



# McKee Foods Corporation

April 25, 2018



# McKee Foods Locations



# History of Investment in Arkansas

- 1981 – Construction of facility began (capacity for 4 production lines)
- 1987 – Expansion of Phase II (space for 5 production lines)
- 2002 – Expansion of Phase III (space for fried products—6 production lines)
- **2017 – Shipping Automation Expansion Project**
- # of Production Lines—  
Space for 16—14 lines in place
- To date \$263 million in AR



# Gentry, AR



# McKee Foods Corporation Arkansas Operations

- Current FTE-1,584
- Average Pay--\$46,553
- Investment Plans—5 Year Plan (2017-2022)
  - Large Shipping Expansion in works \$40 million
  - Other Projects \$70 million
- Contributions to State Economy - \$88 million
  - Payroll, Supplies, Taxes
    - \$77 million of that—is to local economy



# Most Important Criteria for Site Selection

(ranking per [siteselection.com/issues](http://siteselection.com/issues)—Nov 2017 issue)

1. Workforce skills
2. Transportation Infrastructure
3. Utilities (Cost/Reliability)
4. State & Local tax structure
5. Land/Building Prices and Supply
6. Quality of Life
7. Workforce Development
8. Ease Of Permitting and Regulatory procedures
9. Incentives
10. Higher education resources



# McKee's List and Ranking

1. Right to Work State
2. Workforce Skills and Availability
3. Transportation Infrastructure
4. Utilities (Cost/Reliability)
5. State & Local tax structure
6. Land/Building Prices and Supply
7. Incentives
8. Quality of Life
9. Workforce Development







# McKee's Scorecard

## Manufacturing Location Scorecard

	TN	AR	VA
Sales and Use Taxes--Cost per Case	2X	3X	X
Real Estate Property Taxes--per \$1,000 of Cost	\$16.55	\$11.68	\$5.80
Personal /Equipment Property Taxes--per \$1,000 of Cost	\$5.20	\$7.12	\$4.00
Corporate State Income & Franchise Taxes	1.5X	4.5X	X
Incentive Programs for Expansion	X	X	.5X
5 Year Planned Capital Spend	\$155MM	\$110 MM	\$60MM

# Sales & Use Taxes

	TN	AR	VA	
		Sales & Use Taxes		Explanation
	Exemptions			
Equipment Used in the Manufacturing Process	X	X	X	
Equipment Used to Store Raw Materials			X	
Replacements of Manufacturing Equipment	X	Substantial only	X	
Repairs & Replacement Parts to Manu Equipment	X	Rate Reduction	X	Complete exemption will be phased in
Services --except of Personal Tangible Property	X		X	
Pollution Control Equipment--must get permit	X	X	X	
Utilities used in Manufacturing--lower rate	X	X		1.5% in TN, 0.625% in AR
	Rates			
State and Local Rate	9.25%	8.63%	5.30%	
	Ranking CPC			CPC=Cost Per Case
	2X	3X	X	

# Sales & Use Tax Recommendations

- Arkansas has already addressed in AR Act 465 (3/13/17) one key exemption issue
  - Exemption for manufacturers related to repair parts and services
  - Much needed exemption—made AR comparable to other 2 states where we have manufacturing operations
  - Being phased in over a 5 year period with a rate reduction of 1% each year until fully exempt beginning 7/1/22
- Exemption paid for by eliminating two sales tax incentives—Invest Ark and Major Maintenance and Improvements Incentive
- Rates still high compared to Virginia



# Property Tax

	TN	AR	VA	
	<b>Property Taxes</b>			
	<b>Exemptions</b>			<b>Explanation</b>
Equipment outside of Manufacturing--after carton loader			X	Exemption applies to Manufacturers. Transportation Co taxed on all equipment except software and idle equipment
Software	X		X	
Tractor/Trailers--apportionment basis		<b>Miles in Other States</b>	<b>Miles in Other States</b>	TN based on where vehicle domiciled.
Idle Equipment--for 12 months			X	Opportunity for TN and AR
Construction in Process		X		Equipment under construction
Inventory			X	Opportunity for TN and AR
	<b>Rates</b>			
	<b>4.1365%(City &amp; Cty)</b>	<b>5.84%(City &amp; Cty)</b>	<b>2% Personal/.58% Real</b>	
Graduated Appraisal Rate	X	X		
Assessed Rate--Real/Personal	<b>40%/30%</b>	<b>20%/20%</b>	<b>100%/100%</b>	
	<b>Costs</b>			
Real--Per \$1,000 of Cost	<b>\$16.55</b>	<b>\$11.68</b>	<b>\$5.80</b>	Does not include Incentives
Personal--Per \$1,000 of Cost	<b>\$5.20</b>	<b>\$7.12</b>	<b>\$4.00</b>	Does not include Incentives
Recommendations	Modifications to Remedy for Excess Assessments--reimbursement of attorneys fees Updates needed to TN law for Computer Equipment--not updated for new technology and Alternate Building Structures--rack supported buildings			

# Personal Property Tax—Inventory Tax

	TN	AR	VA	
	Personal Property Taxes-Inventory			Explanation
	Taxed %			
Parts Inventory	100%	100%	0%	
Small Tools	0%	0%	100%	
Raw Materials (Ingredient/Packaging)	100%	% Sold In AR	0%	Freeport Exemption in AR
Finished Goods	0%	% Sold In AR	0%	Freeport Exemption in AR
Racks and Displays	100%	% going in AR	0%	Freeport Exemption in AR
Ranking	X	.45X	.00X	VA doesn't tax Inventories

# Property Tax Recommendations

- Consider not taxing inventories
- Add Property Tax Incentives—such as rebates of property taxes for increases in personal property taxes—similar to Virginia
- Modify PILOT Agreement process to simplify-constitutional change



# State Income & Franchise Taxes

	TN	AR	VA	
	<b>State Income Taxes</b>			<b>Explanation</b>
	<b>Costs &amp; Rates</b>			
Apportionment Formula	<b>Single Sales Factor</b>	<b>3 Factor-2X Sales</b>	<b>Single Sales Factor</b>	TN went to Single Sales Factor 7/1/17
Tax Rate	6.50%	6.50%	6%	
Apportionment Factor--Prior to 7/1/17	26%	12.4%	2.80%	
Apportionment Factor if Triple Weighted Sales.	22%	10.3%	2.80%	
Apportionment Factor if Single Sales Factor	4.7%	2.0%	2.8%	
Franchise Tax	X			
Ranking	1.5X	4.5X	X	
		<b>Credits</b>		
Industrial Machinery Exemption Tax Credit-- 1% of Investment	X			
Gross Premiums Tax Credit--Unemployment Comp	X			
Recommendation	Apportioned Property for Franchise	Single Sales Factor		

# State Income Tax—Simplified

<b>Federal Taxable Income</b>	<b>\$10,000,000</b>
<b>Adjustment to Federal Taxable Income:</b>	
<b>AR Income Taxes Deducted</b>	<b>50,000</b>
<b>Bonus Depreciation Adjustment</b>	<b>1,000,000</b>
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<b>Arkansas Apportionable Income</b>	<b>\$11,050,000</b>
<b>Apportionment %</b>	<b>29.50%</b>
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<b>Arkansas Taxable Income</b>	<b>\$3,259,750</b>
<b>Arkansas Tax Rate</b>	<b>6.50%</b>
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<b>Arkansas Income Tax</b>	<b>\$211,884</b>



# How does apportionment work?

<b>Arkansas--3 Factor, Double-Weighted Sales</b>	<b>Company A Manufacturer</b>	<b>Company B Manufacturer</b>
AR Payroll %	50%	1%
AR Property %	50%	1%
AR Sales %	9%	9%
AR Sales %	9%	9%
Total %	118%	20%
<b>Arkansas Apportionment (Total/4)</b>	<b>29.5%</b>	<b>5%</b>
<b>Tennessee--Single Sales Factor</b>	<b>Company A Manufacturer</b>	<b>Company B Manufacturer</b>
TN Payroll %	1%	50%
TN Property %	1%	50%
TN Sales %	9%	9%
<b>Tennessee Apportionment (Sales Only)</b>	<b>9%</b>	<b>9%</b>

# State Income Opportunities

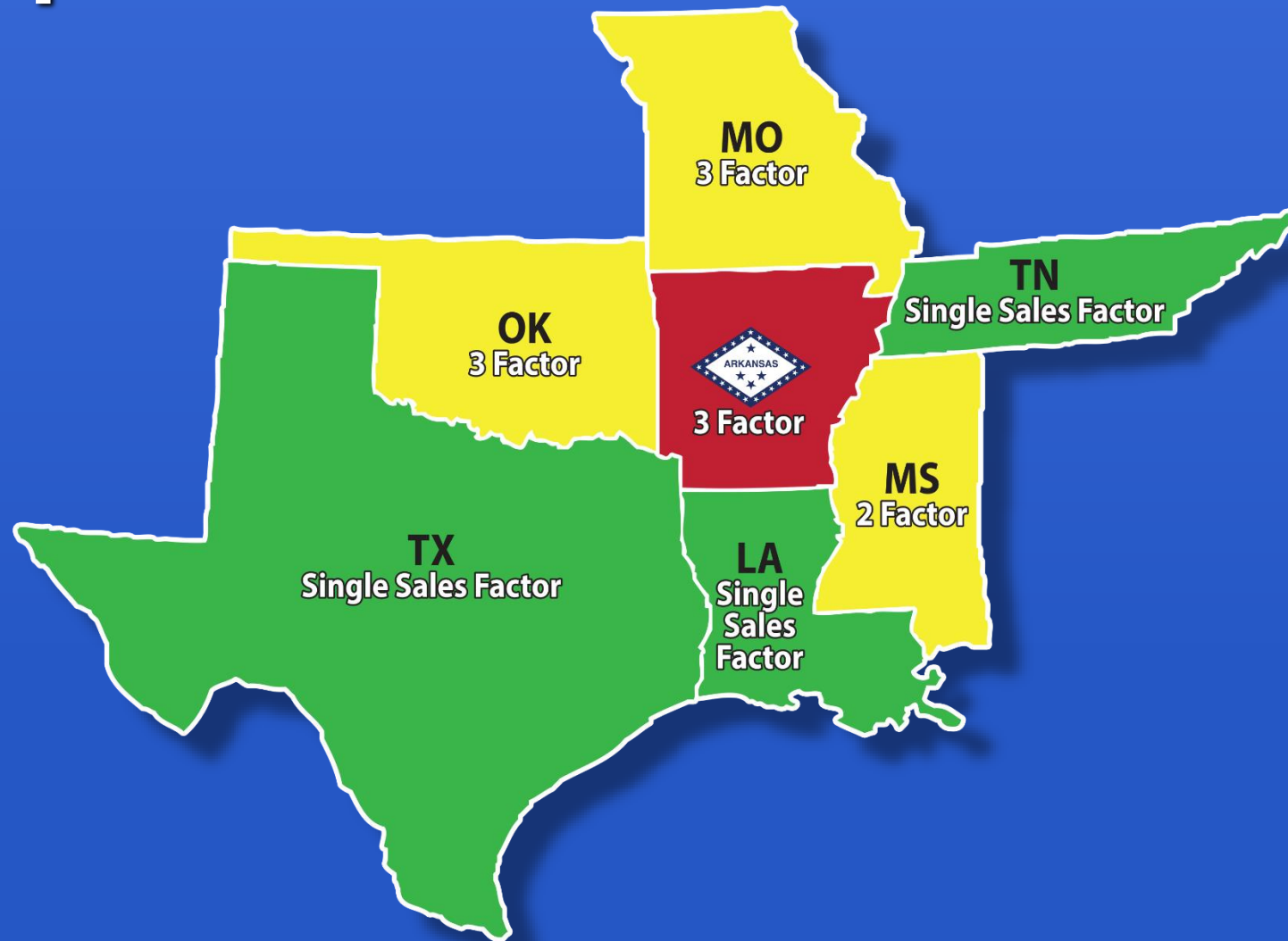
- Move to single sales factor apportionment for manufacturers
- Apportionment factor more important than rate reduction



# Single Sales Factor Apportionment

- 31 of 47 states have some form of single sales factor apportionment in place or being transitioned—66%
- In 2004, 7 states used single sales factor apportionment. This has more than quadrupled in 14 years.
- No repeal of single sales factor by the states adopting such factor to date.
- Of 3 states where MFC has plant operations, AR is the only one that does not currently have single sales factor apportionment.
- Of 6 states surrounding AR, 3 have single sales factor apportionment.

# AR apportionment and bordering states



# Incentives

	TN	AR	VA	
	Incentives			Explanation
Sales Tax Incentive based on Investment & Jobs		X		Being Phased Out
Wage Tax Credit and Payroll Rebate Program		X		AR program needs to be simplified
Training related	X	X	X	
Energy Related Incentives with TVA	X			
Property Tax Rebates and or PILOT Agreements	X	X	X	AR-eliminate need for bond issue
Governor's Opportunity Fund			X	

# Arkansas Incentives Opportunities

- Simplify Arkansas Advantage
  - Labor Related incentive for new jobs created
  - Very difficult to administer
- Pilot Agreements—consider constitutional change to allow without bonds
- Update Training Incentives to allow for computer based training





**McKee Foods Corporation**