

Job Maintenance and Capital Development Fund:

Annual Report

Fiscal Year 2011-2012

Job Maintenance and Capital Development Fund

Original JMAC Statute and Awards under Original Legislation

The Job Maintenance and Capital Development Fund (the “JMAC”) Program (N.C. Gen. Stat. § 143B-437.012) is a discretionary incentive program that, in its original formulation, provided sustained annual grants to businesses with at least 2,000 permanent full-time workers, located in Development Tier 1 counties, and which invest at least \$200 million in capital improvements within 6 years of initial expenditure. The purpose of a JMAC grant is to encourage retention of significant numbers of high-paying, high-quality jobs and large-scale capital investment, enlarge the overall tax base, and increase revenues to the State and its political subdivisions. Grant recommendations are made by the Economic Investment Committee (the “EIC”) to the Secretary of Commerce, based on a thorough review of the factors enumerated in the Criteria for Operation and Implementation of Job Maintenance and Capital Development Fund Program (the “JMAC Criteria”), adopted on December 13, 2007, pursuant to N.C. General Statute §143B-437.012(i)(1), as amended effective July 8, 2010. A total of 5 grants may be made under the JMAC program.

Under the JMAC statute as originally enacted, two grants were awarded during fiscal year 2008-09. Goodyear Tire & Rubber Company (“Goodyear”) and Bridgestone Firestone North American Tire LLC (“Bridgestone”) were each awarded a grant for up to \$30,000,000 over ten years, to modernize their tire manufacturing facilities.

Amendment to Original JMAC Statute and Additional Award

On August 26, 2009, an amendment to the JMAC Statute was approved, effective July 1, 2010 (Session Law 2009-520) (the “JMAC Amendment”), which increased the amount that could be awarded under the JMAC program, from \$60,000,000 to \$69,000,000. Thus, an additional \$9,000,000 could be awarded. Eligibility requirements were expanded to include a large manufacturing employer (as defined in N.C. Gen. Stat. §105-129.81) that is converting its manufacturing process to change its product, that invests at least \$65,000,000 within a 3 year period, and that employs 320 full-time workers which it agrees to maintain for the full grant term.

In late 2009, based on an application submitted by Domtar Paper Company, LLC (“Domtar”), and analysis done by the Department of Commerce (“Commerce”), the EIC proposed terms on which it would be willing to recommend a grant for Domtar’s conversion of its existing paper production machinery to fluff-production, subject to effectiveness of the JMAC Amendment, in order to allow Domtar’s board to proceed with purchase of the machinery necessary to accomplish this. Delay would have unacceptably delayed the project and may have prevented Domtar from being able to timely acquire the machinery at all, to move forward with this project in North Carolina, which could have resulted in the loss of existing jobs which the JMAC Amendment was designed to protect. After the JMAC Amendment became effective, Domtar amended and updated its application. During the course of reviewing Domtar’s updated application, Commerce became aware of an environmental claim stemming from activity of the predecessor owner of Domtar’s Plymouth facility (Weyerhaeuser), as to which DENR required that Domtar take responsibility. The grant process was put on hold until DENR informed Commerce that it was satisfied with the status of Domtar’s efforts in moving forward to a settlement agreement whereby they would address the environmental concerns, and DENR would not object to the JMAC grant moving forward. Prior to release of any funds under the grant, Commerce will ask Domtar and DENR to confirm that Domtar is acting in accordance with the cooperative requirements of MOA-2006-044/7073, and with any agreed-upon Damage Assessment and Restoration Plan developed pursuant to that MOA.

Thus, on April 14, 2012, after making the statutorily required findings, the Economic Investment Committee recommended that a JMAC award be provided to Domtar to enable the company to modernize its Plymouth, North Carolina facility by converting its paper production machinery to fluff production. At the time of award, Domtar had made the investment contemplated, and converted its machinery. Terms of the grant include the following:

- Retention of 320 full time employees.
- Investment of \$65 million by October 10, 2012.

- Payment of a minimum average wage of 140% of the prevailing county wage. The Wage Standard for the year ending December 31, 2010 is \$42,661. The Wage Standard for the year ending December 31, 2011 is \$35,454. The Wage Standard for the year ending December 31, 2012 is \$42,879.
- Payment of at least 50% of the health insurance premiums for all full-time employees.

In making its recommendation, the EIC conducted an extensive review and cost-benefit analysis of the project. This analysis shows a positive return on this investment for North Carolina, based on the difference between State impacts if a grant is awarded and the expected loss of production activity and jobs that would have occurred in the absence of a grant. The benefits from the grant include:

- The project's cumulative impact on Gross State Product is more than \$1.67 billion at the end of the 10-year grant period (2019).
- The estimated net state revenue differential between awarding the company a grant and not awarding the company a grant is positive for all grant years. In 2009, the net state revenue differential is approximately \$70,000, peaking at \$8 million in 2014 and stabilizing at \$7.8 million in 2015 and beyond. The cumulative net state revenue differential at the end of the 10-year grant period is approximately \$64.6 million.
- The net state revenue differential is derived from the following: *The difference in gross state revenues* is \$66,000 in 2009 and stabilizes at \$7.1 million in 2015 and beyond, resulting in a cumulative gross state revenue differential of approximately \$65.6 million by the end of the grant term. *The difference in gross state costs* range from increased costs of \$1.5 million to a differential benefit of nearly \$700,000 as a result of the grant award and the company's decision to convert its manufacturing output. This represents the cost to the state associated with the facility workers becoming unemployed as a result of the facility shutting down. Over the grant term, the cumulative gross state cost differential is \$1 million.
- Domtar will invest more than \$83.4 million between 2009 and 2011, compared to a little more than \$7 million that would have been invested over the same period, in the absence of a grant.
- This project is to convert the Plymouth machinery from fine paper production to production of fluff pulp for consumer products such as diapers. It benefits at least 320 employees at the mill, and their families, and the community that is supported by the significant economic impact the facility has on the Martin County area. In addition to the full-time Domtar positions at the facility, there are an estimated 700 other jobs that exist as a direct result of the company maintaining their operations. These positions include onsite maintenance, landscaping, technical support medical, security, logistics, transportation, outbound freight, logging and forestry personnel.

Measurement of Grant Payment Eligibility for all JMAC Grantees

The annual amount for which each JMAC grantee is eligible, if performance criteria are met, is based on the sum of the following eligible expenses: (i) 95% of certain statutorily specified eligible taxes; (ii) 100% of confirmed worker training expenses; and (iii) 100% of confirmed eligible State fees paid. Grantees generally qualify based principally on worker training expenses incurred to train workers on the new equipment purchased to modernize their facilities.

Grantees are ineligible for a grant payment for any year in which they fail to retain the required minimum number of eligible workers, fail to satisfy the wage requirement, or fail to make the required health insurance available to workers. Grants will be terminated for three consecutive years of failure to retain the required workers or to meet the wage standard. Grants must be repaid for failure to make the required investment within the specified time period.

Summary of Grantee Performance Criteria

Performance criteria for grant payment eligibility for these three grantees are as follows:

Company	Jobs for Full Payment	Jobs for Prorated Payment and minimum to avoid default	Investment	Wages	Other
Goodyear	2,398	1,918	\$200 million by 2012	140% of average county wage in Cumberland County	Worker health insurance
Bridgestone	2,083	1,666	\$200 million by 2010	140% of the average county wage in Wilson County	Worker health insurance
Domtar	320	n/a	\$65 million by October 10, 2012	140% of the average county wage in Martin County	Worker health insurance

Grant Payments

Grant payments were made in FY 2011-2012 for the performance year ending December 1, 2010, after Commerce's analysis and confirmation of the companies' annual JMAC reports. Goodyear received a grant payment of \$3,000,000, based on its report of 2,520 eligible employees, with an average wage of \$65,134, required average wage of \$44,044, and investment of \$231,850,533, and (ii) Bridgestone received a grant payment of \$2,891,983 for a reported 1,906 eligible positions, with an average wage of \$57,776, required average wage of \$47,902, and investment of \$211,210,315. Thus, both companies have met their investment requirement under these grants.

Payments Made Through FY 2011-2012

Company	Total Grant Amount	Amount Received To-Date	Amount of Grant Remaining
Goodyear	\$30 million	\$8,500,000	\$21,500,000
Bridgestone	\$30 million	\$8,091,455	\$21,500,000

Domtar's grant agreement is undergoing execution, so no payments have been made. It is expected that Domtar will receive the full \$500,000 payment for 2010 performance, as it has met all 2010 performance criteria. Like Goodyear and Bridgestone, Domtar has already exceeded its investment requirement, having reported investment of \$85.9 million in its 2010 annual report.

The General Assembly has appropriated a total of \$7,500,000 for the 2011 performance year, with Goodyear and Bridgestone each being eligible for \$3,000,000, and Domtar being eligible for \$1,500,000, if they meet the performance criteria. These reports are under review, and payments are expected to be made in fiscal year 2012-2013.