

Kentucky's Low Road to Economic Development:

What Corporate Subsidies are Doing to the Commonwealth



Democracy Resource Center

Kentucky Economic Justice Alliance

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What Corporate Subsidies are Doing to the Commonwealth

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The **Democracy Resource Center** (DRC) is a multiracial, anti-racist organization whose mission is to help citizens and grassroots groups participate meaningfully in public decision-making and make government more democratic. By providing technical assistance and resources, DRC helps empower citizens to compel government to serve the needs of all people. Based in Kentucky, the organization helps citizens work to overcome institutional racism and gain economic, social, and environmental justice.

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Kentucky's Low Road to Economic Development

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Executive Summary

Economic development continues to be a primary concern for many Kentuckians. People want good jobs and a better future for their families, and public investment in economic development can help build strong communities. Kentucky's main method for economic development is to lure industries to the state with incentives. But Kentucky has awarded incentives to big corporations that offer low wages, threaten local economies, and risk the health of workers and the environment. There are few opportunities for citizens to be involved in these decisions and the cost of these programs continues to rise.

This report explores the use of tax incentives in the state, examining how they are given out, what they cost, and how they're being used. It also offers an alternative way of doing development and specific, immediate steps to move in that direction.

Part 1 of the report, "Who Makes the Decisions About Development in the State?" introduces the structure and incentive programs of Kentucky's Cabinet for Economic Development. The boards that govern the cabinet and award incentives are stacked with business representatives from corporations and banks. The law assures only one representative from labor on the Cabinet's governing board and no representatives from grassroots citizens' groups that act on behalf of the public interest.

Part 2, "Where Are the People?" examines the barriers that have been put up to keep citizens from getting important information about economic development deals. The state does not require full disclosure of information from companies that many believe would be

necessary to reach an informed decision about these deals, and citizens are denied access to the information that is received by the state. Information that citizens are not given include specific wages that subsidized companies are paying, the environmental impact of companies that receive incentives, and the companies' record of worker safety and discrimination. Citizens are locked out of discussions of proposed projects, which are developed behind closed doors. Citizens hear about these deals for the first time when they are approved by the awarding body, the Kentucky Economic Development Finance Authority.

Part 3, "Who's Keeping Track?" exposes the many costs of corporate giveaways to the state. Almost \$3 billion in tax credits have been granted by the Cabinet since 1992 alone, and there has been a rapid increase in the amount of credits claimed by companies each year. These rising costs block other opportunities to invest in sound economic development. The increase in tax giveaways to corporations is part of a trend in taxation in Kentucky in which those least able to pay are paying more proportionate to their income while the wealthy and corporations are paying less.

Companies are forcing states to bid against each other, meaning the breaks that individual companies are demanding are increasing in price. Kentucky has no limit on the amount of incentives per job, paying as much as over a million dollars per job in the case of Willamette Industries.

The costs are more subtle as well. For many economically-distressed rural counties of the state, the strategy of using incentives to recruit has been little help. Because other factors matter more to companies than incentives, these areas have not attracted their share of industries. In addition, the local costs to communities through

abatements, infrastructure, and increased services are a little-recognized and unaccounted-for drain on public money.

Part 4, “What Projects are Being Funded?” investigates eight case studies of the use of incentives in ways that have had a negative effect on communities. Three of the case studies involve millions of dollars to recruit poultry corporations Seaboard, Tyson, and Cagle’s. These three corporations have paid low wages, provided dangerous working conditions, converted independent farmers to contract growers, made it more difficult for independent farmers to market poultry, and threatened the environment and human health at their factories.

Trus Joist MacMillan, a primary wood products plant, and Willamette, a paper mill, have each reaped the benefits of \$100 million incentive packages. But both companies are resource-intensive, threatening the health of the forests. Recruiting industries such as these will not help Kentucky develop an economically and ecologically sustainable secondary wood products industry.

General Electric, Nine West, and DuPont all received incentives and have decreased their Kentucky workforces. With G. E. and DuPont, the companies were offered incentives to keep their plants open or reorganize. In both cases, however, they have decreased their workforces over the years while receiving incentives. In the case of Nine West, it was awarded incentives at the same time it was laying off workers in another part of the state. Later, it never even got to use the incentives because it laid off all of its Kentucky workers.

The report’s findings suggest that the strategy of subsidized recruitment as practiced in Kentucky is not working well for the people of the Commonwealth. Part 5, “What Else is There?” sketches an alternative vision of

economic development that focuses at the community level on plugging the leaks, strengthening existing businesses, and starting new businesses. In this vision, companies that receive subsidies are required to meet community standards. An enduring foundation for a good economy is built through investment in education, protection of the environment, health and child care, and other priorities. There is a promotion of democracy in economic planning and decision-making at all levels and democratic governance of firms as a way to make them more responsible. Finally, this strategy targets poverty and racial inequality with the assertion that the needs of the most disadvantaged should come first.

The conclusion, “Steps To Take Now,” offers immediate changes to steer Kentucky off the low road of poverty jobs and a degraded environment and onto the high road of strong communities and a better quality of life. Those steps include creating standards in the giving away of incentives so that subsidies are awarded only to those companies that pay good wages with benefits, protect the environment and worker safety, have fair employment practices, and are not relocating. Another step is increased disclosure about economic development deals so that the public is more aware of how this money is being used. Finally, the section calls for supporting new efforts for community economic development, such as Community Farm Alliance’s plan for use of the Phase I Tobacco Settlement monies to revitalize the farm economy.

Introduction

People all over Kentucky are concerned about jobs. Mines and tobacco are in decline. Plants that were the mainstay of some communities have shut down. In some parts of the state, large numbers of unemployed workers compete for scarce jobs. In others, low-paying jobs go unfilled, while workers struggle to find jobs that pay enough to keep their families out of poverty.

To address these concerns, state officials have greatly increased their efforts to recruit companies to the state by offering subsidies to draw them in. This plan is part of a historical trend. Following World War II, Kentucky and other states in the South began offering tax-exempt financing and cheap land to lure companies, and many came. But by the 1970s, the South began to struggle to hold on to those jobs as the global economy began to “restructure.” The economies of Japan and Europe strengthened while the U. S. economy weakened; the World Bank and International Monetary Fund offered loans to countries in exchange for agreements to lower trade barriers; and NAFTA and other trade agreements further lowered trade hurdles.

The effect of these changes has been to make it more profitable for corporations to shut down their facilities in industrialized countries and relocate to poorer nations. The result has been incredible pressure on U. S. states and their workers—to accept labor concessions, lower their wages and reduce benefits, and decrease business taxes and regulations in order to create an attractive “business climate.”

With this competition for the best business climate came the introduction of new forms of incentives. Financial incentives became

another way for states and other places to lure companies in—by telling them they won’t have to pay taxes, or their buildings and infrastructure will be provided for free, or that they can even keep their employees’ individual income taxes. Kentucky was one of the leaders in boosting the use of incentives through the Kentucky Rural Economic Development Act, enacted in 1988.

As Kentucky and other states have greatly increased their use of incentives to recruit industry, the competition has heated up. Programs to provide businesses tax and other incentives have exploded nationwide in recent years. The *Baltimore Sun* reports that two-thirds of the states have either created incentive programs in the past two years or increased money for existing programs.¹

Yet, many citizens have not cheered the increased use of incentives. The subsidies that companies receive are increasing in cost, and many states and localities award them without any standards. Groups have formed in many states to fight the problematic use of incentives. In Minnesota, an alliance of labor, community, and religious organizations has pushed and passed several laws to create standards in the giving away of incentives and more disclosure of how the money is being spent. In Alabama, the Alabama Education Association and Alabama Arise, an alliance of community and religious organizations, have worked to reform the state’s excessive subsidies to corporations.

In Kentucky, a number of communities have become increasingly concerned about the use of incentives and their negative effects. Many small farmers and the Community Farm Alliance have pointed out that the state’s giveaways to agriculture corporations are unfairly shifting power and money away from farmers and working people and toward corporations. They say that state subsidies are heavily assisting the

success of these companies while doing comparatively little to promote the success of Kentucky's own farmers.

For many members of Kentuckians For The Commonwealth, concern about the use of incentives arose out of Kentucky's investments in the forest industry. They watched the state use hundreds of millions of dollars to bring in transnational forest products corporations that greatly increase the pressure to log surrounding forests in unsustainable ways. At the same time that the environmental burden on the forest was increasing, members also saw that the economic impact of the use of the resource was maximizing corporate profits but creating too few good jobs for local people. They argued that the state should instead invest in the success of small, locally-owned, value-added wood products businesses.

Many others are concerned about the low-wage jobs that are being created with incentives. Welfare reform policies push former recipients into jobs without consideration of whether the jobs pay enough for the family to live on. Members of Kentuckians For The Commonwealth saw that some of these companies paying below-living wages have received tax giveaways from the state.

Many other sectors of Kentucky society are also raising concern. Labor advocates have criticized the large amounts of "corporate welfare" going to companies with poor labor records. Civil rights groups see subsidies being given away without consideration of whether people of color are benefitting and are concerned about state giveaways to corporations that are laying off workers, especially in cities. Environmental groups have seen the state pay to bring in companies that degrade the environment.

It is the concerns of these Kentuckians that led to this study.

Part 1: Who Makes the Decisions About Economic Development in the State?

How the Economic Development Cabinet Works

The control of Kentucky's Cabinet for Economic Development was overhauled in 1992 to make the Cabinet more effective at recruiting businesses to the state. House Bill 89 made Economic Development unlike other cabinets of state government. The bill created a new body, the Kentucky Economic Development Partnership Board, to govern the Cabinet. The Partnership Board would work to improve Kentucky's business climate so that more companies would choose to call Kentucky home.

To do that well, leading business organizations said, Kentucky's most powerful and successful businesses should have a direct say in development decisions. By allowing big businesses a strong hand in the decisions, the decisions would most likely conform to the needs businesses have. Kentucky would thereby become a place where businesses will want to locate.²

Many labor leaders, however, questioned the wisdom of the changes. One leader said that the Cabinet for Economic Development would become "one of Kentucky's largest and most powerful corporate enterprises. The partnership concept takes 'running government like a business' to the extreme conclusion of 'letting business run government.' It may be more

Big Business Well- Represented on Partnership Board

The Partnership Board, which oversees the Cabinet for Economic Development, has voting slots for the following organizations or positions:

- < Associated Industries of Kentucky
- < Kentucky Farm Bureau Federation
- < Kentucky Chamber of Commerce
- < Kentucky Economic Development Corporation
- < Kentucky Industrial Development Council
- < Kentucky AFL-CIO
- < Governor
- < Secretary, Finance and Administration Cabinet
- < Secretary, Natural Resource and Environmental Protection Cabinet

convenient, might be more efficient—but democracy, it is not."³

Nevertheless, the Partnership Board was created and given such powers as creating the strategic plan for economic development for the state, hiring and firing the Cabinet Secretary, and appointing the Kentucky Economic Development Finance Authority, the body that actually grants state subsidies to companies.

Positions on the Partnership Board were assigned to such big business organizations as Associated Industries of Kentucky, the Kentucky Farm Bureau Federation, the Kentucky Chamber of Commerce, and the Kentucky Economic Development Corporation. Eight of the eleven voting members come from the private sector. Only one position must be filled by labor and none by community groups (see box on previous page).

The Partnership Board, then, which oversees a cabinet that awards millions of dollars to companies each year, is stocked with organizations that represent many of the state's biggest companies. Some of these companies have received tax breaks. Take Elf Atochem: its Calvert City Plant Manager Danny Wright sits on the Board of the Kentucky Chamber of Commerce, while its Carrollton Plant Manager Annis Banks is on the Board of Associated Industries of Kentucky. Elf Atochem has received \$20 million in tax credits through the Kentucky Rural Economic Development Act program.

Indeed, several companies have board seats on more than one of the organizations that sit on the Partnership Board. United Parcel Service, Humana, Toyota, Brown-Forman, Montebello Packaging, and Elf Atochem have representatives who sit on the boards of two of these organizations. Lexmark and Ashland have representatives who sit on the boards of three of them. And LG & E, including its subsidiary Kentucky Utilities, has representatives on the boards of the Kentucky Economic Development Corporation, the Kentucky Chamber of Commerce, Associated Industries of Kentucky, and the Kentucky Industrial Development Council.⁴ All of these companies have received incentives from the Cabinet for Economic Development.

**Current Board of Directors of
the Kentucky Economic
Development Finance
Authority (8/27/99)**

Bruce Brooks
Senior Vice President
Farmers Bank & Capital Trust Co.

Harold G. Doran, Jr.
President
Peoples Bank of Murray

Jean R. Hale
President and CEO
Pikeville National Bank & Trust Co.

Aubrey Hayden
Asst. Vice-President
Fifth Third Bank

Thomas M. Latta

Tracy Meyer
Vice President, Private Financial Group
The Huntington National Bank

John P. McCarty
Secretary
Finance and Administration Cabinet

The Partnership Board also appoints the Kentucky Economic Development Finance Authority, the board that awards tax incentives, grants, and loans. Five of the six private members of this Board are bankers (see box on this page). It is no accident that bankers dominate this board: the statutes read that

members must have “experience or expertise in business or finance.”⁵

Tax Incentive Programs of the Cabinet for Economic Development: Who Gets the Money and How?

The Kentucky Cabinet for Economic Development has a number of programs to promote development in the state, and not all of them are designed to recruit industry. Nevertheless, it is Kentucky’s tax incentive programs to encourage recruitment that have brought the state attention nationally. When these programs were created, they significantly increased the intensity at which states bid against each other for business, as other states felt that they had to catch up with Kentucky.

In 1988, the legislature created the Kentucky Rural Economic Development Act; it was joined in 1992 by the two other major incentive programs--the Kentucky Industrial Development Act and the Kentucky Jobs Development Act. All of these programs (which are explained in the box, right) offer a full break on a company’s state corporate income tax and allow the company to take a portion of its employees’ income, for which the employees

job assessment fees: an incentive by which a company’s employees pay a percentage of their income to the company. The employees then receive a credit for that amount against their state personal income taxes and local occupational license taxes.

corporate income tax credit: a dollar-for-dollar reduction in a company’s state corporate income tax.

Four Tax Incentive Programs of the Cabinet for Economic Development

Kentucky Rural Economic Development Act (KREDA):

Provides 4% job assessment fees and corporate income tax credits to new or expanding manufacturing projects with a minimum investment of \$100,000 that create at least 15 jobs. The project must be located in a county with an unemployment rate exceeding the state average for the last five years, or with an unemployment rate exceeding the state average by 200% in the most recent twelve months.

Kentucky Industrial Development Act (KIDA):

Provides 2% job assessment fees or corporate income tax credits to new and expanding manufacturing projects with a minimum investment of \$100,000 that create at least 15 jobs.

Kentucky Jobs Development Act (KJDA):

Provides 5% job assessment fees (4% from state and 1% from local occupational license tax, if approved by local government) and corporate income tax credits to service and technology-related companies that provide at least 75% of their services to users located outside of the state and create at least 25 jobs.

Kentucky Industrial Revitalization Act (KIRA):

Provides 6% job assessment fees (4% from state, 1% from local occupational license tax if approved by local government, 1% from employees’ salaries if approved by vote of employees) and corporate income tax credits to companies that are threatening to close. Companies must save or create 25 jobs to be eligible.

receive credit against state and (in some programs) local taxes.

Another similar program, the Kentucky Industrial Revitalization Act, provides tax incentives to companies that are threatening to close. In this program, employees must vote whether to accept a 1% pay cut, money that goes to the company to encourage it to remain in Kentucky.

In all of these programs, companies can keep rather than pay these taxes up to the amount of the incentive package, which may be up to the amount of debt the company owes for the project. Often, the local or state government issues a bond to cover the costs up front. Then the money gained through the tax credits is used to pay off the price of the bond, including interest, over a period of years. Essentially, this means that the state or local government provides a loan for the company, sometimes in amounts of \$100 million or more. Then the state, and not the company, pays off the loan through not collecting tax dollars from the company that it collects from everyone else. Thus, these companies, unlike small businesses that get loans, are not required to pay back all of the capital borrowed and interest for the project.

Often, these incentives are part of a package deal that a company recruited to the state would receive. For example, if the project is funded by an industrial revenue bond, the company can also receive an abatement on its local property tax and an extremely low rate on its state property tax, 1.5 cents per \$100 of leasehold value.

Part 2: Where Are the People? The Closed Door of Citizen Involvement in Economic Development Decisions

Little Access to Information



Citizen participation in economic development in Kentucky is also limited through little opportunity for citizen input on deals and very little access to economic development information.

Negotiations between companies and state officials are kept secret from the public. Citizens only find out about the deals after they've been decided. Even then, the only information the public can acquire is the maximum amount of tax credits awarded, the total number of jobs to be created, and the average projected wage of those jobs. Even this wage information is misleading: the average wage of the new jobs can include managerial positions and does not reveal what most workers will earn or what the lowest-paid worker will earn (See box, "Public Money for Poverty Jobs," page 12).

The information that is often emphasized by public officials is the number of jobs created. The assumption made is that the public is simply interested in more jobs without a consideration of other factors. By only announcing the number of

Even the Attorney General Can't See

In August 1998, a Kentucky Court ruled that even the state Attorney General does not have the right to see the application that companies file to receive state subsidies. The case began in June 1997 when the Cabinet for Economic Development sued the Attorney General's office. The lawsuit came after lawyers with the Attorney General sought to review the documents of two companies, Nine West and Alliance Research, to determine whether they were living up to the agreements they signed to get tax incentives from the state. Both companies had shut down parts of their Kentucky operations and laid off workers. The Cabinet for Economic Development claims that it would face legal liability from the companies if it were forced to share the documents, even though the Attorney General's office has offered not to make the documents public. Currently, the case is on appeal.

jobs, the possibilities that the jobs are low-paying, that the company will pollute, or that it otherwise will be a bad neighbor are hidden. The emphasis on only the number of jobs created is especially a problem in places in the state like Lexington, where the low unemployment rate (along with a low national minimum wage) makes many jobs unattractive unless they are genuinely quality jobs that pay good wages.

Companies are required to fill out applications when they apply for incentives, but no part of this application is available to the

public. Even the Attorney General is not allowed to see the applications for tax incentives (see box on previous page). In addition, even if these applications were available for review, much information about the projects would still be unknown because many important questions are not asked in the application (see boxes on this page).

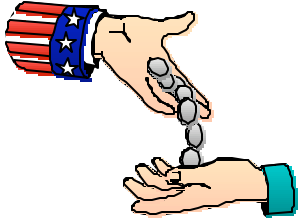
This lack of information about subsidy deals is reflected in the way these decisions are made: the deals are developed with companies outside the public eye, and proposals are discussed in closed session with only the final vote of the awarding authority made in public. Citizens have little opportunity for input into these decisions. Two of the programs, KREDA and

KIDA, require no public hearings. There's also no accounting of the costs of these projects to local governments or school boards.

Several states, including Minnesota and Maine, have passed laws to require that more information be given to the public about subsidy deals and more opportunities be granted for public input. In Kentucky, however, many officials still feel that these decisions are best made out of the public eye.

<p>What the State of Kentucky Doesn't Ask</p> <p>The following questions are not on Kentucky's tax incentive applications.</p> <ul style="list-style-type: none"> & Will the company use toxic chemicals in its processes? If so, which ones? What amount of chemicals will the company release into the air and water? & Total cost to local community in terms of infrastructure, tax abatements, and site preparation. & Company's record of workplace safety. & Company's record of labor law compliance. & Company's environmental record. & Whether company will provide health benefits, and what share it will pay. & Company's record of fair employment (i.e. racial discrimination).
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Kentucky Tax Giveaway Applications: What Can We Know?	
Some Questions Companies are Asked	Public Gets to Know Answer?
Company ownership, including parent company if it's subsidiary	No
If Company is relocating	No
Number of full-time and part-time jobs currently at location and projected within two years.	No
Number of jobs that are skilled, semi-skilled, unskilled, managerial, and technical, and the average hourly or salary wage for each	No



Public Money for Poverty Jobs⁶

As this table shows, the Cabinet for Economic Development has given tax incentives to companies whose average wage is below the Federal Poverty Level for a family of four, which in 1999 is \$16,700 a year or \$8.03 an hour. Listed below are the average wages, number of jobs, and preliminary amount of tax credits of companies that were approved between August 1997 and August 1999. This table provides only a glimpse of the number of poverty jobs the Cabinet is helping create: we cannot be sure of the exact number because the Cabinet only reveals the average wage of the jobs created, and not detailed information about what each level of workers gets paid or what the lowest-paid workers will make.

Company	Average Wage	Number of jobs	Preliminary Amount of Tax Breaks
Sports Products, Inc.	\$5.75/hour	15	\$204,619
Image Entry (Laurel County)	\$11,964/year	236	\$1,629,185
Carter Industries	\$6.00/hour	20	\$250,000
Image Entry (Letcher County)	\$12,573/year	200	\$764,895
Trees N Trends	\$6.16/hour	90	\$1,500,000
LeSportsac (Stearns)	\$6.29/hour	149	\$1,572,950
National Data Questing	\$13,068/year	50	\$271,451
The Kentucky Backwoods/ Riverview Foods	\$6.40/hour	15	\$600,000
C & S Vaults	\$6.60/hour	15	\$1,132,200
Truesdell Company of Kentucky	\$6.65/hour	17	\$1,100,000
Lytton	\$7.00/hour	55	\$2,245,000
Robinson Export	\$7.00/hour	15	\$475,000

Company	Average Wage	Number of Jobs	Preliminary Amount of Tax Breaks
Aegis Communications	\$14,273/year	600	\$2,926,705
DanRac Industries	\$7.08/hour	15	\$337,500
Scott Manufacturing	\$7.13/hour	15	\$200,000
Interactive Teleservices	\$14,857/year	220	\$2,320,250
Par 4 Plastics	\$7.23/hour	33	\$800,000
Outdoor Venture Corporation	\$7.25/hour	30	\$770,000
Country Gardens Fresh Cut	\$7.26/hour	42	\$715,874
Northern Contours	\$7.30/hour	35	\$1,500,000
Cumberland Gap Provision	\$7.31/hour	95	\$6,300,000
A & R Pallet	\$7.33/hour	30	\$502,000
Lester Telemarketing	\$15,309/year	30	\$573,309
NSU Corporation	\$7.46/hour	75	\$750,000
Trelleborg YSH	\$7.50/hour	30	\$1,300,000
Langley Products	\$7.53/hour	20	\$500,000
Premier Packaging	\$7.54/hour	20	\$600,000
ValueVision International	\$16,000/year for full-time	150 full-time and 300 part-time	\$925,000
Blinds and Designs	\$7.70/hour	240	\$1,200,000
Renaissance Bankcard Services	\$16,084/year	493	\$4,212,500
Campbellsville Apparel	\$7.76/hour	50	\$1,160,000

Part 3: Who's Keeping Track?: The Costs of Kentucky's Tax Giveaways

Kentucky's secretive system of awarding tax incentives makes a full assessment difficult. What information is available reveals a system that is full of costs: costs to local communities and costs to the state. It is these costs that have raised concerns for many observers.

The Rising Cost of Tax Credits

Spending for tax incentives has been steadily increasing. Between 1992 and 1999, almost \$3 billion in future taxes have been promised away through these programs (see box, this page).⁷ As the number of giveaways granted has added up, there has been a sharp increase each year in the amount of tax credits actually claimed by the companies.

These incentives are a tax expenditure, making them less visible, unlike an appropriated grant, which is part of a budget that is debated and approved. A tax expenditure has the same result as an appropriation in that the money is being "spent." However, it's different in that there is no public or legislative process to decide how the money is allocated, and, unlike appropriations, legislators do not know how much will be given away. It slips through the cracks as tax revenue that is never collected.

Kentucky's programs to provide tax incentives for businesses promise tax credits for many years in advance: 10 years for KIDA, KJDA, and KIRA, and 15 years for KREDA. Thus, the state is setting itself up to lose tax

revenue for many years in the future, with or without an accurate assessment of how this will impact the budget. This way of doing economic development is like a train that won't stop until 15 years after the engineer hits the brakes.

In 1990, the amount of tax credits used (job assessment fees plus corporate income tax

**Total Amount of Tax Credits
Awarded through Incentive Programs
(January 1992 through September
1999):**

\$2,945,757,032.96

credits) was only \$47,428. In the next year, it began escalating rapidly, reaching over \$1 million only two years later. Two years after that, it was at \$6.7 million, and two years later, \$16 million. Between 1996 and 1997 alone, the expenditure rose 47% to \$23,940,330 (see graph, next page⁸). While this is still only a small percentage of the whole state budget, by comparison, it is still larger than the budget of the entire Cabinet for Economic Development, which for the current year is \$17,882,000.⁹

According to projections by the Finance and Administration Cabinet, the total job assessment fees plus corporate income tax credits for fiscal year 2002 will be \$48 million.¹⁰

Size of Deals Getting Bigger

While the total amount of tax credits being used is increasing, the size of some individual deals is also getting larger. Kentucky is now routinely awarding incentives worth over \$100,000 per job created (see box, page 16). The stakes are getting higher all the time as states

bid against each other for business, and there's no end in sight.

Back in 1994, national expert on economic development subsidies Greg LeRoy wrote,

Despite recurring predictions that the states have finally grown tired of their ruinous "economic development civil war," the size of incentive packages continues to skyrocket. Whereas a package worth \$50,000 per job provoked debate in the mid-1980s, by the early 1990s, there were several deals worth \$100,000 to \$150,000 per job and one worth \$350,000!¹¹

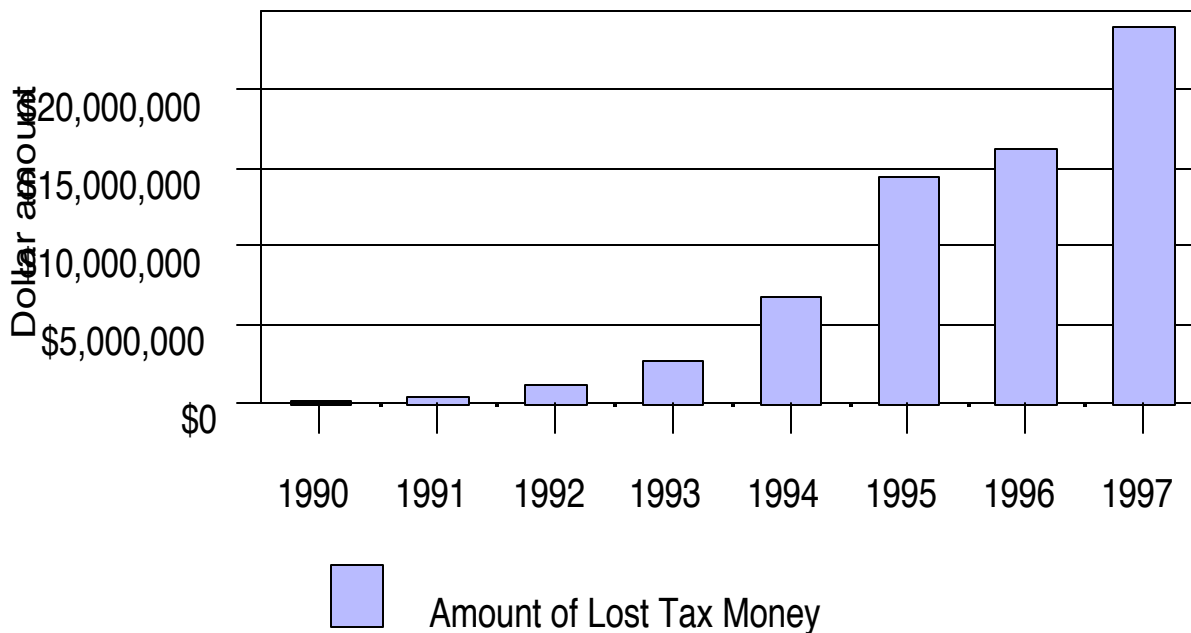
LeRoy was citing Kentucky in this passage because the state was then recognized as one of the leaders in the rising price of incentive

packages for its deal with the Canadian Steelmakers Dofasco, Inc. and Co-Steel, Inc. Kentucky gave the company \$140 million in aid for a 400-employee mill, or \$350,000 per job.

Five years later, one Kentucky deal makes that one look small. The Cabinet awarded \$100 million to Willamette Industries to expand its pulp and paper mill in Hawesville for the promise of creating 82 jobs (see discussion, page 26) . That makes the deal worth \$1,219,512 per job. LeRoy's article in the May 1999 issue of *The Progressive* listed this deal as number one in his "Terrible Ten" corporate candy store deals in the country. Kentucky got the title of "Economic Development's Black Hole."¹²

Kentucky State Tax Credits Claimed

Corporate Income Tax Credits + Job Assessments



Source: Cabinet for Economic Development

Recent High-Priced Deals

Following are ten recent examples of deals Kentucky has made that are worth over \$100,000 per job created. This list is drawn only from the period September 1997 through August 1999.¹³



Company	Number of Jobs	Tax Credits	Price Per Job
Merchants Cold Storage	25	\$14,260,745	\$570,430
Dana Corporation	31	\$11,000,000	\$354,839
Fidelity Investments	43	\$13,040,265	\$303,262
Gibson Greetings	25	\$5,338,340	\$213,534
Process Machinery	20	\$3,300,000	\$165,000
Kentucky Manufacturing	16	\$2,630,000	\$164,375
Southwire Company	32	\$5,000,000	\$156,250
Montebello Packaging	35	\$5,200,000	\$148,571
McKechnie Vehicle	50	\$6,946,000	\$138,920
Vico Louisville	25	\$3,357,750	\$134,310

More for the Wealthy

Why are corporations receiving more and more tax breaks, and what does this mean for the rest of the U. S.? The increase in tax giveaways for corporations is part of a broader trend in this country in which the gap between the rich and the poor is getting bigger. According to the AFL-CIO, between 1980 and 1998, the average pay of regular working people increased just 68%, while CEO pay grew 1,596%. *Business Week* says that the average CEO of a major corporation made \$10.6 million in 1998, 419 times more than an average blue-collar worker.¹⁴

This rising inequality is fueled by a trend in taxation in which those who are most able to pay are paying less in taxes, while those least able to pay are paying more, proportionate to their income. Kentucky is a good example. In 1979, Kentucky ranked 17th among the states in corporate income tax as a share of the Gross State Product (a common measure to compare the level of corporate income tax between states). By 1997, the state was ranked 33rd. The corporate income tax has fallen by over a third as a share of the Gross State Product.¹⁵ In 1999, corporate income taxes paid in Kentucky declined by 9.6% from the previous year, or \$33 million.¹⁶

Officials argue incentives create a positive business climate. But, as Michael Ettlinger of the Institute on Taxation and Economic Policy reports,

the bottom line is that business incentives rarely are as good as they look. There are enormous hidden costs that will often outweigh benefits of the private investment that such deals may attract. Studies on these issues support this conclusion. In fact, they are nearly unanimous in concluding that low state

and local taxes fail to attract business, create jobs or enhance economic performance. Factors other than taxes are generally found to be much more important. Even the small minority of studies that have found an impact have found that it takes a very large difference in tax burden from other states to improve economic growth, and even with a significantly lower tax burden, the increase in growth is insubstantial.¹⁷

Distressed Rural Areas Not Benefitting

Another significant point about the use of tax incentives for recruitment is that it just isn't working for the state's many distressed rural areas. Companies are not flocking to Kentucky's most distressed counties, in spite of efforts to lure companies with incentives. Proximity to airports, highways, suppliers, customers, labor, and universities is considered more important than incentives in location decisions. *Area Development* magazine surveyed companies for site selection factors, and state and local incentives ranked number seven, behind highway accessibility, availability of skilled labor, occupancy or construction costs, labor costs, availability of telecommunications, and availability of land.¹⁸ A *Lexington Herald-Leader* analysis suggests that the most distressed rural areas are not well served by this strategy. For example, in the eight-county Kentucky River Area Development District of Wolfe, Lee, Owsley, Breathitt, Perry, Leslie, Knott, and Letcher counties, only \$53,432 of the corporate tax credits have been used, or 0.18% of the state total. Only 6% of the corporate tax credits have been used in the 26 eastern-most counties of the state.¹⁹

Part 4: What Projects are Being Funded? Case Studies of the Destructive Use of Subsidies

Besides the cost of economic development, many Kentuckians are also concerned about the quality. Subsidized projects in Kentucky have created poverty jobs, introduced dangerous working conditions, funded the elimination of jobs, and subsidized the destruction of the environment.

This section presents case studies of some of the ways in which the Cabinet for Economic Development has used tax incentives to create projects that have negatively impacted the communities where they are located.



The Cabinet for Economic Development has used incentives heavily to fund the growth of corporate agriculture in Kentucky. Since 1993, the state has given away more than \$171 million in tax credits and grants to four corporate chicken giants alone: Cagle's, Tyson (and predecessor Hudson), Perdue, and Seaboard. These costly investments have resulted in low-wage jobs with dangerous working conditions. The enormous capacity of these processing plants

has led to the construction of contract "farms" that exploit small farmers while subjecting neighbors to pollution and public health risks.

"I'd rather see 100 small farmers raising livestock than one big corporation," said Jessie Steenbergen of Community Farm Alliance. "It gives work to more people, the money stays in the county, and the local people take better care of the county."

Wages and working conditions

The chicken-processing industry is the 24th most hazardous in the country, with a rate of illness and injury that is 16.6 per 100 full-time employees—more than two times that of coal mining. The Labor Department also reports that the poultry-processing industry was the third-worst in the U. S. for repetitive-motion injuries such as carpal-tunnel syndrome.²⁰ Kentucky's greatly-weakened worker's compensation laws make it that much harder for injured workers to receive adequate compensation.

Chicken processing is also notoriously low-paying. Seaboard, for example, starts at \$7.10 an hour in Graves County, where the average wage is \$451.26 a week, or about \$11.28 an hour for a 40-hour week.²¹ Tyson starts at only \$7 an hour, an improvement of almost a dollar more than in 1997, when the plant was organized by the United Food and Commercial Workers.²²

High injuries and low pay make for a very high turnover rate. According to a *Lexington Herald-Leader* story, an average of 10% of employees quit each month at the Perdue plant. The Cagle's plant had a 9% turnover in June and an even higher turnover earlier in the year, and the estimated annual turnover is more than 50%.²³

Exploitation of migrants

Because of the poor wages and dangerous working conditions at these chicken processing plants, the plants cannot find enough local people to fill the jobs. Thus, the plants hire migrant workers to complete the workforce. These workers, due to language barriers and discrimination, often have even less chance to assert their rights. Cagle's plant officials say that 9% of its workers are Hispanic, while union officials say the number is closer to 12%. Hispanics comprise 20% of the Seaboard workforce, 12% of the Tyson workforce, and 5% of the Perdue workforce.²⁴

Destroying the Family Farm

Corporate agriculture is also destructive to traditional family farms. Corporations are able to raise livestock at a much higher volume and can sell it cheaper, thereby glutting the market and pricing small farmers out. Each year, many small farms go out of business. According to a Sierra Club report, the number of hog farms in the country has decreased from 600,000 to 157,000 nationwide—at the same time that the number of hogs produced has stayed the same.²⁵ Half of the market in poultry processing is controlled by the five biggest companies.²⁶

“Contract growers” are farmers who contract with corporations to raise animals for the processing plants. The deals that growers make with corporations often put the risk on the grower. In general, the company owns the birds and dictates the process, but the grower loses out if something happens to the animals. The growers generally get no salary or benefits—only a guaranteed price per pound for their birds. According to the *Baltimore Sun*, a new farmer raising chickens as a contract grower can look for an annual net income of \$8,160 until he or she

has paid off the 15-year loan it took to get started. The average investment needed to get started is higher than ever at \$257,000.²⁷

Environmental Problems

These “contract farms” or animal factories are also bad for the environment. They are often referred to as “Confined Animal Feeding Operations” (CAFOs) because of the high number of animals kept in a small area. The high concentration of animals has created a public health hazard that has been a problem in a number of states.

CAFOs generate approximately 2.7 trillion pounds of manure per year.²⁸ The EPA notes that waste from hogs, chickens, and cattle has polluted about 35,000 miles of rivers in 22 states and has also contaminated groundwater in 17 states.²⁹ The ways in which the industry often disposes of the waste—spraying the manure onto crops or storing it in lagoons—threaten the environment and public health.

Living near CAFOs can cause respiratory problems, nausea, skin infections, and depression. Studies indicate that in the Chesapeake Bay area and North Carolina, livestock manure has contributed to outbreaks of *pfisteria*, a toxic microbe that has caused sickness in people and has killed millions of fish.³⁰



Case Study: Seaboard

When *Time* magazine did a series on corporate welfare, it chose to include a profile of Seaboard Corporation, which it labeled “The Empire of the Pigs.” Seaboard earned this title because it has proven itself to be especially good at getting corporate welfare from governments.³¹

The article explains how the company has extracted \$25 million from the Overseas Private Investment Corporation, \$3 million from the state of Minnesota, \$10 million from Kansas, and \$100 million from Oklahoma.

In Kentucky, Seaboard opened a chicken processing plant in Graves County. For \$7.10/hour jobs, the company received a \$14.5 million bond from Graves County and \$5,711,012 in tax incentives from the state. In January 1999, the company received preliminary approval for another \$16 million in additional tax incentives for an expansion of the plant (see box on this page).

The state did this in spite of the fact that Seaboard has a record of accepting incentives and then moving on (with its jobs) when circumstances change. *Time* started Seaboard's story in Albert Lea, Minnesota. When a pork plant that was a major local employer was threatening to shut down, the town was in turmoil. That's when Seaboard stepped in, saying it would bring its processing plant to Albert Lea--for a price.

The city and state put up big bucks to bring the company to Albert Lea, investing in a wastewater-treatment plant, new roads and water lines up to the plant, a new parking lot, and funds toward a hog-slaughtering building.

The plant opened, but the community quickly discovered that it wasn't quite what they expected. The company couldn't find enough local workers for the low-wage jobs, and began to recruit Latino workers from elsewhere. As time went on, Seaboard didn't make necessary upgrades to its sewage-pretreatment facility. Instead of choosing to pay for the improvements, Seaboard began looking for a new place to move.

In a panic, the city and state offered Seaboard an additional \$12.5 million if it would stay in Albert Lea. But it was too little, too late.

Seaboard's Incentive Package

- & \$14.5 million Graves County Industrial Revenue Bond
- & \$5,711,012 in corporate income tax credits and job assessment fees (through KIDA)
- & \$16 million in additional corporate income tax credits and job assessment fees (through KREDA)

Seaboard accepted an offer of \$21 million to move to Guymon, Oklahoma. The plant in Albert Lea was shut down.

It wasn't just the extra incentives that lured Seaboard away--the plant in Minnesota was unionized, while the one in Oklahoma was not. Albert Lea was left in the cold. The town now had to come up with money to retrain workers, its sewage facility is larger and more expensive than it needs, and the hog-slaughtering building now stands empty.

In Oklahoma, Seaboard again offered too low of a wage to find enough workers locally. The company hired workers from Laos, Vietnam, Mexico, Guatemala, Honduras, and other Central and South American countries.

The story of Seaboard in Minnesota and Oklahoma illustrates Seaboard's track record of being able to extract millions of dollars from governments at the same time that it shows little loyalty to its new community. While the company has drawn national attention for its treatment of communities like Albert Lea, it has remained incredibly profitable. From 1990 to 1997, while receiving at least \$150 million from various governments in incentives, Seaboard's stock increased from \$116 to \$387 per share. Seaboard's CEO, Harry Bresky, earned close to

\$1 million in salary and bonus in 1997, and financial statements included with a legal case back in 1991 show his net worth to be \$84 million—back when Seaboard stock was worth less than half what it is now.³²



Case Study: Tyson

Community Farm Alliance's investigation into Tyson Foods has shown that Kentucky and the local governments of three counties have put up millions of dollars—through grants, bonds, and tax abatements—to create jobs at these facilities. The low wages and dangerous working conditions at the plants, along with the environmental and economic impact, have prompted many to question the wisdom of this investment.³³

Hudson Foods first came to the state in 1993, five years before it was bought out by Tyson. It pledged to build facilities in Henderson, Webster, and McLean counties that would employ about 1,300 full-time workers. To do so, the company went to the state and got a \$94 million revenue bond to cover the cost of starting up (\$72 million for Henderson, \$14 million for Webster and \$8 million for McLean). Next, the company received up to that amount in tax incentives, \$94 million, through the KREDA program. To top it off, the company received over \$10,000 in job training grants from the Cabinet for Economic Development.³⁴

But there's more. Webster County bought 140 acres for Hudson for \$525,000 using coal severance tax funds. Then, they leased 115 acres (or 82% of the land) to Tyson/Hudson for \$86,250 (or 16 % of the total purchase price). Tyson also has the option to buy the property at anytime for the

Hudson/Tyson's Incentive Package

- & \$94 million industrial revenue bond
- & Up to \$94 million in corporate income tax credits and job assessment fees through KREDA program
- & \$10,370 in a job training grant from the Bluegrass State Skills Corporation
- & Apparent discount of up to \$344,250 on land in Webster County
- & Local property tax abatements in Webster, McLean and Henderson counties

lease price plus \$1. This makes for an apparent savings of \$344,250, the difference between the price the county paid for the property and the amount paid by Tyson for the lease of the property.³⁵

Through 1999, Tyson hasn't paid any local property taxes in any of the three counties. The company was granted a ten-year property tax abatement by Webster County in 1994: the first five years at a 100% abatement and the next five at 50%. Because of the structure of the deal in Henderson County, Tyson does not pay local property taxes there, either. In McLean County, the company got a five-year local property tax abatement.³⁶

Thus, Tyson has gotten out of paying most all of its taxes, while the citizens of the Commonwealth have gotten another chicken plant. Numerous Kentucky citizens have pointed out problems with Tyson in Kentucky. In Hickman County, local citizens complained that the company allowed a contract grower to

build two poultry houses, each with about 10,000 hens, about 160 feet from a historic multi-racial cemetery. Other residents, like Leesa Webster of Sebree, Kentucky, who lives near 16 chicken houses, and Norma Cain of Onton, Kentucky, who lives near 24 houses, have suffered from headaches, nausea, and other health problems which they believe are a result of the poultry operations.

In July 1999, two Kentucky workers suffocated and died when they fell into a pit of chicken parts. The processing plant had not been inspected by state safety officials since Tyson bought the plant in January 1998.³⁷



Case Study: Cagle's

When Clinton County was declared part of a federal Empowerment Zone five years ago, the community had high hopes for the changes they were soon to see. Instead, the recruitment of Cagle's chicken processing plant into the area has been controversial. The Community Farm Alliance and other organizations have researched and called attention to a number of environmental, economic, and labor concerns.

Like other chicken processing plants, Cagle's has a questionable record in terms of worker safety, wages, and the environment. The Cagle's plant in Georgia was fined over \$1.2 million for "willful" and "serious" violations of worker safety after three employees lost parts of their fingers. They were cleaning equipment that had not been properly secured.³⁸ The same plant was fined \$175,000 just a year earlier when one employee lost a finger and another lost a foot, also while cleaning equipment.³⁹

Cagle's wages are low. When it first

Cagle's Incentive Package

- & \$7.1 million for water plant
- & \$30 million in corporate income tax credits and job assessment fees (through KREDA)
- & Millions in federal income tax credits
- & \$1 million to train workers

opened in Kentucky, the starting salary was \$6.75/hour. The *Lexington Herald-Leader* reports that only two months after union organizers started a drive at the plant, Cagle's raised its starting pay to \$7.25/hour—still almost 10% below the federal poverty level for a family of four.⁴⁰

In addition to wage and worker safety problems, Cagle's has been criticized for its environmental impact—specifically the threat it poses to Lake Cumberland. The Cagle's plant disposes of 1.4 million gallons of wastewater every day. The water is treated in holding tanks and then sprayed onto fields.⁴¹

In spite of these reasons for concern about Cagle's, money for the facility has poured in from both state and federal pots. Cagle's received \$7.1 million for a water plant; \$1 million to train workers; \$30 million in state tax incentives; and several million dollars worth of federal income tax credits.

Many of the city and county officials who approved the deal for Cagle's are now personally benefitting from it. A number of local officials and the Judge-Executive's spouse now work at the plant or for a company that contracts with Cagle's.

The mayor of Albany and a member of

the city council are both managers. A Clinton County magistrate is employed by the husband of the county Judge-Executive, who owns a company that contracts with Cagle's to clean smocks and other equipment at the plant. The Judge-Executive and her husband sit on the local Empowerment Zone Board that brought Cagle's to Clinton County. The board helped get federal funds to build a water plant which aided in attracting the company; the board also approved the \$1 million for worker training.⁴²

Cagle's had profits of \$21.5 million on sales of \$352 million for the 12 months ending in April 1999, according to a report the company filed with the Securities and Exchange Commission.

Cagle's chairman and chief executive, J. Douglas Cagle, who with his two sons owns a controlling interest in the company, took a pay package of a half-million dollars over that period.⁴³



The Forest Industry and Economic Development

Kentucky's forests have long been recognized as a potential source of new jobs. Now that much of the forests have regrown after being decimated at the turn of the century, they are being cut at historic peak levels. In 1995, 883,000 board feet were cut.⁴⁴ Destructive and careless logging practices across the state threaten water quality and endanger the health of the forest.

This tremendous increase in logging has not been paralleled by a tremendous increase in the number of jobs in the wood products industry. As many have recognized, Kentucky logs and minimally-processed lumber are often shipped to other places, where others reap the jobs and profits from converting lumber to furniture and other value-added secondary wood products. Kentucky is not maximizing the number of jobs and economic impact that could occur from the logging that is being done. While Kentucky is the 4th leading state in the production of hardwoods in the country, it has only 1% of the jobs in the secondary wood industry (such as furniture factories) in the U. S.⁴⁵

Kentucky's Cabinet for Economic Development has recruited companies which use a tremendous amount of the resource but don't add much value to the wood. Paper mills and primary wood products plants such as Willamette and Trus Joist MacMillan, which are profiled in this section, have an enormous appetite for trees, but do not provide the economic benefits to the community of a value-added secondary wood

Public Money for Forest Giants

These multinational forest and paper products corporations have all received tax incentives from the state of Kentucky to locate or expand in the state:

<u>Company</u>	<u>Rank in U.S.</u> (In Revenue for Industry)
International Paper	#1
Kimberly-Clark (Scott Paper)	#3
Weyerhaeuser	#4
Fort James	#5
Willamette	#12
Sonoco Products	#14

products industry like furniture-making. The Cabinet has invested heavily to recruit transnational wood products and paper companies to the state, including the first, third, fourth, fifth, twelfth, and fourteenth largest in terms of revenue in the U. S. (See box on this page).⁴⁶ The forests have many potential economic benefits to communities, but they must be used in a way that will protect them for future generations. For example, as many are finding, non-timber forest products such as herbs have a potential to provide income for people, but must have shade of mature trees to thrive. Kentuckians For The Commonwealth has aided a group of people in Leslie County who started Mountain Tradition, an herb cooperative that provides supplemental income to twenty-five families.

“We see the co-op as a way to provide income to people in the region in a way that won’t harm the forests,” says Suzanne Dansereau, a member of the co-op. “All of us want to help ourselves, but it is more than that. Lots of people want to stay in the area, and this

is just one way to provide income that is not mining or forestry, which won’t last forever the way they are done now and are degrading our environment.”

Kentucky’s forests are at an important juncture. The South has again become the largest wood-producing region in the world, as companies are leaving the Northwest after having used up or been barred from the forests there. Hardwood cutting is expected to rise 59% from 1986 to 2010.⁴⁷ While there were only about 35 chip mills in the entire United States in 1985, there are now about 150, most of which are in the South.⁴⁸

Kentucky took two good steps forward in 1994. The Forest Products Council was created, which requires that an analysis be done of the forest resource before incentives are granted to a company. While the case of Willamette shows that the law has flaws, it is one good step towards not investing in companies that will destroy the forests for little economic gain. Secondly, the legislature created the Kentucky Wood Products Competitiveness Corporation, which provides assistance to small and medium-sized secondary wood products companies. These efforts attempt to maximize the value of what wood is cut from the forests while ensuring that the forests will provide a livelihood for Kentuckians for generations to come.

“We believe that Kentucky can have a forest products industry that is environmentally and economically sustainable,” said Jane Harrod, a member of Kentuckians For the Commonwealth. “We believe that Kentucky has to commit itself to the development of the forestry industry by committing to helping emerging companies with training and support in how to run a successful wood products business. We don’t need to have our Economic Development Cabinet recruiting large companies to our state.”



Case Study: Trus Joist MacMillan

One of the biggest economic development investments the state has made in Eastern Kentucky in recent years is its financial support of the Trus Joist MacMillan (TJM) project. It was hailed as a boon for Perry County and a model for the success of Kentucky's incentive programs. But many Kentuckians are now asking whether the economic, environmental, and social costs of the facility are worth the few jobs that were created.

TJM was formed through a partnership of two multinational corporations—Trus Joist International and MacMillan Bloedel. TJM owns sixteen plants in eight states and two Canadian provinces.⁴⁹ MacMillan Bloedel was recently purchased by Weyerhaeuser, which is the fifth largest forest and paper products company in the world with over \$10 billion in revenues in 1998.⁵⁰ For MacMillan Bloedel, Kentucky has become like a second home: the company received another \$100 million in tax incentives for a plant in Henderson County.

TJM, which is located in Hazard, uses young trees in computer-driven, robotic-intensive processes. Laminated lumber is produced by cutting whole logs into 12-inch long strands which are then treated with a polyurethane resin. The strands are put into a steam injection press that densifies the wood and creates boards that are cut into finished sizes to be used for such products as window and door framing and flooring.⁵¹

Trus Joist MacMillan was a hefty investment for the state of Kentucky. The company received a \$103 million bond from Perry County and then received \$103 million in

tax credits from the state to pay for the investment. In addition, several grants were awarded to benefit the company: a \$1 million Local Government Economic Development Fund grant, a \$1 million Economic Development Bond grant, and a \$1 million Community Development Block Grant (see box, this page).

The facility is built on a site that was flattened using mountaintop-removal mining. To prepare the site, the state had to invest \$1 million to dig 20 feet down in order to find a place that was solid enough to build the facility.⁵² Also, according to TJM's application for federal assistance, the strip-mined land was purchased for \$10,000 an acre.⁵³

There are also concerns about Trus Joist MacMillan's record of worker safety. Between 1993 and 1997, Trus Joist MacMillan had 46 OSHA violations at six plants. In 1997, a worker was killed at the Valdosta, Georgia, plant when caught in a moving piece of machinery.

Trus Joist MacMillan's Incentive Package

- & \$103 million Perry County Industrial Revenue Bond
- & Up to \$103 million in corporate income tax credits and job assessment fees (KREDA)
- & \$1 million Local Government Economic Development Fund grant
- & \$1 million economic development bond grant
- & \$1 million Community Development Block Grant



Case Study: Willamette

After years of cutting forests in the Northwest, Willamette has shut down a number of facilities there and has shifted its focus to the South. When the company decided to expand its pulp and paper mill in Hawesville, Kentucky, it came to the Cabinet for Economic Development looking for help.

But Willamette’s resource-intensive use of trees meant one hurdle had to be overcome. In 1994, the Kentucky legislature created the Forest Products Council, a body that is required to do a forest resource assessment of the amount of trees that a company would use and determine whether the forest could sustain the increased extraction, and then make a recommendation to the Cabinet for Economic Development about whether to grant the subsidies.

In 1994, the Kentucky Forest Products Council rejected J. M. Huber’s request for incentives to locate a mill in Somerset because the impact on the forest would be too much. Willamette got around the requirement for a forest assessment. It said that the chips that it

would use in its expanded mill would not be coming from Kentucky. Instead, Willamette opened two chip mills—one in Mill Springs, Missouri, and one in Union Mills, North Carolina—from which it would gather the bulk of its trees.⁵⁴

The folks at Economic Development said Willamette didn’t need the forest impact assessment. This means that the state never evaluated whether Willamette’s two new out-of-state chip mills would result in increased pressure on the resource in the region including Kentucky. If the plant creates more pressure to log surrounding forests, the increased scarcity of wood in surrounding areas could lead to more logging in Kentucky. At least, an analysis of whether that is the case would be in keeping with the spirit if not the letter of Kentucky’s 1994 law.

So the deal was signed. Willamette got a \$600 million bond and received \$100 million in tax credits through the KREDA program. \$100 million, for an expansion that would create only 82 jobs. That makes the deal worth over \$1.2 million for every job created. In addition, the actual agreement between Willamette and the state requires the company to create only 15 jobs (the minimum amount to get KREDA credits). Thus, Willamette could create only this number and not lose the credits.⁵⁵

For Kentucky, the expense in terms of tax dollars lost is high. For Missouri and North Carolina, costs can be measured by impacts on local economies and the environment.

Chip mills consume an enormous amount of wood. Each of these mills can produce 300,000 tons of chips a year, or nearly 55 truckloads of wood each day.⁵⁶ They do this with a bare-bones workforce. In Missouri, only eight workers are needed to run the mill; in North Carolina, six.⁵⁷

The announcement of the new chip mill in

Willamette’s Incentives

- & \$600 million industrial revenue bond from Hancock County
- & \$100 million in corporate income tax credits and job assessment fees (through KREDA program)
- & Other Willamette plants in the state: Boone County: \$1.6 million through KIDA; Daviess County: \$1.2 million through KREDA

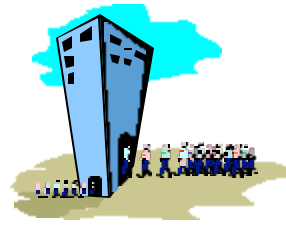
North Carolina caused serious alarm and spurred citizen organizing. The Concerned Citizens of Rutherford County was formed, and Dogwood Alliance and other groups did research, held protests, lobbied, and otherwise called attention to the environmental and economic threat of the mills. The U. S. Fish and Wildlife Service recommended that Willamette's permit for the chip mill be denied because of the threat the greatly increased logging would pose to wildlife and biodiversity. The public pressured Governor Jim Hunt into commissioning a study of the environmental and economic impact of chip mills in the state.⁵⁸

In Missouri, the opening of the mill was one of a series of events that led to an executive order by Governor Mel Carnahan. The order requires that chip mills seeking a state permit keep records on where they buy trees when they purchase them from independent loggers.⁵⁹

Last year, the concern about Willamette's chip mills led to public opposition to a change in Willamette's wastewater discharge permit in Hawesville. Approximately 25 concerned citizens showed up to a public hearing requesting that the change to the permit be rejected. They said that the water quality impact at the sites of the chip mills should also be considered along with the water at the plant in Hawesville. Others urged more scrutiny of the main plant's discharge into the Ohio River, expressing concerns about the presence of dioxin in discharges and the use of chlorine in the bleaching process.⁶⁰

Willamette's plant in Hawesville is mammoth. It occupies 2,000 acres and uses 18 million gallons of water a day. Its new paper press is the length of two football fields. It produces a sheet of paper 20 feet across and can produce as much as 50 miles of paper per hour, filling 100-ton rolls. The expansion is doubling the facility's size.

Plant Shut-Downs and Layoffs



In recent years, many parts of Kentucky have received serious blows to their economies due

to the loss of jobs through plant closings and relocations. Some of the biggest manufacturing facilities in the state have fully or partially shut down in the last five years. A list of Kentucky's twenty largest plants in 1994 is revealing. Of the factories, the largest, General Electric; the third largest, Fruit of the Loom-Campbellsville; the seventh largest, Fruit of the Loom-Jamestown; and the eighth largest, Philip Morris, have all either totally shut down or laid off many workers.⁶¹

In 1993, Fruit of the Loom had 9,820 workers in its Kentucky workforce. As of April 1998, that number had shriveled to 2,660.⁶² It had moved to the state of Kentucky, which advertised cheap labor, but relocated many of these jobs to places with even cheaper labor: South America, Central America, and Asia. To replace some of the jobs lost at Fruit of the Loom's Campbellsville facility, the state used incentives to bring in Amazon.com. The state lured one corporation in to replace a corporation that had been lured out.

Companies have been moving from the North and Midwest to the South over a period of years; now, many of them are leaving or leap-frogging the South to open plants in the Third World.

The case studies in this section show that the state is using tax incentives to try to keep

“When Fruit of the Loom came to Southern Kentucky, of course, it was a happy holiday. There were jobs, a future, a way to raise a family. But the day a plant like Fruit of the Loom comes to a small town also begins a countdown. Eventually, a factory lured to a place like Jamestown will find it cheaper to move on. The figures in one column will grow larger than the numbers in another, the countdown reaches zero and the plant is gone. All that’s left is a plastic sign and a season’s greetings.”

–Bill Bishop, *Lexington Herald-Leader*, 16 December 1998, p. A-17



Case Study: General Electric

Once, G. E.’s plant in Louisville was seen as a model of America’s strong economy. Appliance Park had a high of 22,250 workers in 1973. In 1998, there were 8,500 employees there, and layoffs were announced throughout the summer of 1999.⁶³

The layoffs have taken place over a period of many years, as G. E. has automated and found other ways to cut its labor costs, such as relocating portions of the plant to places where labor is cheaper. It is moving much of its range and dryer production to Georgia, where labor is cheaper, and to Mexico, where labor is much cheaper.⁶⁴

Nevertheless, G. E. has been able to snag some money from Kentucky on its way out—up to \$19 million in tax incentives through the KIRA program. The company has also received

companies in the state, giving them public money at the same time that they are laying off workers. While a number of states have a more comprehensive retention strategy that includes employee buyouts and assistance with restructuring, Kentucky relies primarily on the Kentucky Industrial Revitalization Act, which gives tax credits to companies to convince them to stay. These case studies show that it hasn’t meant more jobs, or even as many jobs as before the credits were given.

GE’s Incentives

- & \$19 million in corporate income tax credits and job assessment fees (through KIRA)
- & \$1 million from City of Louisville and Jefferson County
- & Received twelve Bluegrass State Skills Corporation Grants (worker training grants) for facilities in Allen, Jefferson, Simpson, Hopkins, and Fayette County totaling \$1,988,896.70

Nine West's Plant Layoffs

- < February 1997: Company lays off 406 workers in Flemingsburg and 300 more in Vanceburg.
- < February 1997: Company announces new facility in Hebron, 100 workers transferred from Cincinnati and 28 "new" Kentucky jobs created. Company gets almost \$1 million in tax incentives from state.
- < July 1999: Company announces layoffs of 56 workers at Hebron facility and 254 at Vanceburg.

twelve Bluegrass Skills (worker training) grants for five different facilities totaling almost \$2 million. To get the KIRA tax incentives, G. E. told the state that the plant had to be modernized or the company wouldn't meet its profit goals and would be "forced" to shut down.

G. E. has been named *Fortune Magazine's* "Most Admired Company" in the world for each of the last two years. Perhaps G. E. is most admired by them for its ability to be increasingly profitable by laying off workers at the same time that it gets subsidies from various governments. From 1986 to 1997, G. E.'s profits rose 228%; in the same period of time, it has cut more than 120,000 jobs around the world, reducing from 288,000 workers to 165,000.⁶⁵ Along the way, it picked up export subsidies, tax credits, loan guarantees, government-research contracts, and federally

provided insurance for overseas projects.⁶⁶

In September 1999, G.E.'s market value reached \$400 billion, making it only the second U. S. company to reach that level.⁶⁷



Case Study: Nine West

Shoe factories have been an important part of the economy of Lewis and the surrounding counties since the 1930s. In the last few years, residents have watched with anguish as, one-by-one, plants announce layoffs or shut down.

Nine West has long been one of the major employers in Fleming and Lewis Counties. When the company purchased U. S. Shoe's Easy Spirit line of shoes in 1995, it began a major restructuring which has resulted in lost jobs for workers in Eastern Kentucky. In February 1997, 406 workers in Flemingsburg lost their jobs when the company closed its facility there. In addition, the company scaled back its facility in Vanceburg for a loss of 300 jobs. It was moving more of this production overseas.⁶⁸

At the same time Nine West was closing plants in Lewis and Fleming counties, the state of Kentucky was granting the company tax incentives to create jobs elsewhere in the state. Nine West was opening a "Purchasing and Manufacturing Office" in Hebron, south of Cincinnati. The Hebron facility was to employ 128 people, but 100 jobs were transferred from Cincinnati, meaning only 28 "new" jobs were created.⁶⁹ The company was awarded \$941,825 in tax credits through the KJDA program at the same time it was laying off more than 700 Kentucky workers.

How could the Cabinet for Economic Development invest in the "creation" of new jobs

for a company that was at the same time laying off workers in another part of the state? KJDA, the law governing Nine West's tax incentive package, requires only that the company offer evidence that no significant number of jobs in the state will be lost as a result of the granting of incentives for the project. As long as the plant closing is not because of the other plant opening, the company may receive incentives for a new plant while closing down an old one.⁷⁰

Nine West, however, never even got to use its tax credits. Two years later, the company laid off 56 workers at the Hebron facility, along with closing down its shoe factory in Vanceburg for a loss of 254 jobs.⁷¹ It seems the company didn't need those jobs after all. The layoffs occurred shortly after the company announced that it was merging with Jones Apparel. Its new plan was to focus more on getting its shoes made through its "global sourcing network," by which it contracts with companies around the world. Fifty percent of its shoes are made in Brazil and 26% in China.⁷²

Only one day after the company announced the elimination of these 300 additional jobs, it announced record income and a 33% increase in earnings per share in its most recent quarter.⁷³



Case Study: DuPont

DuPont's facilities in Louisville have long been the subject of criticism by local activists and community groups for high pollution levels in the mostly African-American community of Rubbertown. Indeed, DuPont is the biggest toxic emitter in the state of Kentucky, having released 3,233,576 pounds of chemicals in 1997. That

same year, the facility was the 88th biggest toxic emitter in the United States.⁷⁴

DuPont's record in Kentucky includes toxic emissions, chemical spills, and even a deadly explosion. The Rubbertown plant opened in 1941 and had to be rebuilt after an explosion there in 1965 that killed twelve workers and injured at least thirty-seven.⁷⁵ In September 1995, the company was fined \$30,000 for a spill in which chemicals flowed into Jefferson County's sewage-treatment plant.⁷⁶ Just in the years 1991-93, the company reported sixty-one "hazardous material incidents" to Louisville's Metropolitan Sewer District.⁷⁷

Its Kentucky pollution problems expand beyond Louisville. In August of 1995, the company spilled 26,800 gallons of "fuming sulfuric acid" into the Ohio River at its plant in Greenup County. One thousand people had to be evacuated because of the spill.⁷⁸

DuPont's Incentives

- Up to \$20 million in corporate income tax credits and job assessment fees through the KIRA program.

To go along with these environmental problems, DuPont has had a number of labor problems. In 1993, a federal judge approved a \$14 million settlement in a racial discrimination suit against the plant.⁷⁹ In another instance, the company illegally raised health insurance premiums and co-payments for its unionized employees and was told to repay the money by the National Labor Relations Board.⁸⁰ In June of 1996, union workers at DuPont plants around the country held picketing and protests against DuPont's use of contract workers.⁸¹

In 1993, the company said it was looking to invest \$50 million over a three-year period at the plant for modernization. At that time, the company considered closing its Louisville facility and consolidating it with a more modernized facility in Louisiana, but laid off 200 workers instead.⁸²

At about that time, the company came to the state looking for assistance. Kentucky awarded \$20 million in tax breaks for a new joint venture between DuPont and Dow called DuPont Dow Elastomers. But this investment hasn't increased the number of DuPont workers in Louisville. A 1980 list of Kentucky's largest manufacturers showed DuPont with 1,350 employees in its Louisville plant. In 1994, DuPont had 700 workers at the plant. Now, there are 200 employees at the original facility and 400 at DuPont Dow Elastomers.⁸³

DuPont, like G.E., is a hugely successful company, yet the Commonwealth of Kentucky felt obliged to offer it financial support anyway. DuPont is ranked number 16 on the Fortune 500.⁸⁴ Its \$39 billion in revenues make it the largest chemical company in the world.⁸⁵

Part 5: What Else Is There? Shaping Economic Development By and For the People

This report points out many problems with Kentucky's primary strategy for economic development. Citizens have little opportunity to participate in government decisions to recruit industries. Costs of the program are increasing and not adequately monitored. And the incentives have been used for projects that harm the environment, take local control away from the economy, create low-wage jobs, and do little to stem the tide of job losses.

Given the excesses of Kentucky's system of tax incentives, many Kentuckians are asking, "What else is there?" The idea that communities need to recruit an industry in order to save their economy is pervasive. However, it is most definitely not the only way. Citizens and community groups have been mapping out better ways to do development for years. But they involve a complete change in attitude that creates a new working definition of what economic development is. This attitude should include a willingness to work together and to include citizen involvement in all levels of decision-making; a good understanding of what's going on now in order to plan wisely; an understanding that we must build on our strengths; a willingness to take on a long-term strategy rather than focus only on short-term benefits; and a willingness to build the foundations of community as preparation for building a good economy.

Community Economic Development

The Rocky Mountain Institute has outlined a good way to think about community economic development. The Institute does not entirely rule out industrial recruitment, but puts it as the last priority rather than the first. The first priority in their scheme is to plug the leaks—to keep money in the state and, even more importantly, in local communities by connecting consumers with local businesses and local businesses with each other. Kentucky's emphasis on industrial recruitment is a strategy full of leaks, because a company that locates a branch plant in the state is going to be headquartered somewhere else and profits are going to leave the state. Thus, there could be a thorough examination of the purchasing practices of state and local governments to get them to buy from and contract with local businesses. It could mean supporting more ways to get people to buy food that is produced locally through community-supported agriculture, farmers' markets, and other venues. Plugging the leaks requires thinking creatively about what can be produced locally that is currently imported. The second priority is to strengthen existing businesses. One way this can be done is through fostering the creation of networks of businesses in similar industries, with a special emphasis on industry sectors with a lot of growth potential. Through working together, businesses in similar industries can tackle common problems and learn from each other. Success has been shown with this approach in such places as Northern Italy, Denmark, and Oregon. The state of Kentucky began to better promote the secondary wood industry sector in 1994 with the creation of the Kentucky Wood Products Competitiveness Corporation (KWPC), which provides assistance to value-added wood products companies. KWPC also helps provide information to the companies on marketing, manufacturing technology, and training, and helps

these industries work together to solve common problems, develop new products, do joint marketing, and bid on larger contracts. This targeting of the secondary wood sector should replace the recruiting of wood product giants. Through increased emphasis on this type of assistance, home-grown Kentucky businesses can grow and prosper.

The third priority is to create new local businesses. By strengthening existing businesses, new businesses will sometimes spin off. New businesses can also be created from scratch, but only if technical assistance and help with acquiring capital, especially for low-income Kentuckians, are made more available and marketed more intensely to the public. Education and training should be easily available for folks who are interested in starting their own businesses. Microloan and revolving loan funds can get capital into the hands of those who cannot get it from traditional sources such as banks. Business incubators such as certified kitchens for farmers provide opportunities to nurture small businesses before they go out on their own.

Many local businesses have trouble getting this help. For example, Mountain Tradition, the herb co-op in Leslie County, has a plan to add value to their products through the purchase of a processor but has been unable to get help from the state. One promising practice is Southeast Community College's Pine Mountain Community Development Corporation, a small business revolving loan fund that provides capital and technical assistance to entrepreneurs. The Cabinet for Economic Development has also developed a number of promising programs, including the Business Information Clearinghouse, which provides a one-stop shop for small businesses, and the Small and Minority Business Division, which provides technical assistance. A much stronger commitment to these approaches

is needed.

Recruitment is the fourth and last priority. It is appropriate only when it complements other development efforts, provides living wages, does not harm the community in any way, and does not cost so much that it erodes the community's or state's ability to fund higher priorities.⁸⁶

Building the Foundation

Any successful attempt to do development requires a significant public investment in the things that build community and that build the capacity of citizens to participate in creating their own economy. Investments in education, health care, transportation, protection of the environment, arts, community centers, and other infrastructure help build this foundation. Kentucky has come a long way in improving education, but it undercuts its ability to build this foundation by giving away tax revenue. These investments should be funded through a progressive tax structure, rather than Kentucky's current regressive scheme--one in which corporations pay their fair share. This investment in education should include business education that helps people start their own businesses and training that is targeted to promising sectors, such as value-added wood products.

Democracy At All Levels

For economic development to be successful, democracy must exist at all levels. This means democratic control of state and local economic planning processes. It also means striving to include democracy in the creation of businesses.

Firms that are community-controlled and democratically-run have fairer pay scales, are less likely to leave the community, and are less likely to harm the community. There are many

different structures of democratic firms, including cooperatives, worker-owned firms, non-profit corporations that own firms, and for-profit corporations with a residential restriction on ownership. The problems with plant shut-downs in recent years can be halted only by purposely involving communities in creating their own businesses; only then can we be confident that they will be maintained for the long-term. The for-profit, publicly-traded corporations that the state attracts through tax incentives are only sticking around as long as they can maximize profits by staying.

Target Poverty and Inequality

A primary goal of all programs for development should be to eliminate poverty and reduce inequality. Thus, they should be designed and targeted to meet the needs of low-income people and to help them build a decent quality of life. In addition, programs should seek to aid people of color, who are disadvantaged due to a history of racial discrimination. How well new and existing programs are working to eliminate poverty and racial inequality should be important benchmarks for their success.

Conclusion: Steps To Take Now

There are some immediate steps that the state of Kentucky can take to steer onto the high road of development. The first is to attach standards to the way in which subsidies are awarded. Standards would deny subsidies to companies that would have a negative impact on the community where they locate. The key standards are:

Living Wage. Companies that receive incentives must pay a living wage to their employees.

Health Benefits. Companies receiving incentives must provide health benefits to their employees.

No Relocating. A new facility cannot receive tax incentives if it is relocating from another part of the state, and a company cannot receive tax incentives and decrease the number of employees in the state (or the parent company if it is a subsidiary).

A Cap on Costs. A reasonable per-job limit on the size of deals. For example, using the U. S. Department of Housing and Urban Development's benchmark of \$35,000 for every job created.

Civil Rights. Denies incentives to companies with a poor record of civil rights violations.

Environmental. Denies incentives to companies with outstanding

environmental violations. Also, a company with a poor past performance in terms of environmental violations is denied incentives.

Worker Safety. Denies incentives to companies with outstanding OSHA violations or who have had serious violations in the last three years.

Along with attaching standards to the giving of incentives, the state should also supply more information to the public about programs and particular deals so that people can better assess whether the system is working. Laws requiring better disclosure and reporting should be implemented to get this information out to the public. Better disclosure should include:

New Form Available to Public. A public form that companies requesting incentives would have to fill out that would include detailed information about the company's wages; benefits; environmental and worker safety record; environmental impact of the project; and other important information. The form would have to be turned in initially and each year the company uses tax credits to assure that the company is meeting minimum standards.

Report on companies' use of tax credits. An annual report that lists how much in tax credits were claimed by individual companies.

Report on the use of property tax abatements. A centralized state report on the loss of local tax revenue through local property tax abatements.

Kentucky should also become proactive about developing initiatives that support the high road of economic development. There are many different ways to pursue that goal, but one immediate step in that direction would be to invest in building the local farm economy. The Community Farm Alliance (CFA) has developed a plan of how to use the Phase I Tobacco Settlement monies in a way that would help preserve and revitalize Kentucky's farming communities. The plan calls for funding for county planning processes that would identify local assets, analyze local successes, and identify missing resources. The plan also makes the following suggestions for use of the monies at the state level:

Existing programs that need more resources

- Enhancement of credit through Kentucky Ag. Finance Authority
- More value-added market specialists
- Increased funding for water cost-share program
- More money for community farmers' markets
- PACE program

Emerging state efforts that need to be more fully developed to meet new realities

- Creation of networks and state associations
- Co-op development, business planning and marketing assistance, feasibility plans
- Technical assistance to farmers for marketing and growing new crops (organics, emerging markets, niche markets and

value-added enterprises), environmentally sound farm plans

- Main Street development programs that support locally-owned small businesses
- Applying flexible network program of Cabinet for Economic Development to agricultural enterprises
- State purchase of Kentucky-grown products

New Programs

- Mobile USDA-inspected processing plants followed by small processing plants after markets are developed
- Cost-share programs for irrigation, production systems, and value-added development
- Product development that fits in with small farm production.

Changes such as these are important. CFA's plan exemplifies what can be done across many sectors of Kentucky's economy to build strong, sustainable local economies. This way, we can build a better future for Kentucky in which the quality of life in our communities is constantly improving. Paving the high road will take courage and a strong belief in democracy. We must begin to move in that direction.

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