

Job Development Investment Grant

Quarterly Report

Second Quarter 2011
April-June

Introduction

This report describes all Job Development Investment Grant (“JDIG”) awards made by the Economic Investment Committee (the “EIC”) during the second calendar quarter of 2011, as required by North Carolina General Statutes §143B-437.55(d). The report includes the name of each second 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 Program 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 second quarter of 2011: Pittsburgh Glass Works LLC (“PGW”); Superior Essex Energy, Inc. (“Superior Essex”); Electrolux Home Products, Inc. (“Electrolux”); AptarGroup, Inc. (“Aptar”); Mitsubishi Nuclear Energy Systems, Inc. (“Mitsubishi”); Compass Group USA, Inc. (“Compass”); and Linamar North Carolina, Inc. (“Linamar”).

Table 1

Company	County	County Tier Status
PGW	Surry	1
Superior Essex	Edgecombe	1
Electrolux	Mecklenburg	3
Aptar	Lincoln	2
Mitsubishi	Mecklenburg	3
Compass	Mecklenburg	3
Linamar	Buncombe	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 second quarter 2011 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 1,424 direct jobs at full production and approximately 2,144 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 seven projects approved in the second quarter of 2011 are expected to generate approximately \$1.985 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 maximums if company performance (jobs, salaries, and investment) meet targets in every grant year, and if withholding amounts meet expectations. Four of the grants awarded in the second quarter of 2011 are for projects that will locate in a Tier 3 county, one of the grants is for a project that will locate in a Tier 2 county and two grants are for projects that will locate in a Tier 1 county. For projects located in Tier 3 counties, 25% of the award is transferred to the Utility Account of the Industrial Development Fund (the “Utility Account”) to provide grants for infrastructure in distressed counties. For projects located in a Tier 2 county, 15% of the award is transferred to the Utility Account. The projects located in Tier 1 counties will receive the full amount of the grant award.

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. Under the JDIG Statute and Criteria, only projects that generate positive net revenue impacts are eligible for a grant. The seven projects approved in the second quarter of 2011 are expected to generate over \$29.47 million in net State revenue over the life of these grants.

As reflected in Table 3, Mitsubishi will be eligible for a grant payment during the fiscal year ending June 30, 2012. Payment for the first grant year for PGW, Superior Essex, Aptar, Compass and Linamar will not occur until fiscal year 2012/13 (for the companies’ respective performance during calendar year 2012). Payment for the first grant year under Electrolux’s grant will not occur until fiscal year 2013/14 (for the company’s performance during calendar year 2013). The first grant year may occur several years after a grant award, as a company may need substantial time to undertake construction, hire employees and begin operations at the facility. Grant payments are typically made by the third quarter following the end of a grant year, which is the calendar year ending on December 31. Once annual reports are received, analyzed, DOR certification received, and EIC approval of disbursement authorized, grant disbursements are made.

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 2

Grantee	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	Total Maximum State Liability
PGW	260	286	546	\$30,608	\$296	\$5.53	\$2,103,000	\$0	\$2,103,000
Superior Essex	116	324	440	\$41,289	\$210	\$2.54	\$1,214,000	\$0	\$1,214,000
Electrolux	200	249	449	\$90,150	\$458	\$6.26	\$6,925,500	\$2,308,500	\$9,234,000
Aptar	150	118	268	\$36,311	\$138	\$1.95	\$1,006,400	\$177,600	\$1,184,000
Mitsubishi	135	159	294	\$102,454	\$156	\$0.36	\$2,883,750	\$961,250	\$3,845,000
Compass	200	314	514	\$52,500	\$197	\$2.68	\$1,755,000	\$585,000	\$2,340,000
Linamar	363	693	1,056	\$39,931	\$530	\$10.15	\$2,518,500	\$839,500	\$3,358,000
Totals	1,424	2,143	3,567		\$1,985	\$29.47	\$18,406,150	\$4,871,850	\$23,278,000

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

Table 3

Grantee	Maximum FY11/12 Liability to Grantee	Maximum FY11/12 Liability to Utility Account	Total Maximum FY11/12 Liability
Mitsubishi	\$157,500	\$52,500	\$210,000
Totals	\$157,500	\$52,500	\$210,000

Project Descriptions

Pittsburgh Glass Works LLC (“PGW”)

Pittsburgh Plate Glass Co. (“PPG”) was founded in 1883. PPG sold the controlling interest of its automotive glass business in 2008, and PGW was formed, as a Delaware limited liability company headquartered in Pennsylvania. PPG holds a 38% equity share in PGW, and Kohlberg & Company owns 60%. PGW is a manufacturer and supplier of automotive glass products and services, with more than 4,000 employees worldwide.

Due to the current increase in demand for automotive glass products, the company forecasted a need for added capacity. The company will install state of the art automotive glass fabricating equipment to meet the growing demand from original equipment manufacturers. The facility in Elkin, once modified, will meet the company’s immediate production plans as well as provide room for expansion. At full capacity the facility will produce windshields, vents and side and rear glass parts.

PGW will maintain the current 19 full time positions at its distribution branches in Wake and Mecklenburg counties. The company will create 260 new jobs between years 2012-2015 in Surry County. The newly created positions will earn an average annual salary of \$30,608.

The company considered the southeast region of the US for its expansion. The initial search of facilities identified eighty-eight possible sites. This list was narrowed to eight sites in North Carolina, South Carolina, Virginia, Tennessee, Alabama, and Mississippi. The company evaluated those locations using the following criteria: human capital, infrastructure, sourcing supply chain, business climate, and general risk. The selection was then narrowed to four sites in North Carolina, South Carolina, and Tennessee. Three of the sites were ready to occupy, and one was a finished goods warehouse in Elkin, NC, which required significant facility improvements prior to occupancy. Tennessee’s offer included job tax credits, industrial machinery credit, sales and use tax savings, recruitment and applicant screening, job training, infrastructure development, TVA advantage grant, property tax abatement, and other cash related incentives. Similar incentives were offered from South Carolina including: employee recruitment and screening, job tax credits, corporate income tax moratorium, job development credits, property tax exemptions, various statutory tax credits, and other cash grants.

Since the Elkin facility was not constructed as a manufacturing facility, PGW will have to invest over \$13 million prior to installing the production equipment, in order to bring this facility to the same level as the competing locations. With the incentive package offered by the State of North Carolina, Surry County and the Town of Elkin, PGW will be able to complete the retrofit of the building needed to convert the facility from a finished goods warehouse to an automotive glass fabricating facility.

Superior Essex Energy, LLC (“SPSX Energy”)

Superior Essex, Inc. (“Superior Essex”), incorporated in Delaware in 2003, is a global leader in the design, manufacture and supply of wire and cable products. It is the world’s largest producer of magnet wire (also known as winding wire), an insulated copper or aluminum conductor used by major equipment manufacturers and distributors. In 2008, Superior Essex was acquired by LS Cable (now known as LS Cable & System LTD), a global Korean company owned by the publicly traded LS Corp, with approximately 10,000 employees and more than 70 offices in 24 countries, that provides provide a wide range of energy and telecom solutions for the energy, infrastructure, construction, automotive, railway, telecommunications and electronic industries.

Superior Essex also manufactures and supplies fiber optic cables and copper cables. SPSX Energy is an indirect subsidiary of Superior Essex.

Superior Essex is providing the infrastructure and equipment for SPSX Energy to begin manufacturing low and medium voltage cables in North America. These products are used in instrumentation and control and power applications. At the chosen Tarboro site in Edgecombe County, the company has begun making modifications to an existing building to prepare it for the necessary equipment. This includes significant upgrades to the building and the construction of an extrusion tower. The company will invest a total of \$58.28 million and create 116 new jobs.

Superior Essex Communications LP, a subsidiary of Superior Essex, has operations in Kansas, Texas and Tarboro. The possible sites for the project were narrowed to either Texas or North Carolina. Both locations provided competitive incentive programs that included both state and local incentives. The package from Texas included grants, tax incentives, land, low cost construction and financing, including assistance from the Texas Enterprise Fund, the Texas Enterprise Zone Program and the Texas Product/Business Fund. The company estimated the value of the package from Texas in excess of \$8 million and stated a JDIG award was a critical part of the company's decision to locate in North Carolina.

Electrolux Home Products, Inc. ("EHPI")

Electrolux is a global leader in home appliances and appliances for professional use, selling more than 40 million products to customers in more than 150 markets every year. Electrolux products include refrigerators, freezers, washers and dryers, vacuum cleaners, dishwashers and cooking products sold primarily under the Electrolux, Frigidaire and Eureka brands in North America. The Electrolux entities participating in this project are EHPI, the grantee, Electrolux North America, Inc. ("ENA") and Electrolux Home Care Products, Inc. ("EHCP"), the related member parties.

This project is the consolidation of engineering operations and employees into one engineering center. The engineering positions were located in several locations across the United States. These locations were satellite offices that were not in line with manufacturing operations. In the U.S., the company had 200 engineers in Illinois, Iowa, South Carolina, and Tennessee. Manufacturing operations to support the products designed by the engineers are only located in South Carolina and Tennessee. The Iowa manufacturing operation (washers and dryers) has moved to Mexico.

The company's objective was to increase efficiency and decrease costs. The three things the company sought to address were: a) consolidation of engineers into one location, b) locating the engineers where they can support a wide-variety of products the engineers would be designing, and/or c) locating the engineers into a design center where the applications, resources, and support structure would be beneficial to the overall design process.

The company considered several options for the project, including locations in North Carolina, Tennessee, Europe (Stockholm and Hungary) and China. If the company this project in Stockholm or Hungary, the engineers would have been housed in existing space.

Another location option was near Shanghai, China. Shanghai is home to several manufacturing operations and it would have been a natural fit to align the research and development engineers with the actual products manufactured. This option would have required building more office space and adding laboratories and lab equipment for the engineers.

One of the factors that led the company to choose North Carolina was because of its Charlotte headquarters. The Charlotte space will be modified to accommodate the engineers. In addition, some off-site space is being leased to accommodate some of the additional 200 jobs that will be created over four years beginning in 2013, with \$14 million investment by 2014. In addition, EHPI is required to remain in compliance with the all requirements of JDIG Grant 2009-24 in order to receive payments under this grant.

AptarGroup, Inc. (“Aptar”)

Aptar is a global supplier of customized dispensing systems (pumps, closures and aerosol valves) for the personal care, fragrance/cosmetic, pharmaceutical, household and food and beverage markets. The company has manufacturing facilities with approximately 8,600 full-time employees located throughout the world, including North America, Europe, Asia and South America.

Aptar conducted a nationwide search which focused on building and infrastructure suitability, key operating costs, and labor market demographics. The company considered locating its newest plastic closures manufacturing plant in either Hebron, Kentucky or Lincolnton, North Carolina.

The company applied for incentives from Kentucky and received a formal offer letter. Kentucky offered a package involving income tax credits, wage assessment grants, sales tax refunds, and training grants. A significant amount of the Kentucky incentives were “above the line” incentive opportunities.

The Lincolnton site involved some higher costs for the acquisition of the facility and costs associated with retrofit of the facility. In addition, North Carolina had a higher overall effective tax rate than Kentucky when taking the franchise tax liability into account. Other competitive issues included training for a work-ready employment base in North Carolina as compared to Kentucky. The company chose the building in Lincolnton because it better suited its needs than the building in Kentucky. Aptar will create 150 new jobs over five years and invest over \$53 million by the end of 2014.

Mitsubishi Nuclear Energy Systems, Inc. (“MNES”)

MNES (privately-held, incorporated in Delaware in 2006) is one of the world’s leading manufacturers of nuclear and conventional electric power plants and replacement components. The company supplies safe and secure nuclear energy systems for utility customers by leveraging experienced engineering, manufacturing and technical support capabilities. MNES business operations include support for existing nuclear power plants through component replacement and inspection services and the promotion of new facilities through the introduction of the advanced pressurized water reactor.

MNES is the U.S. wholly-owned subsidiary of Mitsubishi Heavy Industries, Ltd, (“MHI”) headquartered in Japan. MHI is one of the world’s leading heavy machinery manufacturers, with a lineup of products and services that includes power plants, shipbuilding, chemical plants, environmental equipment and aircraft.

The new Charlotte location is the main MNES engineering center and will perform projects to build nuclear power plants for utility companies in the U.S. As a company, MNES has introduced the U.S. Advance Pressurized Water Reactor (“US-APWR”) design, which is based on the Japanese design of the same name (“APWR”). Because modifications had to be made to the reactor in order to comply with U.S. requirements, the 135 new positions related to project management, engineering, procurement and quality assurance will all work in this office.

The company was actively engaged with several real estate brokers and toured available space in both South Carolina and Charlotte. The company was involved in a partnership with a firm based in Fort Mill, SC and considered co-locating in that firm’s building in Fort Mill. MNES met with state officials in South Carolina and received what the company considered as an aggressive financial incentive package that included, among other items, tax credits, property tax offsets, upfront grant monies, and Job Development Credits.

Compass Group USA, Inc. (“Compass USA”)

Compass USA is a wholly-owned subsidiary of Compass Investments. Compass Group PLC, which is based in London and traded on the London Stock Exchange, is the ultimate parent company with over 428,000 associates worldwide, making it the 17th largest employer in the world.

Compass USA and its subsidiaries provide dining and support services to corporate clients, educational and healthcare facilities, and sports and entertainment venues in the United States, Canada, and Mexico.

Compass USA currently houses its corporate headquarters in two facilities located in Charlotte. In addition to the US corporate headquarters, Compass USA also serves many of its clients at facilities in North Carolina but most of its operations are spread throughout the country. Several Compass USA subsidiaries have regional headquarters operations in other states such as New York, California, Illinois, Pennsylvania, Alabama and Georgia. These regional headquarters developed from integrating acquisitions into Compass USA operations in North America. The specific business activities to occur at the project site will include corporate headquarter office activities.

Compass One, LLC and Foodbuy LLC, the related member parties, will perform shared-service operations for Compass USA subsidiaries in North Carolina. In addition, Compass USA subsidiaries, including Compass One, LLC, have non-corporate employees who perform business operations on client premises; these jobs are of a foodservice or janitorial nature, as opposed to the shared-services functions included in the expansion project. Compass USA will create 200 new jobs over four years and invest \$5.5 million by 2013.

Compass USA has existing operations in Mobile, Alabama. That location was also under consideration for the regional headquarters consolidation.

Linamar North Carolina (“LNC”)

Linamar Corporation (“Linamar”) is a publicly owned company with headquarters in Guelph, Ontario, Canada. The company is a designer and diversified manufacturer of precision metallic components and systems for the automotive industry, energy and mobile industrial markets. The company is a leading supplier of engine, transmission, driveline, modules & systems and mobile aerial work platforms.

Linamar produces engine cylinder blocks, heads, crankshafts, rods, and other internal engine components, and driveline components such as gears, torque converters, internal transmission parts, and powertrain parts. These parts are supplied individually, as subassemblies, or as completed engines and drivetrains. Linamar also produces industrial lift equipment, lawn mowers, and utility trailers.

LNC, a wholly owned subsidiary of Linamar, was established to provide components for key customers in the commercial heavy duty engine market and the large off-highway truck market. LNC will produce engine and driveline components for these markets.

A multi-state search was conducted for project locations, including North Carolina and South Carolina. Each location had its own advantages and disadvantages. While incentive grants were important in the company’s decision-making process and proved to be decisive, there were other factors of importance, such as proximity to customers, availability of a quality workforce and access to major highways. After careful research and consideration the company chose Asheville in Buncombe County. LNC will create 363 jobs over four years and invest \$80 million.

The incentives offered in South Carolina included job development credits, tax abatement, sales tax exemption, land grant or price reduction, income tax credits, work-ready SC training, and infrastructure improvements, valued at approximately \$17 million.