

Job Development Investment Grant

Quarterly Report

First Quarter 2012
January - March

Introduction

This report describes all Job Development Investment Grant (“JDIG”) awards made by the Economic Investment Committee (the “EIC”) during the first calendar quarter of 2012, as required by North Carolina General Statutes §143B-437.55(d). The report includes the name of each first quarter grantee, the results of the cost/benefit analysis considered by the EIC in making these awards, a description of each project, and the maximum grant amount payable under each such grant for the current fiscal year.

Summary of the Job Development Investment Grant Program

The JDIG program, adopted by the General Assembly in the 2001-2002 session, is a performance-based economic development incentive program that provides annual grant disbursements for a period of up to 12 years, to new and expanding businesses based on a percentage of withholding taxes paid by new employees during each calendar year that is a grant year under a particular grant. The percentage of withholdings that is awarded ranges from 10% to 75%. Grants are made to qualifying companies by the five-member EIC, subject to caps set by the General Assembly on future grant year liability.

In considering whether or not to award a grant, the EIC conducts an extensive review and analysis of an application submitted by a proposed grantee, to determine whether its project meets the requirements of the JDIG Statute¹ and Criteria², and particularly, whether the benefits of the project outweigh the costs to the State. The EIC considers both economic and fiscal impacts. The analysis of each project’s impact on net State revenue is conducted using a model developed by Dr. Mike Walden of North Carolina State University. The EIC seeks projects that are the most beneficial to the State, after considering a number of different evaluation factors enumerated in the JDIG Statute and Criteria. The EIC also considers these factors when deciding on the appropriate amount and term of an award.

JDIG Awards

As shown below in Table 1, the following grantees received grants in the first quarter of 2012: Caterpillar, Inc. (“Caterpillar”), Reed Elsevier Inc. (“Reed Elsevier”), and XPO Logistics, Inc. (“XPO”).

Table 1

Company	County	County Tier Status
Caterpillar	Johnston	3
Reed Elsevier	Wake	3
XPO	Mecklenburg	3

¹ N.C. Gen. Stat. § 143B-437.50 et. seq.

² Criteria for Operation and Implementation of Job Development Investment Grant Program, available at <http://www.thrivenc.com/sites/default/files/incentives/financial/criteria-of-jdig-Feb-16-2009.pdf>

Project Impacts and Cost/Benefit Analysis

Table 2 describes the economic and fiscal impacts for the first quarter 2012 grants.

The Job Impact columns in Table 2 describe the direct jobs that are expected to be created as well as the “multiplier” employment impacts of each company’s activities. The projects approved in the first quarter are expected to create 750 direct jobs at full production and approximately 1,045 more indirect and induced jobs.

The expected total increase in the State’s gross domestic product (the “GDP”) over the life of the grants is measured in the GDP column in Table 2.³ GDP is a measure of the size of the economy. The three projects approved in the first quarter of 2012 are expected to generate approximately \$1.215 billion in GDP over the life of the grants.

Table 2 displays the maximum State grant liability over the life of each grant. The grants will only reach the maximum liability noted if company performance (jobs, salaries, and investment) meet targets in every grant year, and if withholding amounts meet expectations. All of the grants awarded in the first quarter of 2012 are for projects that will locate in a Tier 3 county. For projects located in Tier 3 counties, 25% of the payments for which the grantees are eligible will be transferred to the Utility Account of the Industrial Development Fund (the “Utility Account”) to provide grants for infrastructure in distressed counties.

The cumulative State net revenue impact column in Table 2 represents all State revenues generated by a project minus the cost of any State-provided economic incentives (including the JDIG award, potential Article 3J Tax Credits for Growing Businesses, One North Carolina Fund grants and community college training services), and minus the cost of providing State services to migrants from out-of-State that come to North Carolina because of the project. Only projects that generate positive net revenue impacts are eligible for a grant. The three projects approved in the first quarter of 2012 are expected to generate over \$19.727 million in net State revenue over the life of these grants.

Table 2

	Job Impact				GDP	Revenue	Maximum State Grant Liability		
	Direct Jobs	Indirect Jobs	Total Jobs	Target Average Wage	Total NC GDP Impact (millions)	Net State Revenue Impact (millions)	Maximum State Liability to Grantee	Maximum State Liability to Utility Account	Maximum Total State Liability
Grantee									
Caterpillar	199	501	700	\$41,465	\$485.704	\$13.344	\$1,644,000	\$548,000	\$2,192,000
Reed Elsevier	350	353	703	\$91,644	\$508.013	\$4.305	\$8,860,500	\$2,953,500	\$11,814,000
XPO	201	191	392	\$56,606	\$221.775	\$2.078	\$3,219,750	\$1,073,250	\$4,293,000
Totals	750	1,045	1,795		\$1,215.492	\$19.727	\$13,724,250	\$4,574,750	\$18,299,000

Note: This table shows job impacts at full employment. Project amounts and impacts reflect the full term of the grants.

³ The GDP and fiscal impact are measured over the life of the grant. Therefore, if a grant is awarded for seven years, the impacts displayed are the cumulative impact over seven years. If a grant is awarded for twelve years, the impacts displayed are the cumulative impacts over twelve years. However, it should be noted that the economic and fiscal benefits to the State will continue as long as operations continue at the project facility.

Table 3

Grantee	Maximum FY12/13 Liability to Grantee	Maximum FY12/13 Liability to Utility Account	Total Maximum FY12/13 Liability
Caterpillar	\$101,250	\$33,750	\$135,000
Reed Elsevier	\$243,750	\$81,250	\$325,000
Totals	\$345,000	\$115,000	\$460,000

As reflected in Table 3, if Caterpillar and Reed Elsevier meet performance and withholdings requirements, they could be eligible for grant payments during the fiscal year ending June 30, 2013 (for performance as of December 31, 2012). Once JDIG annual reports are received, analyzed, DOR certification received, and EIC approval of disbursement authorized, grant disbursements are made. For calendar year 2013, which is the first grant year for XPO, if the company meets its performance minimums and withholding requirements, it would be expected to receive payment sometime between the second and fourth calendar quarter of 2014.

Project Descriptions

Caterpillar, Inc. (“Caterpillar”)

Caterpillar is the world’s leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. Caterpillar currently employs more than 104,000 employees across the globe.

Caterpillar is currently producing small wheel loaders in Clayton, N.C., Illinois, Japan, Brazil and Belgium. This project is a consolidation of small wheel loader production into its facility located in Clayton. As a result of the consolidation of this line into a single location, the number of units produced in Clayton will dramatically increase in future years. Additionally, Caterpillar is considering consolidating its engineering services into the Clayton Product Development Center.

With production of the small wheel loaders currently taking place in five locations around the world, Caterpillar had the option to consolidate at one of any of the five locations or to continue to operate separate facilities. In evaluating its options, the company considered both the “one-time” costs as well as expenses that would be required in order to execute a transition. The company stated that incentives played an important role in determining its location decision, based on financial analysis of the various options available. The company stated that the JDIG award was critical to the selection of North Carolina as the location for this project. Over the next 5 years the company will create 199 new jobs at an average annual wage of \$37,759 for the first year and \$41,465 in subsequent years. In addition, the company is required to retain 1278 existing jobs in order to be eligible for a grant payment. The company will invest \$33 million in real and personal property in this project.

Reed Elsevier Inc. (“REINC”)

REINC consists of five major business units, which include: Elsevier – the world’s leading provider of scientific and medical information, LexisNexis Risk Solutions – provides data and analytics to evaluate and manage risks associated with transactions and improve performance, LexisNexis Legal and Professional – provides legal, tax, regulatory, news and business information and analysis to a variety of markets, Reed Exhibitions – the world’s leading organizer of events, Reed Business Information – a leading provider of business information, online data and marketing solutions.

This project is intended to concentrate marketing, sales, customer support and product development in Wake County, a tier 3 county, that the company believes will promote business growth through internal efficiencies and improved access to talent that can provide highly knowledgeable customer support for its varied computer-based information systems. REINC will create 350 new jobs over the next five years at an average annual wage of \$91,644. The company employs 130 individuals in Cary and an additional 181 through a number of affiliates in Charlotte. All of these jobs are required to be retained as a condition of this award.

The company evaluated the 10 locations in which it is currently located, as well as an additional 20 locations with no company presence. Key factors that were evaluated and that influenced the final decision included the availability of skilled labor force, labor costs, corporate income tax and other taxes, quality of life and the availability of incentives to offset operating and implementation costs. Through this process the company narrowed the search to three sites: Charlottesville, VA., metropolitan Chicago, and the Raleigh region (Cary). The company stated that the North Carolina location fell between the other two sites with respect to most factors, with the exception of business taxes, as to which N.C. was found to be inferior to the other two. Award of this JDIG was critical to the selection of North Carolina as the location for this project.

XPO Logistics, Inc. (“XPO”)

XPO is a third-party logistics provider offering expedient, single-source solutions for time-critical and service-sensitive shipments. XPO serves customers in the U.S., Canada and Mexico with domestic and international freight destinations, and offers logistics services through three brands: Express 1, Inc., Concert Group Logistics, and Bounce Logistics, Inc.

XPO conducted a site search for its new North American Operations Center. The facility located in Mecklenburg County, a tier 3 county, will incorporate accounting/finance, human resources, IT, brokerage, carrier procurement and operations under one roof. XPO will create 201 jobs over the next three years, paying an average annual wage of \$56,606. The company currently has four sales-related positions in Charlotte and will be required to retain them in order to be eligible to receive a grant payment.

Over a period of several months, XPO conducted an extensive site search. Factors the company considered included labor, real estate, and overall operational costs. The search was narrowed to three states: Texas (Plano), South Carolina (Lancaster) and North Carolina. Because all three sites offered similar characteristics, financial incentives were a critical factor driving the final decision. North Carolina’s incentive package was not the largest; thus the JDIG award was pivotal.