State of Mississippi

PERFORMANCE AUDIT

From the Office of State Auditor

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An Analysis of the State of Mississippi and Nissan Memorandum of Understanding

January 4, 2001

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The following is an interpretive summary of the major issues taken from the Memorandum of Understanding (MOU) between the State of Mississippi and Nissan. For those issues, we have noted the page number in the MOU as a reference. For additional information, please refer to the MOU.

Working Partnership With Nissan

Designation of Coordinators (page 2)

- Project coordinator
- Environmental permit coordinator
- License and permit coordinator
- Tax and incentives coordinator
- Japanese office coordinator
- Waiver or appropriation for any administrative, licensing or permit fees

Financial Commitment (page 3)

- Sufficient funds (through issuance of bonds) for payment of incentives
- Madison County commits up to $20 million in bonds for payment of incentives

Tax Incentives (page 3)

- Mississippi Income tax incentives
  - Nissan jobs tax credit of $5,000/employee for 20 years
  - Integrated suppliers jobs tax credit of $1,000/employee for 5 years

- Mississippi franchise tax incentives
  - Nissan pays a fee-in-lieu franchise tax of $25,000/year for 30 years

- Mississippi sales and use tax incentives
  - Nissan exempt from sales tax on machinery, tools, parts, services
  - Nissan exempt from sales tax on purchases and leases

- Mississippi property tax incentives
    - Nissan pays a fee-in-lieu property tax of one-third of the ad valorem levy for staggered terms of 10 years
    - For purposes of assessed valuation of personal property, Nissan enters an agreement with Madison County for accelerated depreciation
    - Nissan-owned vendor tooling will be exempt from property tax
    - Madison County agrees to a Free Port Warehouse Ad Valorem Tax Exemption on inventory designated to be shipped outside the state
    - Madison County agrees to exemption from all personal property taxes, except school taxes, on finished goods inventory for ten years
    - For thirty years Madison County will not impose on Nissan any special levies of taxes, fees or assessments
    - Madison County will for ten years approve ad valorem tax exemptions for suppliers of Nissan with such exemptions having a period of twenty years

Mississippi Advantage Jobs Act Incentives (page 7)

- For a period of up to 25 years Nissan shall be eligible to receive quarterly incentive payments, if the Project provides average salaries of at least 150% of average state salaries and other requirements are met

Mississippi Major Economic Impact Act (page 8)

- State law re-defined

Foreign Trade Zone (page 8)

- State agrees to apply for foreign trade zone status

Super Project Definition (page 8)

- Nissan promises capital investment of $750 million and 3000 jobs within 60 months and maintain that minimum for 20 years

Design of Project/Retention of Contractors (page 9)

Environmental Impact Analysis (page 9)

- State agrees to prepare and pay for any environmental reports required for the Project

Economic Impact Report (page 10)

- State agrees to prepare economic impact report showing benefits to state

Assistance with Permits/Licenses (page 10)

- Inducers agree to assist Nissan in filing applications, permits, licenses and approvals

State Cooperation in Making the Site Available

Project Site (page 10)

- Description of site

Options (page 10)

- Declaration by Madison County Economic Development Authority (MCEDA) it holds options or title on property defined as the project site

Conveyance to State or Authority (page 11)

- MCEDA will convey project site options or title to state

Exercise of Options (page 11)

- State will exercise options and obtain legal title to project site

Exercise of Eminent Domain Powers (page 11)

- State will use eminent domain powers to obtain title to project site by January 31, 2001, unless mutually agreed to extend

Lease of Project Site to Nissan (page 11)

- State will provide Nissan access to project site prior to obtaining title. State will lease project site to Nissan for twenty years for $10,000 per month until Production Date, when lease amount will increase to $100,000 per month. Nissan has option of purchasing project site for $10 at end of lease. Nissan will receive credit against its lease obligation for any amounts payable for water, sewer, natural gas and wastewater. Nissan may sublease portions of project site to suppliers.

Title matters (page 12)

- State will provide to Nissan a lessee's policy of title insurance insuring title by the state to the project site

Environmental Indemnification (page 12)

- State agrees to hold Nissan harmless for any fines, penalties or legal cost regarding release of any hazardous substance or violation of environmental laws

Cemeteries (page 13)

- An abandoned cemetery on the project site will be moved by the State. An active cemetery on the project site will be preserved, a buffer will be created and access will be provided.

Current Residents (page 13)

- Current residents residing on proposed project site will be permitted to temporarily remain on their property after conveyance of title to the state by leasing the property from Nissan. After the lease term has expired, the State and Nissan will work together in the removal of residents from the project site.

Ragsdale Road (page 13)

- After construction of the Project, Ragsdale Road will be closed by the County and abandoned. Roadbed on the I-55 overpass to Highway 51 will be removed.

Church (page 14)

- The State will acquire the Harvey's Chapel Baptist Church property and building and provide use to Nissan. State will remove steeple and interior features and, if Nissan decides it no longer needs building, State will remove building and re-grade site.

Acquisition of Support Areas (page 14)

- State will purchase land parcels necessary to provide rights-of-way for Project Site, fill dirt for the Project Site and water retention on west side of I-55, at no cost to Nissan.

Sites Available for Location of Suppliers (page 14)

- Madison County will make its two industrial parks available at fair market value for use by Nissan suppliers. County has optioned 90 acres east of project site and 369 acres west of project site and will make it available to Nissan suppliers. State will purchase 506 acres west of I-55 for committed highway improvement and for suppliers at negotiated cost.

Authorizations (page 14)

- The State, MCEDA and County will use best efforts to obtain necessary authorization, approval or consent of any governing body, local government or third party.

Making Project Site Suitable

Site Preparation (page 15)

- State will pay all costs and do all things necessary to complete Project Site preparation

Warranty for Site Preparation (page 15)

- State warrants to Nissan for site preparation any damage caused by Yazoo clay for twenty years at a maximum of $10 million

Other Project Site Improvements (page 16)

- State agrees to provide improvements including: landscaping; fencing; gating; lighting
- All wetlands issues will be resolved at no cost to Nissan
- Storm water retention pond will be constructed
- Natural gas pipeline will be rerouted

Traffic Infrastructure (page 16)

- State agrees to provide at no cost to Nissan all construction necessary for access to Project site
    - North interchange access with I-55 and connector road between US 51 and Highway 22
    - Four-lane divided highway Project site access road
    - South connector road

- North connector road will be four-lane divided highway with signalization at Highway 22
- Portion of Highway 22 will be widened to 5 lanes

Potable Water, Sanitary Sewer and Publicly Owned Treatment Works (page 21)

- State and MCEDA agree to provide water and sewer extension lines to Project Site

Fire Station (page 21)

- State, Madison County and City of Canton agree to provide a new fire station close to Project site

Rail Lines (page 22)

- State agrees to fund construction of rail turn out, trackages, signals, switchings, loading docks providing Project site suitable access to the rail line

Water Tank (page 22)

- State and Canton Municipal Utilities agree construct an elevated water tank

Natural Gas (page 23)

- CMU will construct a natural gas pipeline to Project site. State and CMU will provide Nissan all infrastructure necessary for delivery of natural gas to Project site

Pre-Treatment Site Location (page 23)

- State agrees to purchase land for wastewater pre-treatment facility

Zoning (page 23)

- State, City and County commit to rezoning Project site and any surrounding parcels necessary for Nissan suppliers

Building Permits (page 23)

- County will waive all building permit fees

Wastewater Pretreatment Facility (page 24)

- State agrees to construct an industrial wastewater pretreatment facility for the Project

Port of Gulfport (page 24)

- State and Port of Gulfport will make available to Project areas at the Port necessary for movement, storage of equipment, parts and finished products

Construction Funds (page 25)

- While Nissan will be responsible for contraction of plant on project site, State will provide up to $17 million in general obligation bond proceeds as a contribution to cost of vehicle storage and preparation facility or any other project cost designated by Nissan

Training Facility and Training

Training, Generally (page 25)

- State commits $80 million for recruitment, screening, training facilities, training and related expenses related to Nissan's initial workforce. This amount may be decreased if Nissan's initial workforce is less than 4,000.
- State commitment to training may be for: temporary training facility; permanent training facility; recruitment and screening; direct and indirect cost of training initial workforce.

Temporary Facilities (page 27)

- State will provide Nissan temporary training facilities for interim offices for Nissan personnel until permanent facilities can be completed.

Permanent Training Facility (page 28)

- State will provide a permanent training facility for providing training for Nissan's initial employees.
- State agrees to operate the permanent training facility to the extent costs can be charged to the total state training commitment.
- Permanent training facility will be located on Project site and will be subject to lease provisions whereby Nissan may purchase facility.

Recruiting and Screening (page 29)

- Based on total training commitment, State will provide Nissan necessary personnel, resources and facilities to support Nissan in recruiting, screening and qualifying candidates for employment.
- State will provide Nissan a pool of pre-qualified candidates from which Nissan can select for interviews.

Training (page 31)

- Based on total State training commitment, State will pay costs to design, develop and implement customized training for Project

Goodwill and Community Involvement

Image Advertising; Public Relations; Scholarship Fund (page 34)

- State agrees to expend $1 million each year for five years for image advertising and public relations relating to partnership between State and Nissan

- State agrees to grant to Nissan $1 million for the establishment of a scholarship fund to be used for scholarships to students participating in programs designed to support development of automobile excellence.

Temporary Facilities/Support (page 34)

- State agrees to provide Nissan on effective date at least 10,000 square feet of fully equipped temporary office space at no cost. Within one month of effective date, State agrees to provide Nissan an additional 20,000 to 25,000 square feet of fully equipped office space.
- State agrees to assist Nissan employees relocating to Mississippi with securing temporary living quarters.
- State agrees to reimburse Nissan up to $150,000 per year for two years for private air transportation
- State agrees to provide at no cost to Nissan the following: Project Coordinator; Environmental Permit Coordinator; License and Permit Coordinator; Tax and Incentive Coordinator.
- State agrees to increase size of its Japanese office to support project, if necessary.

Community Assistance (page 35)

- State agrees to provide, at no cost to Nissan, an Employee Assistance Coordinator to see to the needs of employees and their families.

Support for Federal Benefits (page 35)

- State will give best efforts to assist Nissan in maximizing any federal benefits available

Mississippi State University (page 35)

- State will assist Nissan in concluding agreement with MSU to provide support to Nissan and its suppliers for the following programs: university curriculum development programs; research and development programs and specialized career development programs.

Off-Balance Sheet Financing (page 35)

- State commits to work in good faith to assist Nissan in obtaining financing regarding a synthetic lease for a portion of improvements to Project site.