Job Development Investment Grant

Quarterly Report

First Quarter 2011

January-March

Submitted by Economic Investment Committee

Introduction

This report describes all Job Development Investment Grant ("JDIG") awards made by the Economic Investment Committee (the "EIC") during the first calendar quarter of 2011, as required by North Carolina General Statutes §143B-437.55(d). The report includes the name of each first 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[1] and Criteria[2], 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 first quarter of 2011: Capgemini Financial Services USA Inc. ("Capgemini"); Eaton Corporation ("Eaton"); HVM L.L.C. ("HVM"); and Red Hat, Inc. ("Red Hat"), which received two grants.

Table 1.

Company	County	County Tier Status
Capgemini	Mecklenburg	3
Eaton	Person	2
HVM	Mecklenburg	3
Red Hat (Grant 1)	Wake	3
Red Hat (Grant 2)	Wake	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 first 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 1,380 direct jobs at full production and approximately 2,246 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 five projects approved in the first quarter of 2011 are expected to generate approximately $2.271 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 first quarter of 2011 are for projects that will locate in a Tier 3 county and one of the grants is for a project that will locate in a Tier 2 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 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 first quarter of 2011 are expected to generate over $50.80 million in net State revenue over the life of these grants.

As reflected in Table 3, Capgemini, HVM, and Red Hat, under its first grant, will be eligible for grant payments during the fiscal year ending June 30, 2012. Payment for the first grant year for Eaton will not occur until fiscal year 2012/13 (for the company's performance during calendar year 2012). Payment for the first grant year under Red Hat's second grant will not occur until fiscal year 2015/16 (for the company's performance during calendar year 2015). 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 ends 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									
	Job Impact				GDP	Revenue	Maximum State Grant Liability		
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
Capgemini	550	547	1097	$62,396	$222	$0.93	$3,936,000	$1,312,000	$5,248,000
Eaton	120	184	304	$35,875	$120	$0.57	$957,100	$168,900	$1,126,000
HVM	170	267	437	$83,580	$419	$8.53	$4,724,250	$1,574,750	$6,299,000
Red Hat (Grant I)	240	554	794	$80,525	$749	$21.11	$6,755,250	$2,251,750	$9,007,000
Red Hat (Grant II)	300	694	994	$83,082	$761	$19.66	$8,270,250	$2,756,750	$11,027,000
Totals	1,380	2,246	3,626		$2,271	$50.80	$24,642,850	$8,064,150	$32,707,000

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**
Capgemini	$277,500	$92,500	$370,000
HVM	$220,500	$73,500	$294,000
Red Hat (Grant I)	$148,500	$49,500	$198,000
Totals	$646,500	$215,500	$862,000

Project Descriptions

Capgemini Financial Services USA Inc. ("Capgemini")

Cap Gemini S.A., the ultimate parent of Capgemini, is a consulting and IT services company headquartered in Paris, France. It operates in 36 countries, and across five industry sectors: manufacturing and retail distribution; public sector; financial services; energy & utilities; and telecommunications, media and entertainment. The parent company is engaged in a global repositioning of its financial services employees to a location within the United States.

Capgemini was incorporated in 1989 and is headquartered in Rosemont, Illinois. The company has 1,200 employees, offering domain expertise in the areas of banking; capital markets; insurance; payments & cards; and risk management and compliance. Capgemini assists companies in reducing the cost of IT services, through its Rightshore© model. The company provides clients with IT-based solutions related to business information management, industry packages, systems integration, and testing, helping them achieve best practices and optimal integration of systems.

CapGemini chose to locate in Charlotte in order to support its U.S. clients within the banking, insurance and capital market sectors. Under this grant, the company will create 550 jobs over three years, at an average annual wage of $62,396, and make a capital investment of $4.2 million.

Capgemini conducted a location feasibility study in the U.S. market. The short-listed locations included Austin, Texas; Ann Arbor, Michigan; and Philadelphia, Pennsylvania. Each location was evaluated based on numerous factors, including operating costs, labor availability, state incentives, and quality of life. Austin and Philadelphia were strong contenders in the evaluation process. Both states offered job creation and training incentives, as well as local grant incentives.

Eaton Corporation ("Eaton")

Eaton began operations in 1911 as Torbensen Gear and Axle Company. Eaton has become a diversified Fortune 200 company, with 2009 sales of $11.9 billion. Eaton is a producer of electrical components and systems for power quality, distribution and control; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulics and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems focused on performance, fuel economy and safety. Eaton has approximately 70,000 employees and sells products to customers in more than 150 countries.

Eaton has operated the Roxboro facility since 1965. The original products were tire valves which were part of the air controls operations. In 1997, an addition was added to the building to accommodate the manufacturing of valve activation products. In 2005, the air controls business was sold so the Roxboro facility could focus its operations on the valve activation business.

The overall project goal is to realize high volume production of Eaton's next generation Variable Valve Lift Rocker Arm, which provides increased functionality of automotive engines that result in a 3-4% fuel economy improvement on new gasoline/E85 engines available in fuel efficient vehicles for the U.S. market.

The company will maintain the current 201 full time positions at the Roxboro facility and will also create an additional 120 jobs between years 2012-2015. The newly created positions will earn an average annual salary of $35,875 and the company will make a capital investment of $23.3 million.

Eaton considered factors such as cost of labor, product quality, transportation costs to and from the manufacturing site, work force availability, the cost of doing business and incentives, between the Roxboro facility and an Eatonowned facility located in Mexico. An internal analysis of the difference in labor cost between these two facilities revealed a $10.5 million advantage for the Mexico facility over the life of the grant.

HVM L.L.C. ("HVM")

HVM was incorporated in Delaware in 1997 and is headquartered in Spartanburg, South Carolina. The company has been the manager of Extended Stay Hotels since the May 2004 merger of Extended Stay America, Inc. and Homestead Studio Suites. The company currently manages over 680 hotels for three different hotel owners, offering more than 76,000 guest rooms nationwide and in Canada, under the following brands: Extended Stay Deluxe℠, Extended Stay America®, Homestead Studio Suites®, StudioPLUS Deluxe Studios®, and Crossland Economy Studios®.

This project will create the national and international corporate headquarters of HVM, providing administrative support for its hotel operations, including human resources, facility maintenance, financial administration, tax reporting, advertising, sales promotion, forecasting and operations analysis, accounting, marketing, revenue management, information systems, guest services, training and legal services.

Initially, the company plans to relocate in 2011 with 40 management level positions. Under current assumptions, the company will employ 170 management and support personnel with an average annual wage of $83,580 by the end of 2013.

HVM sought a headquarters location with excellent air service and a strong labor pool. The company preferred a location near multiple existing HVM-managed hotel sites to support training and testing, and that would allow future franchise growth. The company conducted a detailed and comprehensive evaluation of potential locations. Factors considered in the analysis included national and international transportation access, quality of life, quality and access to arts and entertainment venues; education attainment levels, quality and access to primary, secondary, college and post graduate programs, and State and local incentives available. Also considered were comparative corporate and personal tax burdens. North Carolina and Tennessee were the finalist sites after initial consideration of South Carolina, Georgia, and Virginia.

The Tennessee incentives offered ($5,828,750) included tax credits, and an upfront cash grant of $1.8 million to help defray qualified relocation expenses for both the company and its employees.

Red Hat, Inc. ("Red Hat") Grant 1

Red Hat provides operating system platforms along with middleware, applications and management solutions, and support, training, and consulting services to customers worldwide. Red Hat's open source strategy offers customers a long-term plan for building infrastructure with a focus on security and ease of management.

This project is an expansion of Red Hat's corporate headquarters in Raleigh, with construction of a new 300,000 to 400,000 square feet facility, with future expansion possibilities. The new corporate headquarters will also cause Red Hat to invest $100.95 million in personal and real property. Business activities include sales, engineering, technical support, information technology, and other general corporate functions. The project will support growth of the company's existing and mainstream products – Red Hat Enterprise Linux, JBoss Middleware, and related products, and will create 240 new jobs over four years with an average annual wage of $80,525.

The competition for this project location was Austin, Texas; Boston, Massachusetts; or Atlanta, Georgia. The company has a corporate presence in Atlanta, Boston, and Raleigh. The company received substantial and aggressive incentive proposals from other states, and municipal and county governments, including cash grants, property tax abatements, favorable income and sales tax treatment, partnership opportunities with world-class universities, workforce training, and branding.

Red Hat, Inc. ("Red Hat") Grant 2

This project will provide support for the expansion of Red Hat's business into software virtualization, technology cloud offerings, Platform as a Service, Infrastructure as a Service, Software as a Service and other cutting edge technologies. As Red Hat continues to expand into new end markets and products, additional infrastructure will be needed in sales, engineering, technical support, information technology, and other general corporate functions. This expansion will involve investment of an additional \$8.025 million and create an additional 300 new jobs in the years 2015-2019, with an average annual wage of \$83,082.

As with Red Hat's first grant, the competition for this project location was in Austin, Texas; Boston, Massachusetts; and Atlanta, Georgia, where generous incentives were proposed.