

THE BEST THINGS IN LIFE MAY NOT ACTUALLY BE FREE

WEIGHING THE COSTS AND BENEFITS ACCOMPANYING DEVELOPMENT INCENTIVES

So, you're looking to build a new facility or need to expand your current one? There are several incentives offered by local and state government agencies that you may be able to take advantage of when developing large projects. The facilities we build bring jobs and economic growth to support communities; these agencies understand that value and offer support to encourage selection of their location over others. Sometimes that includes land provided to a client at a greatly reduced price, or at times, free of charge. Free (or discounted) land can be beneficial to both the client and community. However, sometimes it can be a real mistake for a client - this is where guidance from a design firm like POWER can make all the difference.

How to get hooked without getting caught: Why you should get an architectural or engineering design firm involved early-on.

As an architect and project manager, I have supported many design-build projects and developed numerous sites for clients. Getting a design firm into the mix before committing to a site, especially one provided as an incentive, is crucial to project success. In order to negotiate incentives effectively, the client needs all of the information available, along with experienced support, to fully understand the site and associated infrastructure.

If a client knows how to inquire or is guided by a knowledgeable source, there are many opportunities that can be used to lessen development costs, such as free or discounted land, utility infrastructure, tax abatements, grants, training, human resource demographics, zoning, and permitting, among others. An interested buyer needs to understand what each incentive covers and what it does not. Development incentives have limitations which tend to get more restrictive once the client has committed to a community.



The goal is to get every incentive available to your client and negotiate the package of incentives they need to develop their new business into a successful member of the community.

“Free Land” – A disappointing site investigation and an expensive remediation.

I designed a facility for a client in Kansas City that was situated on free land. This client had already worked with the local government and was eager to have free land to build on. They had agreed to develop their facility before we were hired to support them. By the time we reviewed the site and did our due diligence investigation, including geotechnical reports, we realized that the land had been a dump site many years before. The land had been filled with poor quality soil; as a result we were not able to achieve an acceptable bearing capacity and would not be able to use shallow foundations. The entire facility would require piles and a large amount of subsurface soil removal, treatment and replacement.

Unfortunately, the client was already committed to the land and had to include these costs in their budget which impacted the success of the project. This problem could have been avoided or mitigated by having a

qualified design team review the land before the client accepted it from the agency.

Similarly, I supported a massive 600,000 sf greenfield project in New York state. This was a wonderful opportunity for the state and they were providing land as an incentive for our client to situate there. The site was given to our client, free of charge. To make the land usable, our client had to spend over \$13 million on wetland remediation and rock removal. We estimated the land value for property in the same area, with no need for rock removal or wetland abatement, to be approximately \$2 million. It's a safe assumption that our client did not feel they benefited from the total value they were hoping for from this incentive.

These communities are not attempting to do anything underhanded; they have the opportunity to bring new commerce to their community through offering incentives. The land they have is simply the land they have to offer. They often don't know what the subsurface

THE BEST THINGS IN LIFE MAY NOT ACTUALLY BE FREE

conditions are. That being said, in both of these examples our client may have been better off to receive incentives that did not include free land.

Incentive land isn't always this troublesome or labor-intensive. I've worked on several projects in which we did the due diligence first and experienced numerous benefits stemming from land incentives provided by the local communities.

Finding a site is not just about developing the location. Access to transportation, as well as utility needs such as water, electricity, gas, sewer and others are critical to consider.

Utilities have cost implications to a facility, both during construction and in its operating lifecycle costs. For example, if the site can't deliver enough water pressure, you may need fire protection tanks or pumps. Additionally, if a site has critical power considerations, we need to not only understand the power needs, but the reliability requirements of the local infrastructure.

I have encountered several communities that have weak utility infrastructures that need funding and time in order to deliver services reliably. In one case, we were developing a plant site for a client and the natural gas provider offered to supply a natural gas feed to the site. Our client was a substantial user, so offering this type of incentive was not uncommon. After a more detailed investigation, we realized the provider would only offer this if the plant would accept an "interruptible" gas service agreement. This meant the supplier could reduce or limit the feed of gas at times of the year based on their overall demand loads. An interruption of that sort would not have been feasible for our client; they decided to run the new line themselves. This was a million dollar cost, *but they were aware of the budget before they decided to develop the site and could make a fair and*

informed decision - instead of getting hit with a change while developing their facility.

Economic development agencies, and their incentives, offer a breadth of possibility for companies who plan to build. Although at times, associated challenges take the spotlight, I have had great experiences working with local and state entities. In fact, a previous client fell in love with a site, but we found that the facility would require conditional use permitting based on the area's zoning regulations. Originally, our client went to a large attorney in Atlanta to involve them in getting the conditional use approved by the local community's zoning board.

The head of the economic development agency, who we had been working closely with for months, reached out to me to guide us in not "lawyering up". They suggested that just myself and one other design team member present our plans and drawings to the zoning board. We did just that and in one short meeting we received the approval we needed and our client saved lots on attorney's fees. This may not be the most effective method for all zoning hearings, but in this case, using our design firm as a liaison *with* the local economic development team was effective. Our client was able to earn their trust and join the community without resistance.

Incentive negotiation should be considered at every potential opportunity.

If a plant intends to expand, additional incentives may become available, but they might not be as significant as those at the onset of a project. If you can negotiate incentives today and for tomorrow during the initial development, you stand a much better chance of gaining better options than if you wait until you want to grow and can't go anywhere else.

Whether your company is planning for an expansion, or an entirely new

building, incentive discussions are not an easy process. It takes time to develop a robust understanding of project needs, and what the different communities can offer. A good partner with effective due diligence processes can bring significant help to a client looking to develop. *This sometimes means turning down free or discounted land, and working on other incentives that can benefit the project and your company.* There is always risk involved in any project; the best way to mitigate extra cost or heartache is to understand it and work to either avoid it or plan for it.

Economic development negotiations can, and in some cases, should be handled by knowledgeable engineering and design firms. When clients have included our team in their process of finding a site and supporting economic development negotiations, I believe they have received "**real value**".



By Daniel Krancer, Senior Project Manager, Business Unit Director

Facilities Division, POWER Engineers, Inc.

About the Author: Dan has a 5-year Architectural degree and is a Senior Project Manager with an aptitude for cultivating lasting client relationships. Throughout his 25-year career, he has supported many design-build and design-build fast track projects. He has assisted his clients through the development process of countless sites. Dan currently acts as a Business Unit Director, Client Executive to several of POWER's key clients, and leads POWER's facilities production A/E teams.