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The Terrible Ten Corporate candy store deals of 1998

BY GREG LEROY

Every year, cities and states around the country hand out government subsidies to corporations with few strings attached. It's the candy store school of economic development. Public outcry about the giveaways has prompted some change for the better in recent years. More states and cities are starting to attach conditions when they offer big companies tax incentives. Some are asking for guaranteed wages, money-back guarantees, and disclosure and monitoring safeguards.

But corporations are still getting a lot of sweet deals in American towns and cities. Consider my terrible ten deals for 1998. I found one city that admits it pays for jobs in other states. In five instances, taxpayers subsidize companies to the tune of more than $100,000 per job-and one at more than $1 million a job. Two states admit they let corporations avoid corporate income taxes altogether for fifteen to twenty years. Three deals involve companies in the midst of major labor disputes. And then there's a little-known but nefarious giveaway, tax-increment financing: A form of property tax diversion originally intended to help revitalize blighted urban areas, it now goes to pay for new corporate developments and suburban sprawl.

No. 1

Economic Development's Black Hole

In a deal with paper giant Willamette Industries for the expansion of a paper and pulp mill in Hawesville, state officials in Kentucky give Willamette tax credits worth $132.3 million. Jobs the company must create in return? Fifteen. In other words, a tax credit entitlement of up to $8.8 million per job!

Willamette spokeswoman Catherine Dunn declined to verify my tax credit computations. But the Kentucky Cabinet for Economic Development, a state agency, did confirm them. Cabinet spokeswoman Pamela Trautner hastened to add that it's unlikely the project will generate enough profits to qualify for all the credits Kentucky is offering. In other words, it's unlikely Willamette Industries will pay any income tax to Kentucky on the Hawesville project for fifteen years. No one knows how much of the $132.3 million Willamette will actually claim because corporate income tax returns are not public.

Although the financing agreement requires the company to create only fifteen new jobs, Trautner said Willamette's application refers to eighty-two new jobs. But she declined to give me a copy, saying that the document is confidential. Willamette Resident Manager Mike Maloney in Hawesville says the company has actually hired 105 new full-time employees, with hourly workers averaging $17.50 an hour plus lots of weekend premiums.

We'll take his word for it. At 105 jobs, the tax credit entitlement clocks in at $1.26 million per job.

"When these corporations don't pay their fair share, the taxpayers pick it up in all sorts of subtle little ways," says Doug Doerrfield, a member of Kentuckians for the Commonwealth. Doerrfield's sewer and water rates, in Rowan County, just went up 37 percent because, his group says, a nearby (subsidized) auto parts plant has exhausted the systems' capacity.

No. 2

The Big Apple's Biggest Bite

No place in the United States has paid out more to companies that threaten to leave town than New York City. It's hard to assemble a comprehensive list, but some of the companies that have threatened to leave if they don't get a tax break are: the New York Mercantile Exchange; Travelers, Inc./Smith Barney; Capital Cities/ABC; Republic National Bank; Morgan Stanley; Prudential Securities; Credit Suisse First Boston; Coffee, Sugar, and Cocoa Ex-change; the New York Cotton Exchange; Nasdaq/American Stock Exchange; McGraw-Hill; The New York Times (printing facility); the New York Post (printing facility); Viacom; Reuters; Conde Nast; CBS-TV; ING Barings; and PaineWebber.

Now comes the mother of all retention deals in U.S. history: a package worth at least $600 million (some say $900 million) for the New York Stock Exchange.

The Stock Exchange reports it has 1,482 direct employees. Its press release on the deal refers to "more than 3,000" other workers it helps sustain indirectly-traders, brokers, and specialists on the floor. Spokesman Rich Adamonis now claims 4,000. That means the stock exchange got between $109,449 and $133,869 per job-for retention, that is-no new economic activity, just maintaining the status quo.

“All of the city’s spending for development goes to Wall Street, high tech, media, and retail-either very high-income or very low-wage jobs,” says Brad Lander of the Ad Hoc Coalition for Real Jobs. “Basic family-wage industries like printing, publishing, baking, garment, and fashion are being neglected.”

No. 3

‘No Justice! No Bonds!’

That was the cry as the Campaign for Justice at Audubon Hospital picketed in Louisville, Kentucky, last year. Campaign members were protesting taxpayer-financed bonds that would save Norton Healthcare at least $2 million a year, perhaps twice that much, for buying out three hospitals owned by Columbia/HCA.

Why the protest? Nurses at Audubon had been trying to organize a union for more than five years. A judge from the National Labor Relations Board ruled in 1997 that Columbia/HCA had committed such “serious and substantial” violations of workers’ rights that chances for “a fair election are, in my opinion, nonexistent.” In a strong remedy, the judge issued a “bargaining order,” recommending the company recognize the union and start bargaining in good faith.

But Columbia/HCA appealed instead, and that is where the matter stood when it chose to sell the three hospitals. Norton bought them, and refused community requests that it meet with the nurses.

Besides the unresolved labor dispute, the campaign warned about a decline in the quality of care at the hospital and said the buy-out could mean job cuts.

Despite the Campaign’s mobilization, the Fiscal Court-the local bond-granting agency-approved the bonds by a 3-to-1 vote last October. Within five months, Norton announced it was closing Audubon’s pediatric unit and its labor/delivery and mother/baby unit. It also announced it was outsourcing its housekeeping jobs at Audubon and four other hospitals, costing many workers wages and benefits.

Norton spokeswoman Kathy Bernson acknowledges the cuts, but counters that the chain has almost tripled the size of Audubon's emergency room and is expanding emergency, outpatient, and mother/baby facilities at another of the bond-financed hospitals.

Kay Tillow, lead organizer for Nurses Professional Organization/AFSCME, believes that the Norton bond fight has changed the landscape in Louisville. "We feel like the union movement and the community are more aware of the dollars going to corporations and are going to be more watchful of community and worker interests in these deals," she says.

No. 4

The Great Land Grab

The fastest-growing yet least-understood form of development subsidy in America today is tax-increment financing (TIF). Chicago, for example, now has sixty-four TIF districts.

Tax-increment financing is a property-tax diversion device, originally intended to help revitalize blighted inner-city areas. In such districts, when new development causes incremental increases in property tax revenues, the money does not go for schools or other public services. Instead, it goes back into the neighborhood to subsidize more private development.

State rules vary, but eligible areas can float bonds, build infrastructure, or directly reimburse developers. The diversion typically lasts five to fifteen years, shifting the burden onto other property taxpayers.

But what was once a progressive development idea has turned into a boondoggle for corporate developers. In the Kansas City area, for example, TIF is tied to sprawl, with suburbs using the program to lure employers toward the metro fringe.

Good Jobs First, the labor-issues think tank I founded, recently released an analysis of 525 economic development deals in Minnesota.

Statewide, we found thirty-eight subsidy deals authorized with subsidies of $100,000 or more per job. Thirty-one involve tax-increment financing. Ten TIF projects were approved at $200,000 or more per job. (These sums are diverted from both local property taxpayers and all Minnesota citizens because the state reimburses school districts about $112 million a year for school revenues lost to tax-increment financing.)

In eight projects, companies got TIF subsidies to simply relocate from one Minnesota city to another. Since cities-not the state-grant these subsidies, companies can pit cities against each other for TIF deals. It's a classic zero-sum game.

Would you like to get the data on your state's subsidies? Chances are you can't. Only Minnesota and Maine (beginning May 1, 1999) have detailed disclosure laws.

No. 5

Conserving Industrial Parkland

Last November, the city of Hazelwood, Missouri, announced plans for a 322-acre industrial park in the Missouri Bottoms, a lush farming and wetlands flood plain northwest of St. Louis. The plan would be subsidized by $17.2 million in tax-increment financing.

Missouri law restricts tax-increment financing to "blighted" or "conservation" areas. Hazelwood declared the Bottoms a "conservation area" at risk of blight, based on criteria including the observation that most homes there are more than thirty-five years old.

Bottoms residents were furious. They feared that being declared at risk of blight would harm property values. And they saw the whole maneuver as a gimmick to justify the industrial park. Sparked by Bottoms resident Leon Steinbach, they launched a petition drive. Forty-nine volunteers, many of them past retirement age, braved winter drifts to go door to door. To signal their support, residents adorned their homes and mailboxes with yellow ribbons.

Despite a shrill mailing from the city (Do you want to protect Hazelwood's future or let it slowly decay like some other older St. Louis County suburbs?), the Yellow Ribbon Committee raked in signatures. One petition, signed by 34.5 percent of the area's registered voters, seeks to make future TIF projects subject to referendum. Two other petitions aim to repeal the industrial park deal.

But at a February 17 city council meeting, the city clerk ruled that all three petitions had failed.

Hazelwood City Clerk Colleen Klos, explaining her ruling, said the charter petition contradicts Missouri law on municipal powers four different ways and had other procedural flaws. She said the petitions to overturn the industrial park deal contained "tons of duplicates" and thus fell short of the required number.

The Committee is scrambling to raise money for a lawyer, hoping a lawsuit will uphold the petitions and give local residents more say in future development deals.

No. 6

Impoverished Schools and Mercedes-Style Subsidies

Since 1993, under the so-called Mercedes law-a special tax credit passed for the car company, which, by law, had to be extended to other companies-Alabama granted a long list of corporations subsidies and tax breaks. Under the law, it was required to publish that list.

But the Alabama legislature gave the Mercedes law a haircut in 1995, after a statewide coalition, Alabama Arise, blew the whistle. Spiraling tax credits, the coalition warned, were threatening the state's ability to fund schools, a constitutional obligation. In a mysterious footnote to that reform, the legislature also deleted the disclosure requirement. Now, Alabama taxpayers get only one page a year, from the Department of Revenue, summarizing approved deals.

On March 8, the Revenue Department issued a four-sentence statement. It said 207 projects had been approved in 1998, to create "approximately 22,668 jobs with a total of $6,363,812,471 in total capital costs for the capital credit." Under the capital credit, a company gets to deduct 5 percent of its capital costs annually for twenty years from its state income-tax bills. In other words, the companies are entitled to as much as $6.4 billion in tax credits for creating 22,668 jobs-more than $280,000 per job.

"The practical effect is they don't pay any [corporate] income tax for twenty years in Alabama," says George Howell, director of economic development in the Alabama Department of Revenue. In actuality, Howell added, the credits will not reach $6.4 billion because companies will not achieve rates of return on their capital investments that would garner the full credit. But the state does not know what share of the $6.4 billion will be claimed, Howell admitted, because it has not estimated those rates of return.

In exchange for these credits, the companies have to pay either wages of $8 an hour or wages and benefits of $10 an hour. In other words, the tax credit the companies qualify for is equal to almost seventeen years of pay they're required to give workers.

Mike Odom, director of the Center for Public Trust in Montgomery, Alabama, recently tried to estimate the value of a deal for a Canadian steel company, Ipsco, to set up a mini-mill in Mobile. Dogged persistence by reporters at the Mobile Register finally priced the Ipsco deal between $166,000 and $187,500 per job. Corporate income taxes lost by the state were estimated between $30 and $45 million.

“More than 200 companies have gotten this income tax break since 1995,” says Odom. “It’s outrageous that the public is denied access to even the names of these companies. So long as the details of these revenue giveaways are kept secret, the legislature is in the dark during its worst budget crisis in years.”

Meanwhile, Alabama ranks thirty-eighth in high school graduation rates, according to the U.S. Census.

No. 7

Is Peter Paying to Rob Paul?

When taxpayers find out they are paying for corporate relocations, they often get upset. Wisconsin citizens, for example, flooded Washington, D.C., with petitions in 1994 when they learned that U.S. Department of Housing and Urban Development funds were slated to subsidize job flight from the Milwaukee area to Missouri and Kentucky.

As a result of such disputes, the major federal programs have rules prohibiting their use for interstate job piracy. Besides HUD, major subsidies from the Departments of Labor, Commerce, and the Small Business Administration carry such safeguards.

But states still raid each other. They just make sure to use state and local money instead of federal funds in such deals.

Officials in Brownsville, Texas, now find themselves subsidizing a plant that may be receiving equipment from Iowa. And taxpayers are paying for companies that don’t generate any new net economic activity in their area.

Titan Wheel International, headed by CEO Maurice Taylor, won a $30 million package from the Brownsville Economic Development Council in late 1996. The deal includes more than a dozen different subsidies for land, sewer/water hookup, highway construction, a test track, job creation, and training. The company also received property tax reductions, a state franchise tax cut, and a refund on sales taxes.

As the Brownsville plant was being built, Titan's labor relations collapsed with the Steelworkers Union in Des Moines. The 670 Iowa workers went on strike in May 1998.

A few weeks into the strike, Titan announced it was moving equipment from the Des Moines plant to Brownsville. The Associated Press reported on June 5: "Titan Tire made good on its threat to striking workers, announcing Thursday it will move tire-making equipment and hundreds of jobs to Texas because union leaders have not reached an agreement with the company." But in a recent interview, CEO Taylor claims he was misquoted. If Des Moines lost jobs, he says, it was only because two of his company's subcontractors moved their operations overseas.

However, a February 11 ruling by a Labor Board judge contradicted the CEO, finding "the transfer and diversion of significant amounts of equipment from Des Moines to Brownsville from May to August 1998." A May 14 press conference transcript quotes Taylor as saying, "We will start moving equipment out of the Des Moines facility to the Brownsville location, and it will be irreversible. . . . It's gonna be a lot of truckloads." Taylor suggests Iowa employment will decline from 650 to 300. The judge recently directed Titan to restore the Des Moines operations to their previous condition. But the standoff continues.

The labor dispute is of little concern to the Brownsville Economic Development Council. Communications director Rick Luna, asked about the controversy, emphasized his town's 12.5 percent unemployment rate and said: "We don't get into internal company issues." The Council's policy on subsidizing footloose companies? "We have done incentive deals for companies coming from other parts of the country," he said. "It's the nature of business these days." How about a company relocating from elsewhere in Texas? "That does make a difference. We'd frown on something like that."

No. 8

High Tech, Low Taxes

Microchip plants are considered a great catch in the economic development profession. At a recent national conference, state and local officials showed deference to two Silicon Valley executives as the speakers barked their site location demands.

So it's not surprising that in 1995, Eugene, Oregon, warmly embraced Hyundai's plans for a chip plant by granting it a 100 percent property tax abatement.

The estimated cost to the community: $27 million in lost revenues for local services. That was for only the first of three phases. The taxpayer cost later grew to an estimated $43 million.

The company thought it had a 100 percent abatement deal covering all three phases. But in 1996, voters in Eugene and several other cities approved Measure 50, curbing cities' ability to raise property tax revenues.

In response, Eugene and Lane County reduced Hyundai's tax abatements on phases two and three to 85 percent. Instead of avoiding $129 million in property taxes, the company would save an estimated $110 million.

Hyundai responded in August 1997 by suing the city and the county in Oregon tax court. The city contends that it never committed beyond phase one. Company spokesman John Lively argues that "the rules were changed" after Hyundai started the project. The court's decision is pending.

No. 9

Subsidies and Environmental Justice

Louisiana's system of industrial property tax exemptions has long favored capital-intensive industries such as chemical, petroleum, and paper, which are also the biggest emitters of toxic waste.

Environmentalists celebrated last September when Shintech, Inc., a U.S. subsidiary of a Japanese chemical company, withdrew plans for a $700 million polyvinyl chloride (PVC) plant in Convent, St. James Parish. (PVC is a known carcinogen and a source of dioxins. St. James Parish is part of Louisiana's notorious "cancer alley," a corridor of polluting factories and high cancer rates from New Orleans to Baton Rouge.)

Shintech's pullout enabled the company to avoid a potentially adverse precedent. Half the population of St. James Parish is nonwhite. Three-fourths of the residents around the plant are African-American. In 1997, six environmental groups filed suit with the EPA, seeking to block federal funding to the state Department of Environmental Quality for its alleged discriminatory handling of the Shintech permitting process. The dispute thus became a test case under the U.S. Environmental Protection Agency's new "environmental racism" rules.

The plant would also have been heavily subsidized. The Louisiana Coalition for Tax Justice estimated total tax breaks at about $119.6 million.

For a projected 165 Shintech jobs and 90 contract jobs, that would have been $469,000 per job.

Shintech controller Dick Mason said the coalition's estimates are "reasonable," but added: "These are all off-the-shelf incentives." In other words, $469,000 per job is not a special deal just for Shintech. "We just fill out the forms," he said. Texas, Mississippi, Alabama, and Canada all offered comparable incentives.

The Shintech dispute was a two-year melodrama. When Tulane University's legal aid clinic came to the aid of Parish residents, Governor Mike Foster called the clinic a haven for "vigilantes" and threatened to encourage donors to the University to withhold money [see "Motion Denied," by Frank Wu, March issue]. A subsequent court decision severely narrowed the clinic's eligible clientele. The state's economic development director ordered an investigation of the Tax Justice Coalition after it questioned Shintech's tax breaks.

The Shintech campaign was spearheaded by St. James Citizens for Jobs and the Environment and by the Louisiana Environmental Action Network. Shintech is now seeking permits for a smaller plant upriver in Plaquemine.

“Shintech has been a turning point for the environmental movement and for the people of Louisiana,” said Louisiana Environmental Action Network executive director Marylee Orr. “We are not willing to trade our health for a few highly subsidized jobs.”

No. 10

Subsidies and Labor Law

In 1993, the 5,000 workers at Avondale Industries voted to join a union-the New Orleans Metal Trades Council. The workers mostly build ships for the U.S. Navy. The union says they are the lowest-paid workers among major U.S. shipyards, with average pay half to two-thirds the rates at other big yards. Since the union vote, the Navy has awarded Avondale $2.7 billion in contracts, the AFL-CIO reports.

But despite the 1993 vote, Avondale workers don’t have a union contract. In a highly litigious campaign, the company has resisted a first contract, appealing the vote instead. In February 1998, an administrative law judge of the National Labor Relations Board found that the company had committed seventy-three unfair labor practices and recommended reinstatement and back pay for twenty-eight wrongfully fired workers.

Besides pay issues, the workers had another big reason for voting union: safety. Union leaders say Avondale’s fatality rate is worse than that of any other major Navy yard. Twelve Avondale workers were killed on the job between 1982 and 1994. The Occupational Safety and Health Administration (OSHA) recently completed an inspection at Avondale and is conducting a separate examination of medical records, according to an OSHA spokesman. Outcomes are not yet known.

In addition to its dependence on Navy contracts, Avondale is a heavily subsidized corporation. In testimony before the Louisiana senate, Metal Trades researcher Will Collette catalogued Avondale’s many subsidies: sixty-four property tax abatements worth $22.8 million; $9.7 million in enterprise zone benefits; an estimated $45 million saved through tax-exempt bonds; $40 million for a design center; and $1.5 million for another facility-$119 million altogether. Despite those subsidies, the union testified, the plant’s estimated average wage of $9.45 is so low it would qualify a family of four for food stamps and the Earned Income Tax Credit.

Avondale spokesman Ed Winter disputed the union's data on wages and bond savings. As Louisiana's largest private employer, he said, the company's annual impact on the state is estimated by a University of New Orleans economist at $1 billion. He declined to comment on whether subsidies entitle the public to hold the company to a higher standard on its labor relations.

Honorable Mention

For sheer chutzpah, hats off to Time magazine for raiding the Philadelphia Inquirer of Pulitzer winners Donald Barlett and James Steele. Time gave them a year and a half to assemble a stunning four-part November series on corporate welfare. Time included in the first installment a box that conceded that it was part of the problem, under the headline: Time Warner: We Play the Game Too.

After listing its goodies in Florida, Tennessee, and California, the media giant announced that it expects to ask New York City "for a large incentives package for building its new headquarters" in Manhattan. Time Warner hastened to add that its president "emphasized that the project was not contingent upon receiving [the incentives]," but then cited nine other media companies that have been paid to stay in the Big Apple.

Suggested Post headline: Time Warner to Rudy: It's a Gimme and We Expect Ours.

Greg LeRoy is the author of the 1994 book "No More Candy Store: States and Cities Making Job Subsidies Accountable," and the director of Good Jobs First, a project of the Institute on Taxation and Economic Policy in Washington, D.C. He is accepting nominations for the 1999 Terrible Ten at goodjobs@ctj.org.