



Incentive Classification - Initial Questionnaire

“IC - IQ”

Municipalities constitute the primary mechanism in evaluating entities seeking an incentive classification. Among the myriad of elements that should be evaluated by the municipality (i.e., property tax rates, zoning, socio-economic issues, etc.), the IC-IQ can be utilized as part of the initial stages of evaluating parties seeking an incentive. The IC-IQ does not quantify business risk or the risk of granting an incentive to a business that may subsequently close its doors, nor does it quantify the distribution of the tax burden due to the granting of an incentive classification. Business risks are difficult to quantify, but a business can be asked to disclose sufficient information so that a municipality can make an informed decision for its constituency. The primary focus, therefore, of the IC-IQ is to allow the municipality to understand the basic aspects of the business and its structural issues causing it to seek an incentive. Understanding the business further allows the municipality to properly route the business to the correct incentive that may be applicable – or not.

The IC-IQ should not be the sole method in evaluating applicants. A municipality should develop a formalized process that includes the IC-IQ or portions thereof. A review of the property tax base and effects of the tax burden shift due to the temporary reduction in a level of assessment for the incentive (or other non-property tax code incentives/relief) is also an important aspect for a municipality to research and review prior to making a decision. In certain instances, certain information/data may be subject to laws and adherence to applicable laws for information/data sharing is the sole responsibility of the parties.

What is the Business?

- Business Plan (Resource: SBA.Gov)
- Adequacy of Business Plan

Reasoning: The business must be defined and understood as to what it does specifically is/does and whether it actually fits any incentive in the first instance (i.e., is the use industrial or commercial). A municipality should know specifically what the entity does or seeks to do in the community. For instance, manufacturing may result in greater infrastructure needs (i.e., water, sewage treatment, roads) or a distribution operation may require more upkeep for roads due to heavier traffic resulting in further unforeseen expenditures by the municipality. A more mature business will likely have a business plan in-hand while a less mature/entrepreneurial business may struggle with defining itself clearly.



Volume of business

- Data on Business Volume

Reasoning: this level of information may be proprietary but necessary in making a determination of the ability to survive. For instance, information may show a decline in sales – this will allow for follow up questioning for reasons as to why (i.e., market forces have shifted, which may make the business uncompetitive). Accessibility to data also shows management quality (i.e., reams of register tape vs. QuickBooks spreadsheet).

What is the Workforce?

- Number of Employees
- Description of Employee Positions
- Turnover

Reasoning: What type of workforce composes the business? A municipality may wish to understand the type of employment that is available in relation to requiring assistance with training and/or education for workforce qualification (i.e., local workforce training and hiring). Furthermore, documents indicating turnover will give an indication as to the level of turnover of employees, which may indicate management issues.

What are the Assets?

Equipment

- Listing of Major Business Equipment (i.e., Lathes, Presses, Major Computer Systems, CNC machinery, or Plastic Injection Equipment).

Reasoning: whether the assets are new or fully depreciated will give an indication as to the maturity of the business, the level of investments being made into the business, and/or the planning and actual expenditures that have gone into the business. The value of the assets also provides insight as to money already invested, the type of business being pursued and the quality of business being pursued. A review of UCC statements is also a good idea.

Inventory Levels

- Data on Inventory

Reasoning: knowing inventory levels will give an indication of the type of business, its inventory control mechanisms (i.e., Just in Time) providing an indication of management quality, and/or an indication of inability to sell and/or even lines of credit issues.



Financing

1. Who is doing the financing?
 - a. If the financing in-house
 - i. Number of Years ____ Certified accounting statements
 - ii. Number of Years ____ Bank statements
 - iii. Number of Years ____ Tax Returns, IRS transcripts as a substitute

Reasoning: a business may be healthy enough to finance necessary expenditures for incentive classification (i.e., new construction/rehabilitation/re-occupation) and it also gives an indication of financial management (i.e., surplus creation ability in addition to planning provides a good indicator of management techniques).

- b. If the financing is through a financial institution then:
 - o Financing Documents
 - o Loans/Credit Outstanding (how much is owed and to whom)

Reasoning: These documents provide information as to the amount being financed/outstanding in relation to the project and/or business. This will also give an indication as to continued operations or a new entrepreneurial startup. Also, if the financing is backed by the Small Business Administration (SBA), then that documentation should also be reviewed due to disclosure requirements for these types of loans.

- o Communication with Financial Institution

Reasoning: A letter of understanding to the and from the financial institution between the municipality and financial institution should be provided indicating that the financial institution is aware that the business is in the process of seeking an incentive classification. Making the financial institution officially aware that the property is seeking an incentive classification may result in better interaction between the business and its financial institution, including adjustments in escrow. Independent communication is also important for the purposes of checks and balances.



- c. In all instances, a municipality should review:
- Proof of payment of property taxes for the current year (is the current year paid)
 - Open-item bills for any back years (did they pay in the past)
 - Property tax appeals (what tax base has already been relieved)
 - Lawsuits (are the lawsuits in relation to business: copyright/patent/product liability or are they in relation to inability to pay: mortgage foreclosure/tax liens/credit).
List of Cases closed/pending _____
 - Recorded liens and lis pendens
List Records released/pending _____

Reasoning: the municipality should know at the initial stages of interaction to determine the applicant's monetary/liability exposure. Some exposure is typical of business as some litigation may occur from time to time relating to their business operation. However, certain exposure relating to finances should be more carefully reviewed as these may disclose "red flags".