

Job Development Investment Grant

Quarterly Report

Second Quarter 2010
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 2010, 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 next 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 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 JDIG Program criteria, 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 the Criteria for Operation and Implementation of Job Development Investment Grant Program (the “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 2010; Magna Composites, LLC (“Magna”); Clearwater Paper Corporation (“Clearwater Paper”); Plastek Industries, Inc. (“Plastek”); and Citco Fund Services (USA) Inc. (“Citco”).

Table 1.

Company	County	Tier
Magna Composites, LLC	Rowan, Catawba, Caldwell	2
Clearwater Paper Corporation	Cleveland	1
Plastek Industries, Inc.	Richmond	1
Citco Fund Services (USA) Inc.	Mecklenburg	3

Project Impacts and Cost/Benefit Analysis

Table 2 describes the economic and fiscal impacts for second quarter 2010 grants.

The Job Impact columns in Table 2 describe the direct jobs that are expected to be created as well as the “multiplier” impacts of each company’s activities. The projects approved in the second quarter are expected to generate 1,085 direct jobs at full production and add approximately 1,770 more indirect and induced jobs through economic multiplier impacts.

The GDP column represents the expected total increase in the State's gross domestic product (GDP) over the life of the grants. GDP is a measure of the size of the economy. The four projects approved in the 2nd quarter of 2010 are expected to generate approximately \$1.35 billion in GDP over the term of these 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) meets expected targets in every grant year, and if withholdings meet expectations. One of the grants awarded in the 2nd quarter of 2010 was located in a Tier 2 county, and one was located in a Tier 3 county. For projects located in Tier 2 and 3 counties, a percentage of the award (15% and 25%, respectively) is transferred to the Utility Account of the Industrial Development Fund (the "Utility Account") to provide grants for infrastructure in distressed counties. The other two grants awarded in the 2nd quarter of 2010 were located in Tier 1 counties, and thus the recipients receive the total amount of the award.

The cumulative State net revenue impact column 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 NC grants and community college training services), as well as 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 four projects approved in the 2nd quarter of 2010 are expected to generate over \$18 million in net State revenue over the life of the grants.

As reflected in Table 3, Magna and Plastek will be eligible for grant payments during the fiscal year ending June 30, 2011 (for calendar year 2010 performance). Payment for the first grant year for Clearwater Paper and Citco will not occur until fiscal year 2011/12 (for calendar year 2011 performance). The first grant year is not necessarily the same as the year in which a project is awarded a grant, 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 second quarter following the end of a grant year, which is a calendar year, ending on December 31. Once annual reports are received, analyzed, Department of Revenue certifications received, and EIC approvals of disbursement authorized, grant disbursements are made.

Table 2	Job Impact				GDP	Revenue	Maximum State Grant Liability		
	Direct Jobs	Multiplier Jobs	Total Jobs	Required Minimum Average Wage	Total NC GDP Impact (millions)	Net State Revenue Impact (millions)	Maximum Liability to Grantee	Maximum Liability to Utility Account	Total Maximum Liability
Magna Composites, LLC	327	424	751	\$34,889	\$175	\$2.93	\$2,391,000	\$422,000	\$2,813,000
Clearwater Paper Corporation	250	813	1063	\$37,897	\$691	\$9.23	\$3,478,000	\$0	\$3,478,000
Plastek Industries, Inc.	250	197	447	\$32,824	\$264	\$3.42	\$1,976,000	\$0	\$1,976,000
Citco Fund Services (USA) Inc.	258	336	594	\$78,256	\$223	\$2.51	\$4,137,750	\$1,379,250	\$5,517,000
Totals	1,085	1,770	2,855		\$1,353	\$18.09	\$11,982,750	\$1,801,250	\$13,784,000

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

Table 3

Grantee	Maximum FY10/11 Liability to Grantee	Maximum FY10/11 Liability to Utility Account	Total Maximum FY10/11 Liability
Magna Composites, LLC	\$134,300	\$23,700	\$158,000
Plastek Industries, Inc.	\$124,000	\$0	\$124,000

Note: Clearwater Paper and Citco are not listed in the above table because the first grant year is not until FY 2011/2012 for those two grants.

Project Descriptions

Magna Composites, LLC (“Magna”)

Magna International, Inc. (“Magna International”) the parent of Magna, is a highly diversified automotive supplier. It designs, develops and manufactures automotive systems, assemblies, modules and components; and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers (OEMs) of cars and light trucks in three geographic segments - North America, Europe, and Asia. The guarantor, Magna Exteriors and Interiors of America, Inc. (“MEIA”), common parent of an affiliated group that includes Magna Composites, LLC, had 242 manufacturing operations and 86 product development, engineering and sales centers in 25 countries on five continents as of September 2009.

Over the next few years, Magna intends to increase its current headcount by 327 employees in three different locations: Salisbury in Rowan County, Newton in Catawba County, and Lenoir in Caldwell County. The average annual wage across all three geographies for the new positions will be \$33,352. The company will invest \$10 million (\$9 million in tangible personal property and \$1 million in real estate). These investments will include large compression presses, utility upgrades and large secondary bonding and assembly cells.

Magna International purchased certain assets of Meridian Automotive Systems, Inc. on June 1, 2009. Included in this acquisition were the three North Carolina facilities in the locations noted above. Magna International also acquired the rights for future business either awarded or being pursued by Meridian’s composite products division. As a result, numerous product launches are planned over the next three years. Before deciding to accept the proposed grant and locate in North Carolina, the company pursued opportunities in both Indiana and Kentucky, where strong proposals were presented.

Clearwater Paper Corporation (“Clearwater Paper”)

Clearwater Paper is a pulp and paperboard, private label tissue, and wood products company was once a part of the Potlatch Corporation. In 2006, Potlatch converted from a corporation to a REIT because of the tax savings associated with having a large ownership in timberlands. In late 2008, Clearwater Paper (formerly known as Potlatch Forest Products Corporation) was spun off as its own publicly traded corporation that included the pulp & paperboard manufacturing, tissue production, and one wood products manufacturing site, while the timberlands remained under Potlatch Corporation ownership.

One of Clearwater Paper’s divisions is the Consumer Products Division (CPD”). The CPD is a manufacturer of private label tissue and has a manufacturing presence in the Western U.S. (Las Vegas NV, and Lewiston ID), and in the Midwest (Elwood, IL). Over the years, the CPD has become a dominant supplier of private label tissue in those regions. The CPD currently sells products in the Southeast, but does not have cost-effective high production converting capacity that can be supported by the market demand. The company believes there is large growth potential in the Southeast for its private label tissue, and, as such, decided to locate a paper making, converting, and distribution facility in this region.

Clearwater Paper is opening a facility in Shelby in Cleveland County, a tier 1 county. The project will be introduced over approximately five years with a 650,000 sq. foot converting/distribution warehouse and two (2) converting lines. The new operation will create 250 new jobs with an annual average wage of \$37,897. The company will invest \$260 million (\$34 million in real property and \$226 million in personal property).

Clearwater Paper narrowed its site search from over 50 sites to four sites, including Shelby, North Carolina. The other three sites were located in Macon, (GA), Chester (SC), and Chattanooga (TN)), which all had similar 10-year cumulative costs. Incentives that lowered on-going operation costs and/or site development costs were critical to the selection of Shelby, NC.

Plastek Industries, Inc. (“Plastek”)

Plastek is a family-owned, family-run business founded in 1956 as a tool building company that has grown to include plastic molding and assembly. The company specializes in tool building, injection molding and assembling rigid packaging for the personal care, cosmetics, pharmaceutical, and food and beverage industries. Plastek currently operates worldwide, with locations in the UK, Brazil, Venezuela and the US. Customers include Abbott Labs, Pfizer, Wyeth Pharmaceuticals, Unilever, Procter and Gamble, Church and Dwight, Colgate and other leading Fortune 500 companies.

Plastek will transfer a substantial amount of work from its Erie, Pa facilities to a location in Hamlet, NC, in order to bring manufacturing of various items closer to customer manufacturing sites. The project will hire 250 employees with an annual average wage of \$32,824. The company will invest in numerous injection molding and assembly machines; Plastek will invest at least \$19 million (\$7 million in real property and \$12 million in personal property). This project is very capital intensive and will require the purchase of a factory, significant renovations and investment in new equipment.

The competitive nature of custom injection molding and the bargaining power customers have results in supplier contracts carrying a “condition of competitiveness” such that, even long-term agreements allow the customer to move the business at any time during the contract, if they find a cheaper price and wish to move. Therefore the higher the investment the more risk there is to a plastics project such as this, and North Carolina incentives were a critical part of this company’s decision to move. Plastek’s competitive alternative was to remain in Erie and avoid the large investment and high risk of moving such a large amount of business. North Carolina provided enough incentives to allow the company to lower cost, reduce risk, and thus allow the Board of Directors to approve the move. This project will move quickly with all investments, building renovations and upgrades done, and more than 200 employees hired and working by March 2011.

Citco Fund Services (USA) Inc. (“Citco”)

Citco offers fund administration services to hedge funds, fund of funds, and private equity funds, with over 35 years experience in the provision of back, middle and front office administration and other services to hedge fund clients, many of whom are leading names in the industry. Citco is one of three core operations within the Citco Group, which includes hedge fund services, banking and custody, and trust and corporate management. The Citco Group was founded in 1940 by A.A.G. Smeets and is currently controlled by Christopher Smeets.

Citco’s hedge fund services include fund accounting and net asset value calculations, investor relations, anti-money laundering compliance, corporate & legal services, and various other services such as tax reporting and financial statement preparation. Citco’s on-line reporting tools, CFSfundmanager and CFSinvestor offer both investment managers and investors an extensive suite of online reports to provide them with tools to operate efficiently and effectively. Citco also provides complete front-to-back services for single manager funds, combining portfolio capture and real-time position monitoring technology, using the Aexeo Technology system, with middle and back office operations support.

Citco decided to expand operations to create a new full front, middle and back office operation, with emphasis on back office operations. The company's selection of a site was based on the availability of local talent skilled in back office financial services. Other requirements included a high quality of life, low crime, stable legal infrastructure, reasonable salaries relative to financial services hubs, and reasonable rents. Before narrowing down its selection to Charlotte in Mecklenburg County, a tier 3 county, two other candidate locations outside NC were considered.

Charlotte has been widely known as the second largest financial services hub in the United States, after New York. Citco believed it could successfully cull from among Charlotte's 30,000 skilled financial services workers to obtain the talent required. Citco also recognized the high quality of life in the Charlotte region that provides a satisfying work/life environment for staff, including: available and affordable housing, quality educational institutions and universities and robust entertainment choices. Third, North Carolina has a strong legal framework to protect Citco's intellectual property and that of its clients. And finally, the company determined that Charlotte offers a competitive mix of reasonable salaries and affordable commercial lease rates. The other finalist city offered these characteristics and was a strong competitor to Charlotte, and thus the incentive packages were considered a tipping point in the company's final locataion decision.

Citco will hire at least 258 staff over four years, and may hire additional staffers in as the market demands. The average annual wage for all new positions is \$78,256. Investment will not be a component of performance, for purposes of compliance analysis.