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Date: 12/22/2014 11:34:56 AM
Subject: ED LS: NC has difficulty competing with SC re incentives (and NC's JDIGs are running out)

Emails show NC faced long odds vying with SC for big companies

By Rick Rothacker and Ely Portillo
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Emails obtained under a public records request show how North Carolina struggles to keep up with South Carolina in the business incentives race. Construction is underway, and a "Now Hiring" sign was up earlier this month at Keer Textiles in Lancaster County, S.C. JOHN D. SIMMONS — jsimmons@charlotteobserver.com

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- Some chose N.C.; others said no

  North Carolina has succeeded in luring some high-profile companies to Charlotte in recent years, while losing others. Some recent announcements:

  • **Sealed Air Corp:** A Fortune 500 company known for making Bubble Wrap, Sealed Air said in July it would move its headquarters to Charlotte from New Jersey, bringing 1,262 jobs. State and local incentives total about $43 million for the project.

  • **Toyota:** North Carolina was prepared to offer the Japanese automaker $107 million worth of incentives to lure the company's 2,900 jobs. The company said in April that it would instead relocate to Plano, Texas, which offered a smaller incentives package but offered no corporate income taxes and nonstop flights to Asia.

  • **Boeing:** North Carolina tried to get the jet manufacturer to locate its new 777X factory at a site next to Charlotte Douglas International Airport, with up to 8,000 jobs. The company chose to keep its plant in Seattle, lured in part by a blockbuster $8 billion incentives package from Washington.

  • **Lash Group and LPL Financial:** Both Charlotte companies announced in June that they decided to move across the state line to Fort Mill. Health care consulting company Lash Group plans to build a new headquarters, eventually employing about 2,400. LPL Financial is consolidating 1,000 Charlotte employees into a new campus, eventually employing up to 3,000. South Carolina offered $2 million to each company plus tax credits based on their employment, and North Carolina officials said they weren't able to match the incentives.

  • **Chiquita:** The banana company relocated to Charlotte from Cincinnati in 2011, promising to bring 400 jobs. Officials could ask the company to repay $22 million worth of incentives after Chiquita's announcement earlier this year that it will be acquired by two Brazilian firms, which haven't said where Chiquita's headquarters will be. Ely Portillo

North Carolina officials want to close the gap with South Carolina and other states that offer larger incentive packages and lower tax rates to lure companies – sometimes causing Charlotte to miss out on hundreds of jobs.

But emails and documents obtained by the Observer under a public records request show the state has hurdles to overcome if it wants to keep up with South Carolina and other rivals:

• To win a new plant being built by the Keer Group, a Chinese textile company, South Carolina dangled an incentives package 10 times larger than North Carolina's, the emails show. "SC is working them hard," April Kappler of the N.C. Commerce Department wrote in an email before a visit with the company.

• Commerce officials used a state-owned plane to whisk Giti Tire executives to potential plant sites. But the Singapore-based company chose South Carolina because it would spend tens of millions less on taxes.

"It was impossible for us to close the gap," Susan Fleetwood, North Carolina's director of business and industry development, wrote in one email.

Economic development officials have long dueled with South Carolina and other states with aggressive incentive programs. It's a particular problem in Charlotte, where companies can cross the state line for tax benefits while staying close to the city's airport, labor force and urban amenities.

To woo more businesses, the North Carolina legislature this year reduced corporate income taxes and created a new public-private partnership to oversee recruitment. The state has set its sights on automakers, which typically bring a big network of suppliers along with thousands of well-paying jobs, and other major manufacturers.

John Lassiter, a former Charlotte City Council member who chairs the board of the new partnership, said the state will be competing with sites inside and outside the U.S. for any potential automaker projects. That's why he wants the legislature, which reconvenes next month, to take steps to retool the state's tax incentive offerings and the way it calculates taxable income for corporations.

But that won't be easy: The House defeated similar efforts this summer.

"If we're not able to have competitive tools," Lassiter said, "it puts our bids at a disadvantage against other states that have those tools."

Ronnie Bryant, CEO of the Charlotte Regional Partnership, said companies moving to South Carolina shouldn't necessarily be viewed as a loss for Charlotte but a win for the region. Still, he said North Carolina needs to make sure its incentives program is more securely funded. The state has already reached a $22.5 million cap on the total grants it can make under the Job Development Investment Grant program for the two-year period

ending in June.
"North Carolina has sent some very questionable messages to the marketplace," said Bryant, referring to the grant money running out. "Consultants and other decision makers see and read about that kind of activity and are very reluctant to bring a client into an environment of uncertainty."
"South Carolina," he said, "has done the opposite."
Pursuing 'Project Fox'
North Carolina's bid for the Giti (pronounced "G-T") Tire project started in May 2013 when consultants for the company contacted state officials to say North Carolina was on the short list for "Project Fox." Giti was also considering South Carolina, Texas, Georgia, Louisiana, Mississippi and Alabama.
The initial plan was for the world's 10th-largest tire maker, which sells in the U.S. under the GT Radial and Primewell brands, to invest $1 billion and create more than 2,000 jobs over five years, according to Commerce Department emails.
From the beginning, officials were skeptical. "I am not sure the legislature will come up with the incentives," Martyn Johnson, the Commerce Department's European investment director, wrote in a June 2013 email.
That month, state officials lined up site visits and meetings with Gov. Pat McCrory and Cabinet members. For the trip, they used a state-owned jet, dropping off executives and consultants in Columbia at the end of the tour. The trip included visits to sites in Brunswick, Edgecombe, Davidson and Cleveland counties. A Charlotte Chamber official offered a Mecklenburg County site off Mount Holly-Huntersville Road, but it didn't make the cut.
A few days after the trip, state officials learned that Cleveland County had the only North Carolina site still in the running, in the Washburn Switch Business Park.
North Carolina, Cleveland County and the city of Shelby cobbled together an "aggressive" package of incentives totaling $57.4 million, according to an October 2013 email from Kristin Fletcher, an official with the Cleveland County Economic Development Partnership.
But it became clear that corporate income and franchise taxes in North Carolina "were significantly higher than the competing locations," Fleetwood, of the commerce department, wrote in an email. Giti estimated that the potential cost of taxes, minus incentives, was $172 million over 26 years in North Carolina. That was more than 10 times the $14 million in the lowest cost state, which she didn't identify.
Consultants for Giti indicated the tax burden in North Carolina was higher because of the way the state calculates taxable income and because of the state's franchise tax, a levy on a company's assets, Fleetwood wrote. Property taxes were "favorable" compared with other states, she noted.
By February, North Carolina officials knew South Carolina and Georgia were finalists for the project. In June, South Carolina Gov. Nikki Haley joined Giti officials in announcing the company would invest $560 million in Chester County, creating 1,700 jobs at a factory off Interstate 77, about 40 miles south of Charlotte.
The incentives package included $36.2 million for land acquisition, $2 million for sewer and water infrastructure, unspecified payroll tax rebates and a "fee in lieu of property taxes" agreement with the county.
'SC is up to more than $90,000,000'
In 2012, the Keer Group was looking outside China as it planned its next expansion. A major Chinese company that spins raw cotton into yarn, Keer estimated it would use 50,000 kilowatts of electricity per hour at a new plant – and North Carolina has electricity rates 30 percent lower or more than China.
Those savings off Keer's $40 million annual electric bill would make up for the wage difference between Chinese and U.S. employees. And with most of the company's cotton coming from the U.S., Keer officials decided to locate closer to its suppliers.
Keer was planning to invest $200 million and create 500 new jobs. It offered North Carolina the chance to lure back some of the textile jobs that had gone overseas in the devastating layoffs of the 1990s and early 2000s. The effort to attract Keer was code-named "Project Blueberry."
Chinese executives visited North Carolina in May, and returned in September. They said they wanted to locate near Charlotte. But Keer said it had found suitable sites in South Carolina that were only about 10 miles from Charlotte – closer than sites they were considering in Kings Mountain and at the old Philip Morris plant in Concord.
In addition to site visits, the Chinese group also took in Concord Mills, met with the Carolina Cotton Growers Cooperative in Garner and played a round of golf at a country club in Raleigh.
"They are … exhausting and challenging!" Kappler, the Commerce Department's international project

manager, wrote on Sept. 17, after a follow-up meeting with Keer outside Shanghai.
The company was “ready to go” with South Carolina but would still consider North Carolina if an ideal site could be found. “(Keer) President Zhu (Shang Qing) … wants to be IN downtown Charlotte practically … This may just be him playing hardball.”
Economic developers had a tough time finding a site that met Keer’s requirements. By October, Keer was considering a final site in Mecklenburg County, about a mile southwest of Charlotte Douglas International Airport.
But it was clear South Carolina was throwing more money Keer’s way. In an Oct. 16 email, China-based North Carolina economic developer Joanna Zhao laid out the incentives offers side by side: South Carolina was willing to reduce Keer’s property taxes for 30 years and exempt it from income tax for 15 years. North Carolina could give only a 50 percent income tax reimbursement and reduce property taxes for five years.
“The total incentive from SC is up to more than $90,000,000. Ours is only $8,777,251,” Zhao wrote. To make up the difference, she said she emphasized the Mecklenburg site’s proximity to uptown Charlotte and the airport, as well as quality of life.
In the end, Keer chose to build in Indian Land, S.C., just south of Ballantyne. Lancaster County offered the company a 30-year “fee in lieu of property taxes” agreement, as well as $7.7 million in revenue bonds. The South Carolina Coordinating Council for Economic Development approved a $4 million grant, as well as job development tax credits. It didn’t list the full expected value.
Keer plans to open its 230,000-square-foot factory in the first quarter of 2015 and has started hiring workers to fill its 500 expected jobs.

Looking to the legislature

Heading into January’s legislative session, Lassiter said his top priority is freeing up more money for the state’s Job Development Investment Grant program, which awards firms based on the number of new jobs they create.
Lassiter also wants economic developers to have access to a “closing fund” that allows South Carolina and other states to sweeten deals. The way the state calculates corporate income taxes is another sticking point in attracting new jobs, he said.
Revamping incentives programs can be challenging.
Critics on the left and right say these programs are a form of corporate welfare, unfairly lowering taxes for some new companies but not existing ones. Sarah Curry, director of fiscal policy studies at the conservative John Locke Foundation, said if North Carolina sees more companies going to South Carolina it should lower overall taxes to be more competitive.
“I would argue that a better and lower tax rate would increase investment in North Carolina, not increasing the amount of grants or subsidies that we’re giving to these companies,” Curry said.
In August, with opposition coming from conservatives and liberals, the House rejected a bill that would have created a $20 million job recruitment fund and expanded the JDIG program.
Sen. Bob Rucho, a Matthews Republican who chairs the Senate Finance Committee, supported the legislation that failed in the House and said incentives will be back on the agenda.
He also sees growing support for changing how corporate income taxes are calculated. The formula currently counts three factors: a company’s sales, property and payrolls. But Rucho would like to see it changed to just a company’s sales.
“We want to reward companies that invest in North Carolina and hire North Carolinians,” Rucho said. But he noted any changes might need to be phased in “because you have to have the money to pay for it.”
Lassiter said the proposed changes ran into trouble when they got tangled up in other issues at the end of the last session. Competitive incentives, he said, have the “conceptual support” of both Republicans and Democrats, as well as leaders in the House and Senate.
“I’m hopeful we can get this done early so we can get down to the business of creating jobs,” Lassiter said. “It’s something that can benefit virtually every county in North Carolina.”
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