

**Site Infrastructure Development Fund and  
Job Maintenance and Capital Development Fund:**

**Report**

**Third Quarter 2008**

**First Quarter Fiscal Year 2008-2009**

**9/30/2008**

## Report on Site Infrastructure Development Fund and Job Maintenance and Capital Development Fund

*This report updates information reported last quarter for these two programs, as of September 30, 2008.*

### Site Infrastructure Development Fund

This section of the report updates information provided for the previous calendar quarter, related to the Site Infrastructure Development Fund (the "SIDF"), pursuant to N.C. Gen. Stat. § 143B-437.02(k).

There has been no change in the status of the Merck grant since the previous quarter.

### Job Maintenance and Capital Development Fund

This section of the report updates information provided for the previous calendar quarter, related to the Job Maintenance and Capital Development Fund (the "JMAC") Program, pursuant to N.C. Gen. Stat. § 143B-437.11.

Two grants were awarded under the JMAC Program during this quarter. The grantees are Goodyear Tire & Rubber Company ("Goodyear") and Bridgestone Firestone North American Tire LLC ("BF"). Agreements governing the terms of the grants were sent to each company immediately following the award, and are expected to be executed in the fourth quarter of 2008.

Both grants are to be paid over a ten-year grant period. The maximum lifetime liability for each of these grants is \$30,000,000; the total of \$60,000,000 allocated to these two grants is the maximum liability under the program permitted by statute. The annual amount for which each company will be eligible (if performance criteria are met) is described in the following table, in which "Eligible Grant Amount" means the sum of (i) 95% of certain statutorily specified eligible taxes; (ii) 100% of confirmed worker training expenses; and (iii) 100% of confirmed eligible State fees paid. It is expected that both companies will qualify for grant payments based principally on worker training expenses incurred to train workers on the new equipment purchased to modernize their respective facilities.

<b>GRANT YEAR</b>	<b>MAXIMUM ANNUAL GRANT AMOUNT</b>
Year 1 (2008)	The lesser of \$2,500,000 and the Eligible Grant Amount.
Year 2 (2009) <i>through</i> Year 10 (2017)	The least of: i. 50% of the GA appropriation for the applicable grant year; ii. the Eligible Grant Amount for the applicable grant year; and iii. \$4,000,000, <i>up to maximum lifetime cumulative grant payments in the amount of \$30,000,000.</i>

For fiscal year 2008-2009, the General Assembly has appropriated a total of \$5,000,000. It is expected that the companies will each qualify for \$2,500,000. The companies are required to report their calendar year 2008 performance by May 1, 2009. Grant payments will be made after analysis and confirmation of these reports.

This report describes these projects and the cost-benefit analysis conducted for these projects in approving the grants.

## **Goodyear Tire & Rubber Company**

On September 17, 2008, after making the statutorily required findings, the Economic Investment Committee recommended that a JMAC award be provided to Goodyear to enable the company to modernize its Fayetteville, North Carolina facility by installing state-of the art tire manufacturing equipment that will enable the plant to produce large volumes of larger-sized, more complex high-performance tires. Terms of the grant include the following:

- Retention of a minimum of 2,000 full-time employees. Goodyear will only be eligible for the full annual grant payment if it retains 2,398 full-time positions. The company will be eligible for a pro rated payment if it retains between 2,000 and 2,398 positions.
- Investment of at least \$200 million over a 6-year period
- Payment of minimum average wage of 140% of prevailing county wage (\$41,787 in 2008)
- Payment of at least 50% of the health insurance premiums for all full-time employees.

In making its recommendation, the Economic Investment Committee 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 company's expectations of the actions it would take if the grant is not awarded. The benefits from the grant include:

- The project's cumulative impact on gross state product over the grant term is \$6,576,201,000.
- The estimated net state revenue gain is positive for all grant years except 2008. In 2008, the net state revenue differential is approximately \$1.452 million, but increases to over \$8 million a year by 2013 and beyond. The cumulative state net revenue differential at the end of the 10-year grant period is approximately \$63.29 million.

The net state revenue difference is derived from the following:

The annual difference in *gross state revenues* ranges from \$3.29 million in 2008 to more than \$12 million in 2011 and beyond, resulting in a cumulative gross state revenue difference during the full grant term, of approximately \$107.42 million.

The annual difference in *gross state costs* range from \$4.68 million in 2008 to \$3.40 million in 2017, resulting in a cumulative gross state costs difference during the full grant term, of \$44.12 million.

- Retention of at least 2,000 jobs at the facility for the life of the grant. As presented in Goodyear's application, the estimated number of direct employees expected to be retained, as measured at the end of each grant year is: year 1 (2008): 2,872 jobs; year 2 (2009): 2,757 jobs; year 3 (2010): 2,659; year 4 (2011): 2,598; year 5-10 (2012-2017): 2,540 jobs. Over the life of the grant, 622 jobs are assumed to be "at-risk" if the grant is not awarded. As of April 2008, Cumberland County had an unemployment rate of 5.3% and the Southeast Region had a rate of 5.4% (NC ESC). The Southeast Region had 26,553 people unemployed as of April 2008.
- Goodyear will pay wages expected to be higher than the minimum required. The total annual payroll and average annual wage for existing direct employees at the facility are \$152,880,000 and \$52,000, respectively. The average annual wage for all private employers in Cumberland County is \$29,848 (\$574 weekly wage x 52 weeks) (NC ESC 2<sup>nd</sup> Quarter 2007; 3J wage standard). In 2008, the first grant year, the average annual project wage Goodyear expects to pay is close to \$60,000.

- Goodyear will invest more than \$200 million between 2007 and 2012, compared to a little more than \$9 million that would have been invested over the same period, in the absence of a grant.
- The project is a major modernization of the Fayetteville plant. This will benefit Goodyear, as well as more than 2,300 plant employees, their families and the community that is supported by the significant economic impact the facility has on the Cumberland County area. This facility is one of the largest manufacturing plants in North Carolina and provides Cumberland County with a significant portion of its property tax base. In addition, the plant's current and pensioned employee base pays significant property taxes throughout Cumberland County and the surrounding area. The combined value of property taxes paid by the plant, and current and former employees, contributes significantly to the economies of Cumberland County, the Southeast Economic Development Region and the State of North Carolina.
- The Fayetteville plant is approximately 40 years old, and a large percentage of its equipment is outdated and incapable of manufacturing the higher-technology, innovative products that are in demand in the North American marketplace. Goodyear will modernize over one-third of the facility with some of the most technologically advanced tire manufacturing equipment available today. This will provide long-term job stability for Goodyear's employees; the existing plant creates tires of the type under heavy competitive pressure from low-cost imports (smaller diameter passenger and light truck tires for the replacement market). In 2006, Goodyear exited certain segments of this market, as it could not compete with these low-cost imports. This was primarily the smaller diameter, private label lines and represented about eight million units annually. Goodyear has ceased tire production at two North American facilities which had similar outdated equipment to that in the Fayetteville plant. The investment enabled by this grant allows Goodyear to aggressively pursue growth opportunities in the larger-sized innovative tire market, which command higher prices and generate better profit margins for Goodyear, which is driving Goodyear's decision to invest in high and ultra-high performance tires. By modernizing to produce these sizes and high-value added products, Goodyear will have a manufacturing advantage.

## **Bridgestone Firestone North American Tire, LLC**

On September 17, 2008, after making the statutorily required findings, the Economic Investment Committee recommended that a JMAC award be provided to BF to enable the company to modernize its Wilson, North Carolina facility by installing state-of-the-art tire manufacturing equipment that will enable the plant to produce high-performance large rim diameter, run flat, and high technology tires. Benefits of the grant include the following:

- Retention of a minimum of 2,000 full-time employees. BF will only be eligible for the full annual grant payment if it retains 2,083 full-time positions, 1,866 of which must be direct employees. The company will be eligible for a pro-rated payment if it retains between 2,000 and 2,083 positions. The statute permits BF to count certain contract workers provided by two providers; these workers are engaged in the same tire manufacturing activity as direct employees. The approved providers of contract worker must provide the same type of health insurance benefits as BF provides to its workers, and BF and the providers must collectively meet the wage standard.
- Investment of at least \$200 million over a 6-year period
- Payment of minimum average wage of 140% of prevailing county wage (\$47,320 in 2008)
- Payment of at least 50% of the health insurance premiums for all full-time workers.

In making its recommendation, the Economic Investment Committee 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 company's expectations of the actions it would take if the grant is not awarded. The benefits from the grant include:

- The project’s cumulative impact on gross state product is \$6,606,087,000 over the grant term.
- The estimated net state revenue gain is positive for all grant years. In 2008, the net state revenue differential is approximately \$6 million, increasing to \$22 million in 2009 and beyond. The cumulative state net revenue differential at the end of the 10-year grant period is approximately \$212.677 million.

The net state revenue differential is derived from the following:

The annual difference in *gross state revenues* range from \$5.45 million in 2008 to \$24.61 million in 2011 and beyond, resulting in a cumulative gross state revenue difference during the full grant term, of approximately \$226.655 million.

The annual difference in *gross state costs* range from -\$623,000 in 2008 to \$1.60 million in 2014 and \$1.29 million in 2017, resulting in a cumulative gross state costs difference during the full grant term, of \$13.978 million.

- Retention of at least 2,000 jobs at the facility for the life of the grant. As presented in BF’s application, the estimated number of direct employees and contract workers expected to be retained, as measured at the end of each grant year is: year 1 (2008): 2,083 jobs; year 2 (2009): 2,067 jobs; year 3-10 (2010-2017): 2023 jobs. All jobs are assumed to be “at-risk” if the grant is not awarded. As of April 2008, Wilson County had an unemployment rate of 7.2% and the Eastern Region had a rate of 5.7%. The Eastern Region had 25,830 people unemployed as of April 2008. (NC ESC).
- The average wage BF paid to 2,083 direct employees and contract workers over the last twelve months was approximately \$1,135 per week (approximately \$59,000 annually), in excess of the required minimum 140% of the prevailing county wage. The average weekly wage for all insured private employers in Wilson County is \$650 per week (\$33,800 annually), as specified in the last DOC annual published wage (Article 3J wage standards published November 30, 2007). 140% of this wage is \$910/week (\$47,320 annually).
- BF will invest more than \$200 million in eligible investments between 2005 and 2010, compared to approximately \$131 million that would have been invested over the same period, in the absence of a grant.
- The grant will help support a major modernization project at BF’s plant in Wilson. This will benefit BF, as well as more than 2,000 plant employees, their families and the community that is supported by the significant economic impact the facility has on the Wilson County area. The facility is one of the largest manufacturing plants in North Carolina; it provides Wilson County with a significant portion of its property tax base. In addition, the plant’s current and pensioned employees pays significant property taxes throughout Wilson County and the surrounding area. The combined value of property taxes paid by the plant, and current and former employees, contributes significantly to the economies of Wilson County, the Eastern Economic Development Region and the State of North Carolina.
- The Wilson plant produces tires for original equipment manufacturers, including General Motors, Toyota, Nissan, Mazda, BMW, Subaru, Saturn, and Mitsubishi, as well as tires for retail sales. Tire manufacturing jobs in the United States and North Carolina are under pressure from global competition in the production of current product lines, particularly from China. Recent changes in the tire market and an expanding global economy have generated a need for BF to redefine its operation strategy to become more productive and produce higher value-added products. The grant will help BF gain operational efficiencies and improve labor productivity through investment in technologically advanced tire manufacturing equipment, which should raise workforce productivity to a level that will allow BF to compete on a global basis, enabling the company to maintain North Carolina jobs and all of the associated economic advantages this provides to the local and State economy.