



March 22, 2019

Memo to: Board of Commissioners

From: Timothy Love, Economic Development Director via Avril Pinder, County Manager

Re: Recommendation on Linamar Economic Development Agreement

Background

As you are aware, in 2011, Linamar announced its plans, and the Board of Commissioners approved, an Economic Development Agreement (EDA), to induce investment and job creation at the former Skyland Volvo Plant located at 2169 Hendersonville Road. The Skyland Volvo facility closed in March 2010 resulting in the loss of approximately 230 jobs and nearly \$300,000 in annual local tax revenue. In the old facility, Linamar announced that it would manufacture components for heavy-duty and large off-highway truck markets. The company has numerous international sites, including three sites in North Carolina (Arden, Hendersonville, Wilson). In 2014, Linamar requested, and the Board approved, an additional EDA to induce the further expansion of the facility in Buncombe County. The combined EDAs committed Linamar to \$315M in capital investment and 800 jobs by 2021.

Due to economic and industrial conditions outside its control, Linamar has not met all of its commitment targets to date. Through adaptation and reorganization of its business model, Linamar has secured business commitments to enable it to meet its commitments. In order to complete this reorganization, Linamar has asked for additional time to meet its investment and jobs commitments and the County is willing to do so in exchange for extending the timeline for further incentive payments and combining the 2011 EDA and the 2014 EDA into a new Consolidated and Modified Economic Development Agreement.

County staff have worked extensively with Linamar and are requesting Board approval for the Consolidated and Modified agreement. Please see the below sections for additional details regarding the agreement.

Current EDA Status

The current status of the two Linamar EDAs is presented in Table 1 below. As a result of Linamar’s ability to meet performance commitments, the County has deferred incentive payments since 2016. It should be noted that while Linamar has missed investment and job commitments, the company’s actual average wages (\$51k) have exceeded average wage targets (\$39k) in the agreements. Appendix A includes actual performance against annual milestones.

Table 1: Linamar Current Status

Phase	Deadline	Proposed Incentive		Investment		Jobs	
		Proposed	Actual	Proposed	Actual	Proposed	Actual
2011 EDA	12/31/2020	\$10M	\$10M	\$125M	\$141M	400	300
2014 EDA	12/31/2021	\$9M	\$3M	\$190M		400	



Economic Impact

Although Linamar has not fully met performance commitments, the company continues to have a significant economic impact in Buncombe County. The company pays approximately \$400,000 in annual property taxes, has paid approximately \$1.8M in property tax since 2011, and by the end of the proposed EDA will pay a total of approximately \$6M in property taxes. The company additionally contributes to an estimated \$13M in labor income for its 300 employees, and approximately \$600K in local taxes (excluding property tax). A summary of projected revenues is provided in Appendix B, as well as additional economic impact details in Appendix C.

New EDA Highlights

The County has worked with Linamar to establish a new EDA that consolidates the existing two EDAs. Below are highlights from the agreement.

- Consolidates two existing EDAs (2011 and 2014) into one agreement with a single set of performance milestones.
- Creates annual performance targets for each incentive payment.
- Maintains total investment (\$315M), job (800), and incentive (\$19M) targets from original agreements.
- Increases the average wage target from \$39K annually to \$44K annually.
- Remaining incentive amount (\$6M) to be disbursed over six years if performance targets are achieved.

Table 2 provides a comparison between the performance commitments in the 2011, 2014 and the consolidated agreement presented today. Note that the performance commitments and incentives have not changed with the exception of an increased average wage for the new EDA (increased by \$5K).

Table 2: Comparison of Performance Commitments

Commitment	2011 EDA	2014 EDA	Total (adding 2011 and 2014 EDAs)	Consolidated and Modified Agreement (2019 EDA)	Change
Capital Investment	\$125M	\$190M	\$315M	\$315M	\$0
Jobs	400	400	800	800	0
Average Wage (Annual)	\$39K	\$39K	\$39K	\$44K	+\$5K
Incentives	\$10M	\$9M	\$19M	\$19M	\$0

Revised EDA Schedule

A key component of this agreement is to establish a revised schedule for Linamar’s performance commitments. The revised schedule is presented in Table 3.



Table 3: Performance Schedule

Calendar Year Ending	Incentives (Annual)	Investment (Cumulative)	Investment (Annual)	Jobs (Cumulative)	Jobs (Annual)
2019	\$1,000,000.00	\$120,986,166.00	\$24,920,162.00	400	150
2020	\$1,000,000.00	\$175,118,349.00	\$54,132,183.00	500	100
2021	\$1,000,000.00	\$214,849,233.00	\$39,730,884.00	600	100
2022	\$1,000,000.00	\$231,593,484.00	\$16,744,251.00	700	100
2023	\$1,000,000.00	\$273,296,742.00	\$41,703,258.00	750	50
2024	\$1,000,000.00	\$315,000,000.00	\$41,703,258.00	800	50
TOTAL (CY19-24)	\$6,000,000.00	\$315,000,000.00	\$218,933,996.00	800	550
TOTAL (CY11-24)	\$19,000,000.00	\$315,000,000.00	\$315,000,000.00	800	800

Prior to any future incentive grant disbursements, Buncombe County staff will review investment and job documentation provided by Linamar. The purpose of this review is to maximize the use of public funds by validating expenses associated with the \$315 million investment and verifying the creation of 800 jobs in Buncombe County. The requirements for documentation to be provided are defined in the new EDA.

Recommendation

County staff are requesting Board approval for the resolution authorizing the Consolidated and Modified agreement. This EDA was developed and reviewed by County Legal and Economic Development staff. This agreement requires that Linamar meet all of its original commitments and does not award any new economic development incentives. Staff believe that this agreement establishes performance milestones that minimize County financial risk while continuing to support job growth for an employer projected to create 500 jobs over the next five years. If approved, Linamar will only receive the incentives stated in this Consolidated Agreement and will not also receive the incentives stated in the 2011 EDA and the 2014 EDA.



Appendix A: Linamar Actuals v. Agreements

Please see Table 4 for Linamar’s current performance status compared to the performance milestones included in the existing EDAs.

Table 4: Performance compared to EDA Milestones

Calendar Year	OUTFLOW (Actual)	DELIVERABLES (Actual)		DELIVERABLES (Current Agreement)		
	Incentives (Annual)	Investment (Cumulative)	Jobs (Cumulative)	Incentives (Annual)	Investment (Cumulative)	Jobs (Cumulative)
2011	\$0.00	\$10,000,000.00	10	\$0.00	\$0.00	0
2012	\$5,500,000.00	\$30,000,000.00	50	\$5,500,000.00	\$0.00	0
2013	\$4,500,000.00	\$50,000,000.00	75	\$4,500,000.00	\$0.00	0
2014	\$0.00	\$70,000,000.00	100	\$0.00	\$0.00	0
2015	\$1,500,000.00	\$80,000,000.00	150	\$1,500,000.00	\$20,000,000.00	80
2016	\$1,500,000.00	\$90,000,000.00	200	\$1,500,000.00	\$58,000,000.00	0
2017	\$0.00	\$96,066,004.00	250	\$1,500,000.00	\$143,000,000.00	152
2018	\$0.00	\$141,000,000.00	300	\$1,500,000.00	\$143,000,000.00	152
TOTAL	\$13,000,000.00	\$141,000,000.00	300	\$14,500,000.00	\$143,000,000.00	152

Appendix B: Linamar – Return on Investment

Please see the below table for an overview of costs and revenues associated with Linamar. The estimated breakeven point is presented below assuming all incentives are paid, jobs created and investment created. This projection includes minor capital investment growth for the company, but is based on conservative assumptions.

Table 5: Summary of Costs and Revenues Over Time

Calendar Year	DELIVERABLES		INFLOW			
	Investment (Cumulative)	Investment (Annual)	Assessed Value	Tax Revenue	County Impact (Annual)	County Impact (Cumulative)
2024	\$316,000,000.00	\$316,000,000.00	\$152,895,258.40	\$808,815.92	\$808,815.92	(\$12,403,773.08)
2025	\$317,000,000.00	\$1,000,000.00	\$129,903,322.48	\$687,188.58	\$687,188.58	(\$11,716,584.51)
2026	\$318,000,000.00	\$1,000,000.00	\$112,877,028.26	\$597,119.48	\$597,119.48	(\$11,119,465.03)
2027	\$319,000,000.00	\$1,000,000.00	\$99,880,253.38	\$528,366.54	\$528,366.54	(\$10,591,098.49)
...						
2049	\$361,000,000.00	\$1,000,000.00	\$90,190,000.00	\$477,105.10	\$477,105.10	(\$145,535.44)
2050	\$362,000,000.00	\$1,000,000.00	\$90,190,000.00	\$477,105.10	\$477,105.10	\$331,569.66
TOTAL	\$362,000,000.00	\$362,000,000.00	\$90,190,000.00	\$13,544,158.65	\$13,544,158.65	\$331,569.66



Appendix C: Economic Impact Analysis

Below are the EDC’s estimated effects of the EDA on local suppliers and household spending. Table 6 presents estimated impact at current investment and staff levels. In addition, the EDC estimates \$600K in additional local tax revenue (e.g., sales tax, household property tax). Please note that all of these projections are estimates and will be impacted by changes to the tax rate, timing of capital investments, and final depreciated valuation of equipment.

Table 6: Estimated Economic Impact (Current Status)

Impact Type	Description	Employment	Labor Income (\$)
Direct Effect	Linamar jobs	300	13,783,969
Indirect Effect	Income for Linamar’s local suppliers (i.e., business-to-business transactions)	182	9,366,810
Induced Effect	Labor income or paychecks being spent in the region (i.e., household spending)	147	5,625,476
Total Effect		579	28,776,255