

SACTO

9.1

Sacramento Area Commerce and Trade Organization

Directors

PF.
Edward J. Quinn, Jr.
McDonough, Holland & Allen
PRESIDENT-ELECT
Robert W. Bell
Hefner, Stark & Marois
VICE PRESIDENT and CHIEF
FINANCIAL OFFICER
Robert D. Dean
Grubb & Ellis Commercial
Real Estate
VICE PRESIDENT and SECRETARY
James Whillock
Patterson Travel
VICE PRESIDENT for
DEVELOPMENT
Lindann G. Fleig
Standard Office Systems
CHIEF EXECUTIVE OFFICER
Alan R. Gianini

February 16, 1994

Directors-at-Large

James R. Daley
Sunrise Bank of California
Norman E. Ellert
A. Teichert & Son, Inc.
Richard Hall
Intel Corporation
David M. Higgins
Harbison-Mahony-Higgins
William Honeysett
McClatchy Newspapers
Edward J. Hurley, M.D.
UCDMC, School of Medicine
Larry Kelley
Stanford Ranch
Michael Kirk
Sylva-Kirk
Roger B. Kohlmeier
Business and Professional Bank
Michael Lyon
Lyon Associates Realtors
Kenneth M. J. J. J. J.
NEC Electronics, Inc.
Frank C. Ramos
Ramco Enterprises
Phillip A. Stohr
Downey Brand Seymour
& Rohwer
Gaylord Walker
GAYLORD, Incorporated
David J. Zuercher
Wells Fargo Bank, N.A.

MEMORANDUM

TO: INTERESTED PARTIES
FROM: Alan R. Gianini, Executive Director
RE: SACTO Quarterly Governmental Report,
October, November, December 1993

Here is SACTO's Quarterly Report for October, November, December 1993. Your opinions are important to us. We need to know if SACTO is accomplishing what you expect us to and if you would like to see any other information included in this report.

Thank you in advance for your time.

Appointed Directors

Hon. Joan Bechtel
County of Sutter
Hon. Sam Bradley
County of El Dorado
Thomas W. Eres
Nossaman, Guthner, Knox
& Elliott
Hon. Muriel Johnson
County of Sacramento
Hon. Phil Ozenick
County of Placer
Hon. Dave Rosenberg
City of Davis
Hon. Joe Serna
City of Sacramento

Ex-Officio Directors

William H. Collard
Friedman & Collard
Joseph S. Genshlea
Weintraub Genshlea & Sproul
G. Samuel Oki
Oki Nursery
Ralph E. Vitello
Vitello + Associates, Inc.
IMMEDIATE PAST PRESIDENT
Elizabeth McClatchy

SACTO
SACRAMENTO AREA COMMERCE AND TRADE ORGANIZATION

EXECUTIVE SUMMARY - QUARTER ENDED DECEMBER 31, 1993

HIGHLIGHTS

- Attended IDRC Meeting, Scottsdale, Arizona, October, 1993.
- Marketing trips were made to the Bay Area and Los Angeles.
- Updated numerous publications.
- Matched the \$37,500 challenge made by SMUD for Target 10,000.
- Held Board Strategic Planning Retreat in Squaw Valley, October 7-8, 1993.
- Co-sponsored European Biotech Conference at UCD, November, 1993.

STATISTICAL

	Quarter Ending <u>Dec. 31</u>	Current <u>YTD</u>	Previous Year - <u>YTD</u>
Members	416	416	404
Member Support (cash basis)			
- private	\$123,900	\$171,198	\$155,300
- public	\$46,650	\$143,600	\$78,100
- other	\$25,130	\$88,219	\$75,363
Total receipts (cash)	\$195,680	\$403,017	\$308,763
Expenses			
- administration*	\$56,365	\$118,155	\$120,615
- marketing*	\$67,254	\$127,162	\$123,396
- membership & misc.	\$29,429	\$55,713	\$51,753
SACTO assisted companies announced	0	3	5
Direct jobs expected	0	260	630
Active prospects	78	64	82

**NOTES
AND DATES**

- Marketing trips planned to the Bay Area and Los Angeles.
- SACTO Membership Celebration, U.S. Bank Plaza's 25th Floor, January 26, 1994.
- Winter 1994 Economic Profile to be published, February, 1994.
- Annual Breakfast at Sacramento Convention Center Exhibit Hall, Keynote Speaker: H. Ross Perot, May 4, 1994.
- Plant Tour at Franklin Fund, March 22, 1994.

SACTO
 980 9TH STREET, SUITE 1730
 SACRAMENTO, CA 95814
 (916) 441-2144
 FAX#: 441-2312

**REPORT TO THE GOVERNMENTAL ORGANIZATION MEMBERS
by the
SACRAMENTO AREA COMMERCE & TRADE ORGANIZATION**

FOR THE PERIOD COVERING
OCTOBER, NOVEMBER, DECEMBER 1993

CONTENTS

I. BRIEF STATEMENT OF SERVICES

1. Purposes of Fund Expenditures
2. Any Direct Personal Benefits
3. The Number of Performances, Appearances or Publications
 - A. Performances and Appearances
 - B. Publicity
 - C. Publications
4. The Estimated Amount of Funds Expended Upon Services

II. ADDITIONAL INFORMATION COVERING PREVIOUS THREE MONTHS

1. General Activities
2. Prospect Activity

APPENDIX I Financial Statements Quarter Ending December 31, 1993

APPENDIX II Prospect Activity

REPORT TO GOVERNMENTAL ORGANIZATION MEMBERS
SACRAMENTO AREA COMMERCE AND TRADE ORGANIZATION
October, November, December 1993

I. STATEMENT OF SERVICES

1. Purpose of Fund Expenditure

The overall purpose of the Sacramento Area Commerce and Trade Organization (SACTO) is to encourage the economic growth of the five-county Greater Sacramento Area.

2. Any Direct Personal Benefits

SACTO bylaws prohibit any direct personal gain from any of its activities or funds. Consistent with its bylaws, no direct personal gain accrued to any individual during the reporting period, and none will accrue in future reporting periods.

3. The Number of Performances, Appearances, or Publications

A. Performances and Appearances

1. Made quarterly presentation to City & County of Sacramento.
2. Attended IDRC Bay Area Chapter and Scottsdale, Arizona Meeting.

B. Publicity

SACTO's efforts were publicized in the following media articles:

1. Business Journal "Local Economic Development Mavens," October 11, 1993.
2. Business Journal, "As Japan Visitors Arrive, One Firm Packs Up To Leave," October 11, 1993.
3. Business Journal, "Campbell Staying? It's Almost Soup," October 25, 1993.
4. Sacramento Bee, "Area Officials Hit The Road In Push For New Industry," November 3, 1993.
5. Business Journal "Many High Mucky Mucks," November 8, 1993.

6. Business Journal "Two Weeks Ago, 25...", November 8, 1993.
7. Business Journal, "Intel Speeds Up Folsom Plan," November 8, 1993.
8. Sacramento Bee, "Freeman's Final Quest--To Flip Economy On" November 8, 1993.
9. Sacramento Bee, "NEC To Boost Chip Output, Add 250 Jobs In Roseville," November 29, 1993.
10. Sacramento Bee, "Texans Say No To Apple Morals, Jobs," September 21, 1993.
11. Sacramento Bee, "South State Business Relocates To Capital," December 2, 1993.
12. Sacramento Bee, "Plants: Campbell Offered Incentives," December 6, 1993.
13. Sacramento Bee, "Fate of Campbell, P & G Plants Far Apart," December 6, 1993.
14. Sacramento Bee, "SACTO Reaches Funding Target," December 14, 1993.

C. Publications

SACTO has developed and made available a full-spectrum of publications. A description of publications and their contents and costs is available upon request.

This quarter the following publications were updated: *Bay Area/Sacramento Comparison*, *Los Angeles/Sacramento Comparison*, *Located Companies List*, *SACTO Membership/Business Directory*, and *SACTO Reports*, the organization's newsletter.

4. The Estimated Amount of Funds Expended Upon Services

Appendix I will reveal the breakdown of expenditures on services.

II. ADDITIONAL INFORMATION COVERING PREVIOUS THREE MONTHS

1. General Activities

There were numerous SACTO activities during the past reporting period of interest to public sector members. SACTO met with and made presentations to the elected bodies of all the local governments in region. Activities related to organizational management, including committee meetings, membership meetings and planning sessions were also conducted. Much time and effort is spent on research, which is a significant portion of SACTO's activities.

2. Prospect Activity

A listing of SACTO company prospects by prospect number is provided in Appendix II and specific visits were mentioned earlier in Section I, Item 3, The number of Performances, Appearances or Publications.

LOCATED COMPANIES

In Appendix II are two charts, one indicating the number of SACTO-assisted prospect announcements since 1984, and the other, the number of SACTO prospect contacts since fiscal year 1985/86.

APPENDIX I

SACRAMENTO AREA COMMERCE
AND TRADE ORGANIZATION

DECEMBER 31, 1993

SACRAMENTO AREA COMMERCE AND TRADE ORGANIZATION
 STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE
 DECEMBER 31, 1993

ASSETS

CURRENT ASSETS:	
CASH - UNRESTRICTED	219,291
RESTRICTED RESERVES (SEE NOTE 1)	50,000
CAPITAL RESERVE	24,714
PREPAID EXPENSES	7,873

TOTAL CURRENT ASSETS	301,878

PROPERTY AND EQUIPMENT	
OFFICE FURNITURE AND EQUIPMENT	107,638

	107,638
LESS ACCUMULATED DEPRECIATION	84,575

TOTAL PROPERTY AND EQUIPMENT	23,063

	324,941
	=====

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES:	
ACCOUNTS PAYABLE	916
ACCOUNTS PAYABLE-RENT	29,098
ACCRUED EMPLOYEE VACATION LIABILITY	8,978

TOTAL CURRENT LIABILITIES	38,992

TOTAL LIABILITIES	38,992

FUND BALANCE	
UNRESTRICTED	191,156
YEAR TO DATE EXCESS REVENUE OVER (EXPENDITURES)	94,791

ENDING FUND BALANCE	285,947

DIFFERENCE ON ROUNDING	2

	324,941
	=====

NOTE 1: AVAILABLE IN THE EVENT OF A REVENUE-SHORT FISCAL YEAR,
 SPECIAL OPPORTUNITIES OR SPECIAL PROJECTS WITH A MAJORITY
 VOTE OF THE BOARD OF DIRECTORS OR EXECUTIVE COMMITTEE

SACRAMENTO AREA COMMERCE AND TRADE ORGANIZATION

STATEMENT OF REVENUE COLLECTED, EXPENDITURES AND FUND BALANCE-CASH BASIS

6 MONTHS ENDED DECEMBER 31, 1993

	CURRENT MONTH ACTUAL	CURRENT MONTH BUDGET	YEAR TO DATE ACTUAL	YEAR TO DATE BUDGET	OVER (UNDER) BUDGET	PRIOR YEAR TO DATE
REVENUE						
PRIVATE SECTOR	34,400	33,400	130,723	155,300	(24,577)	155,300
TARGET 10,000*	24,275	0	40,475	0	40,475	0
PUBLIC SECTOR	18,317	250	143,600	64,100	79,500	78,100
MEETING REVENUE	1,142	0	65,911	60,000	5,911	63,537
PUBLICATIONS SALES	636	1,000	3,509	6,000	(2,491)	6,622
INTEREST INCOME	304	600	3,553	3,000	553	2,573
OTHER INCOME	3,575	6,150	15,246	11,500	3,746	2,631
TOTAL REVENUE	82,649	41,400	403,017	299,900	103,117	308,763
EXPENDITURES						
SALARIES	16,047	21,800	117,781	115,800	1,981	115,254
EMPLOYEE BENEFITS	2,562	3,347	16,069	20,082	(4,013)	16,763
PAYROLL TAXES	812	1,000	6,687	6,700	(13)	6,643
TOTAL STAFF MAINTENANCE EXPENDITURES	19,421	26,147	140,537	142,582	(2,045)	138,660
INSURANCE	(1,550)	550	1,915	3,300	(1,385)	3,987
OFFICE EXPENSE	1,309	1,800	10,071	10,800	(729)	10,493
TRANSPORTATION-AUTO	411	1,025	3,073	4,025	(952)	296
EXECUTIVE COMMITTEE AND BOARD MEETINGS	43	50	3,580	1,100	2,480	6,985
RENT	3,708	3,664	22,460	21,984	476	20,916
PARKING	490	645	3,323	3,868	(545)	2,809
PROFESSIONAL SERVICES	11	0	2,716	3,000	(284)	5,239
PERSONAL PROPERTY TAXES	54	0	749	800	(51)	560
TOTAL ADMINISTRATIVE EXPENDITURES	4,476	7,734	47,887	48,877	(990)	51,285
POSTAGE	1,275	1,000	6,213	6,000	213	7,502
TELEPHONE	1,368	700	5,945	4,200	1,745	4,563
DUES AND SUBSCRIPTIONS	(15)	85	1,216	1,331	(115)	805
PRINTING	0	800	2,460	4,800	(2,340)	5,070
RESEARCH	0	2,145	14,000	16,145	(2,145)	7,930
PROMOTIONAL MATERIALS	189	300	9,291	7,800	1,491	7,856
SPECIAL MEETINGS-PROSPECTS	1,084	700	12,768	21,200	(8,432)	19,621
TRAVEL	0	200	0	1,200	(1,200)	719
TARGET 10,000	5,000	0	5,000	0	5,000	0
TOTAL MARKETING EXPENDITURES	8,901	5,930	56,893	62,676	(5,783)	54,066

SACRAMENTO AREA COMMERCE AND TRADE ORGANIZATION

STATEMENT OF REVENUE COLLECTED, EXPENDITURES AND FUND BALANCE-CASH BASIS

6 MONTHS ENDED DECEMBER 31, 1993

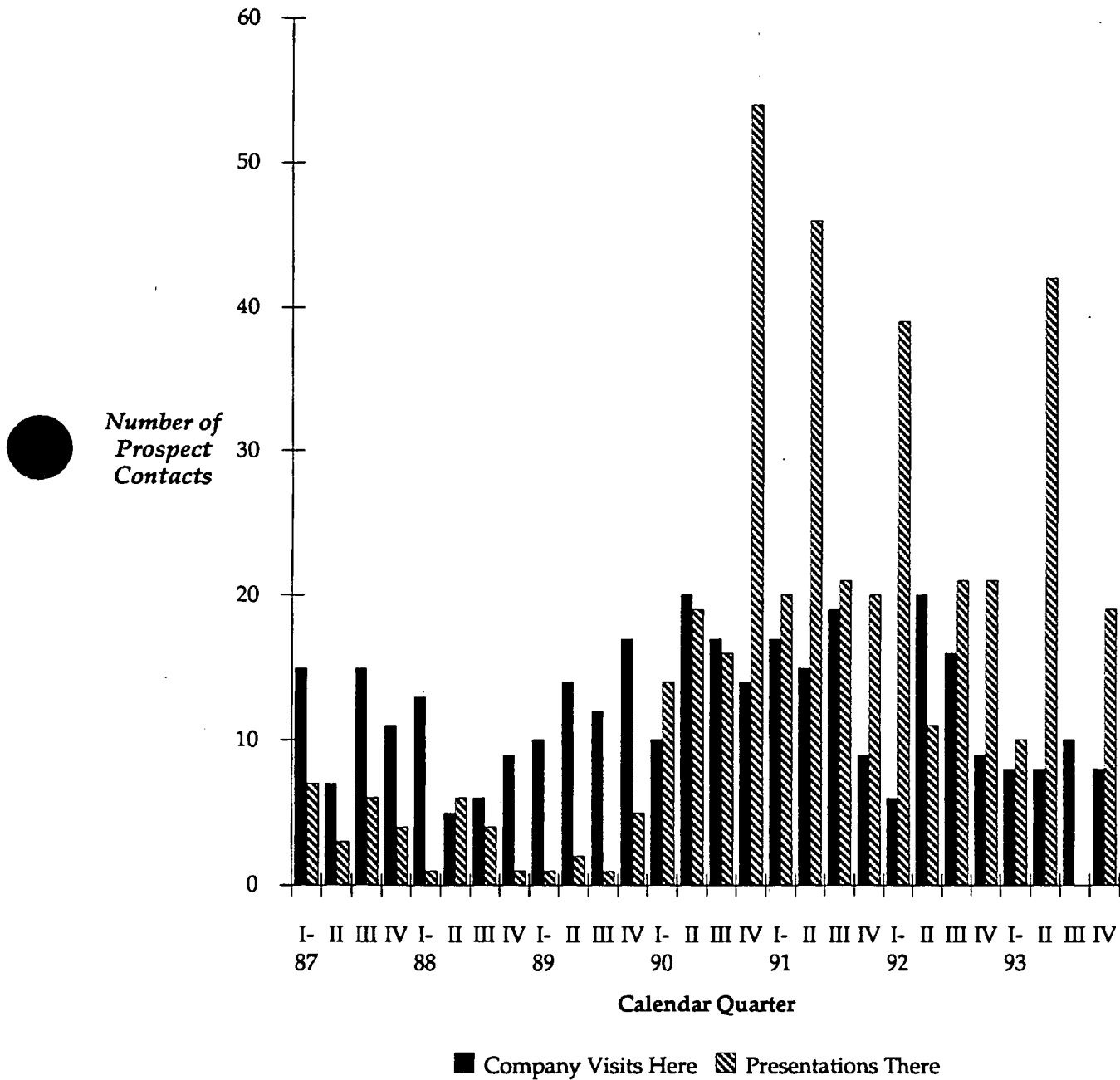
	CURRENT MONTH ACTUAL	CURRENT MONTH BUDGET	YEAR TO DATE ACTUAL	YEAR TO DATE BUDGET	OVER (UNDER) BUDGET	PRIOR YEAR TO DATE
LOCAL MEETINGS/PUBLIC RELATIONS	28	200	752	1,200	(448)	1,030
MEMBERSHIP PROMOTION	0	200	3,330	1,200	2,130	532
MEMBERSHIP MEETINGS	0	0	47,078	47,000	78	41,531
ANNUAL EVENT	0	0	0	0	0	73
OTHER MEETINGS	0	300	876	1,800	(924)	3,746
NEWSLETTER	7	2,100	2,424	6,300	(3,876)	4,054
PUBLICATIONS EXPENSE	135	300	1,253	1,800	(547)	787
TOTAL MEMBERSHIP & MISC EXPENDITURES	170	3,100	55,713	59,300	(3,587)	51,753
TOTAL EXPENDITURES BEFORE DEPRECIATION	32,968	42,911	301,030	313,435	(12,405)	295,764
DEPRECIATION	1,206	1,200	7,197	7,200	(3)	6,446
TOTAL EXPENDITURES AFTER DEPRECIATION	34,174	44,111	308,227	320,635	(12,408)	302,210
EXCESS OF REVENUE OVER (EXPENDITURES)	48,475	(2,711)	94,790	(20,735)	115,525	6,553

*NOTE: THIS REVENUE IS A FIVE-YEAR COMMITMENT OF MEMBERSHIP TOWARD THE SMUD CHALLENGE TO MATCH SMUD'S DONATION OF \$37,500. YEAR TO DATE EXCESS REV/EXP MUST BE EQUAL TO OR GREATER THAN THIS AMOUNT.

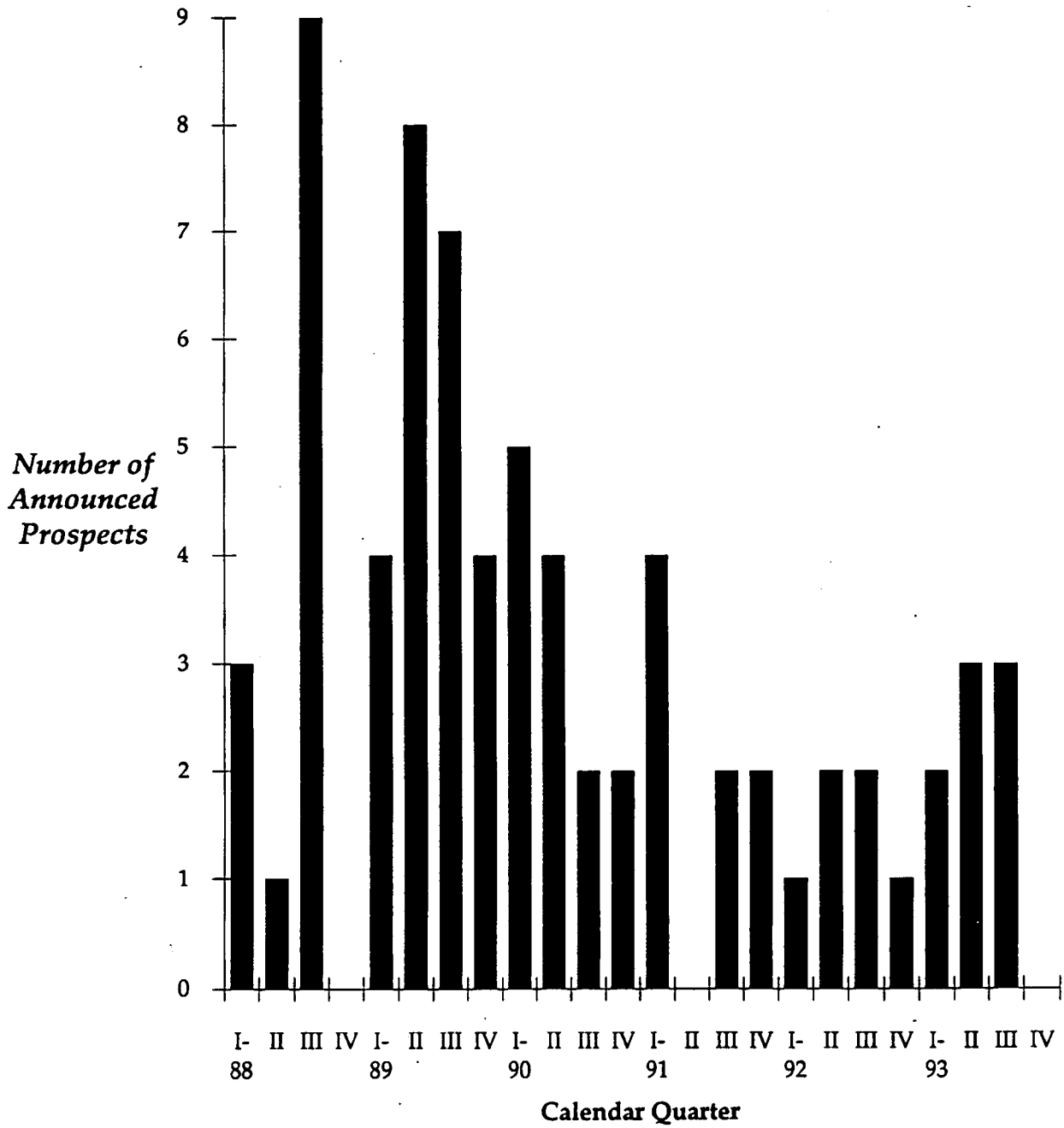
APPENDIX II

PROSPECT VISITS AND PRESENTATIONS

January 1, 1987 - December 31, 1993



SACTO ASSISTED COMPANY LOCATIONS
January 1, 1988 - December 31, 1993



ULTIMATE NUMBER OF JOBS ANNOUNCED BY SACTO ASSISTED LOCATIONS (Page 2)

Company	City of Sac.	SACTO'S FOUR COUNTIES				Not Yet Known	Year Total	% Jobs Sac. City	% Jobs Sac. Co.	Comments
		County Sac.	County Yolo	County Placer	County El Drdo					
'86/87 Crown Zellerbach			40						Ultimate jobs n/a	
'86/87 Elzinga & Volkers	5	5								
'86/87 Postle West, Inc.			10							
'86/87 Leer, Inc.			125							
'86/87 Ace Hardware				150						
'86/87 West Coast Disco			10							
'86/87 BOXit	3	3								
'86/87 3M Company				5000					Long-term project	
'86/87 National Education	25	25								
'86/87 Sunfield Foods	25	25								
'86/87 White Brothers	5	5								
TOTAL	22	283	483	185	5180	0	0	8518	0.08	0.08
'87/88 Wireman Fence			25							
'87/88 Haley Brothers	30	30								
'87/88 Unisource			89							
'87/88 Canyon Products, Inc.	20	20								
'87/88 Sherwin-Williams Company	13	13								
'87/88 San Sierra Business Systems	135	135								
'87/88 Power Technologies				6						
'87/88 Queen City	25	25								
'87/88 CSAA	85	85								
'87/88 CSAA				100						
'87/88 Philadelphia Life Insurance	10	10								
'87/88 PASCO Scientific				50						
'87/88 Barnett Brass & Copper	10	10								
'87/88 Geochemical Services				100						
'87/88 Dana Commercial Credit				75						
TOTAL	15	328	333	89	331	0	0	773	0.42	0.46
'88/89 Western Web			10							
'88/89 SAMTEC Electronics	30	30							Located in Enterprise Zone	
'88/89 Norwall Group	6	6								
'88/89 Hartz Mountain				90						
'88/89 Northern Telecom	250	250							Expansion and relocation	
'88/89 S.P. Richards	30	30								
'88/89 Continental Medical				6						
'88/89 National Sanitation			20							
'88/89 California Roll			50							

ULTIMATE NUMBER OF JOBS ANNOUNCED BY SACTO ASSISTED LOCATIONS (Page 3)

Company	City of Sac.	SACTO'S FOUR COUNTIES				Not Yet Known	Year Total	% Jobs Sac. City	% Jobs Sac. Co.	Comments
		County Sac.	County Yolo	County Placer	County El Drdo					
'88/89 Insulate Industries	50	50							Located in Enterprise Zone Expansion and relocation Located in Enterprise Zone Only expansion jobs shown / total 1,100	
'88/89 Baxter Microscan			500							
'88/89 Milgard Tempering	150	150								
'88/89 Anray, Inc.	40	40								
'88/89 Alside	40	40								
'88/89 NEC Electronics				400						
'88/89 Habitat, Inc.	70	70								
'88/89 Egghead Software	85	85								
'88/89 Maranatha Flights	7	7								
TOTAL	24	758	560	406	0	1834	0.41	0.47		
'89/90 Continental Hardwood	20	20								
'89/90 Gekkeikan		26								
'89/90 Saturn Corporation	15	15								
'89/90 France Hug	6	6								
'89/90 American Biogenetics	8	8								
'89/90 Eureka Computer Software	5	5								
'89/90 Bylin Heating Systems	30	30								
'89/90 Nordson Corporation				4						
'89/90 C&K Systems					100					
'89/90 Kikusui International Corp.					200					
'89/90 MCI Telecommunications		1000								
'89/90 Robb-Jack Corporation				50						
'89/90 Clark Security Systems			20							
'89/90 American President Lines	20	20								
'89/90 Shriner's Hospital	250	250								
'89/90 Motor Works, Inc.	10	10								
'89/90 AdServ				100						
'89/90 Synesis				100						
'89/90 First Nationwide Bank			500							
TOTAL	19	364	1390	520	254	300	2464	0.15	0.56	
'90/91 Buildex	10	10								
'90/91 Sonoco Products Company		50								
'90/91 Ebara International	100	100								
'90/91 Sunbelt Telecommunications			10							
'90/91 Roadway Package Systems	100	900								

ULTIMATE NUMBER OF JOBS ANNOUNCED BY SACTO ASSISTED LOCATIONS (Page 3)

	Company	City of Sac.	SACTO'S FOUR COUNTIES				Not Yet Known	Year Total	% Jobs Sac. City	% Jobs Sac. Co.	Comments
			County Sac.	County Yolo	County Placer	County El Drdo					
'90/91	Mazda Motor of America			50							
'90/91	Duewag Corporation	120	120								
'90/91	The Gap				20						
TOTAL		9	330	60	50	0	0	2580	0.13	0.46	
'91/92	Aspect Electronics				30						
'91/92	Poolmasters		80								
'91/92	Apple Computer Inc.		150								
'91/92	Franklin Resources		500								
'91/92	US Sprint		400								
'91/92	Prudential				30						
'91/92	Safety Kleen	20	20								
'91/92	Staples & Fifer		15								
TOTAL		8	20	1165	0	60	0	0	0.00	0.00	
'92/93	Apple Computer Inc.		380								
'92/93	Harris & Bruno				55						
'92/93	Universal Display	15	15								
'92/93	Grimes			100							
'92/93	Intermag	100	100								
'92/93	Schoolhouse Software				15						
'92/93	ATEC Grandslam	15	15								
'92/93	Logistix	70	70								
TOTAL		8	200	580	100	70	0	0	0.00	0.00	
'93/94	EUA Nova					40					
'93/94	Rotordynamics		20								
'93/94	Futurecall		200								
TOTAL		3	0	220	0	0	40	0	0.00	0.00	

A Brief Analysis of Incentives:

"How Can Incentives Be Justified?"

and

"How Much is Enough"

Table of Contents

- **Background and Incentive Overview**
- **How Can Incentives Be Justified?**
- **How Much is Enough?**
 - Rough Rules of Thumb
 - Total Economic Impact of Project
 - Other Factors to Consider
 - Example of Incentive Package Design
- **How Much Will Make A Difference?**
 - Examples
 - Potential Incentive Package Funding
 - Mechanisms
- **Summary**
- **Next Steps**

Background

- Like communities nationwide, the Greater Sacramento Area is constantly faced with the questions:
 - ✓ How can incentives be justified?
 - ✓ What level of incentives should be provided to attract/retain a project?

Incentive Overview

- **Are Incentives Important?**
- **What Are the Objectives of Incentives?**
- **What Can't Incentives Do?**
- **What Can Incentives Do?**

Are Incentives Important?

- Incentive availability is increasing in importance to corporate executives; as a result, they are ranking it higher on their list of location criteria; however, incentives can not make an inappropriate location appropriate.
- Many clients are requiring that areas be screened by incentive potential.
- Why?
 - ✓ Fewer projects
 - ✓ More and increasingly sophisticated competition
 - ✓ Increasingly capital intensive projects
 - ✓ Business climate and low operating costs are critical to the location decision
 - ✓ Corporate boards now expect it

What Are the Objectives of Incentives?

- Community Perspective:
 - ✓ To attract and/or retain desirable companies which diversify the economy of the area while creating good jobs and increasing the tax base.

- Corporate Perspective:
 - ✓ To narrow choice from 2 to 3 acceptable locations to the preferred location.

 - ✓ To reduce start-up costs during the period when it is most difficult for the facility to meet required financial hurdles. (Tax abatements, utility cost reductions, financing incentives, etc.)

 - ✓ To ensure smooth transition into operation in the desired location. (Infrastructure, training, site preparation, etc.)

- The end result should be a satisfied community and satisfied company.

What Can't Incentives Do?

Incentives can not make a poor location choice good. They can not:

- Overcome fundamental cost differences
- Overcome fatal locational flaws (market proximity, labor availability and cost, transportation, etc.)
- Overcome significant company financial problems.

What Can Incentives Do?

Incentives can make a real difference in attracting/retaining projects in some case:

- Among competing localities/states where costs and conditions are very close
- Right state, right region, but correctable local deficiencies
- To reduce start-up costs and to make a project more financially feasible in the early years
- Stay or go decisions
 - ✓ To offset advantages elsewhere (Encourage stay decision of existing company - Retention)
 - ✓ To offset relocation costs (Encourage a close go decision of company from elsewhere - Attraction)
- Closing the Deal

How Can Incentives Be Justified?

- In general, SACTO recommends that states and communities view incentives as self-funding. Revenues generated by the total impact of the project are utilized to offset the cost of the incentives offered to the project. Incentives funded from the incremental impact of the project are not a "give away" since only a portion of revenues not previously in existence are being utilized:

Funds created by the project are used to pay for the project incentives. The state/community retains the revenue generated by the project impact not used to fund incentives and benefits from the creation of jobs.

- Making incentives available to local companies undergoing expansion or seriously considering relocation due to cost disadvantages of its current location can:

- ✓ help address the common objection faced by many communities that incentives are only offered to new projects while existing businesses are ignored

- ✓ create a more positive business climate

- Incentives can close the deal in today's competitive development arena. In close competition, the incentive package often determines which area gets the project.

How Much is Enough?

- Determining how much is enough is a complex undertaking which must incorporate not only the financial impact of the project but also its overall desirability.
- Not all incentives are under the direct control of the City. The incentive package will likely include components from the State, the County, the City, utilities, private economic development groups, and/or other entities. Therefore, a partnership will be required to put the incentive package together.

Create a "Power Consortium"

Therefore, to successfully implement an appropriate incentive policy, you must have the appropriate parties involved in the process. Include all key decision makers who can make incentives happen and clearly define roles and responsibilities. Members should include:

- ✓ Local economic development officials
- ✓ Regional economic development officials
- ✓ State economic development officials
- ✓ Utility economic development officials
- ✓ Local bankers
- ✓ Others as necessary

How Much Does the Project Justify?

Determining the total value of incentives appropriate to offer a given project can be difficult. Adherence to a logical process based on the total project impact and its overall desirability (community development strategy) will insure a consistent approach to the development of justifiable incentive packages:

- Step 1: Estimate incentive range using rough rules of thumb.
- Step 2: Evaluate total project impact.
- Step 3: Consider other factors regarding projects. (What kind of company? What kind of jobs?)
- Step 4: Refine estimate of incentive range based on these other factors.

Rough Rules of Thumb to Determine the Incentive Range Justified by a Project

Some Examples

	<i>Investment</i>	<i>Employment</i>	<i>Incentives</i>	<i>Incentive as % of Investment</i>	<i>Incentives per Employee</i>
Toyota/Kentucky	\$800 MM	3,000	\$125 MM	15.5%	\$41,700
Kimberly-Clark/Oklahoma	\$140 MM	300	\$24 MM	17.0%	\$80,000
Continental Air/Texas	NR	4,000 to 8,000	\$300 MM	NR	\$37,500 to \$75,000
Mitsubishi-Chrysler/Illinois	\$500 MM	2,500	\$155 MM	31.2%	\$62,000

Estimate of Incentive Range (Rough Rules of Thumb)

5 to 30% of Investment

or

\$10,000 or \$80,000 / Job

Other Factors to Consider When Determining the Incentive Package

In addition to the quantifiable financial impact of projects, the overall desirability of projects must be considered when developing an incentive package. Some of the factors to consider are:

	<u>Negative</u>			<u>Positive</u>	
Number of Direct New Suppliers	1	2	3	4	5
Quality of Jobs Created	1	2	3	4	5
Match of Jobs to Area	1	2	3	4	5
Match of Business to Area	1	2	3	4	5
Impact as a Utility User	1	2	3	4	5
Environmental Impact User	1	2	3	4	5
Other	1	2	3	4	5
	Lower End of Range			Higher End of Range	

How Much Will Make a Difference?

- There is no single "magic number"; how much will make a difference must be analyzed case by case. However, based on incentive negotiations experience and analysis of other incentive packages, some general conclusions can be drawn:
 - ✓ To be competitive with other area's incentive packages, the rules of thumb say that incentives should be in the \$10,000 - \$80,000 per job range or the 5% - 30% of investment range.
 - ✓ Where the incentive package falls within this range will be determined by the total project impact and overall fit of the company with the community. Large employment, capital intensive projects will likely be at the high end of the range with smaller employers at the lower end.
 - ✓ Whether this is enough depends on how total operating costs and business climates compare among the competing locations.

- In the process of determining how much will make a difference, various factors must be considered:
 - ✓ Who is your competition? How do operating costs and overall business climate compare?
 - ✓ Where is the company from? Why are then considering your area?
 - ✓ How well does the company meet the community's strategic development criteria?

How Much Will Make a Difference? Examples

Example 1: Small Machining Company (50 employees; \$6,750,000 investment)

A small sized company with a moderately skilled, moderately paid workforce considering relocation from the Bay Area to the Greater Sacramento Area which has significant business and personal reasons for remaining in the Bay Area. The company has little supplier impact, relatively low utility usage, and no significant environmental impact. In this case, a relatively small incentive package at the lower end of the estimated range would likely be enough to entice the company to move out of the Bay Area since relocation costs would be small and the company probably desires to remain in the area.

Example 2: Medium Metal-Working Company (250 jobs; \$26,000,000 investment)

A medium sized metal-working company headquartered in the Bay Area is considering expansion in the Greater Sacramento Area. The company has moderately skilled and paid employees, a small supplier impact, and is a moderate utility user but does have some potential environmental concerns. In this case, the incentive package would be at the low end of moderate since the project does offer an attractive number of jobs but has a moderate impact overall and a likelihood to be in the Bay Area to be close to existing operations.

Example 3: Large Electronic Company (500 jobs; \$122,500,000 investment)

A large, high visibility project considering multiple western states for a new electronic facility. The company has many high skilled, high paying jobs and is a large utility user but also has a somewhat negative environmental impact and only a small supplier impact. In this case, the incentive package would likely be in the moderate to high range since:

- ✓ the Greater Sacramento Area would be in competition with a number of other equally viable areas, some with potentially lower operating costs and less restrictive business climates
- ✓ the company would need to overcome significant start-up costs
- ✓ the project impact justifies a larger incentive package
- ✓ the project has significant potential to attract support companies
- ✓ the company is an excellent match for the area

Summary

- Understand the importance and objectives and realize what incentives can and can't do.
- Understand that self-funding incentives are economically justifiable.
- Realize you need a partnership or "power consortium" to make the economic development process and incentive package development process work.
- Determine how much is justified by a project:
 - ✓ Rough rules of thumb
 - ✓ Understand total project impact
 - ✓ Consider other factors such as company match to area and job quality
 - ✓ Design a justifiable incentive package meeting key industry needs.
- Realize there is no "magic number" that will make a difference; incentive packages must be determined on a case by case basis within the context of the business climate and overall operating cost structure of the areas under consideration as well as with an understanding of the total project impact and desirability.

Next Steps

Develop a comprehensive economic development strategy:

- Review economic development organization/ team
- Conduct strengths and weaknesses assessment
- Identify and understand appropriate targets
- Develop suitable marketing strategy
- Formulate an appropriate incentive strategy

