In their fierce competition against each other to convince businesses to locate within their borders, the primary tools states use are tax breaks called “business incentives:” public dollars that go to companies as part of a process that often is largely hidden from the taxpayers that foot the bill. The average state has more than 30 business subsidy programs, according to Greg LeRoy, head of Good Jobs First, a national non-profit focused on economic development accountability.

One recent round in this subsidy game involved the neighboring states of New Jersey, Pennsylvania, Delaware and Maryland. The object of their competition was AAA Mid-Atlantic, known to thousands of motorists for providing road maps, hotel discounts and towing of stalled cars. Delaware “won.” AAA Mid-Atlantic moved into facilities there. New Jersey came in a distant second—picking up some AAA jobs. Pennsylvania and Maryland were losers. In the end, though, the real winner was AAA. In return for moving workers across four states like checkers on a checkerboard, it received millions of government dollars. No new jobs were created.

What used to be called the American Automobile Association—the abbreviation “AAA” became the official title several years ago—is a household name when it comes to useful services for vacations and everyday commuting.

But there is another way to think of AAA and traveling: its ability to map a route to dollars, in the form of tax breaks and other subsidies paid by the public. AAA Mid-Atlantic received $8.1 million in state and local subsidies for moving its headquarters from Pennsylvania to Delaware, shifting a technology office from Pennsylvania to South Jersey and moving a call center from Maryland to northern Delaware.
Usually, the nation’s biggest companies get the biggest tax breaks and subsidy deals. AAA is not in the same league as Wal-Mart, Verizon and Goldman Sachs, all of which received tax breaks from New Jersey or Delaware in recent years. (See table below.) But neither is AAA Mid-Atlantic a small, struggling entity that could argue it is just a subsidy away from going under. It enjoyed net income of $26.2 million in 2004—the most recent year for which information is available—employs 2,600 people and has 3.5 million members who pay dues of about $60 a year.¹

<table>
<thead>
<tr>
<th>Company</th>
<th>2004 Net Income</th>
<th>Projected Tax Breaks</th>
<th>States/Year Awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>$9.1 billion</td>
<td>$4.1 million</td>
<td>DE in 2004</td>
</tr>
<tr>
<td>Verizon</td>
<td>$7.8 billion</td>
<td>$80 million</td>
<td>NJ in 2005</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>$4.6 billion</td>
<td>$173 million</td>
<td>NJ from 1997, 2000-01</td>
</tr>
<tr>
<td>AAA Mid-Atlantic</td>
<td>$26.2 million</td>
<td>$8.1 million</td>
<td>DE in 2004, NJ in 2004</td>
</tr>
</tbody>
</table>

Sources: Wal-Mart; New Jersey Policy Perspective; Hoovers; AAA Mid-Atlantic; Good Jobs First; Delaware Economic Development Office; New Jersey Economic Development Authority

**DELAWARE BECKONS**

AAA’s interstate travels began with its interest in moving out of the Philadelphia headquarters building it owned and occupied since 1968. There was talk of wanting a “more central location” and “favorable incentives.”² There also was speculation that AAA Mid-Atlantic planned to move to Delaware with or without tax breaks and that the millions of dollars it received were just icing on the cake.

AAA Mid-Atlantic, one of the nation’s five largest AAA clubs, operates in a five-state area that includes Delaware, Maryland, Washington DC and parts of New Jersey, Pennsylvania and Virginia. Not only does AAA offer its members popular services such as roadside assistance, but it also rents and leases cars, sells insurance and offers such financial instruments as certificates of deposit and mutual funds.

AAA Mid-Atlantic is governed by a 19-member Board of Directors.³ Its Chief Executive Officer is Allen J. DeWalle. AAA does not list publicly and refused to provide to New Jersey Policy Perspective DeWalle’s salary and the amount of compensation that board members receive. Even more basic information than board pay is hard to come by. Only in the fine print of *AAA World* magazine, the club’s publication for members, can board members’ names be found. Information on their professions and business affiliations was not available from any public source or AAA, which refused to provide it.

AAA Mid-Atlantic’s new headquarters is at One River Place in Wilmington, Delaware. The six-story, $28 million, 150,000 square foot facility on the Delaware River opened to employees in June 2005, according to the auto club. It is leased to AAA for 15 years by the Commonwealth Group, builder and owner of the property.⁴ The ribbon cutting for the new building was held September 19, 2005 and included the Governor of Delaware and the Mayor of Wilmington.
As of fall 2005, 340 people were working in the Wilmington headquarters according to AAA. In its application to Delaware for funding, AAA projected it will have 411 workers at the headquarters by 2008.5 The jobs there are executive, accounting, human resources, technology and marketing positions, including staff involved with publication of *AAA World* magazine.

Since November 2004, many AAA Mid-Atlantic members who phone for assistance have had their calls answered at facilities near Newark, Delaware. What DeWalle has described as a “state-of-the-art multi-service operations center” is located in two buildings covering 74,000 square feet leased from the Commonwealth Group.6 By the fall of 2005, 360 persons worked there, according to AAA.

Because of AAA’s moves, some 700 more people work in Delaware than did before. Previously, the auto club had 74 employees in five Delaware facilities.7 The employment roster reads as follows:

<table>
<thead>
<tr>
<th>State</th>
<th>Jobs Lost</th>
<th>Jobs Gained</th>
<th>Net Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pennsylvania</td>
<td>554</td>
<td>0</td>
<td>-554</td>
</tr>
<tr>
<td>Maryland</td>
<td>400</td>
<td>0</td>
<td>-400</td>
</tr>
<tr>
<td>New Jersey</td>
<td>29 from Hamilton</td>
<td>113 in Mount Laurel</td>
<td>84</td>
</tr>
<tr>
<td>Delaware</td>
<td>0</td>
<td>360 in Newark</td>
<td>340 in Wilmington</td>
</tr>
</tbody>
</table>

Sources: AAA Mid-Atlantic and *The Baltimore Sun*

Mark Schweiker, former Pennsylvania Governor and now CEO of the Greater Philadelphia Chamber of Commerce, commented on AAA’s move:

They’re moving 15 miles south, and it’s hard to argue that it represents a net economic gain to the region. They’re merely moving the jobs, and it amounts to intra-regional competition. While Wilmington is happy, we’ve got to realize that in this day and age, stealing companies from one another really doesn’t get us anywhere.8

**AAA’s BOTTOM LINE**

Delaware gave AAA a $6 million grant for moving to the state. According to state officials, the subsidy is for the headquarters and call center. The grant includes $2.4 million, which is contingent upon the auto club hiring 750 workers in the state. AAA is required to keep these jobs over 10 years or risk having to pay money back to the state.9 The remaining $3.6 million was for construction and to help offset the cost of relocation and infrastructure, according to the Delaware Economic Development Office (DEDO).10
The timing of events that led to Delaware giving AAA incentives raises some important questions often involved in moves across state lines. AAA Mid-Atlantic applied to Delaware for a subsidy on January 8, 2004, yet only eight days later AAA announced it was moving to the state. It was not until February 23, 2004 that Delaware’s Council on Development Finance (CDF) okayed the package at a public meeting. Was the decision to move made independent of the desire for tax breaks—meaning Delaware taxpayers paid for something they might have gotten for free? Would AAA receive subsidies regardless of the contents of its application or what might transpire at a public hearing?

On top of the $6 million from Delaware, AAA also got a $1 million job creation grant from the City of Wilmington, plus a five-to-seven-year waiver of a local services tax—available to companies that bring at least 25 jobs to the city—and free parking for employees. The waiver saves AAA an annual $120 per employee fee charged for upkeep of city infrastructure, police and other local services. According to a city official, the $1 million to AAA is considered a loan until five years have passed with AAA keeping at least 350 jobs in Wilmington.

The owner/builder of AAA’s headquarters, the Commonwealth Group through its affiliate One River Place, got $140,000 from the state to help with the costs of cleaning up what had been a polluted site. The developer was further assisted with money from the state’s Hazardous Substance Cleanup Act Fund.

Commonwealth also received a phased-in 10-year property tax exemption from New Castle County, starting with no taxes owed in 2005. In 2006, Commonwealth will pay county property taxes (which include all school taxes) on 10 percent of the headquarters’ tax assessed value. After 2006, the portion of property taxes paid will increase by increments of 10 percent of value until 2015, when taxes will be paid on the full assessed value of the property.

Also, according to Wilmington, Commonwealth received a 10-year abatement of city property taxes. For the first five years, Commonwealth will pay city property taxes based on the original assessment applied to the property. Then, Commonwealth pays taxes on the assessment applied to the new building in increasing increments of 20 percent, leading up to paying on the full tax assessed value of the headquarters in the tenth year.

MEANWHILE, BACK IN NEW JERSEY

While most of AAA’s headquarters staff moved to Wilmington, some headquarters technology jobs in 2005 moved from Philadelphia to Mount Laurel, in Burlington County. The new building that AAA occupies, at Route 73 and Howard Boulevard, houses 113 technology workers, according to AAA. The auto club is getting a tax break totaling, $785,925 over 10 years from the New Jersey Business Employment Incentive Program (BEIP) for bringing these workers to the state. BEIP, New Jersey’s flagship business attraction program, gives cash grants to businesses that hire a certain number of people. To get the money, the state takes from the treasury and gives to companies an
amount equal to between 10 and 80 percent of the amount that the companies withheld for New Jersey Gross Income Tax from those new employees.

AAA told New Jersey in its BEIP application that only about 30 percent of its Mount Laurel-based workers would be New Jersey residents, while over 60 percent would be Pennsylvania residents (with the remaining 10 percent coming from Delaware and Maryland.) New Jersey and Pennsylvania residents working for AAA will be counted towards the BEIP tax break—a good thing for AAA, but problematic for New Jersey. In 2003, as a lure to Pennsylvania companies, New Jersey changed BEIP so that employees that live in Pennsylvania but work in New Jersey would be counted for purposes of qualifying for a grant, even though the Pennsylvania residents pay no New Jersey income tax and BEIP grants are supposed to be based on those taxes. In effect, New Jersey is giving grants to businesses without the income taxes to back it up: “phantom payroll taxes,” as one state economic development official described it.

When it applied for BEIP funding, AAA tried, under the terms of the tax break program, to get a larger grant by saying it would be working with a university on research and development. But the facility AAA listed—the Burlington County Institute of Technology—is a high school and the request for additional funding was turned down.

AAA’s Mount Laurel facility did not get local tax breaks. The Mount Laurel clerk explained the township’s view that its accessibility via several major highways offers such an attractive location for business that special deals are not needed. Additionally, the Mount Laurel Tax Collector’s office said that AAA was not offered any property tax breaks for the new technology office; breaks are offered only to disabled veterans and churches.

At the same time, AAA also moved workers out of New Jersey. It sent 29 employees from its Hamilton, Mercer County, offices to Wilmington, while adding another 108 at a facility being built in the new Horizon Center Business Park in Hamilton. The auto club said some of these new Hamilton workers were moving from other AAA offices, but would not say from where. AAA did not apply for state or local tax breaks for its new office in Hamilton, nor did it have subsidies for its older offices in the township.

**Pennsylvania Loses Out**

AAA Mid-Atlantic had been headquartered in Philadelphia since 1901. In July 2004, seven months after announcing it would move to Delaware, AAA sold its 2040 Market Street headquarters building to a Philadelphia apartment developer for an undisclosed amount.

In September 2004, nine months before the headquarters staff moved to Delaware, AAA Mid-Atlantic had 554 headquarters employees in Philadelphia at two locations. AAA said that following its headquarters move, three AAA branch offices were to remain in Philadelphia. Also, the *Philadelphia Inquirer* reported that AAA would keep its fleet of tow trucks at the airport, where about 100 people work.
Late in 2003, Pennsylvania and Philadelphia officials tried to persuade AAA to stay in the city. They offered tax breaks and a new site in Philadelphia. The city’s then commerce director said this about the negotiations with AAA, “We presented what I thought was a competitive offer that included a site at the Navy Yard. I do feel like we did everything we could.” State officials would not provide information for this report on the dollar amounts involved in the package.

This lack of information creates problems in evaluating how public money is spent, whether taxpayers are receiving a good value and how corporate decisions to relocate are really made. It is difficult to follow the decision-making process of a business engaged in the interstate tax break game when neither the businesses nor public officials involved in the negotiation will name the dollar value of the incentives. There is no way to answer questions such as whether the business moved to where it got the biggest incentive offer, or to what extent it might have played states against each other. This situation is repeated over and over again in multi-state business tax break negotiations in the region and around the country.

MARYLAND LOSES OUT TOO

AAA also left Maryland behind. State officials there have said that while they negotiated with AAA Mid-Atlantic in hopes of getting the headquarters to move into the state, the auto club never mentioned its plans to move its Elkton, Maryland call center out. The decision to move the center 10 miles up the road to Newark, Delaware was a surprise to Maryland. In total, The Baltimore Sun reported, Maryland lost 400 existing AAA jobs, 250 of which were in Elkton.

According to an official in Cecil County, Maryland, where Elkton is located, Maryland’s bid for the AAA headquarters included a combined state and county tax break package with a $1,000 per job state corporate income tax credit for each new Maryland job, an 80 percent reduction for 10 years in local property taxes on the increase in the value of the property and expedited permitting and plan approvals. Based on the number of jobs involved, the Maryland credit would have saved AAA between $350,000 and $411,000 in state corporate income tax. The tax break package may have also included subsidies from other state programs, but Maryland officials did not answer NJPP’s questions about the full package of tax breaks offered to the auto club.

WAS THERE REALLY COMPETITION?

Though Wilmington is only 30 miles south of Philadelphia, AAA Mid-Atlantic in public statements cited northern Delaware’s more central location in the club’s five-state territory as a major factor in its decision to move. Some AAA employees might still be commuting from Pennsylvania, Maryland and New Jersey to their jobs in Delaware. But the CEO of AAA Mid-Atlantic did buy a house in Wilmington. Where Allen J. DeWalle moved from cannot be said for certain. AAA refused to disclose that information.
AAA said the business subsidies it was offered were an important factor in its decision to move to Delaware. AAA wrote in its Delaware subsidy application, in January 2004, about the different states’ competing bids for the club, “The states’ incentive award packages weigh heavily in our overall financial equation.”32 Shortly after the auto club announced its move, DeWalle explained the reasons behind it. “The Delaware sites were picked for their central location, lower total business costs, a competitive tax structure and favorable incentives.”33 The day after AAA announced its move, the Delaware News Journal declared, “AAA moving to Delaware: Incentives persuaded auto club to relocate here.”34

What is known is that, according to press reports and Delaware officials, AAA’s decision to move was preceded by board members’ input on the matter and a good deal of attention from Delaware leaders. Delaware state officials, including Gov. Ruth Ann Minner, first approached AAA about a move after AAA board members who live in Delaware told public officials the auto club was considering leaving Philadelphia.35 Because of AAA Mid-Atlantic’s refusal to provide information, it is not clear how many AAA board members live in Delaware. AAA was then courted by Delaware public officials and business leaders— including the worldwide financial services company MBNA which is based in Wilmington and manages AAA’s banking services.

One major event in Delaware’s courtship of AAA was a special dinner two months before the club announced its move. On November 13, 2003, the Delaware Economic Development Office (DEDO) and the Committee of 100, a Delaware business organization, hosted a dinner for AAA executives at the Brantwyn estate of the DuPont Country Club. The purpose of the dinner was to convince AAA to pick Delaware over other states. According to DEDO, the dinner also provided AAA with an opportunity for high-level interaction with other executives in Delaware; more than two dozen Delaware business leaders attended the event.36 Eight public officials, led by Governor Minner, also attended the dinner. Later, when AAA publicly announced its move to Delaware, Governor Minner said, “When we began this process, we would have been thrilled with bringing the headquarters or the operations center to our state. But we worked very hard to convince AAA Mid-Atlantic of the benefits of locating in Delaware and were persistent in our pursuit of the total package. And we couldn’t be happier that they agreed.”37

Dinner at the estate was not the only time public and business officials tried to ease the way for AAA’s relocation to Delaware. The Delaware News Journal wrote that Delaware’s small size allows the state and city governments to respond quickly to business and remove what are called “barriers to entry.” A real estate broker who worked on the AAA deal said “brokers in other states are astounded when they learn that some details of the AAA Mid-Atlantic deal were ironed out over a weekend, with the state, city and private landowners working together.”38

There appears to be ample reason to believe AAA wanted tax breaks more than it needed them and that it wanted Delaware to feel the move would be made only if the state picked up the costs. In its application to Delaware for state money, AAA wrote:
financial assistance for these projects is critically important to our ability to locate the projects in Delaware. Our financial models indicate, without significant state financial assistance, the case to move the operations is not nearly as compelling. This assistance is needed to offset our considerable costs to move both operations, which are in excess of $21 million, much of which will be spent with Delaware businesses. It has not been AAA Mid-Atlantic’s practice to leverage debt for its projects, thus the funds will come from capital assets. Thus, the financial assistance from the state enables us to draw less upon our assets, and continue to fuel growth through financing new business initiatives.  

Typical of how the game is played, AAA also said it needed subsidies from Delaware because other states had offered them:

we have received or applied for incentive awards from the states of Maryland, Pennsylvania and New Jersey, and we have alternative properties and sites that we have reviewed in those states. We will evaluate the final overall package of benefits (incentives, tax abatements) for each proposed location, and choose the one that makes the best business and financial sense.  

But at two points, AAA and Delaware said there was subsidy competition between the states when there was not. First, AAA said in its Delaware subsidy application that it applied to New Jersey for tax breaks for its headquarters and call center. But, according to the New Jersey Economic Development Authority and the state Commerce Commission—which administer New Jersey’s major tax break programs—AAA did not submit formal applications for state tax breaks for its headquarters or call center. AAA applied only for New Jersey subsidies for its technology office, which it got. Indeed, when Delaware economic development officials summarized the AAA incentive deal for the Council on Development Finance’s public meeting, they wrote: “Delaware was competing against Maryland, Pennsylvania and New Jersey for the relocation of the headquarters.” But Delaware was not competing against New Jersey for the headquarters; AAA had not applied to New Jersey for tax breaks for that move.  

Second, Delaware officials wrote to CDF Board members, “Delaware competed against Maryland for the 400 Operations Center jobs.” But, Delaware was definitely not competing against Maryland for the call center jobs. As The Baltimore Sun reported after AAA’s announcement:

the [call center] move is a blow for Cecil County officials, who competed for the headquarters and had no inkling that losing out would also mean losing the Elkton center. The company didn’t notify the county’s economic development director. He said, ‘this is the first I’ve heard of it.
It may be true, but it’s inconsistent with what we’ve been told for the last two months.\textsuperscript{45}

Were AAA and Delaware trying to give the impression of more intense competition among states for the headquarters and call center then actually existed? Did they think it would make a more compelling case for giving AAA subsidies?

**PLAYING HARD TO GET WITH KEY INFORMATION**

Money is at the heart of the interstate tax break game. How much will state and local governments give out? How big are the offers businesses can round up? But the money is public money. So, the public should have ready access to tax break information—both on businesses that get tax breaks and on the process used to award these tax breaks. It is impossible to have an informed public debate about how taxpayer money is spent without readily available information. But often, such information is hard to get if it can be gotten at all.

This was very much the case in Delaware, before a 2005 federal court ruling saying that Delaware’s Freedom of Information Act (FOIA) was unconstitutional because it denied non-residents access to public records in the state.\textsuperscript{46} The residents-only requirement seriously limited the information that someone outside Delaware could get about a Delaware-based multi-state corporation—a situation with national implications. As one of the Georgetown University attorneys who argued in 2005 against Delaware, said of the residents-only law:

> If you are interested in corporate accountability and you’re not from Delaware, you’re out of the game. Delaware is crucial because it is the corporate home to the vast majority of the 1,000 largest corporations in the United States.\textsuperscript{47}

The residents-only requirement was not the only obstacle to accessing information on tax breaks. The State of Delaware does not make information on the structure of its business tax break programs readily accessible, either online or by contacting Delaware directly. Delaware gave AAA subsidies from its Strategic Fund—what the state describes as its primary funding source for economic development projects. But the guidelines for awarding these subsidies, the subsidy application and information about the state board that approves or turns down subsidies are not available on the state’s website. The Strategic Fund guidelines and application could be obtained only by calling Delaware officials directly several times. No information about the Council on Development Finance’s members, such as names and occupations, or the CDF’s schedule appear on the state website. Only after multiple inquiries did Delaware say that the CDF meets monthly and consists of nine appointed members, whose names Delaware later provided.

Not surprisingly, subsidized businesses are even less open with information than government officials. Despite AAA getting $8.1 million in state and local business tax
breaks funded by public money in two states – this organization will not give the public basic information about itself.\textsuperscript{48}

On questions about its employees, AAA is close-mouthed with information up and down the pay scale. Following multiple requests, AAA refused to state the salary of its CEO and where he lived before moving to Wilmington. Nor would it update the number of jobs at its headquarters. The State of Delaware also declined to provide wage information from AAA’s subsidy application about jobs at the AAA headquarters—which might have included the CEO’s salary. A Delaware official wrote that the wage information is confidential financial data of AAA Mid-Atlantic and therefore cannot be given to the public.

Nor would AAA spokeswomen in New Jersey and Delaware provide updated job numbers for AAA’s operations in the two states. When asked how many jobs had moved from New Jersey to Delaware, a AAA New Jersey spokeswoman said to call AAA’s Delaware headquarters.\textsuperscript{49} But the AAA Delaware spokeswoman said she couldn’t give the number.\textsuperscript{50}

**THE DEAL IN CONTEXT**

The events and decisions described in this report are just one sliver of the activities that take place across the country, every day, in the name of job creation and promoting a good “business climate.” There is no reason to believe that AAA Mid-Atlantic or the states involved in this case acted in better or worse ways than others. It does, however, provide a valuable look into how the process of spending public dollars—and seeking them, on the part of businesses—works.

With AAA Mid-Atlantic, New Jersey and other states in the region competed for an entity that moved its existing jobs from place to place without expanding its operations—and got paid to do it. While Delaware gave out the most money in this instance, taxpayers from New Jersey or any of the other states could be in that position in the next round of this zero-sum game.
END NOTES


3 AAA Mid-Atlantic Board Members are Allen J. DeWalle, Board Chairman and Chief Executive Officer; Donald R. Gagnon, President and Chief Operating Officer; Charles N. Anderson; Edward G. Boehne; David C. Carney; Robert F. Casciola; Diane K. Ferber; Kenneth D. Hill; Richard E. Hug; George R. Isaacs; Edward L. Jones, Jr.; Glen N. Jones; Gerald W. Petit; David B. Stahl, Sr.; Michael V. Starling; Carolyn A. Thoroughgood; Richard G. Unruh, Jr.; Neil I. Van Cleef and Fielding L. Williams, Jr.


17 Valiente, Al. Assessment Office, Department of Land Use, New Castle County, Delaware. Phone conversation with Sarah Stecker. May 1, 2006.


Rossi, Cathy. AAA Mid-Atlantic. Phone conversation with Sarah Stecker. May 19, 2006.


Maioio, Pam. AAA Mid-Atlantic. Phone conversation with Sarah Stecker. August 11, 2005.

Rossi, Cathy. AAA Mid-Atlantic. Phone conversation with Sarah Stecker. September 6, 2005
EDAP
New Jersey Policy Perspective is a nonprofit, nonpartisan organization established in 1997 to conduct research and analysis on state issues. NJPP’s Economic Development Accountability Project aims at broadening debate over state priorities and bringing more scrutiny and discussion to business tax breaks, a relatively little known but increasingly expensive state government activity. NJPP began its work on business tax breaks with release in December 2003 of Taking Care of Business: Does it Cost Too Much? Last year, the project continued with Telecom Giant Dials “M” for Money: And New Jersey Picks Up the Charges. Both are available on NJPP’s website at www.njpp.org