J. BARTIK
editor@siteselection.com



Tim Bartik, Ph.D., is senior economist at the W.E. Upjohn Institute for Employment Research in Kalamazoo, Michigan. His research focuses on how broad-based prosperity can be advanced through better local labor market policies. His 1991 book "Who Benefits from State and Local Economic Development Policies?" is widely cited as an influential review of the evidence on how local policies affect economic development. His more recent work includes developing a database of U.S. economic development incentive programs, studying policies promoting local skills and their effects on prosperity, and examining how early childhood programs could promote local economic development, explored in his 2011 book "Investing in Kids." Bartik has also done extensive research with colleagues on the effects of the Kalamazoo Promise, a pioneering place-based scholarship program intended to improve the local economy.

At Site Selection's invitation, here Bartik presents an adaptation of his recent work developing a simulation model of incentives' benefits and costs.

Current trends in economic development incentives are unsustainable.

Based on my 2017 database (Bartik 2017), state and local business incentives tripled from 1990 on. The recent Foxconn incentives deal is 10 times as large per job as the average incentive deal. If Foxconn-level deals are widely imitated, incentive costs might dramatically escalate. Can such incentive trends be sustained? That seems doubtful.

Business productivity depends in part on public services — good schools and good roads. Business also depends on after-tax real wages to support consumer demand. Excessive incentives threaten public services and after-tax real wages.

More sustainable incentives can be achieved with reforms that cut costs, while simultaneously making incentives more productive. My suggested reforms:

1. **Put budget caps on incentives**. Incentive budgets must allow state and local governments to adequately fund public services that support the private economy, such as education and infrastructure.

2. **Govern incentives by rules to limit expensive one-time deals**. When incentives get to Foxconn levels, they face diminishing returns. Costs increase more than the probability that the incentive tips the location decision.

3. **Cut back on incentives by targeting high-multiplier industries**. Incentives have higher benefit-cost ratios if they go to firms in high-tech industry clusters.

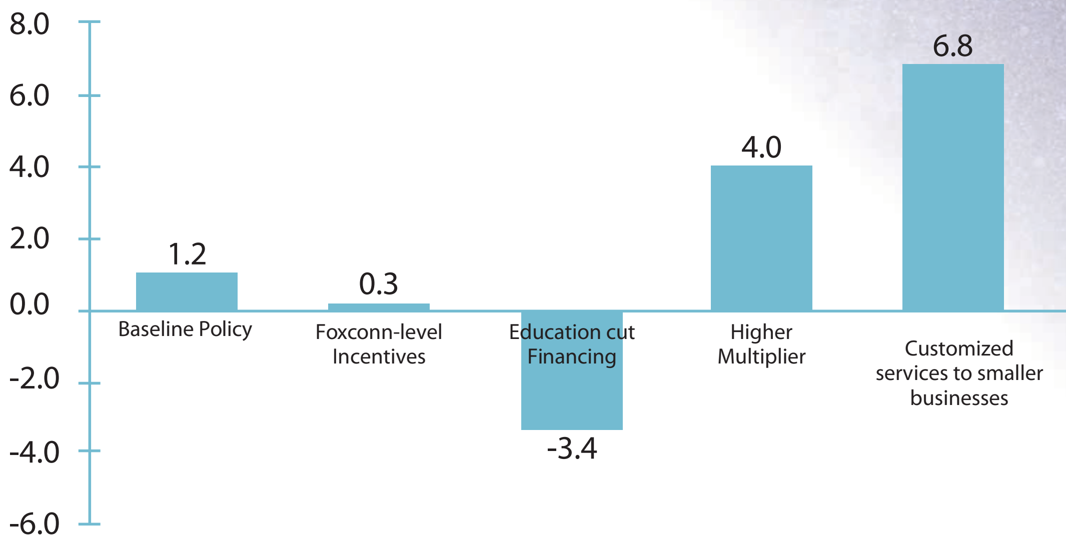
4. **Balance tax incentives to larger firms with business services to smaller firms**. Customized business services to smaller firms — such as community college job training and the Manufacturing Extension Partnership network managed by the U.S. Department of Commerce's National Institute of Standards and Technology (*www.nist.gov/mep*) — are 10 times as cost-effective as tax incentives in creating jobs.

Benefits vs. Costs

To analyze different incentive policies, earlier this year I constructed a model of local economies. This model was based on research on how business location decisions respond to incentives, how job growth affects migration and employment rates, and how growth affects state and local government finances.

The model makes realistic assumptions about how incentives affect business location decisions. Foxconn-level incentives might tip business location decisions over three-quarters of the time, but more typical incentives have been shown by research to tip less than one-quarter of business location decisions. An analysis should recognize

Local Benefit-to-Cost Ratio for Different Incentives Scenarios



that growth not only increases tax revenue, but also increases spending needs. Job growth attracts population growth, which in turn drives the need to hire teachers, widen roads, etc.

This model compares a baseline incentive package, with baseline policy parameters, versus alternative packages that consider different parameters. The purpose is to see how benefits and costs vary with different policies. Each alternative scenario varies only one parameter from the baseline scenario.

The baseline incentive package was set equal to the average tax incentives provided by the average state. I assumed that the jobs created by the incentives had a typical "job multiplier" of 2.5 — for each job directly created by incentives, 1.5 additional jobs are created in local suppliers and local retailers. I assume that the incentives' budgetary costs are paid for by some combination of increases in other taxes and reduction in public spending, but without severe consequences for any one budget category.

For both the baseline package, and the alternative scenarios, I analyzed the benefits of each package as its effects on the incomes of local residents. These include effects on the real earnings per capita of local residents, as well as any effects on profits of local businesses, and fiscal gains for state and local taxpayers.

The graph reports the "benefit-cost" ratio of each incentive package. This is the ratio of the total income effects for local residents and businesses, divided by incentive costs. I consider the present value of these income effects over time, with appropriate discounting of future incomes. To break even, an incentive package must have a benefit cost ratio of 1.0 or greater.

The average incentive package in the U.S. has a benefit cost ratio of 1.2 —benefits are 20 percent greater than incentive costs. Incentives pay off for local residents in higher earnings and some fiscal gains, but only modestly.

But Foxconn-level incentives, of 10 times as great, only have a benefit cost ratio of 0.3 — the benefits are 70 percent less than the incentive costs. Incentives have diminishing returns because higher incentives do not proportionately increase the odds of tipping the location decision.

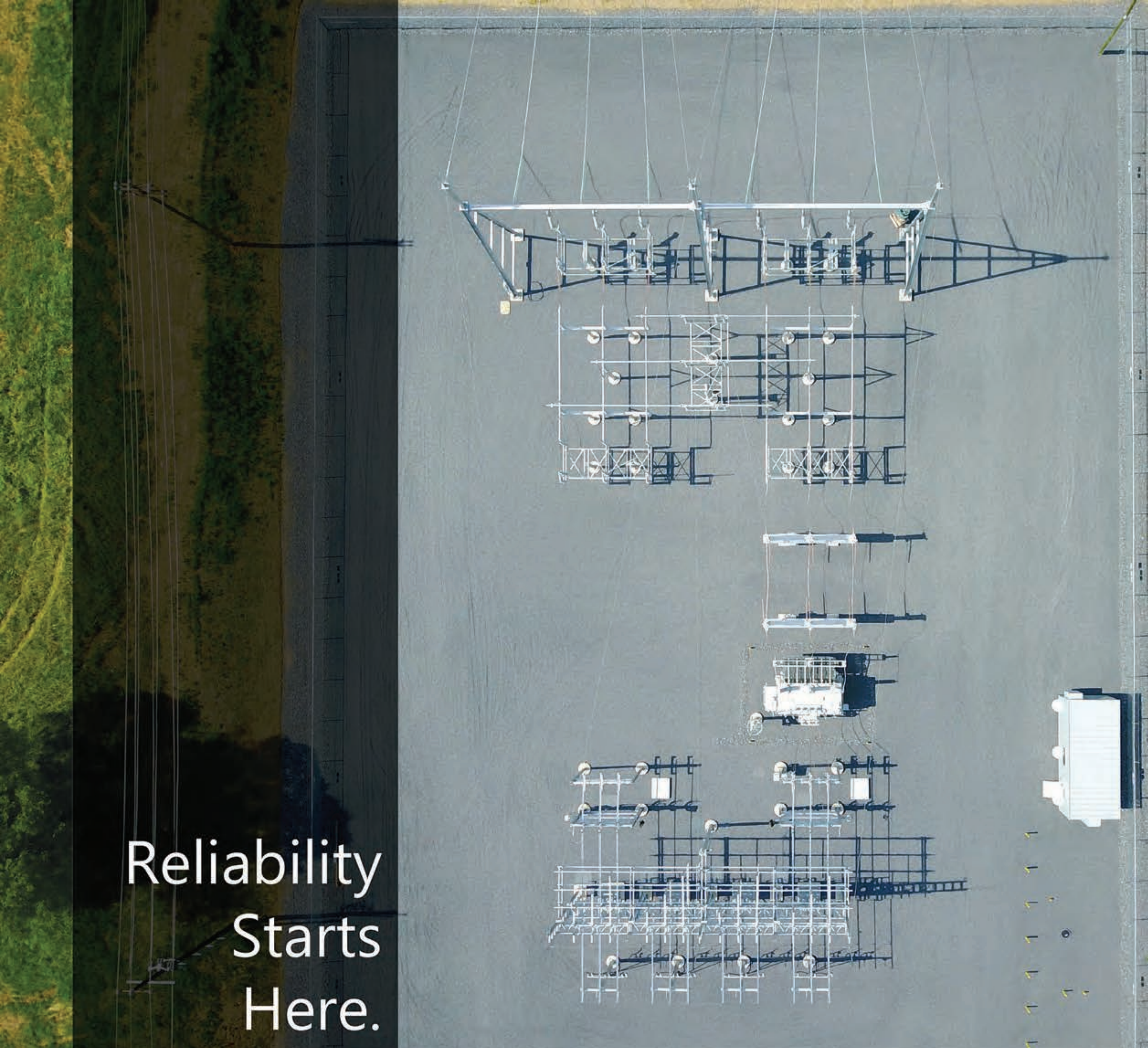
Incentives that are totally financed by cutting spending on K-12 education have a negative benefit-cost ratio. Cuts in K-12 spending lead to cuts in future wages.

If the incented firm has a high local job multiplier of 6 — which is supported for some high-tech firms — then the benefits of incentives are four times their costs. The job growth due to cluster effects can be large.

Finally, business services to smaller businesses have a high rate of return. Helping smaller businesses with job training, or advice on improving productivity, is cheap compared to what it does for local job creation.

Sustainable economic development strategies should be balanced. Tax incentives to large firms must be moderated to be consistent with maintaining needed public services. Customized business services are needed to help promote a healthy local small business sector.

Such a balanced strategy makes more sense than escalating the incentive wars to Foxconn levels. ▼


Reliability
Starts
Here.