

# Job Development Investment Grant

## Quarterly Report

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Fourth Quarter 2010  
October - December

## **Introduction**

This report describes all Job Development Investment Grant (“JDIG”) awards made by the Economic Investment Committee (the “EIC”) during the fourth calendar quarter of 2010, as required by North Carolina General Statutes §143B-437.55(d). The report includes the name of each fourth 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 Statute<sup>1</sup> and Criteria<sup>2</sup>, 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 fourth quarter of 2010: Novartis Vaccines and Diagnostics Inc. (“Novartis V&D”), SPX Corporation (“SPX”), Siemens Energy, Inc. (“SEI”), Novo Nordisk Pharmaceutical Industries, Inc. (“Novo”), and BAE Technologies, Inc. (“BAE”)

**Table 1.**

Company	County	County Tier Status
Novartis Vaccines and Diagnostics Inc.	Wake	3
SPX Corporation	Mecklenburg	3
Siemens Energy, Inc.	Wake	3
Novo Nordisk Pharmaceutical Industries, Inc.	Johnston	3
BAE Technologies, Inc.	Mecklenburg	3

<sup>1</sup> § 143B-437.50 et. seq. Available at <http://www.nccommerce.com/en/BusinessServices/LocateYourBusiness/WhyNC/Incentives/Job+Development+and+Investment+Grant/>

<sup>2</sup> Criteria for Operation and Implementation of Job Development Investment Grant Program, available at <http://www.nccommerce.com/en/BusinessServices/LocateYourBusiness/WhyNC/Incentives/Job+Development+and+Investment+Grant/>

## **Project Impacts and Cost/Benefit Analysis**

Table 2 describes the economic and fiscal impacts for the fourth 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” employer impacts of each company’s activities. The projects approved in the fourth quarter are expected to generate 584 direct jobs at full production and add approximately 675 more indirect and induced jobs through economic multiplier impacts.

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.<sup>3</sup> GDP is a measure of the size of the economy. The five projects approved in the fourth quarter of 2010 are expected to generate approximately \$733 million in GDP over the terms 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) meet targets in every grant year, and if withholding amounts meet expectations. All of the grants awarded in the fourth quarter of 2010 are for projects that will locate in a Tier 3 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.

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 five projects approved in the fourth quarter of 2010 are expected to generate over \$10.53 million in net State revenue over the life of the grants.

Table 3 reflects that none of the fourth quarter grantees will be eligible for a grant payment during the fiscal year ending June 30, 2011. Typically, the first grant year starts several years following the date of award, as the company ramps up its operations. Grant payments are then typically made by the second quarter following the end of a grant year, each of which end on December 31.

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<sup>3</sup> The GDP and fiscal impact are measured only 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 so long as operations continue at the project facility.

**Table 2**

Grantee	Job Impact				GDP	Revenue	Maximum State Grant Liability		
	Direct Jobs	Multiplier 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
Novartis Vaccines and Diagnostics Inc.	100	125	225	\$106,200	\$141	\$1.30	\$2,706,750	\$902,250	\$3,609,000
SPX Corporation	180	161	341	\$82,917	\$250	\$4.20	\$4,154,250	\$1,384,750	\$5,539,000
Siemens Energy, Inc.	139	173	312	\$88,736	\$156	\$2.50	\$2,574,000	\$858,000	\$3,432,000
Novo Nordisk Pharmaceutical Industries, Inc.	85	145	230	\$42,976	\$117	\$0.83	\$840,000	\$280,000	\$1,120,000
BAE Technologies, Inc.	80	71	151	\$51,932	\$69	\$1.70	\$1,961,250	\$653,750	\$2,615,000
Totals	584	675	1259		\$733	\$10.53	\$12,236,250	\$4,078,750	\$16,315,000

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

**Table 3**

Grantee	Maximum FY09/10 Liability to Grantee	Maximum FY09/10 Liability to Utility Account	Total Maximum FY09/10 Liability
Novartis Vaccines and Diagnostics Inc.	\$0	\$0	\$0
SPX Corporation	\$0	\$0	\$0
Siemens Energy, Inc.	\$0	\$0	\$0
Novo Nordisk Pharmaceutical Industries, Inc.	\$0	\$0	\$0
BAE Technologies, Inc.	\$0	\$0	\$0
Totals	\$0	\$0	\$0

## **Project Descriptions**

### **Novartis Vaccines and Diagnostics Inc. (“Novartis”)**

Novartis V&D, a Delaware corporation, is a wholly-owned subsidiary of Novartis AG (NYSE: NVS), which was created in 1996 from the merger of the Swiss companies, Ciba-Geigy and Sandoz. Headquartered in Basel, Switzerland, the Novartis Group employs approximately 96,000 people and operates in over 140 countries around the world. The project company, Novartis V&D, focuses on the development of preventive treatment and tools. Novartis V&D consists of Novartis Vaccines and Chiron, the blood testing and molecular diagnostics unit.

Novartis V&D recently received a JDIG grant for construction of a facility in Holly Springs, NC, for production of pandemic and seasonal flu vaccine. The project under the earlier grant is expected to create 350 jobs by 2012.

The grant awarded in the 4<sup>th</sup> quarter of 2010, was for development of a TD Viral Lab and Pilot Plant at the existing Holly Springs facility. This project is expected to create 100 positions between 2011-2012, with a target average annual wage of \$106,200, and capital investment of \$36 million. The North Carolina site was chosen over a competing site in Rosia, Italy, where the company was offered a grant equal to 30% of Novartis’ planned investment for the project. To be eligible for payments under this grant, Novartis V&D will be required to create and retain jobs under the first grant

### **SPX Corporation (“SPX”)**

SPX, incorporated in Delaware in 1968, is a *Fortune 500* multi-industry manufacturing leader that provides highly-specialized engineered solutions. The company employs approximately 15,000 individuals in more than 35 countries worldwide. Currently the company employs 821 workers in North Carolina, at six different locations. There are 252 employees at the company’s headquarters site in Charlotte, which the company will be required to retain over the life of the grant. Under this grant, the company will create 180 jobs between 2011-2015, at an average wage of \$82,917, and make capital investment of \$70 million.

This grant was provided to enable the company to develop a new global headquarters and regional shared services center for the America. South Carolina competed for this project, in offering incentives which the company valued in excess of \$45 million.

### **Siemens Energy, Inc. (“Seimens Energy” or “SEI”)**

Siemens Energy is a leading company in international power generation. The company’s ultimate parent is the German public corporation, Siemens AG, which is organized in 3 sectors. The grantee is the U.S. entity in the energy sector.

This grant was provided for a smart grid high voltage engineering and equipment demonstration project in the grantee’s Transmission and Distribution division, in Wendell, NC, with possible expansion to another Wake County facility. Before deciding to locate this project in North Carolina, the company evaluated expansion possibilities at existing locations in Florida and Mississippi. North Carolina’s JDIG award, together with NC customized training and work force development assistance, addressed the disadvantages NC had when compared to the competing sites. The project will create 139 over the years 2011-2014, with an average annual wage of \$88,736. In addition, SEI will be required to retain 260 positions at the Wendell facility. The company has other North Carolina employees in other divisions, located at other sites.

### **Novo Nordisk Pharmaceutical Industries, Inc. (“Novo”)**

Novo is a subsidiary of Novo Nordisk A/S (Denmark), a leader in diabetes care with more than 29,000 employees located in 76 countries. Novo is involved in many aspects of the insulin production process. The company’s Clayton, NC site assembles and packages the FlexPen® disposable insulin device for the US market.

This project is an expansion of the company’s Clayton facility to accommodate additional production lines to produce the next generation FlexPen®. Novo will create 85 new jobs between 2011-14, in addition to retaining the 436 jobs that are currently in place at the facility. Additionally, Nypro, Inc. (based in Buncombe County), will supply component part for the new pens, and thus, as a result of the Novo project, an additional 120 supplier jobs will be created, which are requirement of Novo’s grant. Novo plans to invest \$73,069,643 at the Clayton facility and an additional \$58 million in manufacturing equipment at the Nypro facility.

The company considered existing facilities in China and Europe for this project, before choosing the Clayton facility.

### **BAE Technologies, Inc. (“BAE”)**

The grantee will be a subsidiary to be formed by the BAE Systems, Inc. (“BAE Systems”). The applicant’s parent, BAE Systems plc, is a global defense, security and aerospace company. BAE Systems is responsible for relationships with the U.S. Government and managing BAE’s U.S.-based businesses.

The grantee will operate a shared services center that will help the BAE companies control overhead, better manage human resources, and achieve accounting efficiencies to enable BAE Systems to maintain competitiveness on governmental contracts. The facility will be located in Mecklenburg County. The target number of jobs to be created is 176, with an average annual wage of \$51,393.

BAE Systems, Inc. evaluated three locations for this project: the Lending Tree Building or University Building, both located in Mecklenburg County, NC; the SouthCross Building located in Rock Hill, SC; and an existing BAE complex in Austin, TX. South Carolina offered various incentives valued at \$4.2 million. The company would have achieved cost savings at the Austin site due to its ownership of the building.