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[Home](#) / [news](#) /

Incentives: Beneficial or bluffs?

By Richard Craver



The role of economic incentives — whether critical or icing on the cake when it comes to recruiting major projects such as Caterpillar Inc., Dell Inc. and FedEx Corp. — remains intensely debated.

However, when it comes to local businesses in expansion mode, advocates say incentives offer a clear win-win scenario.

The company gets six- to seven-figure local and state tax credits for staying in town.

The community, in return, gets a boost to its workforce and property tax base, and likely retains tens to hundreds of jobs.

"More than 80 percent of the jobs that have been created in the past decade or so have come from new business startups or existing business expansions," said Gayle Anderson, president and chief executive of the Winston-Salem Chamber of Commerce.

"We're fortunate that we have major existing employers with the opportunity to expand, but they are being sought after by many locations, so we need to be able to compete to keep them here."

Critics, however, say local and state economic and elected officials are losing at a game of bluff — thus committing to millions of dollars in unnecessary tax credits — by providing incentives to companies that would have expanded locally anyway.

According to critics, the bluff essentially is "give us our incentive requests, or we'll find greener pastures elsewhere." To qualify for state incentives, companies must prove they have out-of-state expansion options.

"I understand the whole 'everybody else is doing it' argument, but that doesn't mean they have to go along with every request," said Jeanette Doran, a senior staff attorney for the N.C. Institute for Constitutional Law.

"It's gotten to the point of having an entitlement tone to it. It means local communities are being held hostage, and governments are providing tax credits to companies while they are struggling to pay for essential community services."

Incentives for expanding local businesses have been such a successful economic recipe that Triad companies have had a nearly perfect record on their requests before city councils and county commissioners.

In fact, the last time an incentive request by an existing business was rejected came in May 2005, when the Forsyth County Board of Commissioners voted 4-3 against a \$105,000 package for Tengion Inc. Tengion's carrot was a \$9 million research and development facility and 30 new jobs.

It also is the only time Forsyth commissioners have denied a request in the incentive era that began in 1990.

The four Forsyth commissioners who voted against the Tengion incentives said they didn't think giving taxpayer money would have made a difference in the company expanding here or going somewhere else.

They were proven right when Tengion chose to stay in the city, though it received \$105,000 in incentives from the Winston-Salem City Council, and Winston-Salem Business Inc. stepped in with another \$105,000.

The latest local incentive deal involves Pepsi Bottling Ventures LLC, which was approved unanimously in June for a combined \$1.73 million in local incentives for an expansion in Winston-Salem that would add 198 jobs, retain 307 jobs and represent an \$82 million capital investment.

Pepsi Bottling officials have not said when they would make a decision, although they have said they are considering other sites in the Triad.

Getting an edge

Triad incentive recipients just in the past 18 months include Avgol America Inc., Dynamic Machining x Manufacturing LLC, Gates Corp., Honda Aircraft Co., Ingersoll Rand, Inmar Inc., Lydall Inc., NS Aviation LLC, Ralph Lauren Co., Solstas Lab Partners and Thomasville Furniture Industries Inc.

Those companies have been made eligible for a combined \$5.52 million in city incentives, \$4.32 million in county incentives and \$9.1 million in state incentives.

In return, they've pledged to create 2,349 jobs and spend \$377.5 million on capital investments, with much of both commitments spread over three to five years.

Robert Leak Jr., president of Winston-Salem Business Inc., defended the incentive offers by saying, "Competition for jobs and tax base has increased dramatically in the past three years as communities, regions and states work to balance budgets and replace lost revenues."

David Mounts, chief executive of Inmar, said in April the company needed two extra months to negotiate and win assurances from the state for incentives of up to \$4.17 million from the Job Development Investment Grant over 10 years and up to \$237,000 from the One North Carolina Fund.

Gov. Bev Perdue said the state stepped up its incentive commitment because Inmar represents "the model, the template, the prototype" for supporting a knowledge-based economy. Mayor Allen Joines said Mounts told Perdue "the local and state incentives gave us an edge over taking Atlanta's offer."

What makes local incentive offers hard sells for critics is that some projects hardly have a public whiff of outside competition.

Economic officials always insist there is competition, but they also are reluctant to identify them. "Companies have to evaluate all options, and in every case we've worked, they have seriously considered other locations," Anderson said.

Officials say the main reason for such a high approval rate for incentives is that requests rarely reach the public-hearing stage without being vetted first in closed session.

"If officials don't get a good feeling about the request, staff won't bring it forward," said Dan Besse, a Winston-Salem city councilman. "That way, a company doesn't get embarrassed by a 'no' vote."

That said, Besse said he has "a real concern to the extent that incentive packages have become a routine part of every business expansion plan."

"I understand it would be almost economic malfeasance for a company not to ask. But we can't indefinitely keep doing this — giving property tax breaks — without shifting more of the property tax burden to homeowners and other businesses."

Besse's fine lines on approving an incentive request: The expansion provides a net gain to the property tax base, and it passes the "but-for" test. That means a company must clearly show it has viable out-of-state options and would expand there but for local incentives.

"If it doesn't, I'm unlikely to vote for it," Besse said.

Joines said he doesn't believe all incentive packages are "done deals" once they reach the public-hearing step. "There's always an opportunity for the public to bring forth a concern or an issue that could cast the request into doubt," Joines said.

Making a difference

The last time a company was approved for local incentives and decided to move anyway was in October 2002, when Pilot Therapeutics Holdings Inc. took a \$17 million package from South Carolina to move from Winston-Salem to Charleston, S.C. By comparison, North Carolina and the Golden Leaf Foundation offered up to \$4 million in cash grants and tax breaks, while local officials offered \$200,000 in cash grants. Private investors also were willing to add another \$2.25 million to the package.

The loss of Pilot was hard symbolically and economically, considering it was an early biotechnology tenant at Piedmont Triad Research Park.

Pilot pledged to build a \$2 million headquarters and research and development building and an \$8 million production and manufacturing building. With 14 jobs at the time, it planned to add 100 jobs in research and 80 jobs in manufacturing.

The departure, however, did not have a happy ending for Pilot. It struggled to develop Airozin, an over-the-counter medication for asthma, and went out of business in 2004.

Chief among the incentive examples cited by critics is the decision to make Ralph Lauren eligible for up to \$3.24 million in local incentives and up to \$2.5 million in state incentives for adding 500 jobs and spending \$142 million on capital investments in High Point.

The company already had 1,400 jobs, three distribution centers and one call center in High Point, as well as three successful incentive requests in its pocket.

Commissioner Kirk Perkins told The News & Record in Greensboro that he cast one of three no votes because "at some point, I'd like to see a company say, 'Well, we've done really well here, and we'd like to continue' without incentives.' "

George Clopton, Ralph Lauren's corporate vice president of U.S. distribution operations for its global supply chain, said the incentives "helped a great deal and were a great vote of confidence. But they were just one part of the algorithm."

Perhaps the clearest example of incentives pulling a local company back from the brink of uprooting its Triad operations was in 2002 with Thomas Built Buses of High Point.

Freightliner, parent company of Thomas Built, was leaning toward moving Thomas Built to Gaffney, S.C., and with it 1,400 jobs, as part of a \$39.7 million plant expansion and 178 new jobs.

The South Carolina offer was \$17 million, while the initial High Point offer was \$6 million. When Freightliner gave High Point and North Carolina a second chance to submit an incentive package, they got Archdale, Guilford and Randolph counties involved for an overall \$14.18 million incentive offer.

That was enough to persuade Freightliner to expand in High Point.

No panacea

Derwick Paige, deputy city manager for economic development, said incentives aren't always the panacea that local residents think they are.

For example, he said the city has approached the parent company of GMAC Insurance about an incentive package to persuade it to keep its large operation in downtown Winston-Salem.

About 700 local GMAC employees have been bracing for months for the company to announce whether it will keep its operations in Winston-Salem or move them to Cleveland. GMAC has been bought three times

since 1997, and its local workforce has shrunk 41 percent in the past five years.

"We talked to them, but never got to the point of putting an offer together because they could not commit to an actual investment or job creation/retention numbers," Paige said.

John H. Boyd, a principal in The Boyd Co. Inc., a site-location consulting company in New Jersey, expects there will be cases when elected officials call a local company's bluff about leaving because "they deem the request to be not in the community's best economic interest."

"I can understand the higher level of cynicism in North Carolina over the use of incentives and taxpayer funds to retain local jobs," Boyd said. "The fact of the matter is North Carolina, with its lower operating cost structures, lower cost of living, right-to-work labor climate, etc., can trump most other state business climates in the national tug-of-war for new corporate investment and jobs.

"However, given our national perspectives, it appears that this existing business incentive process is playing out rather well for the Triad."

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