

# NEWS RECORD

## Big incentive package grew bigger over time

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By Richard Barron — February 10, 2018

One thing was clear to North Carolina's corporate recruiters: Toyota wanted to feel important.

And as they sought to land the company's joint-venture factory with Mazda, they were starting to get an idea of what exactly that would take.

The stakes were considerable. It would be North Carolina's first auto manufacturer. But more than that, it would mean lots of jobs and dollars to North Carolina for years to come.

In order to get that money, though, the state needed to be willing to spend it to even have a chance of being considered.

Christopher Chung, the CEO of the Economic Development Partnership of North Carolina, stressed the importance of incentives in a memo to the state commerce secretary before a meeting last September with Toyota North America President Jim Lentz.

That memo was part of nearly 400 pages of documents the state Commerce Department released last week that shows the evolution of North Carolina's deal to land the factory. It's a deal that started out big — and just got bigger.

The effort even had a codename: Project New World.

"Although Toyota has never made incentives the singular reason why they pick a state," Chung wrote, "because Mazda is involved with this newest plant, Toyota needs to demonstrate to Mazda that they are trying to win the best deal for this joint-venture facility."



So, over several weeks, North Carolina's proposed package of incentives grew from \$600 million to more than \$1.5 billion in cash, training and savings on taxes — almost the total cost of the factory — compared with other states.

Although key competitor Alabama offered less than that — some estimates say \$700 million — the state had something North Carolina could never offer: a deep and wide chain of suppliers that make Toyota parts and components from Alabama to Kentucky.

In the end, the companies believed it could not "bend the supply chain" into North Carolina to make its manufacturing process as smooth as possible.

And so Toyota-Mazda left North Carolina's massive package on the table when the companies announced in January they would build their \$1.6 billion factory with 4,000 employees at a site near Huntsville, Ala.

## NORTH CAROLINA'S INCENTIVE PACKAGE FOR TOYOTA-MAZDA



**Workforce and Training Incentives**  
**\$46.5 million**

These incentives include customized training from the state's community college system, a \$25 million specialized training center and an apprenticeship program.



**Site Preparation**  
**\$124 million**

Includes \$48 million worth of land and complete development work at the Greensboro-Randolph Megasite in Randolph County. The land comes from three owners: Randolph County, North Carolina Railroad Co. and the Greensboro-Randolph Megasite Foundation, an arm of the Joseph M. Bryan Foundation.



**Infrastructure Development**  
**\$250 million**

Includes \$78 million from the state Department of Transportation for road improvements around the megasite, \$63 million for natural gas, \$53 million for power and \$37 million for public water and sewer improvements, including about \$30 million from Greensboro for water service.



**Cost-reduction incentive**  
**\$1.1 billion**

This includes a formula that shows the companies would save \$565.6 million in taxes over 20 years compared with Alabama corporate taxes, \$215 million from a job development grant fund, \$200 million from a discretionary grant from the One North Carolina Fund and \$100 million in a property tax grant from Randolph County over 20 years.



**Supplier and Supply Chain Incentives**  
**\$6.2 million**

Upgrades skills and equipment at existing industrial supply companies through the state's community college as well as creating marketing programs to attract suppliers to the region.



**Project Management**  
**\$250,000**

The Department of Commerce would do the work to provide a single contact point for the corporation and the development in North Carolina.



**GRAND TOTAL**  
**\$1.5 billion**

Source: North Carolina Department of Commerce

Toyota-Mazda also left the world with a clear idea of what states must be willing to offer to even be considered for such a major industrial prize.

Whatever it takes.

"I think that is on par with what one is seeing around the world," Commerce Secretary Tony Copeland said.

It's easy to see why North Carolina officials were confident they had the inside track for the Toyota-Mazda plant in August, when news of the project first surfaced, up until the final announcement.

Memos in the document show the state working diligently to assemble a package that wouldn't leave them losers for another major project. The last time was 25 years ago — also to Alabama — when Mercedes-Benz chose that state for its first U.S. factory.

But Copeland said that North Carolina's package, which included cash credits for each worker hired, a gift of a developed megasite in Randolph County and millions in community college training programs represents many kinds of consideration.

"It's not a \$1.5 billion check," Copeland said. "When you look at these incentives they have to be earned."

Michael Walden, an N.C. State economist who devised the "Walden Model" that state officials use to calculate the net economic benefits a project brings after massive incentives are granted, said the package for Toyota-Mazda isn't as startling as it looks.

"Many of them are discounts on taxes that wouldn't be paid anyway unless the company comes here," he said.

According to the newly released documents, the incentives package for Toyota-Mazda offered four major components: a fully developed megasite; workforce development; grants for taxes and cash grants for workers hired; and finally, \$565.5 million Toyota-Mazda would have saved in corporate taxes had it chosen North Carolina over Alabama.

The announcement — made by Alabama's governor and leaders of both car companies in Huntsville, the site of the new plant — was anticlimactic: News of the deal was leaked late Tuesday and spread like wildfire, stunning local and state leaders, some of whom admitted they were caught by surprise.



*Akio Toyoda of Toyota Motor Corp. speaks as Alabama Gov. Kay Ivey and Masamichi Kogai, Mazda Motor Corp. president and CEO, listen during a press conference Wednesday in Montgomery, Ala., where the Japanese automakers announced plans to build a huge \$1.6 billion joint-venture plant in Huntsville that will eventually employ about 4,000 people.*

According to Copeland, the Walden model doesn't simply look at a \$1.6 billion plant as a one-time payoff for the state, but as an ongoing asset that will generate more money for the economy even as the corporation takes advantage of the massive financial breaks a state and locality hand out.

Essentially, a large incentive package is seen as an investment in the future.

Whether it was Toyota-Mazda or some other company, they were always going to be the beneficiaries of what was happening on rural land in Randolph County.

Greensboro and Randolph County leaders worked for more than three years to assemble 1,900 acres in the northeast corner of Randolph from scores of individual owners at a price of \$48 million. Ultimately, the cost was borne by Randolph County government, the North Carolina Railroad Co. and the Greensboro-Randolph Megasite Foundation, an arm of the Joseph M. Bryan Foundation.

According to state documents, the incentives package would deliver that land free and clear to Toyota-Mazda. Cost to the state: \$124 million — and that's purely for site preparation.

That doesn't count all the utilities and roads that Toyota-Mazda would need extended to the site, which totaled \$250 million — \$37.5 million of which were water and sewer lines built by the city of Greensboro.

There were also road improvements worth \$79 million from the state Department of Transportation, \$53 million in electrical infrastructure from Duke Energy and \$63.2 million in natural gas infrastructure from Piedmont Natural Gas.

Those things would be on the house as well.

Tax savings and cash grants make up the largest portion of the incentive package.

North Carolina's corporate income tax of 2.5 percent is far less than Alabama's rate of 6.5 percent. State officials considered that a material benefit so significant that they highlighted it in their package.

Over 20 years, they estimated, Toyota-Mazda would save \$565.6 million on various income taxes over the average amount they would pay by choosing other states in the Southeast, including Alabama, Arkansas and Tennessee.

It's clear that state officials, and the legislature that passed the low tax, were counting on that as a major recruiting tool or they wouldn't have highlighted it so prominently in the proposal.

The lower rate, according to the incentives document, "makes for a tax savings advantage that is second to none."

More significantly, the package also offers other incentives that include a \$100 million property tax grant from Randolph County. The document doesn't explain how the county will refund the money, but Copeland said the expenditure, to be paid over a number of years, doesn't represent the total amount that a \$1.6 billion factory would earn the county.

And the money isn't paid up front, he added, but granted as the companies complete their obligations and build the factory.

North Carolina — and Greensboro — were ready to welcome home our first automobile factory ever. Our biggest win in business recruiting ever. Maybe our biggest single job driver ever. But for now, we'll just have to wait.

One grant of \$200 million was subject to approval by the General Assembly. It would come from the One North Carolina Fund, which pays grants to "high-impact competitive projects that create new jobs," according to the incentives document.

Another \$215 million was built into the state's incentives structure already, money from the Job Development Investment Grant — also known as the JDIG program. JDIG offers annual cash grants for up to 20 years to companies that hire a defined number of workers. That amount is based on Toyota-Mazda's stated goal of hiring 4,000 people.

All those goodies meant nothing, of course, if the companies couldn't hire the skilled workers they needed.

That's why the incentive package set aside money for finding and training those people.

While the Triad is known for its manufacturing workforce, a group of people would have to be trained on how to build cars the Toyota-Mazda way.

So \$46.5 million of the package involved a specialized training center and other workforce programs to make sure the companies could be ready to build cars by 2020.

A Rocky Mount organization called Golden LEAF — a foundation that uses money from tobacco lawsuit settlements to create economic development projects — was set to offer \$25 million for a specialized training center that would keep workers flowing into the factory.

Integral to that was a customized training program from the state's community college system worth \$16.4 million.

Then there were smaller expenditures, such as \$2 million for "talent identification and selection" and \$3 million for an apprenticeship program that pays workers as they learn.

It was a sweetheart deal for Toyota-Mazda.

But in the end, money couldn't buy a relationship.



Even with the tax savings removed, the state's package is roughly comparable to Alabama's at just under \$1 billion, which some might consider an outsized number.

Or is it?

Walden and other experts say such figures catch the eye of major companies wanting special attention.

In Toyota's case, the final decision was likely made because its supply chain is closer to the Huntsville location.

But the price tag won't drop when the next project comes along.

The Toyota-Mazda deal will likely be the prototype for the next big company that comes along.

"It's the template for the next trophy project whether it's in the auto industry or not," said John Boyd, a Princeton, N.J.-based consultant for companies searching for factory sites. "Today, it's the rule: Our clients want it all."