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QUESTION, MR. KING: Do training incentives play any role now? When a company gets an incentive, what obligations must that company perform? What if a company gets a lot of incentives, guarantees so many jobs and then business goes downhill? What happens then?

ANSWER, MR. STRAATSMA: In the case of Ohio, one of the major incentives is a job creation tax credit. A company will qualify for that based on a business plan. If the new jobs are not created, you simply do not get the credit because it is based on the amount of withholding tax that a company holds back. If that employment is not there, the incentive is not generated automatically. Similarly, in the case of property tax abatement things get a little more difficult because that is often tied to job creation as well. However, there is no automatic retrenchment feature in that.

Certainly the state constantly monitors all the enterprise zone agreements that have been initiated and can reduce them. I had one client in the Toledo area. They lost their major customer. As a result of that, they had to cut a number of jobs in the facility as a result, again, their property tax abatement was reduced and they completely understood that situation.

They could not foresee the loss of their major customer and that was not a problematic issue, but in terms of monitoring, in that particular area it can be more difficult.

QUESTION, MR. RANDALL: Are there any studies that have shown how much of the incentive dollar is really spent state-to-state competition versus U.S. to Canadian investments? Particularly in the sports arenas, rather than the manufacturing, the states-to-state competition is insane. Is there a feel for how much of that competition is really just internal to the states versus across the border to Canada and Mexico?

ANSWER, MR. STRAATSMA: Sure, most competition exists between the states, and that is what we are all involved with in attracting Canadian investments, too. Sure, it is primarily focused in the U.S. As Mr. Richards alluded, the main incentive we are fighting against in Canada is on the currency basis, but not the same kind of incentives that we deal with here.

In the case of sporting interests, sure, that has been a problem and maybe Mr. Richards can comment on the Canadian scene in that respect.

ANSWER, MR. RICHARDS: My guess would be most of the competition is between the states, but it certainly impacts us because we are in the Great Lakes economy. If you are talking about the auto or auto part business, a company from Germany looking to service that industry can go to Michigan, Ohio, Indiana or Ontario, so if those states are offering incentives, we are competing. I think the ones that are toughest for us, are the ones in our own country, where our own government, federal government, offers incentives for areas of the country like the eastern provinces in Canada, to locate there. When we lose, we do not lose very often to a U.S. state.

QUESTION, AUDIENCE PARTICIPANT: I think it is true, Canada generally offers lower levels of incentives, but there are significant benefits available. In Canada the benefits other than the Atlantic Provinces and a few other special cases, are largely soft dollars; that is, subsidies for infrastructure roads, et cetera, plus training programs and other types of assistance. What are the relative advantages of hard incentives which are tax dollars and so on in your pocket and soft incentives; infrastructure, job training?

ANSWER, MR. RICHARDS: I think, from a company's perspective, what they are doing is determining the bottom line. Any factor that will favorably affect the bottom line of that business, especially in the long-term is of interest to them. If investing in infrastructure is something, if a state did not offer that incentive, they would have to dig into their own money, it affects their bottom line. We have competed with southern states with thirty-year tax abatements. Some of these companies may not be around in thirty years. Some people may look at that very favorably. My experience with the companies we have dealt with, they are not too impressed after ten years; governments change, things change, companies change, they get merged, acquired.

COMMENT, MR. SISTO: First, Mr. King, to answer your question, Ohio has call-back provisions in almost all the incentive agreements and property tax, as Mr. Straatsma said, you often do not qualify for the incentive until you actually file and show what your withholdings were in the creation of jobs. Having been involved if the actual creation of incentives, I know for the most part they are revenue neutral. In other words, until you create the taxable base, you do not receive an incentive. So either you have to increase your capital expenditures within the state and, therefore, receive a credit or increase your payroll and, therefore, receive a credit on that. It is usually increase in economic activities. So they really are designed to be revenue neutral. They really are, in many ways, designed to combat the perception that competition is offering something different. Those comparisons themselves are what lead to the creation of incentives, because, as we heard earlier about state and local taxes, it is comparing apples and oranges and pears, you cannot do it. As soon as you throw up and absolute comparison, to say one jurisdiction does thirty percent, one does forty percent, without talking about how they get to that percentage you have created a perception of competition and something different. So then many of Ohio's incentives were directly related to cross-border issues with Kentucky, and they end up helping anybody who might apply for them, but it is because there was perception that Kentucky's corporate tax was lower, but, in effect, they took more into their base, so that creates that situation that can lead to the problem.

On Mr. Straatsma's presentation, the one comment I have is that in the area of property tax on a county and local level, what happens is a jurisdiction, they keep the company off their tax roles, which means they do not, under Ohio's scheme, factor into the state's contribution to public education, so if you give a company one hundred percent tax abatement for five years, it does not diminish the state's contribution to public education in that jurisdiction. What was not put up there and not factored into the studies, the company is required then to make a, quote, "donation" to the school district. So all the figures up there are somewhat diminished by the fact that they may have paid fifteen thousand in tax and now they are making a ten thousand dollar contribution to the school system. The school system gets a net benefit of both the money donated and the fact that the property value is not on the state tax list.

QUESTION, AUDIENCE PARTICIPANT: You gentlemen make a strong case. A lot of us already believe that economic incentives do not do much in attracting industry. They are very marginal. But what about a situation where because of the nature of the area; social unrest, inner city problems that you are all aware of, where you are trying to induce any kind of investment, manufacturing, business investment, would financial incentives make differences there, and if, in trying to attract businesses to areas where they would never think of going because of the social unrest, because of the general reputation of it being a rough or difficult area?

ANSWER, MR. STRAATSMA: I think it is going to be a function of the type of business that you are talking to and trying to attract. Certainly, to those companies who are maximizing the incentive dollar, and if they have low-skill operations, perhaps that might be of interest to them, and, in that sense, I think it is a good tool to help create some prosperity in some of these communities that you are talking about. For most of the people that we would be dealing with, most of the types of firms, the answer would be no. However, certainly, you are always going to have some clients who would want to maximize and take advantage of that, and everybody can benefit.

QUESTION, MR. SILVIA: Mr. Richards, I followed your presentation about how the cost of labor was the major factor that investors look to, and, of course, Canada has nationalized healthcare and you, kind of, skipped passed that analysis rather quickly. I wonder if you can elaborate how a U.S.

investment benefits from that or how they pay into it or how those factors line up for this comparison?

ANSWER, MR. RICHARDS: On the healthcare front, if I can find the figures, I will give it back to you, but there is a significant difference to what a manufacturer would pay out of their pocket, out of the company's pocket to provide a level of healthcare coverage to employees, compared to Canada, I think one thousand five hundred versus five hundred U.S. dollars.

If you look at the automobile assembly business, it is a huge incentive to operate in Canada, basically, because you have state-operated healthcare system, with a broad taxpayer base that is providing most of the funding. Sir, the first part of your question, though, you said the main incentive was labor rates. I do not think it is labor rates. What we like to work with is: Let us get it to the bottom line about all of the factors that influence your investment decision and look at where you make more money, but recently, in the last few years, what really has helped us is an available workforce and, basically, a well-educated, highly-skilled workforce, comparatively speaking, and as the U.S. has been running unemployment rates almost, like, two percent in Minnesota and the Great Lakes states, three and a half, four and a half, where we have, over that five-year period, gone from about eight and a half down to five and a half. We have had more available workforce, and for a lot of companies in the service industry, back office centers, in servicing the computer industry, we have been able to show that they can get the workforce they want, which has been a big factor. We do not have to offer the incentive there at all. They say, "If you have the folks that can do this work, we will be there."

QUESTION, AUDIENCE PARTICIPANT: I was going to comment on other possible legal restraints on these state actions. There are actually a lot of provisions in state constitutions, such as prohibitions on special legislation and what not, that may actually prohibit these types of subsidies. The problem is the state judges that interpret these state constitutional provisions also find themselves in a prisoner's dilemma.

In fact, there was a recent challenge in North Carolina, by an individual taxpayer, to an incentive package, and the judge admitted on the face of his opinion, there is no way I can apply these restraints against our own state and let other states continue to do them.

So my question actually is for both Ontario and Ohio representative. With Ontario having given up incentives, is Ontario making an effort to strengthen the agreement on internal trade, the prohibitions, and that, to try to get some of the other provinces to stop, and with Ohio drawing the same conclusion, that incentives are really not very effective in most instances, is Ohio making an effort within state organizations, such as the National Governors Association (NGA), to put this, what, essentially, ends up being give aways to large corporations to a stop. There was an effort in the NGA back in the early 1990s by Governor Edgar of Illinois.

ANSWER, MR. RICHARDS: My colleague Ms. McGuire can tell me if we are making efforts to strengthen that internal agreement. Maybe I can comment first. We are not losing much business through that poaching. Where the issue is is when we have a new, foreign, direct investor. We do have other provinces offering substantially more cash or cash equivalent than we are. There is not a lot of that. It has not been very successful, but it is there. Ms. McGuire can talk about the strengthening. Are we strengthening it, Ms. McGuire?

COMMENT, MS. MCGUIRE: There are two provisions of the International Trade Agreement that relate to investment: One is, as Mr. Richards has mentioned, no poaching do not lure investment from one province to another. The other is a commitment not to throw good money after bad. Both of those elements of the disciplines on incentives were brought in 1994 and 1995, when we were very concerned about the way we were behaving. However, our concern about things like poaching, I think really has declined.

From Ontario's perspective, our interest in the agreement on internal trade has been moving away from that old problem, toward a consideration of our approach to economic development, and that is the Ontario experience that Mr. Richards outlined. That is still, I would say, a work in progress.

QUESTION, AUDIENCE PARTICIPANT: I was wondering if you could comment on the relative ease or difficulty of disarmament between the separation-of-power system, like we have in the U.S., and a parliamentary system. One of things I am stuck by are persistent questions or concerns among legislators, in particular, about the fact that they are asked to finance incentives, marketing campaigns, various mechanisms that are designed to attract inward investment, yet they feel as though they get little of the credit and often the governor, through foreign trade missions, photo opportunities and other opportunities gets the credit and it creates some tension, I think, within our system. I am wondering how that impacts the capability to lesson or remove them all together, the race for incentives?

ANSWER, MR. STRAATSMA: I would submit that in the case of Ohio, if you look at the continuum of incentives that exists out there in the U.S. as a well diversified economy, I do not think Ohio is relying to a significant degree in total on incentives versus, what Mr. Richards was mentioning in Alabama earlier, in spending two hundred thousand dollars per job in the case of an automotive facility. If we look at how the incentives are structured as well, it is not only related to new business coming to the state but also any company that exists here, and that is expanding their operation, is equally entitled to incentives as well. In that sense it is broader based. Can Ohio unilaterally withdraw all together? Well, obviously, Ohio has not at this point, but its position is such that it is not going to be the major components in marketing the state.

QUESTION, AUDIENCE PARTICIPANT: How much do you look at the impact of your incentives on existing industry in Ohio? For example, if there is a large steel mill that was in Chapter 11 protection in Ohio, and then there is an out-of-state steel company that wanted to build a mini mill in Ohio, would you take into account the existing industry in determining to give incentives or would it be automatic to give the incentives?

ANSWER, MR. STRAATSMA: I do not think, certainly on something of that scale, anything would be automatic. The incentive programs that are offered, when we talk about job creation and property tax abatement in particular, in the case of property tax abatement, the local community is going to, obviously, have a major bearing on whether that incentive is offered and with state review. Certainly, the states will review any incentives and take a look at the economic conditions within its borders before offering an incentive. In terms of competition, I do not think you would see any outside interest in locating a marketplace that already faces that kind of trouble.

QUESTION, MS. MCGUIRE: Mr. Richards, I wonder if you could talk a little bit more about how your business changed in 1996? You made an interesting comment about how there is an incentive for site locators to look for incentives, and I am wondering how your way of working with site locators changed when the government's policy changed? I mean, do you have to go around them or is it more a question of being more aggressive in describing the conditions within Ontario and providing more information than formerly you did?

ANSWER, MR. RICHARDS: I think it is more a question of being ore aggressive in describing the condition within Ontario and providing more information. We think about thirty to thirty-five percent of all investment decisions are influenced by the site-location company. We make a real effort to call on as many of those site-location companies as we could, and the task is nowhere complete. Basically, to use things like real researched evidence of the net present value of that model, and we use those firms to help us develop that model, so part of the package was, you get the contract to develop it but we want access inside that company to market it. It is a continuous job.

In the first couple years my staff skirted around this issue and tried to make out like we had some incentives and figured if the U.S. kept coming back maybe meet the Premier, then maybe a plant would locate in Ontario. I finally got them to stop doing that. We would have these meetings and everybody would go away thinking an investment would be made and then it would not happen. So I would take some of these meetings with them and say right up front to the company, look, I want to be perfectly frank with you, yes, we have no bananas. If that is what you are looking for, you are in the wrong room.

If what you are looking at is what is the bottom line of your business where its makes the most sense to locate it from the point of view of having productive employees, having people that assemble a car with less hours than anywhere else in North America and having a continuous supply of computer engineers, then let us talk about locating in Ontario. I say that right up front and start focusing on the business case.

The biggest hurdles to U.S. investment in Ontario are the facts that Canada has a different currency and in Canada there are two languages. How do we convince the investment operators within corporations that these are not big hurdles, the financial gains are substantial and you should be taking a look at Ontario?

QUESTION, AUDIENCE PARTICIPANT: Are there any programs that deal with the other end; that is, an attempt to keep businesses within the state or to assist businesses that are starting to go down hill? There is a great federal incentive called Chapter 11. A different Chapter 11 than what we are talking about, which invites you not to pay your tax, scale down, do at lot of things that would be favorable to business.

What about at the state level, do you have any programs to deal with a situation where there is a business in need of help and because it is diminishing in its ability to be a profitable business?

ANSWER, MR. STRAATSMA: On a direct basis, I am not aware of that, no. I do not think, in a fully functioning market economy, that you are going to be able to rescue everyone. In my experience, as I said a little bit earlier, in terms of acquisitions, the state will take a look more favorably in light of an acquisition to quote, "save a firm," unquote, maintain the employment base in that company, new ownership, but you are keeping the employees, making it a viable operation. So that is something that the state does consider as more in terms of a new investment into the state.

ANSWER, MR. RICHARDS: When we have a pending closure, they are happening all the time, basically, it is for a soft package, really rolling in a Special Weapons And Tactics (SWAT) team that consists of us, the federal government people, human resources development, Canada, anybody who has programs to assist the unemployed in areas, everything from resume development and retraining and, basically, look at the people side of the business; what can we do to help the people in that community get on with their lives and on with a new job. It is more soft programs. That is how we handle it. At least that is how the government has handled it so far. They have not blinked on leaping in and bailing out. Whether that will change, who knows? It is a political arena.

QUESTION, AUDIENCE PARTICIPANT: I have one last question. I just wondered, with economic incentives that are not neutral, per se, but cost the state some money, are they budgeted items or are they granted on an ad hoc basis, as opportunities present themselves, and if they are budgeted, is there a best time of year to seek them out?

ANSWER, MR. STRAATSMA: In terms of some of the bond financing programs that are available, tax exempt fund financing, there is a certain pool of funds that are available, and, of course, to take advantage of a good move, to be in line first instead of at the end of things. Some of the loan programs, I believe, had fixed budgets and once the money runs out, at the end of the fiscal year, which is pretty much it. But if we look at some job creations credit, for example, and a credit on machinery and equipment, that's a function of growth in the company, across companies, so as a result I am not aware of there being fixed budgets on those programs.

COMMENT, MR. SISTO: Transportation funds that are earmarked for projects but are not yet allocated to projects, you could consider that because that can be used as direct infrastructure access to a facility.

COMMENT, MR. GROETZINGER: Very good. Thank you all for getting up so early and attending. Let us thank the speakers for a very excellent presentation.