Article 2: UniQure TIF

Some Thoughts from Peter Enrich (June 17, 2013)

Following is the text of an email I sent to the TMMA list earlier today:

In anticipation of tonight's Town Meeting, I thought it might be helpful to share with the list some of my thoughts about the proposed TIF, since three minutes won't give me the time tonight to fully articulate my thinking on the subject. I particularly want to share with those who were unable to attend last Thursday's TMMA information session some of the important information that came from the questioning of UniQure's representative.

I apologize at the outset for the unusual length of this message. I hope it's informative enough to justify its length.

To my mind, the question before us this evening is not whether it would be desirable to have UniQure locate on Hartwell Ave. I would be happy to see them there, and have no doubt that it would be beneficial to the town for them to come. The question is whether the proposed TIF will make a significant difference in UniQure's decision of where to locate, and whether that difference justifies the 18.6% ($286K) reduction in property tax revenues that the town will receive under the TIF, as compared to the incremental revenues that the town will receive if they come without the TIF.

The Appropriation Committee report, like much of the rest of the discussion of this topic, focuses exclusively on the benefits to the town from UniQure locating here, without giving any consideration to how much difference, if any, the TIF will make in UniQure's decision. I would suggest that a serious cost/benefit analysis of the TIF must pay serious attention to the question of what difference the TIF is likely to make in the recipient's decision to locate in Lexington.

Of course, it's difficult to know how significant a factor the TIF will be for UniQure. This is a large challenge for the analysis of all tax incentive programs. But economists have devoted immense research efforts over the past forty years to this question, and the overwhelming conclusion of hundreds of studies is that state and local tax incentives are at best a very marginal factor in business location decisions.

For example, one of the most highly respected experts on this topic, Timothy Bartik of the W.E. Upjohn Institute, found in a 2006 study of job incentive credits (most of which provided per-job benefits substantially greater than the roughly $2500 per job under the proposed TIF) that the locations of less than 5% of the jobs for which credits were claimed were actually affected by the credits.

This study is typical of the consensus among such studies, which suggest that levels of state and local taxes in general show only a very modest relationship to business investment decisions. One reason for this modest relationship is that, for the average business, its total state and local tax expense amounts to only 1.2 percent of its overall costs. Variations in state and local taxes are ordinarily swamped by other cost differences that a business considers in making its location decisions.

UniQure's situation seems a typical example of this pattern. In response to questions at the TMMA session, UniQure's representative explained that the key factor leading them to favor the Hartwell Avenue location over others in the area is that the Hartwell site could be ready for use substantially sooner than alternative sites, and would allow the company to begin producing and selling its product sooner than the alternatives.

The UniQure representative also agreed that the annual expenses associated with the new facility would be in excess of $20 million. So, I think it can be assumed that, if UniQure is being economically rational, the annualized revenue from the facility, once it's in operation, will need to be significantly greater than $20 million/year.

If that's a fair assumption, then the entire $286K TIF represents much less than one week's revenue from the plant. In other words, if the Hartwell Avenue site would allow UniQure to begin production as little as one week earlier than an alternative site, that would substantially outweigh the entire value of the TIF.

And, in fact, UniQure's representative acknowledged that the actual value of the TIF to UniQure will be substantially less than $286K, even leaving aside any discounting for the fact that the bulk of the TIF is spread out over several years. For one thing, the UniQure representative acknowledged that, because UniQure will be paying state and federal taxes on its net income (for which property taxes are a deductible business expense), a substantial portion of the $286K would actually go to the federal and state governments in increased taxes. If we assume that UniQure will be taxed at a marginal rate of 40% (state and federal combined), then the $286K will really only be worth $172K.

In addition, UniQure's representative acknowledged that it has not yet agreed on the rental amount for the Hartwell Avenue space. Assuming that the landlord is eager to secure the lease, it's likely that, if the TIF is not granted, the landlord will be amenable to a slightly lower rent, rather than see the deal fall through. Over the ten years of the intended lease, $286K works out to about 55 cents per square foot per year. I'm not in a position to predict that the landlord would be willing to absorb this full amount, but he would almost certainly be willing to absorb some portion of it, thus further reducing the impact of the TIF on UniQure's economics.

There's nothing certain in the world. But I find it hard to imagine that this very modest TIF could be the deciding factor for UniQure in determining whether to proceed with the Hartwell site. So, in my assessment, we are being asked to give up $286K in potential tax revenues for virtually no benefit. And we're being asked to set a precedent for giving similar subsidies to any future business interested in renovating or expanding commercial space in town.

That's why I intend to vote No this evening. Thanks.

-- Peter Enrich, Precinct 4