

THE BLADE

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SPECIAL REPORT

Toledo investing millions in broken corporate promises

BY SAM ROE
BLADE STAFF WRITER

When BEC Labs, a Toledo environmental testing company, wanted to expand in 1990, it asked the city for a hefty tax break. The city agreed, approving \$250,000 in savings. In return, the company promised to create 75 jobs.

But today, six years later, BEC has not added a single job. In fact, it has lost jobs.

Still, the corporation enjoys tens of thousands of dollars a year in tax breaks.

In Toledo, this is business as usual, a Blade investigation has found.

More than half of Toledo companies that have promised to create jobs in exchange for tax cuts — millions of dollars that would otherwise go to local schools, parks, and emergency care, such as 911 — are not living up to their ends of the bargains.

Several corporations have created no

Tax breaks often fail to produce new jobs

jobs or laid workers off. Others have closed or moved out of town.

And this is just what the business owners acknowledge.

The city does not closely monitor the companies receiving tax breaks, so officials sometimes have little idea how many jobs, if any, have been created.

"I've said for years Toledo doesn't handle tax abatement properly," says Lucas County Auditor Larry Kaczala, responsible for determining property tax values. "It's not monitored. It's not checked."

The Blade reviewed every tax deal Toledo has cut since 1983 as part of its Enterprise Zone program, the city's main jobs creation effort. More than 120 files were checked, covering thousands of public records.

Among the findings:

- Fifty-five per cent of the businesses did not create the promised number of jobs on time or are not in compliance.
- No company has ever been penalized for renegeing on a deal.
- "New" jobs are not always what they

seem. As part of a 10-year, \$11.7 million tax break, General Motors's Powertrain plant said it had "created over 400 jobs." But records show all of the positions were filled by current plant employees and workers from other GM locations.

● Under state law, Toledo must monitor the companies at least once a year. But dozens of checks have been skipped. Those that are conducted are done through form letters. No one actually visits the firms or checks payroll numbers.

"We have some work to do in getting this cleaned up," says Pat Kennedy, a Toledo school board member who has sat on boards that review tax deals.

Corporate tax breaks have long been hotly debated.

Backers say they are needed to attract new companies to town and keep the ones

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TAX BREAKS & BROKEN PROMISES

Promises

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already here. Opponents say corporations don't relocate just for a few tax benefits, so why should cash-strapped cities supply them?

Both sides have little concrete data. Toledo officials, for example, never have studied in detail if companies receiving benefits are keeping their promises or if the city's tax-break strategy is paying off.

For average citizens, there is reason to care.

The city's two school districts, Toledo Public and Washington Local, have watched big business receive \$48 million in tax breaks over the last decade — money that would in large part have gone to the schools.

Plus, the tax breaks are behind the "new jobs" politicians often talk about.

Mayor Carty Finkbeiner has boasted that his administration has helped create thousands of jobs. But as it turns out he is not referring to jobs actually created, but rather job projections, based on how many positions companies promise to create.

So most of those jobs are not immediately available, and many may never exist.

The Blade review found that companies delivered on just 62 percent of the jobs they promised.

Holly Wiedman, Toledo's development director, acknowledges citizens often get the wrong idea when "new" jobs are announced by the city, calling City Hall or showing up at a company's door, thinking "new" jobs means real jobs, right now.

Mayor Finkbeiner did not respond to repeated requests for interviews on this topic. But in a prepared statement, he says he supports tax breaks and the city officials who oversee them.

"Due to the present cost of doing business," he writes, "Toledo must utilize any and all incentives available to keep business from leaving the city and to lure business from other states and outside areas."

Toledo's tax-break program has not escaped the state's attention. Last year, the Ohio Development Department warned the city about not monitoring firms annually.

"We asked them to improve, which I think they have done," says Bob Stempfer, a state development administrator.

But outside of requiring the annual checks, the state has few powers. The tax breaks are city contracts, so Toledo decides how to enforce them.

County Auditor Kaczala, a former Toledo councilman, says Toledo can start cleaning things up by holding firms to their promises.

"An agreement is an agreement," he says, and businesses that renege should lose their tax breaks.

That's the trend nationally, as more and more local governments are passing laws to protect themselves against broken promises. Indianapolis, for example, recently yanked five tax abatements from companies that reneged on deals.

But Toledo, Mr. Kaczala charges, doesn't want to monitor tax deals, let alone penalize firms. He says he was once appointed to a review board, but it never met.

City officials, he says, don't want to scare off businesses nor discover that their lofty job predictions never came true. "They just want the new jobs on their scorecard."

City officials disagree. Bruce Gyde, the administrator who oversees the tax breaks, says he wishes he could conduct thorough follow-ups, but with only two assistants there isn't enough time.

Besides, he says, Toledo shouldn't be quick to punish firms. Business has its ups and downs; what is important is that owners make good-faith efforts to create jobs.

"It is not pro-business if you start penalizing somebody because they guessed wrong."

He points to BEC Labs, the company that failed to create 75 jobs. The firm, on Front Street in East Toledo, conducts environmental testing and supplies medical kits.

A few years ago, Mr. Gyde says, BEC's job growth looked good. But then competitors moved in, and employment fell from 105 to 55.

Mr. Gyde says rescinding the tax break now — about \$25,000 a year — would only hurt BEC more.

Company president Jim Kulla agrees: "We're struggling to stay afloat as it is."

And without the initial tax break, he says, his company may have moved out of Toledo long ago.

The bottom line, Mr. Gyde says, is that Toledo, a rust-belt town with high electric rates and strong unions, must do all it can to attract business. "If you don't provide the benefits, they won't come."

Councilman Gene Cook, a longtime business and tax break supporter, agrees. "But if the city isn't monitoring [the companies] properly we need to change that."

David Beckwith, a local community organizer, says Toledo should re-evaluate its tax break program.

"When public officials look taxpayers in the eyes and say, 'We have to give tax breaks, and the tax breaks are working,' they are telling two lies in a row."

Adds Auditor Kaczala: "Someone, somewhere is going to have to take the stand in America and say, 'We are not going to be held hostage by companies anymore that want tax abatement.' We can't just afford to give away the store any more."

"We'll give you breaks, but you live up to your end of the bargain."

Tax abatements can be complicated, loaded with jargon, and downright dull.

Rarely do they grab headlines, but when they do, they usually are whoppers: When Alabama landed a Mercedes-Benz plant in 1993, so many tax breaks and other incentives were provided that the car-maker paid no more than \$100 for the 1,000-acre site.

In Toledo, tax abatement isn't given to just anyone.

Under the city's main program, only companies moving to town or expanding qualify. Even then, the breaks apply only to new construction and investment.

Breaks can be on real estate property, such as a new building, or personal property, such as a machine on the factory floor.

Roughly 70 percent of those taxes would go to schools, but the city waives most of these costs as a carrot to the companies.

In return, Toledo gets jobs and the city income tax they bring. The hope is that the income tax gained will be greater than the property tax lost.

No detailed studies have been done on this, but the state's Mr. Stempfer doubts this is this case.

What cities really bank on, he

says, is the long-term payoff: After the breaks expire, usually in 10 years, the companies start paying full taxes on their properties.

The schools win. The cities win.

Toledo cut one of its first big deals in 1978, giving roughly \$24 million in breaks to keep Owens-Illinois in town.

The glass giant built a beautiful, blue skyscraper along the Maumee, and city leaders puffed over 1,300 new jobs they hoped would be created.

But a few years later, O-I was sold to a New York firm, and hundreds of jobs were cut.

Several blocks away is another Fortune 500 company, Owens Corning, which makes glass-fiber materials. When it considered moving its world headquarters out of Toledo in 1994, the city provided about \$25 million in breaks to see that it didn't.

Former Councilman Mike Ferner tried to block the deal, circulating petitions to put the issue before voters. But he couldn't collect enough signatures.

So once again, he says, Toledo was bamboozled.

"These corporations are able to feed freely at the public trough and claim that what the public is getting back are all these great jobs — as if the companies are doing some sort of charitable deed by employing people."

City officials continue to laud the deal. The last thing they wanted was to lose one of Toledo's most noted businesses. "That would have been a black mark on Toledo that would have gotten more national publicity than we would have wanted," Ms. Wiedman says.

O-C spokesman Emerson Ross says the tax break was key to O-C's decision to stay downtown.

And if the city had said no? "I don't know if we would have left town," he says, "but there were other options of locating the building other than downtown."

Many deals, of course, pan out.

Frostbite Brands, the West Toledo ice cream bar maker, promised 97 jobs after getting a \$362,000 tax break. It delivered more: 151.

"The tax abatements certainly saved us money and allowed us to be competitive in a competitive industry," general manager Jeff Kramer says.

But most news isn't as good.

Mercury Printing, an East Toledo commercial printer, promised 20 jobs after getting a \$45,000

break. But none have been created. In fact, seven have been lost.

President Pat Thacker says the entire printing industry has been down, with several businesses closing. Luckily, his has survived.

If the city started yanking tax benefits, he says, businesses would be less willing to take investment risks. "I know I would. I would just pay my taxes and wouldn't expand."

Across town is GM's Alexis Road plant. In 1989, it received an \$11.7 million tax break on a new transmission assembly line. In return, the plant vowed 250 new jobs.

But after the line was installed, the company, citing "competitive pressures" and the desire for "world class efficiency," told city officials no new hires would be made but that current workers would run the new equipment.

"This plant has been a long-standing member of this community," company official Willie James wrote. "It has provided good jobs for thousands of people over the years.

"If it is to remain a viable and successful member of this community, it must be competitive to participate in the global market."

Other records show that overall employment at the plant actually dropped by several hundred — from 4,734 to 4,255 — after the tax break was granted. It recently climbed up to 4,804.

Today, GM spokesman Marilyn Rowe says: "When GM Powertrain said the investment would create 250 jobs we were referring to the number of positions associated with the [new line]."

As it turned out, she says, even more workers — 415 — were needed to run the new equipment. But all the positions were filled by current plant employees and workers from other GM locations.

Bob Stempfer, the state development official, says this isn't how tax deals are supposed to work. "To transfer people around and call it new jobs is not appropriate. That definitely should have been caught on a local compliance [check]."

To monitor companies, the city sends out form letters that request data on how many jobs have been created. When the forms come back, they are passed on to the Tax Incentive Review Council, a group of government leaders, school officials, and citizens charged with checking the numbers.

But Ms. Kennedy, the school board member, and Mr. Kaczala,

the county auditor, say they have sat on that board, and it rarely met. "If a company went out of business, we didn't even know about it," Ms. Kennedy says.

A Blade review of monitoring reports found that some firms have gone two years without reporting job figures; in 1994, almost no monitoring was done.

And last year, one company responded to a city letter requesting job figures by informing officials that it was out of business — and had been since 1993.

City administrator Bruce Gyde blames staffing and technical changes in state rules for the lapses in annual monitoring.

And Waymon Usher, Toledo's development commissioner, who chairs the board responsible for reviewing those annual reports, says that the committee may have not met regularly in the past, but it has been under his watch.

"You can believe me. We watch those companies."

Still, Mr. Kaczala says if Toledo were serious about watching the companies it would scrap the honor system and conduct on-site audits, as many other communities do. "A whole audit could be done in an hour," he says.

The city also could cross-check payroll tax figures in its files against the number of jobs a company claims to have created. That, he says, would take minutes.

This much is clear: The tax deals aren't as sweet as they used to be. New state and city rules require companies to send at least some money, usually 45 per cent of the abated taxes, directly to the schools.

The city also has written clauses into several recent tax deals that require companies to pay back benefits if they close or leave town.

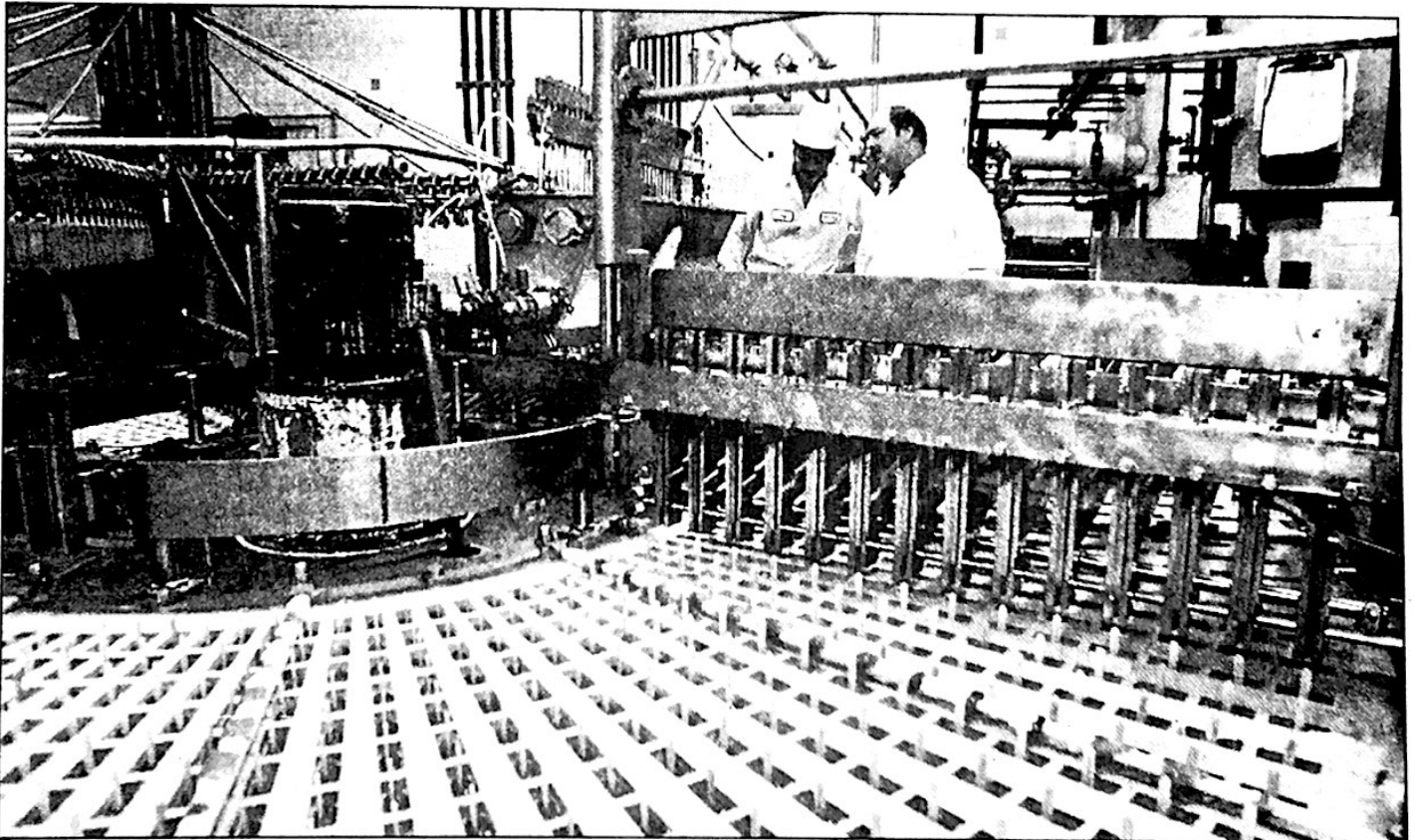
"The program has come into focus over the years," Mr. Gyde says, "and it's tougher on the companies."

To critics, it's not enough.

David Beckwith, a local community organizer for the Center for Community Change, a Washington nonprofit serving grass-root groups, says breaks should go only to firms that truly need them.

"And in those cases the outcomes expected should be clearly measurable and the rules enforced.

"Tax breaks are a very limited tool," he says. "We should be much more careful about when we use them."



BLADE PHOTO BY DIANE HIRES

Jeff Kramer, right, general manager at Frostbite Brands, talks to operator Greg McKay. The West Toledo ice cream bar maker made good on its deal with the city. It promised to create 97 jobs in return for a \$362,000 tax break; it delivered 151.

Soaring exemptions rock Toledo's property tax rolls

'Serious situation,' treasurer Kest says

BY SAM ROE
BLADE STAFF WRITER

Business tax breaks are contributing to one gloomy trend: Property is being taken off Toledo's tax rolls faster than it is being put on, records show.

Now, one-fifth of all real estate property in the city is tax exempt.

"It's become a very crucial, serious situation," Lucas County Treasurer Ray Kest says.

The big losers: the city's schools, which rely heavily on real estate taxes.

By law, schools, hospitals, churches, charities, and government land are tax exempt. Businesses can forego taxes by cutting deals with the city.

Last year, the market value of tax-exempt property in Toledo was \$2 billion — a 24 per cent rise since 1992.

Taxable real property, meanwhile, grew just 3 per cent, to \$8 billion.

"It used to be you had to be a church or school to get a tax exemption," says county Auditor Larry Kaczala. "Now you can be a tool and die shop."

For sure, business breaks are soaring, but property is falling off the tax rolls for other reasons.

"Government is a bigger landlord than it has ever been," Mr. Kaczala says. "Look at all the property we own."

He points out his office window at the downtown Government Center to the new Children Services building. A few years ago, it was owned by the former First Federal Savings & Loan, so it was on the tax rolls.

But it dropped off when Children Services, a county agency, moved in. Yet the agency's old home, a sprawling campus in Maumee, has remained tax exempt.

West of the city, the port authority has been buying dozens of homes near Toledo Express Airport to settle disputes over noise. So far, 154 parcels have been taken off the rolls.

Other tax-exempt institutions are getting bigger: the University of Toledo, Toledo Hospital, and St. Vincent Medical Center.

"On one hand you see enhancement in those neighborhoods," says John Irish, the county's chief deputy treasurer. "The bad side is that we have lost tax base."

Tax-exempt property is also up in the county and Ohio, now accounting for 15 per cent of all real estate. Nationwide, some communities are so concerned by the trend that they are considering repealing some exemptions. For example, Colorado voters this fall will decide whether to require churches and charities to pay real estate taxes.

In Toledo, tax-exempt groups don't get off scot-free: They pay fees for services such as snow removal and sidewalk repair, based on their front footage.

But some think it is time for certain groups to pay more.

"I have never understood why hospitals are considered non-profits," Mr. Kaczala says. "Those people are in it to make money."

Steven Mickus, St. Vincent Medical Center's president, responds: "The amount of services that St.

Vincent provides to the community exceeds what the medical center would pay in taxes.

"In fact, in 1995, St. Vincent provided more than \$36 million of uncompensated and charity care to the community."

Across the street from the hospital is Central Catholic High School, a private institution. The Rev. Michael Billian, school president, says tuitions would go up if the school had to pay more.

"It would hurt the poorest people who come here. We have 50 to 75 families who leave when we raise tuition \$150," he says.

The practice of exempting churches goes back 3,700 years to the Egyptians, who didn't think priests should have to pay taxes.

But the Rev. Robert Culp, of the First Church of God on Collingwood Boulevard, says he would not be opposed to churches paying real estate taxes.

His inner-city church is not rich, he says, but some are. "Churches should not be allowed to just have large sums of money sitting in banks somewhere with large endowment funds. That's not what the church exists for."

Richard Lieb, treasurer at Washington Local Schools, where officials are reeling over two recent levy defeats, says educators likely will question tax-exempt properties more and more.

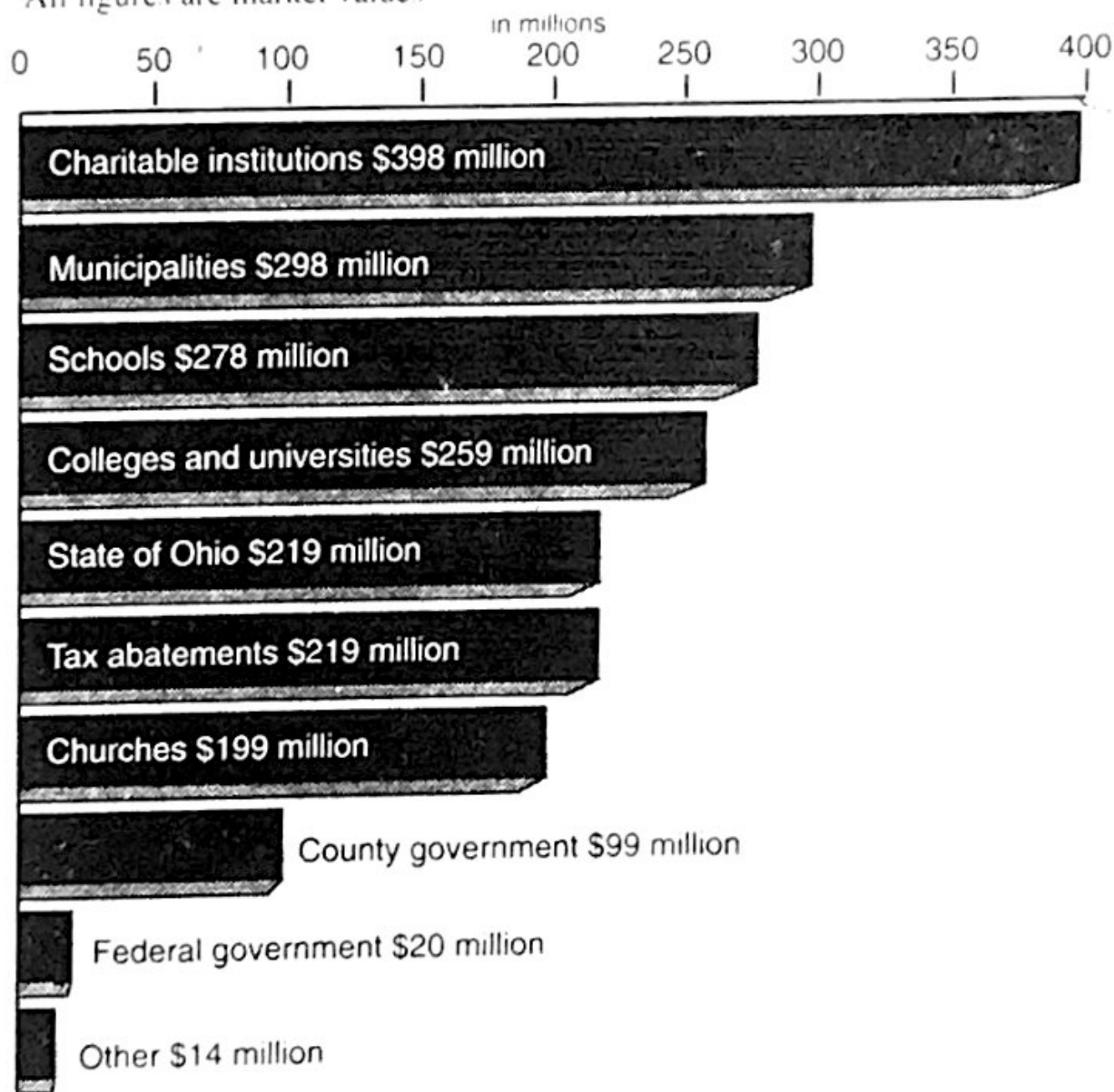
"Schools are just grasping to find out where their next nickel will come from."

TAX-FREE TOLEDO

How exemptions from real estate taxes break down, by group, in Toledo

Total exemptions: \$2 billion

All figures are market values



SOURCE Lucas County auditor's office

BLADE GRAPHIC