



The secret war Pennsylvania is winning - but will it win Foxconn?

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(Donald Gilliland, PennLive)

By Candy Woodall

From the car window, the man from New Jersey can see why Pennsylvania is winning the war.

It's not an answer found in the green and amber mazes of the state's rich farmland or the steel and glass that dominate city skylines.

It's what lies beneath and where it leads.

Along the Pennsylvania Turnpike and throughout southcentral Pennsylvania, travelers can see construction of the Atlantic Sunrise and Mariner East 2 pipelines.

Those multi-billion dollar projects will soon carry the state's stockpile of energy to market, but they're already carrying Pennsylvania to a leading spot on the eastern seaboard.

"Surrounded by states in fiscal crisis, Pennsylvania has a new revenue stream that's very powerful," said John Boyd, principal owner of The Boyd Company Inc.

His Princeton-based site selection firm just listed Pennsylvania as the cheapest state for manufacturers to do business.

Annual operating costs of \$34 million might not sound cheap, but it's \$6 million less than neighboring New Jersey and the lowest cost in the northeast region. That's everything in a competitive market.

"Economic development is the second war between the states," Boyd said. "Everyone is trying to win the battle for new jobs."

And Pennsylvania is poised for victory.

'Red hot'

So, what does Pennsylvania have that New Jersey doesn't?

Plastics, revamped ports, a Shell cracker plant and some of the lowest natural gas costs in America.

Because most Pennsylvania communities have a lower cost of living than their competitors in neighboring states, employers can pay lower wages here - which is one of the main reasons companies can save 15 percent by choosing the Keystone State instead of New Jersey, according to Boyd's report.

Combine that with Pennsylvania's energy surplus and transportation infrastructure, and it's no surprise Foxconn is eyeing this state as part of a \$10 billion U.S. expansion, Boyd said.

The Boyd Company's customers include Hewlett-Packard, Boeing, PepsiCo, PNC Bank, Chevron, Office Depot, GlaxoSmithKline, JP Morgan Chase, Shell, Verizon and more.

But most of Boyd's work is done discreetly, carefully avoiding leaks before a company is ready to share expansion plans.

This week, Boyd was in southcentral Pennsylvania, explaining why his unnamed clients are focusing on the commonwealth as a place to reshore their operations after years of outsourcing.

"There's renewed interest for myriad reasons," he said.

It's partially because of the rising cost of doing business in Asia, which pushed companies home long before a Republican candidate launched an "America first" agenda.

Though some of that reshoring began before President Donald Trump's election, his leadership is "accelerating the pace," Boyd said.

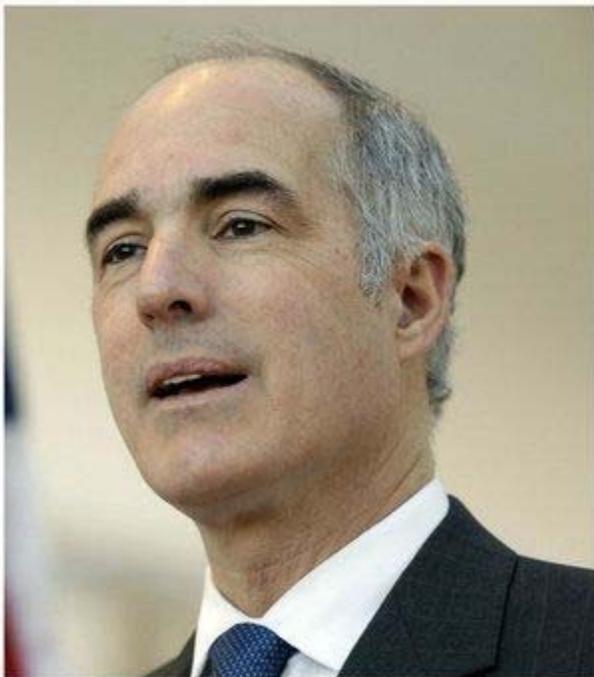
"There's a perception of tax cuts on the horizon," he said.

Pennsylvania has much more to offer, including a strong labor market, transportation structure leading to the nation's capital, proximity to New York and New England consumers, nearby ports and railyards, and U.S. Sens. Bob Casey and Pat Toomey.

"More companies are open to Pennsylvania because costs are lower, but also to gain the ear of Senator Casey and Senator Toomey," Boyd said. "There's a politicization of site selection, looking at gaining leverage in D.C."

The senators' hometowns are the most popular areas for development in Pennsylvania.

"The northeast Pennsylvania market is red hot," Boyd said, "especially the Lehigh Valley."



(File photos)

Fighting for Foxconn

Lehigh Valley developers say they have the room for a Foxconn facility and thousands of workers.

While Pennsylvania is the leading candidate, Foxconn chairman Terry Gou said the company is also considering Ohio, Michigan, Illinois, Wisconsin, Indiana and Texas. Most of those are Rust Belt states where Trump won.

Foxconn, an electronics giant and Apple supplier, is expected to announce plans in early August for at least three states.

The company in 2013 flirted with Pennsylvania, claiming it would spend \$30 million and add 500 workers at a new factory in central Pennsylvania. That factory was never built.

When companies consider a site, Boyd said they look at five factors: operating costs, workforce, lifestyle, access and incentives.



DCED Secretary Dennis Davin (*Submitted photo*)

Dennis Davin, the state secretary of economic development, is working to promote Pennsylvania in those categories.

"We've done a pretty good job going out there and telling Pennsylvania's story," he said.

There are "a number of companies" currently working with state economic development leaders, but Davin wouldn't name them.

He said he's operating under nondisclosure agreements and couldn't list the companies showing "tremendous interest in Pennsylvania."

Many of the discussions detail the positives and "perceived negatives" of doing business in the commonwealth, Davin said.

And the positives are potentially bigger than Foxconn.

Bigger than Foxconn

In Gulf states that already have the pipeline infrastructure and refineries, some \$185 billion is being spent on petrochemical projects, according to the American Chemistry Council.

That work is turning energy from the shale fields into a seemingly infinite list of plastics: bags, bottles, cups, phones, appliances, auto parts, furniture and more.

But it's not just ethane and other byproducts being sought.

Companies are also using natural gas to power their Pennsylvania manufacturing operations, such as Procter & Gamble in Wyoming County.

"Low-cost energy" is a repeat on the list of positives Davin hears.

Another positive: the state phased out the capital stock and franchise tax, which was a tax on manufacturing assets.

However, Davin and Boyd both hear complaints about Pennsylvania's 9.9 percent corporate tax rate, which is the second-highest in the U.S. behind Iowa at 12 percent.

"I think the Legislature needs to take a look and reduce that tax," Davin said.



Gov. Tom Wolf (*Dan Gleiter | dgleiter@pennlive*)

Gov. Tom Wolf in 2015 proposed dropping the 9.9 percent rate to 5.99 percent in 2016, 5.49 percent in 2017 and 4.99 percent in 2018.

Both Davin and Boyd pointed out companies have left or avoided states because of corporate tax rates. For example, General Electric Co. last year announced it would leave its Connecticut headquarters for Boston, where it received a \$145 million tax incentive. That move came after Connecticut raised its corporate tax rate to 9 percent.

Companies don't really pay the commonwealth's full 9.9 percent rate, but it should be lowered anyway to attract and keep businesses, Davin said.

One of the most common complaints from industry is that the state still lacks the needed pipeline infrastructure.

That's attributed to a slow permitting process from the Department of Environmental Protection and environmental activists, according to David Taylor, president of the Pennsylvania Manufacturers' Association.

"All of this is a lot harder than it should be, in the view of the business community," Taylor said. "You can get a permit in one day in Texas, three days in Oklahoma, and in Pennsylvania it takes 180 days."

Davin said he and the governor "wholeheartedly support" energy development and that it needed to be done in an environmentally responsible way - something Wolf said in the past.

"We're burning daylight," Taylor added. "I don't want us to miss out. In a lot of ways, Pennsylvania is living in the past...We don't have the right infrastructure. We've gotta expedite our pipelines."

Pennsylvania's pipeline infrastructure is presently being built, with \$12 billion worth of construction underway, Davin said.

Other business concerns surround the proposed severance tax, with Taylor and Boyd lobbying against it, but Davin said those concerns are unfounded.

For years, the oil and gas industry has said a severance tax on the energy it produces would be punitive and job crushing, while the administration has called it industry's way of paying its "fair share."

"There's \$12 billion worth of pipelines being built," Davin said. "Companies are not spending money to have empty pipelines."

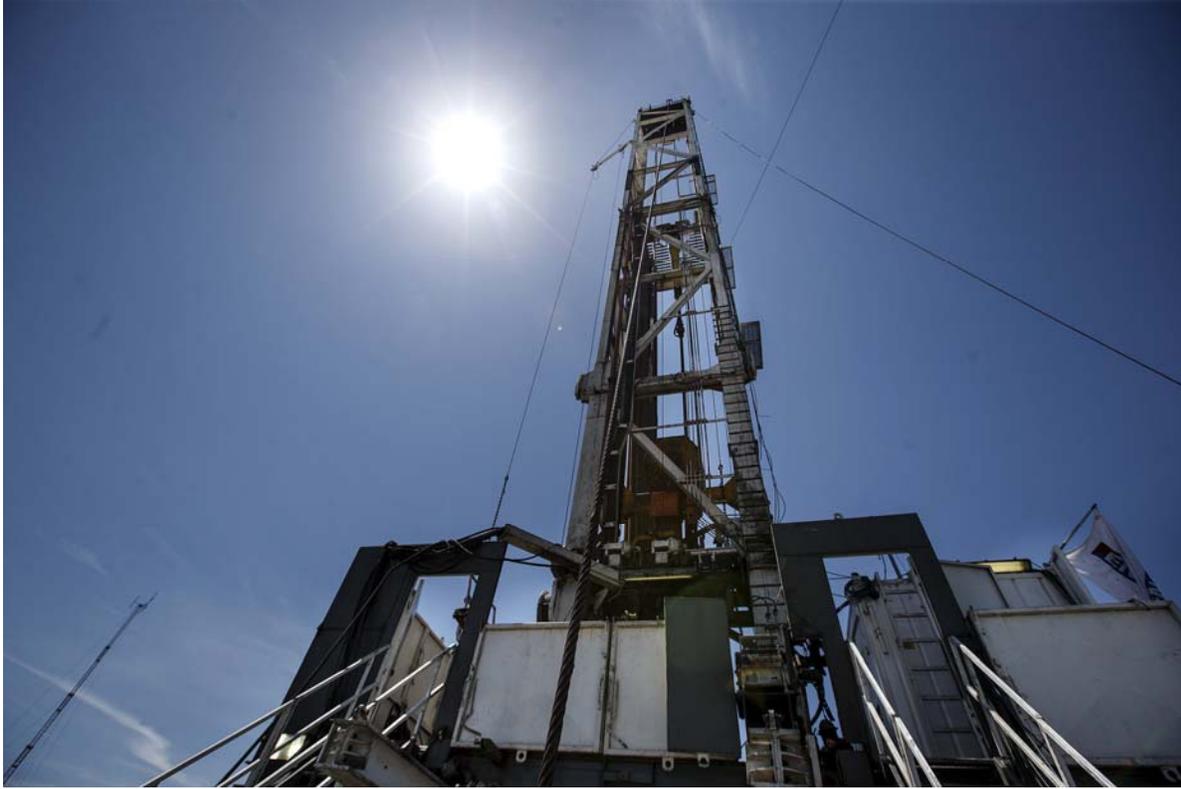
Those pipelines will be filled by extracting more resources, which should be taxed, he said.

"There's a tremendous amount of activity," Davin said. "I believe wholeheartedly a severance tax will have no effect on jobs at all."

For Boyd, though, it's as simple as this: There's more growth when "the business climate is business friendly."

Manufacturers are in a perpetual state of trying to lower baseline costs and keep jobs, Taylor said.

"It's a big competitive world out there, and it goes beyond Pennsylvania and the U.S.," he said. "It's a global market."



(Dan Gleiter / dgleiter@pennlive.)

Harrisburg region

Locally, some companies are still recovering from the recession, but there are signs of growth. The Manufacturers' Association, which represents 350 members in southcentral Pennsylvania, isn't seeing much interest from new companies.

"But there is a bit of a turnaround on the employment side," said Tom Palisin, executive director. "Companies are hiring again."

For example, BAE Systems, a York County defense contractor is adding 530 jobs during the next few years.

"Southcentral Pennsylvania is attractive for a couple reasons," Palisin said. "It's a day's drive to get to 60 percent of the population in the U.S. and Canada. There's a huge customer base and a significant workforce."

Boyd agreed southcentral Pennsylvania has a lot going for it. "The Harrisburg region is a hub for the computer industry," he said, pointing to Tyco, HP and IBM. "Harrisburg is a leader in the computer tech industry."

That's why Boyd was in town. "Back office is a big opportunity for a financial service project in Harrisburg, but I can't say who it is," he said. "These projects are exciting. It's a pivotal time in Pennsylvania."