

SPECIAL REPORT



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The Intel Corp. microchip plant rises from the New Mexico desert. Officials lured Intel by offering huge tax breaks. Now, the community is struggling to pay for new schools.

Tax breaks often prove to be dangerous deals

EDITOR'S NOTE: In September, a *Blade* investigation found numerous problems in Toledo's corporate tax-break program. A follow-up inquiry found similar problems statewide. Today, *The Blade* examines corporate tax breaks and subsidies nationwide.

BY SAM ROE
BLADE STAFF WRITER

RIO RANCHO, N.M. — For years, this was just a dusty town on the high desert plain, with few shops, businesses, or even paved roads.

Then it landed one of the most coveted economic prizes of the decade: the \$2 billion Intel Corp. microchip plant.

Thousands of jobs poured in; related businesses sprang up, and \$300,000 homes were built. Suddenly, Rio Rancho had a new motto ("The City of Vision"), a tourist office, and an occasional traffic jam.

But there was a steep price to pay for all of this. To lure Intel, Rio Rancho and the state gave \$114 million in tax breaks and incentives.

Now, the city is struggling to afford new schools for its swelling population. Hundreds of children are crammed into trailer-like portable classrooms. Others are bused to nearby Albuquerque.

Police are spread thin, and residents complain that their property tax bills have tripled to help offset what Intel, a firm with \$5 billion in earnings last year, isn't paying.

"Intel can afford to pay their taxes," says Morris Gusowsky, leader of a local anti-tax group. "Why should big companies like that be exempt?"

All across the nation, more and more people are asking that question.

From die-hard liberals to stalwart conservatives, from Washington think-tanks to neighborhood activists, Americans are assailing corporate tax breaks and subsidies.

Many call it "corporate welfare," citing everything from the \$300 million in breaks Mercedes-Benz received to build a new plant in Alabama to the money M&M/Mars gets to advertise Milky

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TAX BREAKS: A GOOD DEAL OR CORPORATE WELFARE?

Tax

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Ways in Asia.

Each year, billions are given away. How much depends on the definition of corporate subsidies, usually considered tax breaks, grants, and loans.

One estimate, by the libertarian Cato Institute, puts the price tag at \$85 billion annually.

That's four times the annual cost of the social welfare program Aid to Families with Dependent Children.

"It's a mockery of social spending cuts not to cut corporate welfare," says Janice Shields, of the Washington-based U.S. Public Interest Research Group.

And that's just federal money.

State and local governments give billions more to lure shopping centers, factories, and sports franchises.

No one knows how much, but Ohio alone offers more than two dozen subsidy programs.

In the end, someone has to pay.

"If businesses aren't paying their fair share then citizens have to pay more or expect a lower level of public services, such as police, fire, and schools," says Brian McDonald, a University of New Mexico economist.

Consider the nation's federal tax burden: Just after World War II, individuals and businesses paid about the same.

Now, individuals pay four times more.

Even liberals and conservatives agree on the topic: In January, an unusual coalition of lawmakers and activists, including Ralph Nader and House Budget Chairman John Kasich, called for \$11.5 billion in federal subsidy cuts.

Businesses defend their subsidies, saying they help America remain competitive in the world market, keep prices down, and fund high-tech breakthroughs.

"It's not welfare. It's an investment," says Intel spokesman Richard Draper.

And subsidies, they say, help firms grow and create jobs.

"One man's subsidy is another man's paycheck," says Joe Rollo, of the Wine Institute, which represents numerous subsidized wineries.

But some deals have left people wondering.

In Pennsylvania, Volkswagen got \$70 million in breaks in 1978 for a plant that was to employ 20,000. But it never employed more than 6,000 and closed within a decade.

And in January, officials in Texas gave General Motors a \$3 million tax break — even after it announced it was cutting 600 jobs.

Fierce competition often drives the decisions: State is pitted against state, city against city, township against township.

And few can afford not to play.

"You can't unilaterally withdraw from this game," says Arthur Rolnick, senior vice president of the Federal Reserve Bank of Minneapolis who has researched tax breaks. "If you do, you're going to get hurt."

He and others want Congress to step in and end the bidding war. It could do so easily, they say, by taxing business subsidies as ordinary income.

Business subsidies have long history

Business subsidies are hardly new.

Alexander Hamilton pushed for them, and attorney Abraham Lincoln once stood up in an Illinois court to argue for tax breaks for a local railroad.

"In one form or another, subsidies go back to the beginnings of the country," says John Wenum, a retired Illinois Wesleyan University professor.

Back then, protective tariffs helped fledgling American companies compete against established English ones. Later, the government gave railroad barons — men like James J. Hill and E.H. Harriman — enormous tracts of western land.

The goal: to open frontiers to settlers and commerce.

"The amount they were given is mind-boggling — hundreds of thousands of acres across the Midwest and the High Plains," Professor Wenum says.

"North Dakota would probably still be a bare spot in the prairie if it had not been for Jim Hill and the Great Northern Railway."

By the 1950s, states were creating entire departments to woo businesses. Today, they brazenly battle for jobs on TV, radio, even the Internet.

Amarillo, Tex., has an unusual gimmick: It has mailed more than 1,000 U.S. companies a check for \$8 million.

They can cash it — if they bring at least 800 jobs to town.

"As a marketing approach, it's been very successful," says Steve Pritchett, of the Amarillo Economic Development Corp.

Numerous firms have moved in, he says, though none large enough to cash the check. Still, he remains hopeful.

"We're still sending the checks out."

Market Access Program major target of attacks

Perhaps no subsidy has been attacked as much as the federal Market Access Program.

This year, it will funnel \$90 million to some of America's largest corporations, such as Campbell Soup, Ernest & Julio Gallo, and M&M/Mars, so they can advertise their products overseas.

The money pays for ads in foreign magazines, newspapers, and movie theaters.

The goal: to increase U.S. exports of food and other agricultural products.

Jack Daniels advertises its whiskey in China, Jim Beam its bourbon in Mexico, and M&M/Mars its Milky Ways and Snickers bars in Japan.

In past years, McDonald's got more than \$1 million to market Chicken McNuggets overseas.

"It's a total scam," says Laura Barrett, director of the Commonwealth Center for Fiscal Policy, a Boston nonprofit that researches budget issues.

"I don't know why my tax dollars should be used to advertise McNuggets."

A Tiffin, O., company gets money, too — to market bull semen.

Noba, Inc., sells the frozen semen to dairy farmers worldwide so they can breed better cows.

Last year, Noba got about \$6,800

A LOOK AT CORPORATE SUBSIDIES



Alabama gave \$300 million in incentives to land the Mercedes auto plant. NEW YORK TIMES PHOTO

The top deals

Some of the biggest tax-incentive packages offered in recent years:

Year	Company	State	Benefit package	Jobs created	Cost per job
1985	Toyota	Kentucky	\$150 million	3,000 jobs	\$50,000 each
1985	GM-Saturn	Tennessee	\$70 million	3,000 jobs	\$23,000 each
1988	Chrysler-Mitsubishi	Illinois	\$118 million	2,900 jobs	\$41,000 each
1992	United Airlines	Indiana	\$294 million	6,300 jobs	\$47,000 each
1992	BMW	South Carolina	\$102 million	1,500 jobs	\$68,000 each
1993	Mercedes	Alabama	\$300 million	1,500 jobs	\$200,000 each
1993	Intel	New Mexico	\$114 million	3,200 jobs	\$36,000 each

Source: Corporation for Enterprise Development, news reports

What they get

A 1995 survey of 203 Fortune 1000 firms found 79 per cent received some kind of state or local benefit. Here's what they received:

Property tax rebate	51 per cent
Income/franchise tax credit	48 per cent
Sales tax rebate	35 per cent
Job training	11 per cent
Preferred financing	11 per cent
Employment or payroll tax credit	9 per cent
Utility rebates	8 per cent
Other	14 per cent

Source:
KPMG Peat Marwick



Money for ads

The federal Market Access Program funnels taxpayer money to food and agricultural companies to help offset their advertising costs overseas. The top recipients in 1995:

1. Ernest & Julio Gallo	\$1.3 million
2. American Legend Cooperative	\$919,100
3. Sunsweet Growers	\$875,500
4. Tyson Foods	\$632,100
5. North American Fur Producers Marketing	\$540,700
6. M&M/Mars	\$510,100
7. International American Supermarkets	\$430,400
8. Hershey International	\$322,800
9. ASB Group International	\$282,000
10. Brown-Forman Corp.	\$280,700

Source: U.S. Department of Agriculture

BLADE CHART BY LARRY GEYMAN

to help pay for a 40-page glossy brochure with 120 photos of top bulls and cows.

"We feel the money is being used well," says Leonard Bayer, Noba's vice president of finance. "It has helped us keep the market going, if not increase our market share."

Still, the Market Access Program has faced intense scrutiny.

In January, it landed on the Nader-Kasich coalition's "Terrible Twelve" hit list of programs that should be axed. Congress has already cut its budget in half since 1992.

The U.S. Agriculture Department, which administers the program, says it works better than anyone gives it credit for.

"Our exports have been going gangbusters," says Tim Galvin, a USDA Foreign Agricultural Service official.

Ten years ago, wine exports were only \$37 million, an amount "you could probably drink in Ohio in a good weekend," says the Wine Institute's Joe Rollo.

Now, they are \$300 million.

When asked why tax dollars must be used, Mr. Galvin says foreign nations subsidize their companies' advertising costs, so America must too.

"The fact of the matter is, we are way outgunned in terms of how much is spent on our program."

Alabama gave away so much it had to borrow

States use the same argument: If we don't give breaks, somebody else will.

So the incentives get more lavish, and the bidding war goes on.

When Alabama won the Mercedes sweepstakes in 1993, beating out 35 other states, it paid the equivalent of \$200,000 for each job.

That's triple what South Carolina paid for a BMW plant in 1992 and eight times what Tennessee gave for a GM Saturn plant in 1985.

In fact, Alabama gave away so much that it had to borrow from the state's pension fund to make a payment to Mercedes.

Toledo is not immune to the bidding war, especially as Chrysler looks for a new site for a \$1 billion Jeep plant.

Whether Jeep stays in Toledo or moves elsewhere, the automaker will likely get huge tax breaks. Jeep already has received more than \$24 million in breaks over the last five years.

Economists say that even when a given community wins a big plant the overall national economy loses.

They say states are offering money for jobs that would be created anyway; other positions just move from one location to another.

"You are relocating some jobs, but you are not creating anything," says Arthur Rolnick, the Minneapolis Fed official.

Plus, he says, politicians should not be subsidizing some firms and not others.

"If you allow a governor, mayor, or state senator to give special treatment to specific companies, what sort of relationship does that build between that company and that politician?" he asks.

"The conflict of interest, the potential for mischief, is incredible."

The latest trend is for communities to give tax breaks even when jobs are being cut.

That happened in Toledo earlier this year when glassmaker Libbey-Owens-Ford got \$2.5 million in breaks even though it said it was cutting 60 jobs.

And GM's plant in Arlington, Tex., got \$3 million as it was knocking 600 workers off the payroll.

Tarrant County Commissioner J.D. Johnson was one of the officials who approved the GM deal. He says he didn't want to but was afraid the auto plant would move to another state if it were not satisfied.

"I don't think it's fair to give these tax breaks the way we're having to do it," he says. "We're doing it because it's allowed in all other states."

"It's like cancer. It's started, and I don't know where to stop it."

'All that glitters is not gold'

Now, eyes are on Rio Rancho, N.M., home of Intel's massive computer chip plant.

Experts see it as a test case on whether communities give away too much to lure corporations.

"The jury is still out," says Brian McDonald, director of the University of New Mexico's Bureau of Business and Economic Research. "The costs and benefits of this project will go on for 20 years."

Rio Rancho certainly grew. In 1970, it was a quiet town of 1,000 people, with more jackrabbits than jackhammers, more roadrunners than roads.

"There was nothing here but sagebrush," recalls Morris Gusowsky, an 83-year-old retiree from Brooklyn.

Now, Rio Rancho has 50,000 people, making it one of the fastest growing cities in America.

Among the additions: a new Burger King, Taco Bell, Pizza Hut, two McDonald's, and the corporate offices for Overeaters Anonymous.

"Look at this traffic," Mr. Gusowsky says, waving at a tie-up. Twenty-five years ago, the main drag was a dirt road; now, it's a busy highway.

The boom can be traced to 1980, when a little-known California company named Intel built a small plant here.

To lure the plant, officials promised it wouldn't have to pay property taxes for 30 years.

Intel's fortunes soared, and in 1992 it sparked a multistate battle by announcing it was looking for a site for a new plant to make its high-speed Pentium chips.

Clearly, it was a huge prize: Intel had become a leading producer of microprocessors, the tiny brains that power computers around the world.

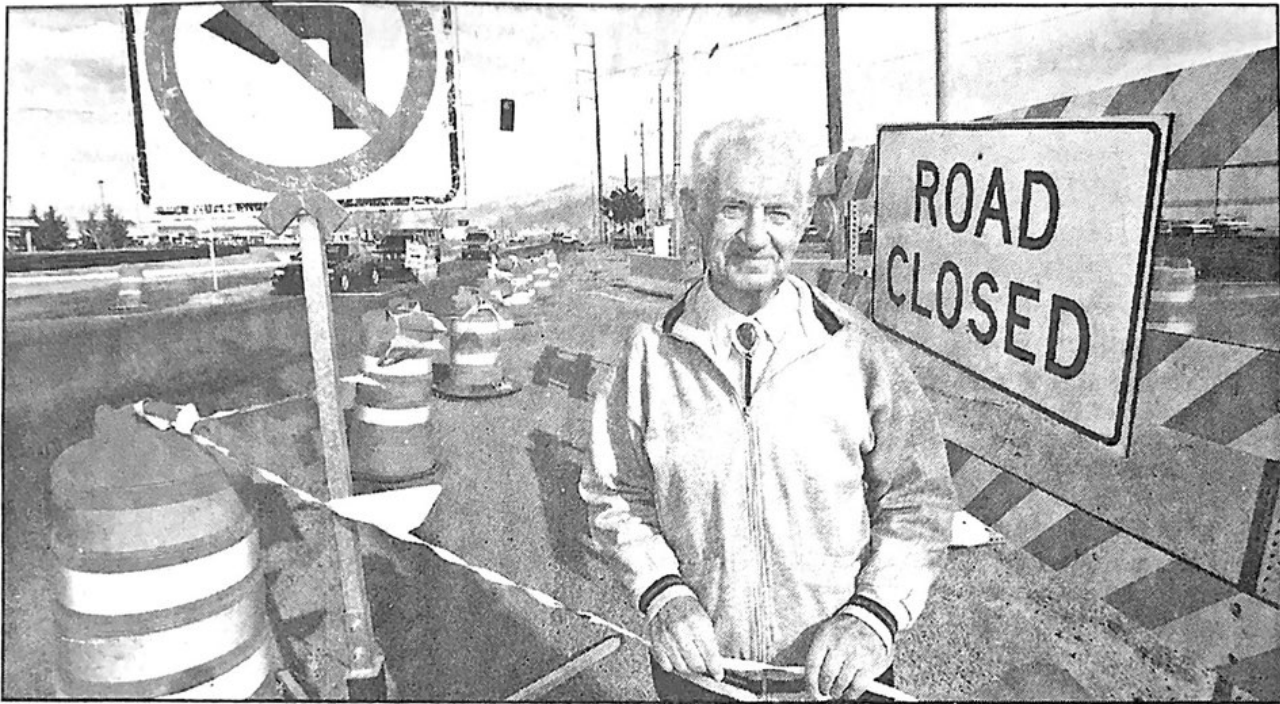
To make it easier on potential suitors, Intel distributed its "ideal incentive matrix" — a checklist of tax breaks it wanted.

In the end, Rio Rancho and the state won with one of the biggest incentive packages in U.S. history: \$114 million.

About 3,200 jobs came to town, paying an average of \$35,000, nearly twice the state average.

But problems soon followed: With little property tax, Rio Rancho couldn't afford schools for its new and growing school district. One middle school was so crowded students called it "Desert Storm."

"It looked like a military encampment," Superintendent Sue



Morris Gusowsky, of Rio Rancho, N.M., says the city cannot keep pace with growth because it gave away too much in tax breaks. Intel recently received a \$114 million benefit package.

Cleveland recalls. "It had portable classrooms, surrounded by a chain link fence."

The high school? There was none. Students were bused to Albuquerque and its already jammed high schools, says Rick Murray, Albuquerque schools spokesman.

Rio Rancho went to the state legislature for money, with students wearing yellow ribbons pleading: "We're desperate."

But the state, one of the poorest in the nation, said no.

Intel saw the writing on the wall, especially since it was trying to secure yet another tax break: \$8 billion in tax-exempt bonds.

So the firm cut an unusual deal: It agreed to buy Rio Rancho a new \$30 million high school.

"We knew we weren't going to get away without making some payments," Intel's Mr. Draper says. "This seemed like the right thing to do at the right time."

Rio Rancho High will open in August, with Intel throwing the dedication party. The school mascot, by vote of the students, will be a ram — indigenous to New Mexico but also short for Random Access Memory.

Richard Herrera, the schools' facilities director, dons a hardhat and shows off the new school, which will have a TV studio, state-of-the-art theater, and three computer labs.

In the cafeteria, he points to the future food court and a stage where student bands can perform lunchtime concerts.

"It's going to look like the Hard Rock Cafe in here," he says, "at least in concept."

But a new high school won't solve everything.

About 1,800 elementary kids are still packed in drab, portable classrooms and forced to use portable toilets. There are so many portable classes — about 80 — that some school grounds resemble dusty trailer parks.

Three schools have been built, but five more are needed. Officials hope residents will back tax hikes to build them.

If not, will Intel keep writing checks for new schools?

Intel says that is a concern. "We are not in position to fund every new school and every new public project," Mr. Draper says.

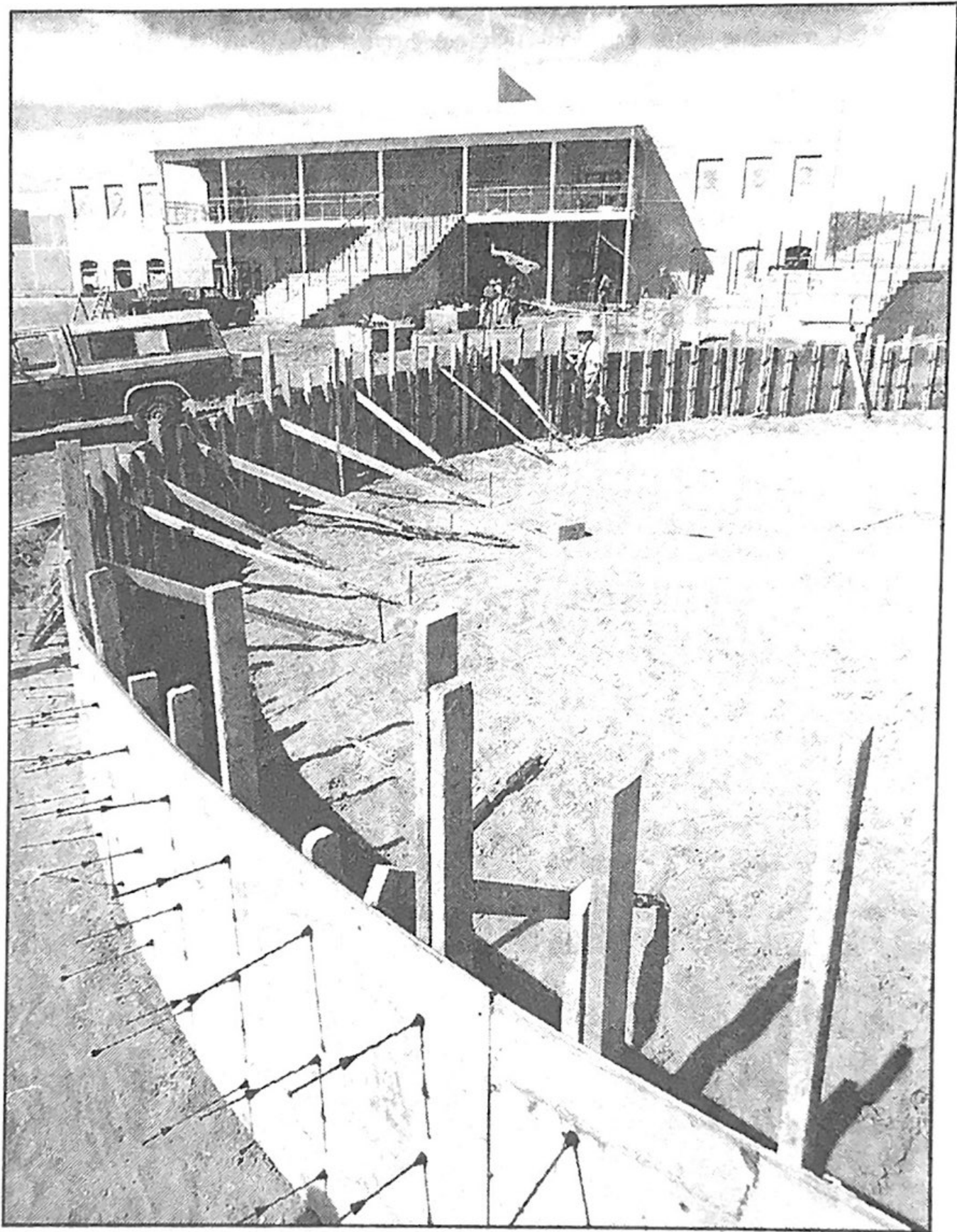
He adds that Intel shouldn't be blamed for all of Rio Rancho's growing pains. Many local leaders agree, saying affordable housing has caused the population boom as much as anything.

Resident Morris Gusowsky says Intel has done some good: more jobs, new businesses, better roads.

"But at what cost?" he asks. "The benefits don't outweigh the costs."

Look at the schools, he says. Look at his rising tax bill. Look at the ugly strip malls.

"As the saying goes," Mr. Gusowsky says, "All that glitters is not gold."



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Intel Corp. is paying \$30 million for a new high school in Rio Rancho, N.M. The city couldn't afford to build its own school.