The Industrial
O·U·T·L·O·O·K

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The Subsidized South

The federal government annually collects and spends roughly $5,000 on each person in the country. What may surprise many is the fact that the balance of payment distribution across states is quite uneven. In other words, certain states are subsidized at the expense of others. A state surplus occurs when a state receives more funds from the federal government than the state's residents and businesses contribute in federal taxes. In contrast, a state making a larger financial contribution to the federal government coffers than it receives falls into the deficit category.

Overall, 25 states have surpluses or deficits in excess of $1,000 per capita in 1995. As depicted in the accompanying table, the majority of surpluses exist in the South with Virginia, Mississippi, Alabama and Kentucky among the top 10 surplus states, each receiving greater than $1,400 in subsidies. In contrast, Northeast and Midwestern states were the net losers

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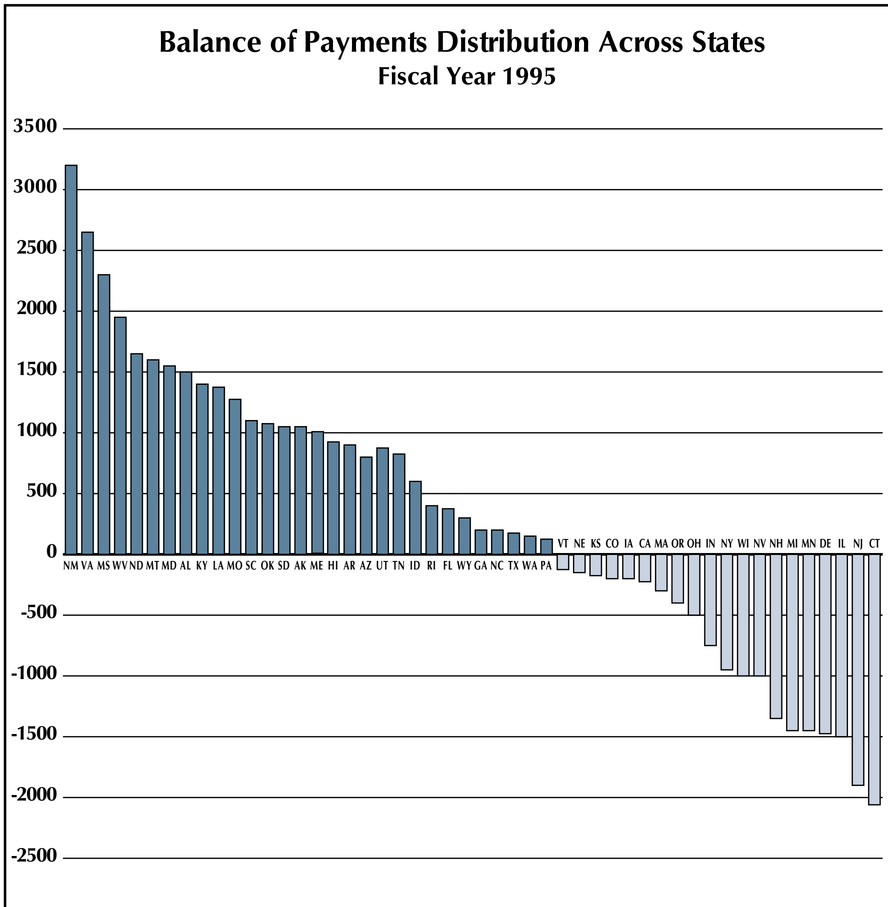

Source: Harvard University, Kennedy School of Government

In This Issue

Dealing With Retail Wheeling

The concept of retail wheeling, permitting one utility or power supplier to sell electricity in another supplier's territory directly to the end user, was originally introduced in our Fall 1995 issue of the Industrial Outlook. As discussed in that issue, wheeling was forecast to set off a round of utility merger activity and begin a race between entrepreneurial states to bring this initiative to market.

As projected, mergers in the utility industry were completed at a record pace for 1996. In fact, 69 utility mergers valued at $23 billion occurred in the first 3 quarters of the year. This compares with only $17.9 billion in utility mergers for all of 1995.

In Fall 1995, New Hampshire, Illinois, and California appeared to be

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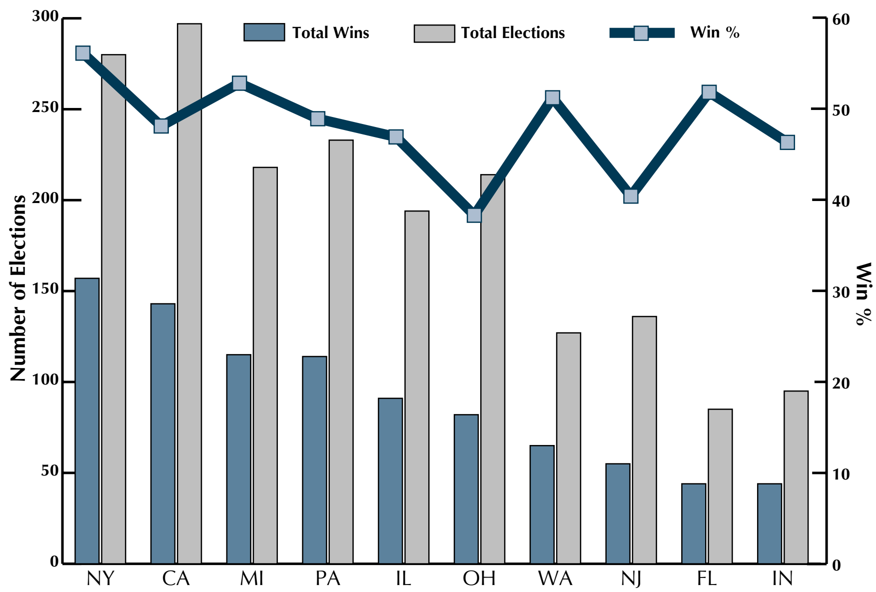
Where Unions Focus

Although union membership has declined significantly in recent years, unions still accounted for 3,175 elections in 1995, winning 46.7% of them. Twenty three states managed a winning percentage above the national average, and 27 below.

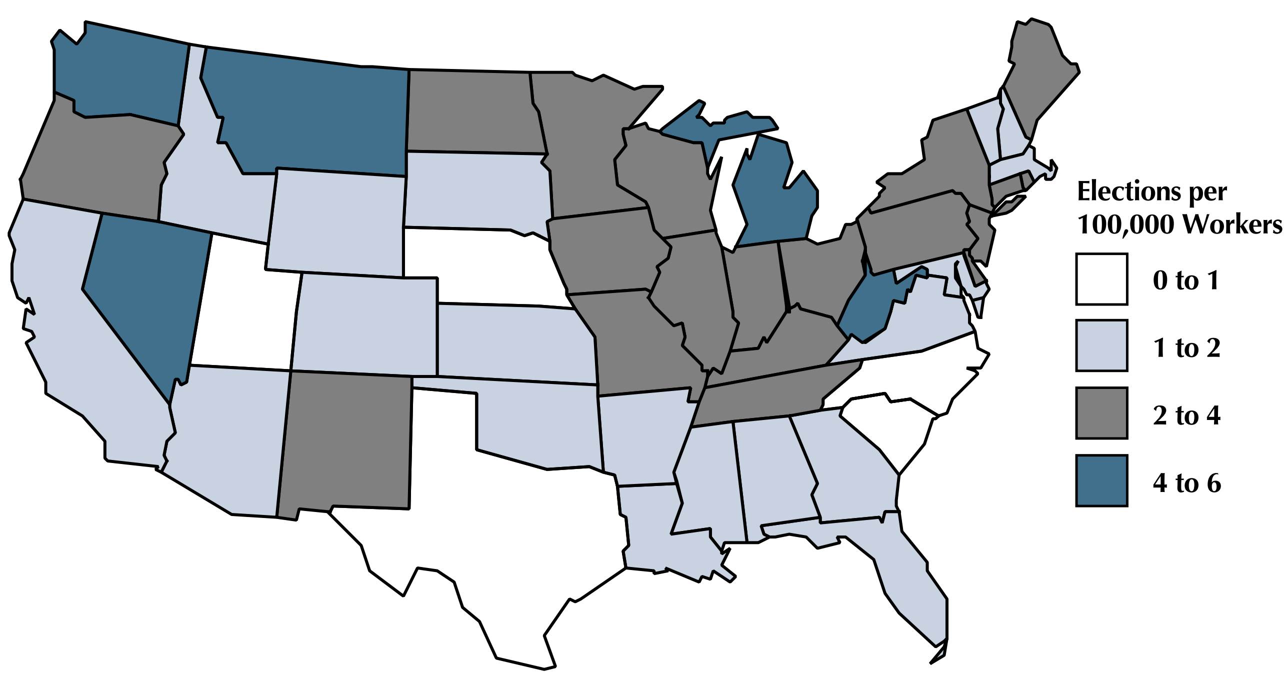
Union elections and successful organizing efforts tended to be concentrated in certain key states. In fact, the top four ranking states in elections accounted for 32.4% of all elections and 35.7% of all victories, despite employing only 26.8% of the country s work force. The most active 10 states combined for 59.5% of all election activity compared to 45.4% of U.S. employment. In contrast, the 10 least active states (5.2% of U.S. employment) accounted for only 2.6% of elections.

1995 Elections–Top Ten States
Ranked By Wins



Source: The Walker Companies

1995 Union Elections Per 100,000 Workers



Source: The Walker Companies

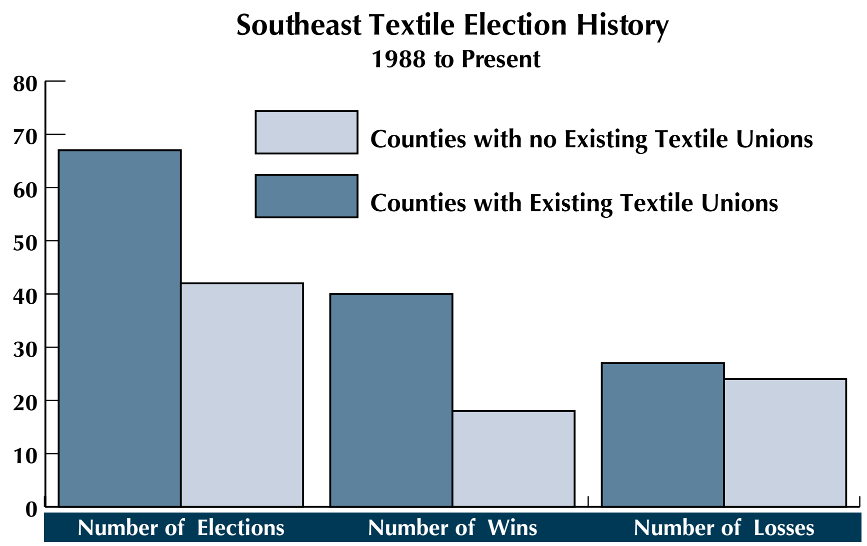
Reviewing election activity on a regional and state basis reveals some interesting findings. The Midwest and Northeast account for the greatest percentage of total elections, 32.2% and 25.3%, respectively. Unions were more likely to win elections in two regions of the country, the Midwest (50.6% win ratio) and the far West (50.1% win ratio). In contrast, the Mid-Atlantic and Mountain regions offered companies the best chance to defeat unionization attempts.

On a state-specific basis, California, New York, Pennsylvania, Michigan, and Ohio lead the pack with more than 200 elections each in 1995. Not surprising, these five states also occupy four of the top five slots in union victories. In contrast, seven states encountered less than ten elections in 1995, South Carolina (9), New Hampshire (9), South Dakota (8), North Dakota (8), Utah (8), Vermont (5), and Wyoming (4).

Since election activity is directly related to employment, election activity was also evaluated by the number of elections per 100,000 workers. The highest ranking states by this measurement were: Alaska (6.18), Hawaii (5.65), Montana (5.09), Nevada (5.07) and Michigan (4.58).

It also comes as no surprise that North Carolina and South Carolina, the two states with the lowest level of unionization among private sector manufacturers, rank lowest among all states in number of elections per 100,000 workers, at .42 and .48, respectively. ❑

Union Homework!



Source: The Walker Companies

What could be the reason for a newly constructed facility owned by a traditionally non-union company being organized shortly after opening its doors? Bad luck? Perhaps, but maybe the company simply did not complete the necessary due diligence during the site selection process.

Companies often fail to realize that communities are very much like people. Each one is unique, and has its own personality and views on issues, including union representation. For this reason, a detailed review of the current union situation including unionized facilities, the election history, and the underlying reasons behind union successes and failures in each community are crucial to the site selection process.

In order to demonstrate union personality differences between communities, The Walker Companies examined a 10 year election history of textile/apparel-related unions (Needleworkers - UNITE, Textile Workers - ACTWU, Garment Workers - UGW, and Ladies Garment Workers - ILGWU) in 9 Southeastern states. The study allocated every county in the region into one of two categories. One group consisted of counties with no companies organized by any of the textile/apparel unions studied, while the other group comprised counties with at least one company organized by the subject union.

We then examined textile/apparel union election activity from the baseline period up to the present. Counties with some textile/apparel representation as defined in the baseline study experienced more organizing attempts (67 vs. 42), and the unions won a higher percentage of elections (59.7% vs. 42.9%) than the baseline counties with no textile/apparel unions. While this example only focuses on a union subset in a 9 state area, the lesson learned is invaluable. If a company desires to avoid union representation, it better complete a thorough union due diligence of prospect communities. ❑

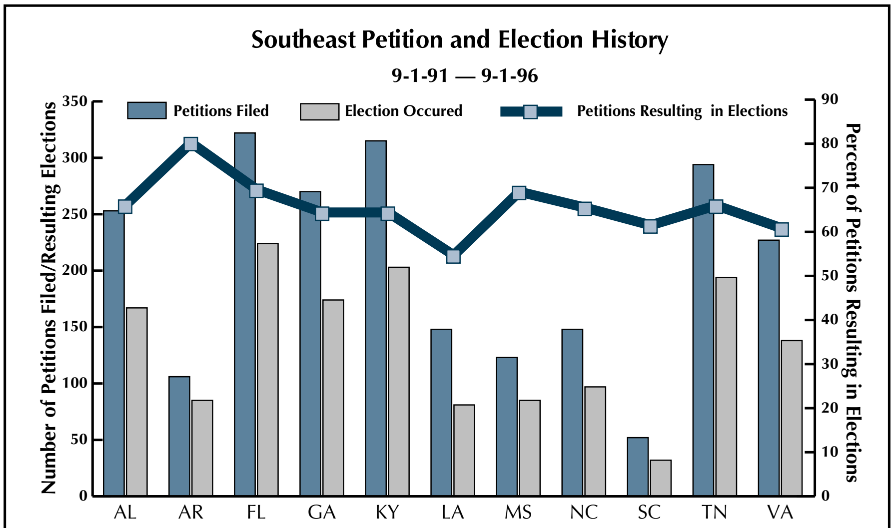
It Ain't Over 'Til It's Over

Although a small percentage of companies become organized by a labor union without the occurrence of an election, filing an election petition is typically the first step in the process of gaining union representation at a facility. In order to achieve representation, the union then must be victorious in an election. While many corporate executives may be aware that unions lose slightly more than half of all elections, few understand the large percentage of election petitions that fail to result in an election and the opportunity this may present to avoid union representation.

Based on an analysis of election petitions filed in industrial employers in the Southeastern U.S. between 1991 and 1996, an election failed to occur for 34.5% of all petitions filed. Roughly half of the petitions not resulting in elections were dismissed by the NLRB or withdrawn by the union. The remainder have languished mostly due to corporate stall tactics, and will likely evaporate once support for the election has subsided.

A state-by-state analysis of election petitions and resulting elections provides companies insight about where election petitions are more easily derailed. A review of the accompanying table reveals that Florida, Kentucky, and Tennessee experienced the most election petitions in the 9 state Southeast study area during the last 5 years, with 322, 315 and 294 petitions, respectively in the universe of petitions examined. As would be expected, these states have also had the most elections during this time span.

On the opposite end of the spectrum, South Carolina has exhibited significantly less petition and election activity than all other states in the Southeast. Given this fact, it is not surprising that South Carolina also ranked among the lowest Southeastern states in percent of petitions resulting in elections (Louisiana - 54.7%, Virginia - 60.8%, South Carolina - 61.5%). In contrast, employers in Arkansas are much worse at averting elections with 80.2% of all petitions resulting in elections. ❑



Source: The Walker Companies

Accelerate That Depreciation

For the average warehousing concern, overpaying property taxes on new or recently purchased distribution centers is the rule, rather than the exception. Most distribution centers erroneously classify the cost of constructing exterior infrastructure such as driveways, curbs, drainage systems, outside lighting, signs and underground utilities, as part of the building. Therefore, companies depreciate these items utilizing the IRS mandated 39 year depreciation schedule used for the building. While this practice is commonplace, warehousers would receive significantly more favorable tax treatment by categorizing these costs as land improvements. Under this classification, these items can be depreciated using a more favorable 15 year tax schedule instead of the 39 year variety which yields a 9% savings to the company on a present value basis (assuming 40% tax rate and 10% discount factor).

Many interior building items which could be classified as personal property and depreciated at an accelerated rate are also frequently lumped into the building s real property number. Typical examples include: security and phone systems, employee lockers, window blinds and cabinets installed in employee kitchens. These articles can typically be depreciated over 7 years. Warehousers stand to save 19¢ for every dollar of equipment depreciated utilizing the 7 year schedule rather than its 39 year counterpart. In some cases, even greater savings may be available by classifying personal property as special use. To qualify for this distinction, special equipment not required by standard warehousers must be necessary to operate the facility. For instance, a product requiring a public warehouser to

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Businesses Are Crossing the Line

Finding a low operating cost environment can mean having to cross the line - the state line, that is. According to a recent study conducted by Dun & Bradstreet, more than 56,000 businesses migrated across state lines during 1991-1995, citing low operating costs and good incentives as the driver behind the relocation. In addition, over 1 million employees relocated as a result of this migration.

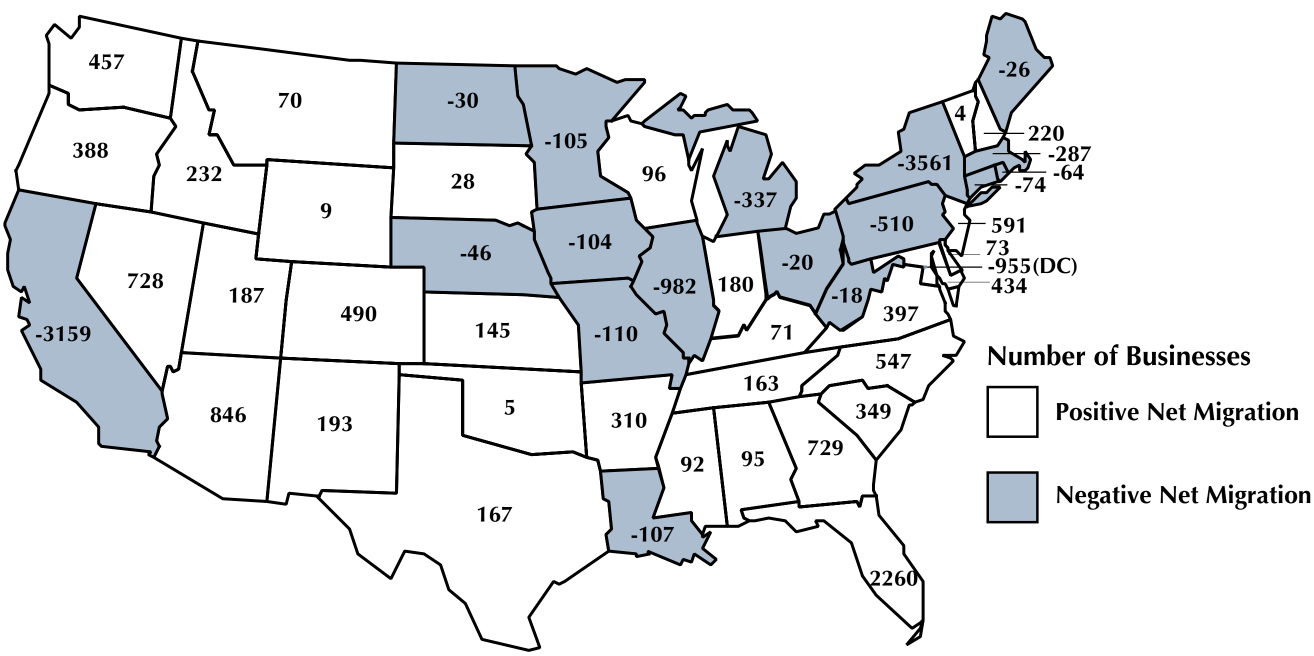
According to the study, Florida is clearly the big winner with a net inflow of migration totaling 2,260. Other states posting large net gains are Arizona, Georgia, Nevada, and New Jersey, rounding out the top five with 846, 729, 728 and 591 new businesses, respectively. New York and California experienced the largest exodus of businesses, with net losses totaling 3,561 and 3,159, respectively.

The Southeastern (FL, GA, NC, VA, SC, TN, AL, and KY) and Mountain states (CO, NV, UT, MT, ID, AZ, WY and NM) were the regional leaders, representing 70% of net gains experienced throughout the nation. According to the study, the Mountain states owe much of their success to proximity, as 58% of its gains came at the expense of nearby California. New Jersey and Connecticut, capitalizing on their proximity, accounted for 44% of the jobs moving out of New York. The Southeast, however, appeared to attract business from far and wide as 4 states (FL, GA, NC and VA) ranked in the top ten category in business net gain.

It is interesting to note that it s not just the Fortune 500 companies migrating to lower operating cost environments. The study reveals that 74%, or 42,324 of the businesses relocating had fewer than 10 employees. In fact, Florida (ranked number one in net gain of business), ranked ninth in employee net gain, attracting a larger inflow of small businesses. On the other hand, Georgia (ranked third in business net gain) ranked number one in employee net gain, with 35,064 workers. The study also points out that smaller and mid-sized companies moved out of California into neighboring Mountain states and the Pacific Northwest, while larger companies tended to move farther east.

Whether it means crossing the state line or the continental divide, companies big and small are packing up and relocating to lower, more competitive operating cost environments. As the study indicates, it appears there are no boundaries when it comes to increasing the bottom line. ❑

Net Gain in Business Migration



Source: Dun and Bradstreet

"Dealing" – continued from pg. 1

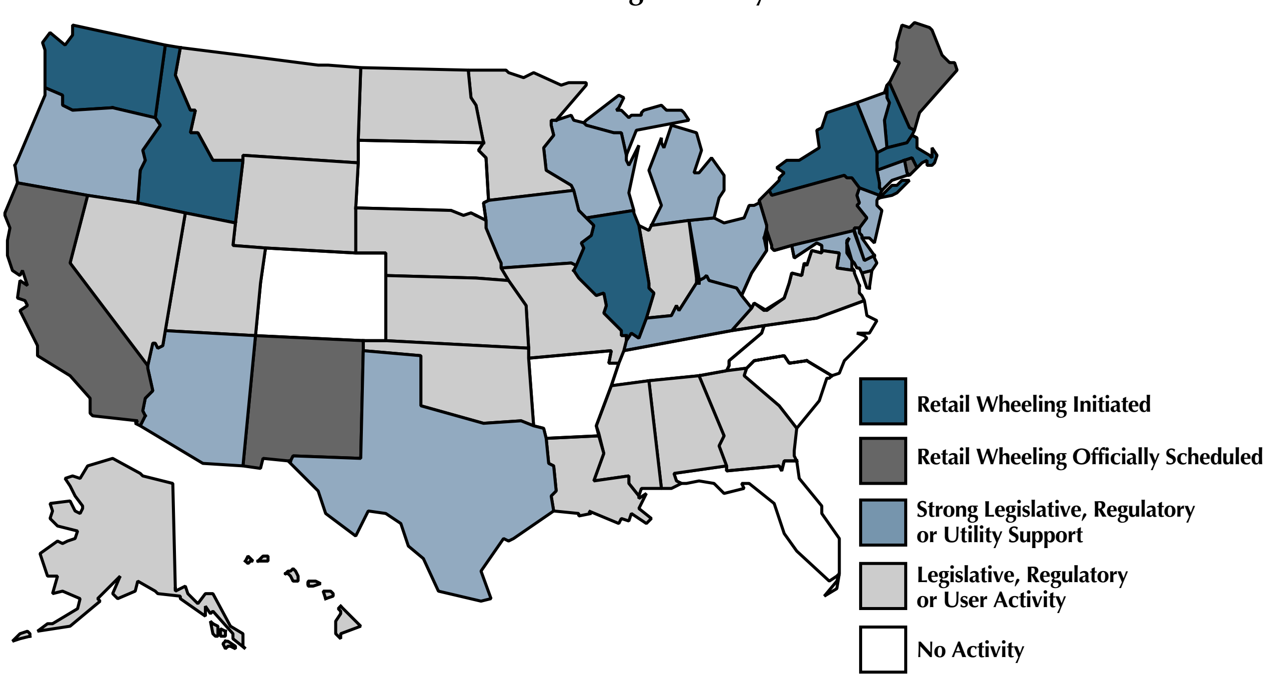
the early favorites to pioneer retail wheeling. A year later, however, the leaders are New Hampshire, Washington, Idaho, New York, and Massachusetts. At this point, it appears as if New Hampshire will be the first state to implement full-scale retail wheeling. In May, 1996, this state passed legislation mandating the implementation of full scale retail competition for all customer classes by mid 1998. While the Public Service Company of New Hampshire, the state s largest utility, is threatening litigation unless it recovers 100% of stranded costs, the roll-out of this program still appears likely.

Washington is attempting to incorporate neighboring Idaho into its pilot program. Under the proposed plan, Washington Water Power will allow its 30 largest customers in Washington and Idaho to access competitive power suppliers for up to one-third of the existing load.

There is a second group of states headed for wheeling: California, New Mexico, Pennsylvania, Maine, and Rhode Island. These states have not yet initiated retail wheeling, but have officially scheduled its introduction. In total, all but 8 states have some retail wheeling legislation at least in the incubation stage.

Thus far, pilot retail wheeling programs have been geared almost exclusively toward large industrial users, and most of these initiatives have been riddled with problems. The main area of contention continues to be the handling of the electricity providers stranded cost in inefficient or obsolete power generating infrastructure. Although some ground was gained in allocating stranded costs, the less efficient utilities may prove to be unyielding in this area. For this reason, the federal government may have to mandate retail wheeling before such complex issues as stranded cost can be resolved on a large scale, and the true benefits of this undertaking fully realized. How long it will take to reach this point is anyone s guess. However, industrial users will be the ultimate beneficiaries, while less efficient utilities will be forced to either merge or fold. For this reason, large industrial users operating in high cost areas should be very careful before entering into long term contracts with inefficient utilities. ❑

Retail Wheeling Status By State



Source: Strategic Energy, LTD.

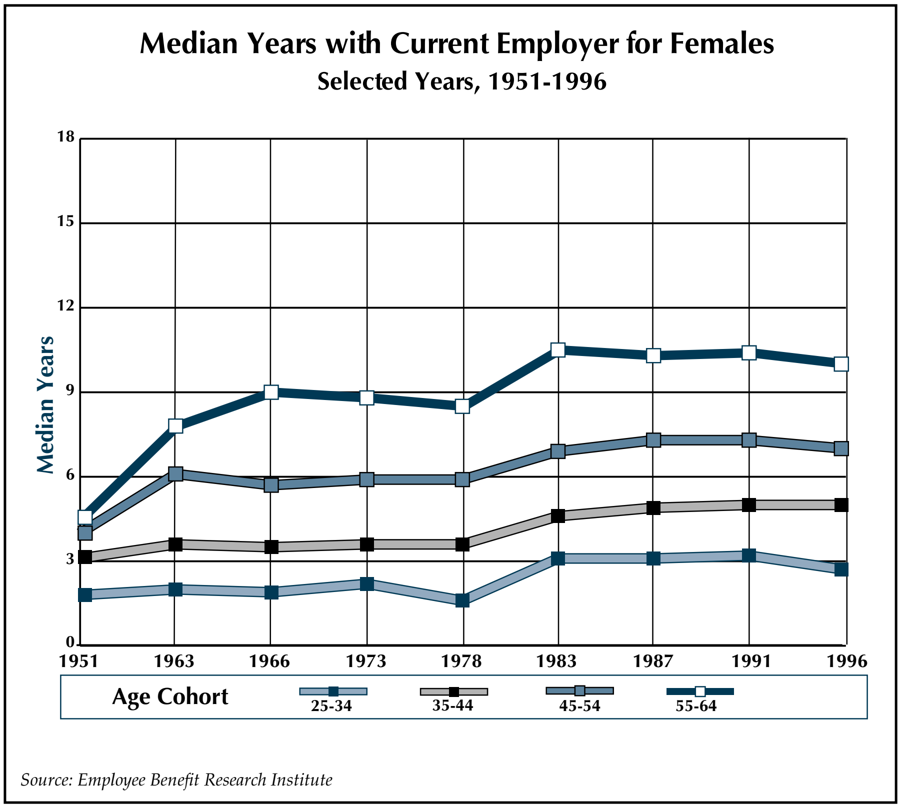
Go Girl

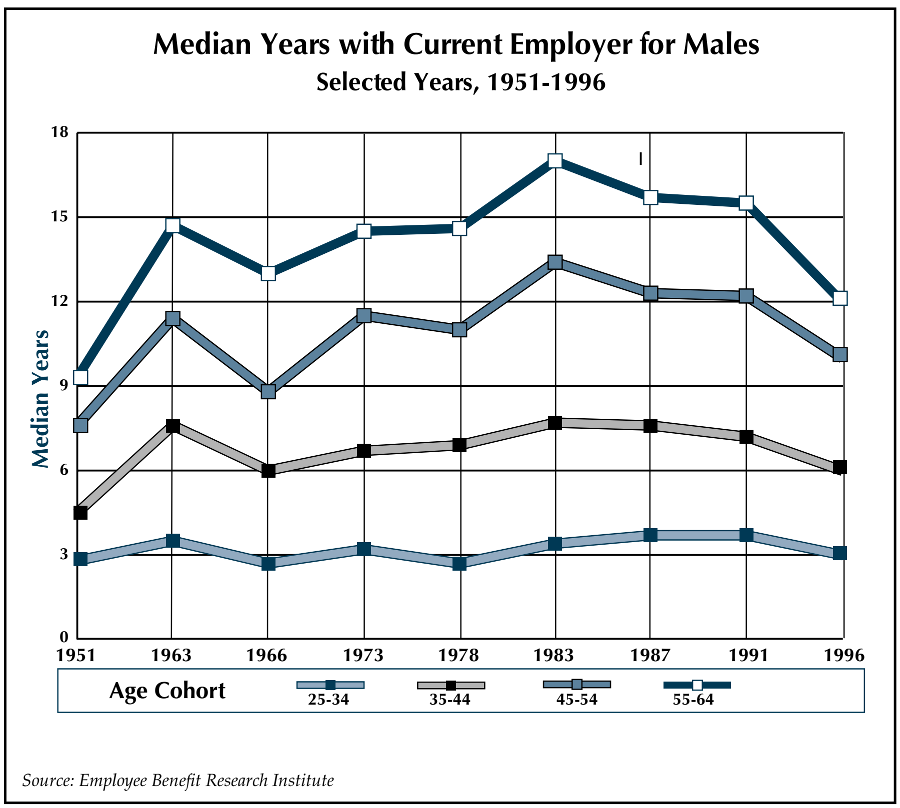
A job tenure study conducted by the Employee Benefit Research Institute, a public policy research organization based in Washington, DC, verifies workers have been changing jobs more frequently in recent years. Interestingly, this trend is significantly less pronounced among females.

As seen in the graph, median job tenure among women has been relatively constant since 1983. Female job tenure for each of the four age cohorts studied peaked in 1991 (25-34 - 3.2 years, 35-44 - 5.0 years, 45-54 - 7.3 years, 55-64 - 10.4 years). In contrast, tenure among males for three of the four age cohorts peaked in 1983. The associated length of employment was: 35-44 age group - 7.7 years; 45-54 age group - 13.4 years; and 55-67 age group - 17 years. Employment tenure among males 25-34 reached its all time high in 1987 and 1991 at 3.7 years.

Three of the four female age cohorts encountered median job tenure declines from 1991-1996. However, the decrease among women has been modest compared to the significant drop-off among men. The largest disparity is among the 55-64 age cohort where job tenure has declined 29.2% among men and only 3.8% among women. Males also encountered a more significant tenure decline among 45-54 year olds (18% versus 4.1%), 35-44 year olds (16.7% versus 0%) and to a lesser extent among the 25-34 age cohort (18.9% versus 15.6%).

While job tenure among males remains higher than females for all age cohorts examined, the trend suggests females will overtake their male counterparts in the near future. Therefore, companies desiring work force stability may be wise to target more female employees. ❑





"Subsidized" – continued from pg. 1

in the reshuffling of federal funds. In fact, Connecticut, New Jersey, and Illinois were subsidizers of over $1,500 per capita in 1995.

States in the 1995 subsidy receiving category may contend that they probably paid more than their fair share in years past. However, this is an extremely unlikely scenario. In fact, the Kennedy School of Government (Harvard University) which compiles the annual report found that states perform consistently in this study over the years. As evidence of this fact, the 10 states with the largest deficits in 1994 were not only the same states in 1995, but remained in the identical rank order.

What could possibly cause such an imbalance in flow of funds among states? Many would logically conclude that federal spending on programs such as welfare is the root of the problem. Surprisingly, welfare and like kind programs are not among the main drivers creating this inequity between states.

After analyzing the topic, the researchers who compiled the report determined that the actual cause of this inequity is threefold. First, despite its recent downsizing, defense spending is a major factor affecting the reshuffling of funds between states. Some states have been significantly more successful at attracting military funds than others. Second, benefit payments to the elderly (social security and other federal programs) distort the balance between states. The South, with its mass of retirees, receives a disproportionate amount of these funds. As baby boomers retire, this age cohort will likely further magnify the discrepancy between states. Finally, states with higher per capita incomes pay more in taxes than lower income states. Since the amount paid to the federal government has no correlation to the amount received, these states are likely to receive less funds than they contribute.

Given this information, the disparity the South enjoys over the Northeast and Midwest will likely continue until such time as the military relocates its bases, the elderly flock to the north for retirement, and per capita incomes in the South surpass those earned in the Northeast and Midwest, none of which appear likely. ❑

"Accelerate" – continued from pg. 4

purchase humidity control equipment in order to safely store product would likely qualify for this distinction. Any equipment falling into this category can be depreciated over 5 years.

Since property tax codes vary drastically across and even within states, the level of savings available to warehousers building or purchasing distribution space will vary by tax jurisdiction. However, companies currently utilizing the 39 year deprecation schedule would be wise to seek out the local tax assessor to identify potential property tax savings opportunities. ❑

THE WALKER COMPANIES provide location consulting, brokerage, and facility development services for industrial corporations throughout the United States. For additional information on our services, or to comment on *The Industrial Outlook*, please contact:

John Warden, Senior V.P.
THE WALKER COMPANIES
One Georgia Center
600 W. Peachtree Street, Suite 2350
Atlanta, GA 30308
Phone: 404/892-1600
FAX: 404/881-6833
www.walkerco.com

Atlanta Office:
One Georgia Center
600 W. Peachtree Street, Suite 2350
Atlanta, GA 30308
Phone: 404/892-1600
FAX: 404/881-6833

North Carolina Office:
The Atrium at 77 South
4421 Stuart Andrew Blvd., Suite 305
Charlotte, NC 28217
Phone: 704/527-1600
FAX: 704/523-5202

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