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Boeing Holds Bake-Off for Biggest Tax Breaks

Aerospace Firm Plays States Off Each Other in Hunt for Incentives

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An artist's concept of Boeing's new family of 777X jetliners. AP

Boeing Co. is running the priciest corporate beauty contest in the U.S., as state governments across the country try to outdo a record incentive package from Washington state to lure work that would build one of the aerospace company's coming jetliners.

The prize is expected to include thousands of jobs for workers designing and manufacturing the planned 777X, a 350- to 400-seat jet slated to enter service in 2020. Boeing requested proposals from more than a dozen states, with the bids due by Tuesday, according to officials in several states.

Chicago-based Boeing is seeking to build as much as 4.2 million square feet of new facilities at a cost that could top $10 billion, said a person familiar with the details. The competition

is drawing fresh attention to companies' efforts to play localities against each other in the search for tax breaks and other incentives.

Boeing's Breaks

***Some incentives that Washington state is offering*:**

- **Business and occupation tax reduction of 40%: $4.2 billion**
- **Tax breaks for other aerospace: $23.4 million**
- **Tax credits for new aircraft development: $3.5 billion**
- **Property tax credit: $563 million**
- **Sales tax exemption to buy new computers: $242 million**
- **1,000 new job training positions: $8 million**
- **Construction of new training facility: $5 million**

Washington state Governor's Office of Aerospace, Office of Financial Management, Department of Revenue

Officials from most of the states Boeing invited to participate have publicly expressed interest. Missouri's governor, Democrat Jay Nixon, on Tuesday is to sign a package of incentives approved last week by the state's largely Republican legislature. The measure would be worth $150 million annually to Boeing if the company creates at least 2,000 jobs in Missouri.

Washington's legislature last month approved sweeteners valued at $8.7 billion over 16 years—which experts say is the largest corporate-incentive package in U.S. history—in an effort to keep the jobs in what has been Boeing's primary manufacturing base for commercial jets. But Boeing then began looking elsewhere after its largest union rejected an eight-year contract deal that would have made significant changes to employees' wage structure and retirement and health-care benefits.

States have long competed for manufacturing work. In 1985 a television program from the talk-show host Phil Donahue featured General Motors' then-chairman, Roger Smith, and the governors of seven states, and gave each governor the opportunity to pitch for GM's first Saturn plant.

Yet the deal offered by Washington state is "larger than anything we've ever seen," said Professor Kenneth Thomas of the University of Missouri at St. Louis, who tracks industrial incentives.

The biggest previous industrial-incentive package was valued by media reports at $5.6 billion over 30 years in discounted electrical power, awarded by New York state to aluminum producer Alcoa Inc. in 2007. A spokeswoman for Alcoa said the company hadn't released its estimate of the deal's value and couldn't confirm media reports of its size.

Some argue that such incentives risk giving away more than the economic benefits gained. It is "hard to evaluate cost and benefits very well, especially benefits, because you never know what the company would've done in the absence of giving the" incentives, said Mr. Thomas, who considers such packages business subsidies.

But political support for the measures in Washington state and elsewhere has been *overwhelming and bipartisan*. Proponents say that merely looking at the price tag for such deals is equivalent to "looking at the half-empty portion of the glass," said Chris Mefford, president of Community Attributes Inc., a consulting firm that conducted economic analysis for Washington on its bid. He said that Boeing's and the aerospace industry's outsize contribution to employment in Washington justifies surrendering future tax revenue.

Boeing could yet build the 777X in Washington. The company has long envisioned assembling the advanced plane in the state, where it makes the current versions of the 777 and has tens of thousands of experienced workers and infrastructure advantages. Building an all-new plant can be costly and risky, and Boeing says it needs to start manufacturing the first new aircraft in 2017 to meet its delivery schedule.

Some analysts say Boeing's public search for alternate locations is aimed largely at winning better terms from the union in Washington.

But Boeing did start a new factory for its 787 Dreamliner in South Carolina, where the company's workforce isn't unionized. South Carolina's government in 2009 gave Boeing an estimated $450 million of tax breaks and other incentives on the expectation that the company would create at least 3,800 new jobs. As of the end of November, Boeing now employs 7,123 workers in South Carolina, which is expected to bid for the 777X work. In April, the state offered a further $120 million for an additional 2,000 jobs.

According to Boeing's request for proposals, the 777X work would involve 2,700 to 8,500 jobs. Possible scenarios for states to bid on include a campus that would assemble the jet and its carbon-fiber composite wings together, or a split of those tasks between states, said people familiar with the planning.

A Boeing spokesman declined to comment on details of its request for proposals.

Besides Missouri, states that have reportedly said they are considering a bid include Alabama, California, Georgia, Kansas, North Carolina, Pennsylvania, South Carolina, Texas and Utah. Even Wisconsin, which Boeing didn't invite to bid, is submitting a package that could include tax credits and loan guaranteesto lure the company, said Mark Maley, spokesman for the Wisconsin Economic Development Corporation.

The process has been shrouded in secrecy, and only Washington and Missouri have detailed their incentive plans. Many of the states participating say they would only share their offered sweeteners should be they be selected by Boeing.

Exactly how many jobs are at stake in Washington isn't clear. Boeing is the state's largest private employer, with nearly 82,500 workers there as of the end of November. State officials, in justifying the $8.7 billion incentive package, said keeping the 777x in Washington would result in $21.3 billion in tax revenue from fiscal 2025 to fiscal 2040. That is based on a total of about 57,000 jobs, including 27,800 nonaerospace jobs generated from taxpaying businesses and individuals.

But nowhere near that many people actually work on the current 777. A state study estimates that 12,100 full-time equivalent jobs at Boeing contributed directly to the production of the 777 in 2012, from assembly-line machinists to engineers and management.

The 57,000 figure includes jobs that officials estimate are "supported" by the existing 777 work, such as at vendors that provide parts and services for Boeing and at restaurants and hotels nearby. Such estimates are inherently murky, because Boeing makes other jets in Washington and because the presence of other large employers such as Microsoft Corp. makes it difficult to determine precisely which outside jobs are tied to Boeing.

Washington began planning its pitch for the 777X last year, before Boeing had even formally committed to make the plane. A 2011 report by Accenture PLC about Washington's long-term competitiveness held a blunt message: "Get your act together" for 777X, said Alex Pietsch, director of the governor's Office of Aerospace, which was set up in March 2012.

The Washington package expands on tax breaks that expire in 2024 from a 2003 package created to persuade Boeing to assemble the Dreamliner in Washington. It worked, but Boeing six years later split that work between Washington and the new South Carolina plant. Wary of a similar move this time, officials specified that the new benefits to Boeing would be revoked should anything less than the final assembly of the 777X and manufacturing of its carbon-fiber composite wings be located in the state.

The new incentives, which run from 2024 until 2040, include $4.2 billion from a 40% reduction in business and occupation taxes, $3.5 billion in tax credits for the jet's development, a $562 million property tax credit on land and buildings, a $242 million sales-tax exemption for purchasing computers and $8 million allocated in fiscal 2015 to train 1,000 more workers.

Democratic Gov. Jay Inslee, who helped develop the plan, last month called a special session of the legislature, which passed the tax package by 75 to 11 in the state's House and 42 to 2 in its Senate.

A $10 billion statewide transportation-infrastructure package, which was initially proposed by Gov. Inslee and not directly tied to Boeing, wasn't part of the initial passage and still faces political hurdles to final passage, according to state officials.