

## Runner-up finish for Toyota-Mazda plant stirs questions, self-reflection

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*Phil Berger*

Alabama has won the competition for a \$1.6 billion Toyota-Mazda auto production plant — and the reality of the loss for North Carolina spurred a postmortem wave of questions and self-reflection in the state on Wednesday.

What happens when you seemingly throw the economic version of the kitchen sink into snagging a major auto facility and still fall short?

Was there something more —or different — that North Carolina could have done?

Or, is it time for the state to acknowledge that these “big buffalo” auto projects are always going to find greener pastures than ours, and that it may not be possible to make up for the 25-year infrastructure and supply-chain head start that Alabama and

South Carolina now enjoy?

Those are the questions confronting Gov. Roy Cooper, state legislative leaders and local and state economic officials as Alabama celebrated Wednesday landing the plant that will employ 4,000 near Huntsville.

North Carolina is a bridesmaid again for a game-changing project, even after offering a record \$1.5 billion incentive package for the nearly 1,900-acre Greensboro-Randolph County megasite.

At that amount, the state would have kicked back to the manufacturers nearly all of the cost of building the facility, as well as offering nearly five times the \$380 million in incentives committed by Alabama.

The manufacturers disclosed Aug. 4 plans to build Corollas for Toyota and crossover vehicles for Mazda. The goal would be to start production in 2021 with average annual employee wages of \$50,000.

The decision served to throw an icy cold splash on the pride that economic and elected officials take in North Carolina consistently being at the top or in the Top 5 of prominent business climate rankings.

“It is not an understatement to say the Toyota-Mazda plant would have been an unprecedented transformational project for both the Triad and the state of North Carolina’s economy,” said Keith Debbage, a joint professor of geography and sustainable tourism and hospitality at UNC Greensboro.

“We are the only state in the Southeast without such a plant, while Alabama already hosts Mercedes-Benz, Honda and Hyundai plants.”

### **The state’s offer**

Analysts, economists, elected officials and site selectors said North Carolina’s striking out again is stunning primarily because the consensus among them is that the state had never been better prepared for such a project.

The nearly 1,900 acres that had been secured or committed at the Greensboro-Randolph megasite was nearly 50 percent bigger than the Huntsville site.

There was rare bipartisan political support for the \$1.5 billion incentives package. The legislature was prepared to act this week on a bill because the incentives went well beyond what it had previously authorized.

The legislature has reduced the state’s corporate tax rate from 6.9 percent in 2013 to 3 percent in 2017 — the lowest in the country for states that have a corporate tax rate. There are plans to reduce the rate to 2.5 percent by 2019.

There also was the reduction in the personal income-tax rate, the existence of a high-quality work force, and the certainty of commanding clout with a congressional delegation of 15, soon to be 16 members.

“It is utterly disappointing to be the runner-up for the new Toyota-Mazda facility,” Senate leader Phil Berger, R-Rockingham, said in a statement.

“While improving our business climate got North Carolina closer to landing an automobile manufacturing facility than ever before, at the end of the day I believe our distance from Toyota’s part suppliers was too big a logistical challenge to overcome.”

Berger praised the recruitment efforts of Cooper and Commerce Secretary Tony Copeland. “They worked closely and transparently with the legislature on this project and did everything that could be done to close the deal,” he said.

Copeland told The News & Observer of Raleigh that the silver lining to the runner-up finish was “with 1,800 acres assembled, \$1.5 billion on the table, we’ve shown the world we can do it” in terms of assembling an aggressive incentive package.

Berger said the “experience should put us in a great position to land the next plant.”

## **Earlier misses**

Site selectors caution it could be many years before the next auto plant project emerges, though the Trump administration’s America First trade policy could spur more U.S. production investments.

“Yes, the incentives game is a distasteful business, but the fundamental question for us to ask is how badly we want an auto plant,” said Andrew Brod, a senior research fellow at UNC Greensboro’s Bryan School of Business and Economics.

The Triad has been here before as recently as 2007, when what is now known as I-85 Corporate Center in Davidson County emerged as one of four finalists for a Toyota plant that at that time would have made 150,000 Corollas a year.

However, Davidson economic officials were unable to secure all of the 2,400 acres; Toyota chose to build in Blue Springs, Miss., for the Corolla production.

A site in Mebane was pitched as an advantageous plant site to BMW and Mercedes Benz in the early 1990s.

In both cases, Alabama and South Carolina outbid North Carolina in economic incentives — in essence throwing the kitchen sink given that their economies were trailing North Carolina’s coming out of the 1991-92 recession.

Meanwhile, North Carolina elected officials from Gov. Jim Hunt on down were reluctant to provide a record incentive package with the state economy in full recovery mode.

Hunt said in a July 2005 interview with the Winston-Salem Journal that Mercedes-Benz executives told state officials that the project would not be driven by incentives, and that it viewed the state’s business and educational climate favorably.

“We knew then that we were not competitive in incentives and didn’t have the tools to attract highly capitalized companies that offered the potential for industry clusters,” Hunt said.

The state also has missed on landing a Volkswagen and Volvo plant in recent years.

Brod said that “Alabama went all out for one in 1992 and paid dearly for a Mercedes-Benz plant.”

“While it took many years before the net benefit of that move was considered positive, the fact remains that it allowed Alabama to build an auto industry where none existed before.”

When Mercedes-Benz announced it was coming to Alabama in 1993, the company projected 1,500 jobs at the start, Alabama media outlet AL.com reported. It now employs 3,700.

Alabama has been very strategic geographically with its auto industry, with Mercedes-Benz in the western part of the state, Honda in the east, Hyundai in the south and now Toyota and Mazda in the north along with a Toyota engine plant.

Jason Hoff, president and chief executive of Mercedes-Benz U.S. International Inc., welcomed the Toyota-Mazda plant in a more-the-merrier tone.

“We applaud the people of the region and are pleased to see that so many other automakers recognize the same great qualities here that we did back in the mid-90s: a highly skilled and dedicated workforce, an amiable business climate, and great Southern hospitality,” Hoff said in a statement.

### **‘What else can we do?’**

John H. Boyd, a site-selection expert with The Boyd Co. of New Jersey, said the manufacturers’ decision “was a bridge too far right now for North Carolina, especially for Asian manufacturers, who do not want to be pioneers after all” in putting the first production plant in the state.

AL.com said key factors in the Huntsville site’s favor include: proximity to an existing base of auto suppliers; a workforce of 57,000 in the auto industry, including 25,000 in the supplier chains among more than 160 companies; and being near a Toyota engine plant in Tennessee and the Toyota Mississippi plant.

Boyd said the Huntsville site in Alabama and having proven automobile-sector experience made for “an easier, conventional choice for the ultimate decision-makers.”

Rep. Debra Conrad, R-Forsyth, responded when asked about not winning the Toyota-Mazda plant “What else can we do?”

“You discover what specifics are important to a particular project and that is incorporated into negotiations to make sure our state is the winning location,” Conrad said.

“It could be infrastructure improvements, workforce training, or as we know fully well, incentive performance contracts based on number of workers hired, wages, capital investment or other measures.”

Tony Plath, a finance professor at UNC Charlotte, said what North Carolina “needs to do is conduct an honest, public assessment of why we keep losing the really important plant relocations and expansions to states like South Carolina and Alabama.

“On paper, anyway, we compare most favorably to these other Southeastern states. Just what is it that we’re doing wrong, and what have they got that we don’t have? We’ve got to figure out what’s broken here before we can design a plan of attack to fix it.”

Plath said the state “simply must do a better job of selling the state, our economy, our infrastructure, our tax policy, and our labor force, and become more aggressive in the way that we go after the really big, substantive corporate re-locations and expansions relative to our sister states in the Southeast.

“We have to set higher goals for the people in the public sector that pursue the corporate relocation business, and we have to hold these people accountable for their performance,” Plath said.