

COMMON GROUND

Big Business and the Environment Shake Hands

A recent business deal has married a global paper company's profit-maximization goals with conservationists' environmental objectives. International Paper Co. (IP), one of the world's largest private landowners, sold 218,000 acres of forest land to The Conservation Fund and The Nature Conservancy in what was billed as the largest conservation deal the South has ever seen.

The two conservation groups will transfer much of the land to respective state governments within several years. The remaining land will be recycled back into the private market in the form of easements which require strict abidance to preservation rules.

The \$300 million deal encompasses ecologically important land stretching across 10 states, including more than 20,000 acres in Virginia and 116,000 in the Carolinas. In a news release, The Conservation Fund's president Larry Selzer forecasts that the preserved land will protect the wildlife habitat, enhance air and water quality, and provide outdoor recreation opportunities. Moreover, the deal links existing public and private conservation areas. The groups believe that linking these forests and waterways will increase animals' space for mobility and further improve water quality.

The conservation groups obtained significant financial backing from two private timber investment funds, Conservation Forestry, LLC, and Forest Investment Associates. Public reimbursement is a possible source of funding too. Virginia's Department of Forestry has expressed interest in purchasing some of the land sold by IP, Brian Van Eerden of The Nature Conservancy told the *Virginian-Pilot*. Funding for the North Carolina lands could flow from any of the state's three existing environmental trust funds. North Carolina lawmakers also are considering a \$1 billion land-bond issue that could make its way on the November ballot. In South Carolina, such public funding is not unprecedented, as Gov. Mark Sanford recently approved the borrowing of \$32 million for a separate forest acquisition.

The deal is part of International Paper's larger "transformation plan" in which it is shedding vast swaths of domestic land. Citing North America's mature markets, rising raw material

costs, and a changing global environment, IP is scaling back production in the United States. The company has announced its intentions to explore selling an additional 6.8 million acres of its domestic land, expecting proceeds of up to \$10 billion from its divestures.

While the land is "of the highest conservation value," as The Conservation Fund's Selzer labels it, it may not be entirely suitable for developers' purposes. The swampiness of land located along rivers and estuaries can render it unsuitable for building, for example. Hence, the mixed quality of the land for development could have decreased competition from commercial firms interested in bidding for it.

As part of the agreement, IP will continue to harvest timber

from the sold land until native plants regrow, which could be another 20 to 50 years. This is a large benefit that IP likely would not enjoy had they sold the land to developers.

In addition, IP says it has a genuine interest in environmentalism. The company has prohibited the harvest of endangered forest land and placed limits on the amount of timber that it harvests from any given area.

"Coming to a compromise like this hasn't been done before and could be a model for future transactions," says IP spokeswoman Amy Sawyer. The

U.S. Department of Agriculture projects some 44.2 million acres of privately owned U.S. forest land, particularly in the East, will be sold by 2030.

— CLAYTON BROGA



Linking pre-existing conserved areas, like South Carolina's Waccamaw National Wildlife Refuge (pictured here), with the land acquired from International Paper will better benefit waterfowl and protect water quality.

GOING ONCE

West Virginia Banks Bid for State Deposits

West Virginia invested \$24.8 million via online auctions in a variety of state and local banks on May 16. The money, from \$2.8 billion in state operational funds, went to banks offering the best rates on six-month certificates of deposit. Only banks with branches in the Mountain State were eligible to bid.

"As everyone knows, banks are crying for deposits," says Joe Ellison, chief executive of the West Virginia Bankers Association. "This gives smaller banks the opportunity to participate and keep the money invested in West Virginia."

That was the idea, according to Glenda Probst, executive director of West Virginia's State Board of Treasury

Investments. The board approved \$100 million for the auction program. The next auction is in August.

“Since it was our initial auction we wanted to start small and generate competition for the funds and increase earnings,” she says. “From talking to other states and the auction administrator we understand it takes time to get the banks informed, registered, and trained. It takes awhile to get full participation so we thought \$25 million was a good number.” The money is from state agencies with revenues that are allowed to be invested and includes the state’s rainy day funds. The fund does not include pension money.

The auction was efficient, according to Probst. “For us to go out and meet with 10 or 15 different banks and negotiate CDs would be much more time-consuming,” he says. The treasurer’s office in 2005 took over the job of managing the state investments. Operational funds previously were invested outside the state. The online auction allowed the state to receive the most competitive rates as well as keep money in the state, and boost the local economy.

The highest bid was 5.16 percent, by United Bank Inc. of Parkersburg, W.Va. The bank got \$5 million. “I think that was probably more than we could have negotiated on our own,” Probst says. There is a \$5 million ceiling per parent bank for each auction “so that one large bank couldn’t come in and bid on \$25 million.”

Among smaller banks, Capon Valley of Wardensville, W.Va., which just reached \$100 million in deposits, got \$500,000 for its 4.99 percent bid and Main Street Bank, with about \$90 million in deposits, received \$500,000 for a 5.15 percent bid.

West Virginia is the 11th state to offer online auctions for deposit money. South Carolina began using the online auction process in 2000, the second state to do so behind Ohio.

— BETTY JOYCE NASH

ON THE HOME FRONT

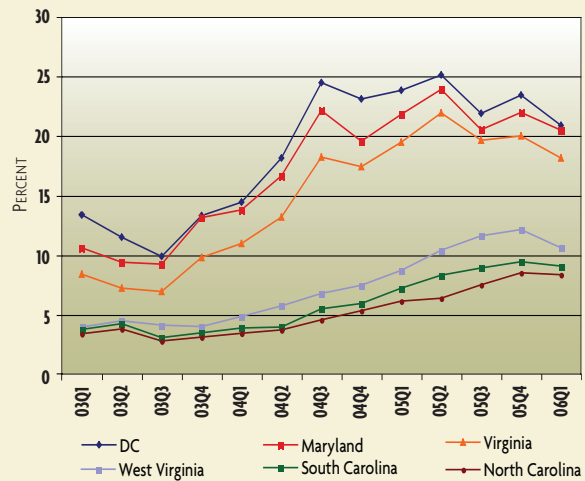
Housing Markets Cool Off in Some States but Not in Others

In the once-hot housing market of Northern Virginia, a slowdown is afoot. Residences in the cities of Alexandria, Fairfax, and Falls Church, as well as the counties of Arlington and Fairfax, were sold for only 97 percent of the list price in May, compared with 101 percent a year ago (though it should be noted that those asking prices were still higher than a year ago). Sellers are reducing prices as people become more cautious about buying a house. On average, a home for sale in this area lingered for 51 days on the market in May, compared with just 15 days a year ago.

The country’s housing market has indeed begun to cool down like many analysts predicted. More and more homes are being offered but not enough buyers are willing to take up the increase in supply. In April, the inventory of existing unsold homes across the country rose to 3.38 million, the highest on record. This suggests that the inflation in house prices may start losing steam after the booming rates of the past two years.

Converging markets

Growth in house prices has slowed in the hotter markets, but is still drifting upward in their less bubbly neighbors.



NOTE: The chart shows year on year growth rates of house price indices for each quarter.
SOURCE: Office of Federal Housing Enterprise Oversight

A closely watched indicator, the Office of Federal Housing Enterprise Oversight’s quarterly index, shows that median house prices in the United States increased by 12.5 percent in the first quarter of 2006 over the previous year, easing somewhat from the peak of 14.1 percent in the second quarter of 2005.

But the slowing has been uneven throughout the country. In the Fifth District, we see a tale of two housing markets — one that has expanded rapidly in the past three years and the other which has grown at a more modest pace. In particular, it seems that the rates of appreciation in house prices between the brisker and the more moderate markets in the Fifth District are starting to converge, according to Ray Owens, a regional economist at the Richmond Fed. “Where house prices have gone up the most, the cooling has been more pronounced. But where prices have gone up the least, they continue to move somewhat higher,” Owens says.

Median house prices in the rapidly growing markets of the District of Columbia, Maryland, and Virginia rose by 13 percent to 18 percent in the second quarter of 2004, peaked at 22 percent to 25 percent a year later, but have since slowed to 18 percent to 21 percent in the first quarter of 2006. While house prices in these areas are still appreciating at high rates, they have perceptibly cooled down.

On the other hand, price increases of homes in North Carolina, South Carolina, and West Virginia have been drifting upward, rising by 8 percent to 11 percent in the first quarter of 2006 from only 3 percent to 5 percent two years before.

A few years ago, the economies of these states were growing sluggishly, partly because they had relied heavily on the manufacturing sector, which took a severe hit during the recession five years ago. “More recently, [the] economies of the Carolinas

are starting to rebound somewhat,” says Owens. He adds that buying a home is still affordable for most people because house prices have not appreciated as much. — VANESSA SUMO

CAROLINA DREAMING

Newspapers Get New Owner in the Carolinas

McClatchy Co. didn't exist in the Carolinas as recently as 1990. But now, the California-based newspaper chain owns the two largest dailies in North Carolina, the largest in South Carolina, plus a handful of small to midsize papers across both states.

For \$4.5 billion, McClatchy picked up 32 newspapers from Knight Ridder Inc. The purchase, which closed June 27, included the *Charlotte Observer* in North Carolina and *The State of Columbia* in South Carolina, adding to a Carolinas portfolio that already included the Raleigh *News & Observer* and the Beaufort (S.C.) *Gazette*. The company entered the Carolinas in 1990s with the buy of three South Carolina dailies. The *News & Observer* was acquired in 1995.

Wall Street analysts were mostly positive about the deal, though McClatchy's stock price fell immediately after the announcement. “The assets [McClatchy] is acquiring look very similar to the company's existing asset base,” wrote media analyst Paul Ginocchio with Deutsche Bank. Union activity is virtually nil at the acquired papers, which otherwise might drive up labor costs, he added.

McClatchy quickly sold 12 of the Knight Ridder papers — including the two Philadelphia dailies and two large papers in northern California — deeming them misaligned with its high-growth-market strategy. But the remaining 20 new papers still make McClatchy the second-largest U.S. newspaper company, trailing only Gannett Co., owner of *USA Today* and many others.

To be sure, newspaper readership is in decline. Substitutes abound — from broadcast media to the ever-growing Internet offerings. (In June, the *News & Observer* joined a growing number of papers to dump daily stock listings, putting the bulk of its quotes online instead.) The latest national circulation report noted declines of 2.5 percent for dailies, continuing a decades-long trend. Local U.S. newspapers saw advertising spending drop 6.1 percent during the first three months of 2006, for example, while Internet advertising rose 19 percent.

But John Morton, a newspaper analyst in Silver Spring, Md., says that calling newspapers a dying industry “is a gross exaggeration.” Newspapers still earn about 19.2 percent operating margins, the sort that “a lot of other businesses would love to have half of,” Morton says.

For one thing, newspapers tend to be the most popular online providers of local news, so those Internet advertising gains are going directly to their pockets (though Web advertising still represents only about 5 percent of total revenues). Readers continue to seek out journalism, it seems, but less so in print.

With McClatchy's holdings in the Carolinas, the company

will be able to sell advertising in bundles. That's a more appealing approach to retailers, who these days are more likely to be regional or national chains. “No other media business is organized to gather mass amounts of news, only newspapers are, and it's a function that will continue,” Morton says. “Whether the income comes from the newsprint product or the Internet, all the money falls into one pocket.” — DOUG CAMPBELL

BACK-TO-SCHOOL BONANZA OR BOONDOGGLE?

Virginia Joins Sales-Tax Holiday Bandwagon

During a contentious three months of budget negotiations earlier this year, Virginia legislators did manage to agree on one thing without much fuss. The state joined the rest of the Fifth District in offering an annual reprieve from the sales tax on selected goods.

Such “sales-tax holidays” have been popular throughout the country since New York held one in 1997. The loss in tax revenue is relatively small compared with a state's overall budget, plus lawmakers say they are helping constituents save money. But while major retailers like this tax policy, some supposed benefits touted by its advocates aren't as clear.

Starting this year, Virginia will have its sales-tax holiday from the first Friday to the first Sunday of every August. Consumers won't have to pay the 5 percent general tax on school supplies priced \$20 and below, or on clothing and footwear selling for \$100 and below. In addition, retailers can choose to pay the sales tax themselves on goods that aren't exempt and advertise them as tax-free.

Virginia officials believe the sales-tax holiday will help retailers increase their sales and compete with stores across the state's border in West Virginia, Maryland, the District of Columbia, and North Carolina, all of which have held similar holidays during the summer and fall. (South Carolina has held a sales-tax holiday since 2000, the longest record in the Fifth District.) Judging from retailers' past experiences, these tax-free events appear to rival the shopping sprees between Thanksgiving and Christmas.

More generally, states push for sales-tax holidays as a way to boost their economies. However, many tax policy analysts and economists believe that the savings during the holiday are too small to induce a significant amount of new spending, except perhaps in communities which border another state that isn't having a holiday or has no sales tax whatsoever, like Delaware. (In Virginia, for example, the projected consumer savings from the three-day event will total just \$3.6 million.) Instead, the increased sales may represent purchases that consumers decide to make during the holiday instead of at other times of the year.

Retailers are tight-lipped about how much money they make, so there is little data available to empirically support either viewpoint. But anecdotal evidence abounds. Members of the Consumer Electronics Association and the National Retail Federation have reported increased sales of exempt items

during sales-tax holidays, but — unlike what some economists say — not at the expense of other periods.

“If we said everything is 5 to 8 percent off today, consumers would laugh at us,” says NRF spokesman J. Craig Shearman. “But when we offer the same savings by way of a sales-tax holiday, they flock into the stores.”

Finally, advocates of sales-tax holidays say they want to help families prepare their children for school, especially those on low incomes for whom the sales tax is a relatively high burden. The problem is consumers in higher-income brackets spend more than those in the lower brackets. Also, richer people are able to change the timing of their purchases, while poorer people are less financially flexible and may not have the money to “stock up” during holidays and maximize their savings. As a result, the intended beneficiaries of a sales-tax holiday may end up benefiting the least.

Also, the sales-tax holiday creates a disincentive for discounting goods. Some retailers reportedly cut prices of nonexempt goods to take advantage of the marketing buzz surrounding a holiday. But others may scale back their usual markdowns on exempt items in anticipation of higher sales, says David Brunori, who teaches state and local tax law at George Washington University. “The sales tax is the draw,” he explains.

Retailers may even increase prices on exempt goods to reap greater profits. Brunori and a group of researchers at the University of West Florida have found evidence of such markups in New York and Florida during their holidays.

If the goal is helping low-income families, Brunori and others suggest that state governments give tax rebates or direct grants for low-income people to purchase school supplies, clothing, and computer technology. Or governments could eliminate the sales tax year-round, as New York did in April 2006 for clothing sold for \$110 or less. — CHARLES GERENA

BORDER WAR?

New Study Examines Relocations from North Carolina to South Carolina

Outsiders know Charlotte, N.C., as a thriving metro area. With its financial services headquarters, big-league sports teams, and bustling downtown, Charlotte is the very embodiment of the New South.

But in recent years, the local headlines began to take their toll on Ronnie Bryant, president of the Charlotte Regional Partnership, the area’s economic development group. The stories said Charlotte was fast losing jobs to just across the border in South Carolina. In 2002, Wells Fargo Mortgage moved 700 jobs to York County, S.C. In 2004, it was CitiFinancial shifting 700 jobs to York County. Earlier this year, Inspiration Networks, a religious cable TV network, took its headquarters — and 200 jobs — to Lancaster County, S.C.

People called it a “border war,” Bryant says. And the complaints mounted: Was the rivalry getting too hot? Did North

Carolina need to entice firms with better incentive packages? “We wanted to step back and look at what was going on to get some objective data to see if we really had a problem,” Bryant says.

The partnership commissioned a study and the results arrived in June. Since 2001, said the report, Mecklenburg County — where Charlotte is located — lost an announced 3,150 jobs to South Carolina. To Bryant, this was exceedingly good news: 3,150 jobs represents only about 0.5 percent of the county’s job base. Meanwhile, since 2001 alone the county picked up almost 63,000 new jobs from business expansion and relocation, more than offsetting the border crossings. It was hardly a bull rush of firms going south.

The report, prepared by Ticknor & Associates of Illinois, also had a few cautions about the role of incentives. It said that job movement to South Carolina was “decentralization” and “a natural market force in every American region.” (Witness the fast growth at the fringes of the Washington, D.C. metro area, for example.) The costs are simply lower in South Carolina, just outside the core of the Charlotte metro area, providing all the incentive many firms need to relocate operations.

The real drivers of these intra-regional moves aren’t South Carolina business recruiters but consultants. Incentives are at best a secondary draw. “I advocate incentives within a competitive environment,” Bryant says. “But economic developers would be the first to admit that the use of incentives has gotten totally out of hand. To some extent, decentralization is a natural occurrence, and we should not be influencing these moves with incentives.”

Michael Luger, a management professor at the University of North Carolina who studies economic development issues, says land and utilities tend to be the biggest corporate expenses. The importance of incentives in wooing companies depends on which business they’re in. South Carolina’s incentives for manufacturing firms are marginally more favorable than North Carolina’s, Luger says, citing his own research. Meanwhile, the overall land costs in South Carolina are lower, as is the corporate income tax — but property tax rates are higher, though South Carolina, unlike North Carolina, has abatement programs. The bottom line, Luger says, is that not every firm is worth trying to lure with incentives.

The 16-county Charlotte Regional Partnership, of course, already encompasses four counties in South Carolina, including the aforementioned York and Lancaster counties. An economist might not be so concerned about which side of a state boundary a company locates. What’s important is how the overall economy is affected and whether resources are being put to their most efficient use. But politicians and economic development officials often take these narrow location issues seriously.

“It’s an uneasy tension between North Carolina and South Carolina and the Charlotte region,” Luger says. “They recognize the importance of working together, but they also recognize that they’re competing sometimes. I don’t think that’s necessarily unhealthy.” — DOUG CAMPBELL