CONNECTICUT POST

Bidding war for GE; corporations call the shots

By Neil Vigdor

Sunday, December 13, 2015

These days, no company seems to wield more power in governors' offices and state houses than General Electric.

For the past six months, GE has played fawning states against each other over which can offer the sweetest tax breaks and assurances of fiscal stability.

The bidding war for the conglomerate is now expected to come down to Connecticut, New York and Massachusetts. The winner will get the company's global headquarters, which has been based in Fairfield for the past 40 years.

The sweepstakes underscores the leverage corporations have to dictate terms to states and how loudly their complaints can resonate. Cutting some proposed corporate taxes was part of the reason Gov. Dannel P. Malloy called a special session of the General Assembly last week.

"The real problem of giving into corporate demands like these is you're basically inviting other companies to make this same threat," said Matthew Gardner, executive director of the Institute on Taxation and Economic Policy, a Washington think tank.

The multistate competition has also ratcheted up criticism over how much GE pays in taxes and incentive packages previously awarded by Malloy's administration to other companies, such as ESPN and United Technologies Corp.

Malloy's office and GE both declined to comment about the ongoing negotiations. The company is expected to announce whether it is relocating at the end of the month. It has said publicly it isn't looking for a special deal, but for corporate tax relief, pension reform and getting state spending under control.

Even if GE renews its commitment to Connecticut — an outcome that has gone from bleak to attainable — it's not necessarily a win for Malloy.

"I would imagine at best it's a draw and at worst he loses because of the incentives," said David Cadden, a professor emeritus in the School of Business at Quinnipiac University in Hamden. "He will probably be willing to wheel and deal with them rather than call their bluff and risk the possibility of them moving their headquarters out of Fairfield County."

ESPN, an anchor company in Malloy's First Five job creation program, received $10 million in tax credits from the state in return for creating 200 jobs under a deal conceived in 2011. The governor's aides have said the Bristol-based sports network was in danger of losing some of its operations to California or Texas.

Rhetoric overflow

Some say Malloy should use everything in his arsenal to make sure GE stays put.

"If it was my choice, I would spend what I needed to, to keep them," said Joseph McGee, vice president of public policy and programs for the Business Council of Fairfield County.

McGee is also the co-chairman of the state's Commission on Economic Competitiveness, which was created this year by the Legislature. He said the negativity about doing business in the state doesn't square with reality.

"Right now, there's too much rhetoric — 'The state is going down the drain,' " McGee said. "It's still the richest state in America. Give me a break."

Connecticut has repeatedly declined to say how much GE pays in corporate taxes to the state, where the company has downsized its footprint and its workforce to 1,000 employees.

GE is adept at sheltering income at the state and federal level, tax watchdogs such as Gardner say.

"It's pretty breathtaking over the last five years — they've earned $35 billion in U.S. profits and have paid a total of $530 million in state income taxes," Gardner said.

That works out to 1.6 percent.

"It's well below the statutory corporate tax rate in Connecticut and most of the other states in which GE does business," Gardner said.

Shareholders first

A major source of GE's angst has been the reduction of a tax break for net operating losses, which the company had hoped to use to reduce its bill from the sale of business units such as GE Capital. GE also opposed a unitary reporting requirement for multinational companies to open their books to see how much of their business activity is tied to Connecticut.

“GE has a responsibility to its shareholders to be fiscally prudent and, to operate in anti-business state like Connecticut, incentives are necessary,” said John Boyd, a corporate location consultant from Princeton, N.J.

Boyd’s Connecticut clients include Pitney Bowes and GE rival UTC, both of which have received aid packages from Malloy. UTC’s was for $400 million in tax breaks.

Working in favor of Malloy and Connecticut, some say, may be the reluctance of some GE executives to uproot to places outside the Northeast that have lower corporate tax rates.

“But you’re still in Podunk,” said Cadden, the Quinnipiac professor emeritus.

And then there is the cost of relocating executives. Boyd said major companies typically pick up the tab for 20 percent of their senior executives.

Earlier this month, Malloy made another pitch to GE’s brass. The meeting preceded the special session of the Legislature on Dec. 8 to close a $350 million budget deficit and offer corporate tax relief targeted at GE.

“The best way that leaders, including the governor, can come out with their reputations in hand is by instituting policies that make it not only easier for GE but every company to prosper in Connecticut,” said Carol Platt Liebau, president of the conservative Yankee Institute.

Liebau, a New Canaan resident, alluded to the growing optimism in the state that GE might stay.

“Perhaps one of the few true bipartisan sentiments in Hartford is the hope that GE will decide to give Connecticut one more chance,” Liebau said.