<u>James H. Renzas</u>
President and CEO
Location Management Services, LLC

Invited Testimony

United States Senate
Committee on Finance
Subcommittee on International Trade
The Honorable Craig Thomas
Chairman

"Cuno and Competitiveness: Where to Draw the Line"
215 Dirksen Senate Office Building
Thursday, March 16, 2006

Mr. Chairman and Members of the Committee:

I am honored to have been invited to testify before this distinguished body on an important issue affecting the future of this great country.

As President and CEO of Location Management Services, I am on the front lines of America's quest for competitiveness in the world. You see, LMS is one of a small group of international site selection consultants who work with expanding companies in the United States and throughout the world to counsel them on where to locate new jobs and investment.

Location Management Services is an outgrowth of my experience in the site selection industry for over 25 years. During this time, I have worked with hundreds of companies considering expansion or relocation and counseled them on the creation of thousands of American jobs and hundreds of millions of dollars in investment.

Today you have heard from a number of brilliant and distinguished experts in the field of state taxation and economic development. These experts have a variety of backgrounds and are highly educated and immersed in the body of research surrounding the effects of taxation and state economic policy on the creation of new jobs and investment.

As CEO of Location Management Services, I am unique in the respect that, rather than conduct research and theorize on what makes companies choose certain locations for new corporate facilities – I have actually done it – hundreds of times over in my career.

History is rife with examples of distinguished scientists and theoreticians holding a view of the world which is ultimately proven wrong by those to venture out to actually test these theories in a real-world environment. I have only to cite as an example Columbus, who bravely ventured out to disprove the conventional scientific wisdom that the world was flat and protected by dragons to show how highly respected theorists are often wrong in the absence of real world experience.

That said I would like to discuss my life helping companies select the most appropriate locations for new investment and job creation from the standpoint of one who has been "on the inside" with senior management and the Board Directors when comparing the pros and cons of potential corporate investment locations.

Location Management Services recently partnered with the National Association of Manufacturers to offer its members corporate site selection services in the United States through the Site Selection Network. This network provides confidential site selection consulting services to N A M members who are looking to establish new corporate manufacturing facilities, distribution centers, corporate headquarters operations, and back-office support centers throughout this country. Our services include assisting companies evaluate the best locational strategy to achieve corporate objectives, analyzing hundreds of potential state and local locations, and negotiating the final site selection deal on behalf of our clients. In addition, we provide compliance services to ensure that companies live up to the agreements that they make to state and local governments when accepting incentive dollars.

In the last two weeks I have conducted field work in the States of North Carolina and Georgia to help a U.S. manufacturer select the final location for a ½ million square foot manufacturing plant which will ultimately employ over 1,000 American workers. As a part of that field work I have interviewed numerous manufacturers in five semi-finalist counties throughout these states to assess the availability of labor and skills, employment costs, benefits policies and government cooperation. I have learned a great deal about what these small and medium sized U.S. manufacturers are facing in an increasingly competitive world market. Some of these companies have dropped product lines as their markets have been adversely impacted by dramatically lower prices resulting from the movement of their competition from the United States to offshore locations like China, India and the Philippines.

One textile company I interviewed in North Carolina last week downsized its workforce from over 300 manufacturing employees last year to just 65 employees today as global competition and pricing has eroded its profit margins. Another consumer products company simply discontinued manufacturing in the United States and moved operations to Mexico, where wage rates are a fraction of the wage rates in North Carolina. This relocation resulted in the displacement of over 800 American manufacturing workers who have almost no hope of finding a replacement job paying anywhere near what they formerly made in the manufacturing sector.

As we analyze these locations for labor force availability and skills, most employers have commented favorably on the commitment, skills and work ethic of the American worker.

Yet, given the competitive pricing advantage that offshore locations have in labor, materials, health care, real estate, and environmental compliance, many of our manufacturing companies cannot afford to continue employing these workers. In the last four years, the United States has lost close to 1 million manufacturing jobs resulting in the displacement of honest, hard-working American workers throughout this country, including many in the states that you represent.

I am sure that you are all well aware of the recent announcements of General Motors, Ford, Delphi, and many others in the domestic automotive industry who have chosen to close plants and lay off thousands of manufacturing workers in order to remain competitive. These workers went to work every day, paid their taxes did good work and did nothing to deserve this fate. Yet thousands will pay the price in the form of lost jobs, broken families and lost savings in the name of global competitiveness.

The Cuno case is concerned with the ability of state governments to compete with one another in order to attract and retain jobs and investment in the face of this increasing globalization of production. Relying on the commerce clause of the constitution, the plaintiff asserts that the provision of tax credits to a company willing to expand its Ohio operations and create thousands of new jobs, millions of dollars in additional taxes, and numerous small businesses supporting the expansion of this enterprise is illegal because it diverts tax revenues from other in-state taxpayers. Yet a thorough economic impact analysis will show that the provision of financial and tax incentives often results in the creation of far more direct and indirect tax benefits to a state and local government than the cost of the incentives. Most states and sophisticated local governments run cost-benefit analyses prior to making an offer of incentives to ensure that the benefits accruing to the indigenous taxpayers far outweigh the cost of incentives. In the cases where our firm has evaluated these benefits, the return-on-investment to local and state governments often exceeds 400 percent. In addition, state and local incentives are often limited in duration for 3, 5 or even ten years and are closely monitored to ensure corporate compliance with all terms and conditions. Benefits afforded a state or local government from business expansion continues to accrue long after these incentives have expired.

Some have postulated that incentives make no impact on the final decision of companies as to where they will place their corporate facilities. To be sure, incentives are most certainly not the end-all and be-all of the site selection decision. In fact, some very prominent CEO's have commented that state and local taxes, in general, do not have an impact of the final location decision.

Having been a consultant to hundreds of companies seeking new locations for corporate facilities, however, I can tell you unequivocally, that once the basic site selection criteria have been satisfied, incentives often do make a difference in the selection of the finalist location. And second place doesn't count in site selection.

In this country, state governments do not have a uniform application of tax policy and rates. In some states, there is no corporate income tax - in other states corporate income taxes are high. Some states have no sales taxes. Other states impose no ad valorem taxes on raw materials or finished goods inventory. I have been in states that provide free training to all new hires. Other states provide no training services whatsoever. To insist that we have a level playing field among the states is an unrealistic expectation.

Some witnesses have calculated that state and local taxes comprise roughly 1 percent of business costs and therefore could not be sufficient enough incentive to influence the location decision one way or the other. Yet when one looks at the impact incentives have on Geographically Variable Operating Costs, i.e. the business costs that can vary from one location to another such as property taxes, real estate costs, labor costs, workers compensation costs, etc. – the impact of state and local incentives can often be equal to 10 to 20 percent of capital investment. A cost reduction of this nature is often enough to get the attention of the Chief Financial Officer and the Board of Directors who are often instrumental in the selection of the finalist site.

Incentives are but one tool that states currently use to help level that playing field and attract jobs and investment. If you look at what other countries, like China, India, and Ireland offer new companies by way of incentives, you will find that the incentive packages are often much more generous than any U.S. state. Yet these countries have much lower operating costs to begin with. Looking at the economic growth that these countries have achieved over the last decade it is difficult not to surmise that their policies to encourage new jobs and investment in their countries have been effective.

The United States of America is the greatest country in the world and has the most robust and productive economy that the world has ever known. These benefits stem from the belief in the power of competition and free-markets to reward innovation and risk-taking.

Competition makes us all better and more focused on achieving positive results. Federal legislation which would impede the ability of states to control their own economic destiny in the face of increasingly intense global competition would be short sighted and detrimental to the American worker, American investors, and American institutions. In the best tradition of state’s rights, this is an area where the state political process should be used to weigh the pros and cons of any individual tax credit or incentives policy.