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Boeing Holds a Bake-Off For Biggest Tax Breaks

By Jon Ostrower

Boeing Co. is running the priciest corporate beauty contest in the U.S., as state governments try to outdo a record incentive package from Washington state to lure work that would build one of the aerospace company's coming jetliners.

The prize is expected to include thousands of jobs for workers designing and manufacturing the planned 777X, a 350- to 400-seat jet slated to enter service in 2020. Boeing requested proposals from more than a dozen states, with the bids due by Tuesday, according to officials in several states.

Chicago-based Boeing is seeking to build as much as 4.2 million square feet of facilities at a cost that could top \$10 billion, said a person familiar with the details. The competition is drawing fresh attention to companies' efforts to play localities against each other in the search for tax breaks and other incentives.

Officials from most of the

\$8.7B

The value of Washington state's incentives for Boeing.

states Boeing invited to participate have publicly expressed interest. Missouri's governor, Democrat Jay Nixon, on Tuesday is to sign a package of incentives approved last week by the state's largely Republican legislature. The measure would be worth \$150 million annually to Boeing if the company creates at least 2,000 jobs in Missouri.

Washington's legislature last month approved sweeteners valued at \$8.7 billion over 16 years—which experts say is the largest corporate-incentive package in U.S. history—in an effort to keep the jobs in what has been Boeing's primary manufacturing base for commercial jets. But Boeing then began looking elsewhere after its largest union rejected an eight-year contract deal that would have made significant changes to employees' wage structure and retirement and health-care benefits.

States have long competed for manufacturing work. In 1985 a television program from the talk-show host Phil Donahue featured General Motors' then-chairman,

Roger Smith, and the governors of seven states, and gave each governor the opportunity to pitch for GM's first Saturn plant.

Yet the deal offered by Washington state is "larger than anything we've ever seen," said Professor Kenneth Thomas of the University of Missouri at St. Louis, who tracks industrial incentives.

The biggest previous industrial-incentive package was valued by media reports at \$5.6 billion over 30 years in discounted electrical power, awarded by New York state to aluminum producer Alcoa Inc. in 2007. A spokeswoman for Alcoa said the company hadn't released its estimate of the deal's value and couldn't confirm media reports of its size.

Some argue that such incentives risk giving away more than the economic benefits gained. It is "hard to evaluate cost and benefits very well, especially benefits, because you never know what the company would've done in the absence of giving the" incentives, said Mr. Thomas, who considers such packages business subsidies.

But political support for the measures in Washington state and elsewhere has been overwhelming and bipartisan. Proponents say that merely looking at the price tag for such deals is equivalent to "looking at the half-empty portion of the glass," said Chris Mefford, president of

Boeing's Breaks

Some incentives that Washington state is offering:

Business and occupation tax reduction of 40%: **\$4.2 billion**

Tax breaks for other aerospace: **\$23.4 million**

Tax credits for new aircraft development: **\$3.5 billion**

Property tax credit: **\$563 million**

Sales tax exemption to buy new computers: **\$242 million**

1,000 new job training positions: **\$8 million**

Construction of new training facility: **\$5 million**

Washington state Governor's Office of Aerospace, Office of Financial Management, Department of Revenue

Community Attributes Inc., a consulting firm that conducted economic analysis for Washington on its bid. He said Boeing's and the aerospace industry's outside contribution to employment in Washington justifies surrendering future tax revenue.

Boeing could yet build the 777X in Washington. The company has long envisioned assembling the advanced plane in the state, where it makes the current

versions of the 777 and has tens of thousands of experienced workers and infrastructure advantages. Building an all-new plant can be costly and risky, and Boeing says it needs to start manufacturing the first new aircraft in 2017 to meet its delivery schedule.

Some analysts say Boeing's public search for alternate locations is aimed largely at winning better terms from the union in Washington.

According to Boeing's request for proposals, the 777X work would involve 2,700 to 8,500 jobs. Possible scenarios for states to bid on include a campus that would assemble the jet and its carbon-fiber composite wings together, or a split of those tasks between states, said people familiar with the planning.

A Boeing spokesman declined to comment on details of its request for proposals.

Besides Missouri, states that have reportedly said they are considering a bid include Alabama, California, Georgia, Kansas, North Carolina, Pennsylvania, South Carolina, Texas and Utah. Even Wisconsin, which Boeing didn't invite to bid, is submitting a package that could include tax credits and loan guarantees.

The process has been shrouded in secrecy, and only Washington and Missouri have detailed their plans. Many states participating say they would only share their offered sweeteners should be they

be selected by Boeing.

Exactly how many jobs are at stake in Washington isn't clear. Boeing is the state's largest private employer, with nearly 82,500 workers there as of the end of November. State officials said keeping the 777x in Washington would result in \$21.3 billion in tax revenue from fiscal 2025 to fiscal 2040. That is based on a total of 57,000 jobs, including 27,800 nonaerospace jobs generated from taxpaying businesses and individuals.

But nowhere near that many people actually work on the current 777. A state study estimates that 12,100 full-time equivalent jobs at Boeing contributed directly to the production of the 777 in 2012, from assembly-line machinists to engineers and management.

The 57,000 figure includes jobs that officials estimate are "supported" by the existing 777 work, such as at vendors that provide parts and services for Boeing. Such estimates are inherently murky, because Boeing makes other jets in Washington.

The Washington package expands on tax breaks that expire in 2024 from a 2003 package created to persuade Boeing to assemble the Dreamliner in Washington. It worked, but Boeing six years later split that work between Washington and the new South Carolina plant.

—John Miller
contributed to this article.



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