Buying Business
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Jan. 10, 2010 (McClatchy-Tribune Regional News delivered by Newstex) -- The incentives era in Winston-Salem and Forsyth County turns 20 this year.

Amid all the touting, if not shouting, about job- and capital-investment pledges from companies and economic officials, two key questions remain unanswered publicly.

How much bang for our tax credits are we really getting from incentives packages, particularly in terms of jobs? Will jobs based on incentives stick around past the end of the contract?

Those questions loom in the spotlight as the clock ticks toward the mid-April closing of the Dell Inc. (NASDAQ:DELL) desktop-computer assembly plant and the last weeks of employment there for its hundreds of employees. The plant has become the local and statewide poster child for over-the-top incentives hype and unfulfilled job pledges.

What's clear is that there's no readily available scorecard for the estimated 70 city and county incentives packages awarded since 1990, which total more than $112 million -- topped by the $38 million for Dell.

That means there is no definitive way to determine what percentage of an estimated 13,045 jobs pledged in those packages were created by the recipients, and how many still exist.

However, the Winston-Salem Journal's analysis of data provided by the city and county shows it is likely that more than 40 percent of the pledged jobs either were never created or no longer exist.

The lack of an incentives scorecard for the public baffles Dave Plyler, the chairman of the Forsyth County Board of Commissioners.

"I'd like to know what we got and didn't get from our incentive packages, how many jobs came and stayed, for the sake of making comparisons and fine-tuning future offers," Plyler said.

But Plyler says he is "a stronger supporter of incentives now than ever" to help add jobs in a region struggling through a pivotal and painful economic transition.

Created jobs hard to track

There's one primary reason why there is no easy way to track the number of jobs created by companies that have received incentives.

After the celebratory ground breakings and grand openings fade and production begins, most incentives packages involving recruited businesses don't require keeping the public updated on how recipients are performing during the contract period, which can last up to 15 years.

That is why economic officials prefer to promote, if not perpetuate, the promise of the pledge rather than publicize actual work-force numbers.

Companies cite proprietary and competitive reasons for keeping the numbers close to the vest. When the work-force data is provided, some can be up to 18 months old.

Dell became secretive with its work-force numbers when it no longer served a public-relations
purpose amid the cutting of temporary and contract jobs that began in late 2008.

Derwick Paige, the deputy city manager for Winston-Salem, said that if incentive applications are provided to the city, it is a public document.

"However, we typically do not get that information," Paige said. "The information is typically provided to Winston-Salem Business Inc. -- which is not public information -- and they will then confirm it. We then disburse payment to WSBI, who in turn will make payment to the company; thus the reason for a three-party agreement."

Paige said that during the incentive contract period, companies "are required to provide documentation that they are in compliance with the agreement, i.e. jobs, investment, taxes paid."

"After the agreement expires, the company has no obligation to report any information to us."

One increasingly popular tool of incentives accountability is the clawback provision. It can lower the amount of tax credits and money companies receive if they don't meet certain goals.

Clawbacks compelled Dell to pay back $26.5 million in local incentives.

"If the company does not meet or maintain its commitment for the period of the agreement, then the annual payment is reduced proportionately," Paige said.

Proponents of incentives say that even though there is no mechanism for measuring success, communities should be thankful for the jobs created by the packages as long as they have them.

The 70 local projects also account for more than $1.27 billion in capital-investment commitments, much of which likely were fulfilled for a sizable boost in property-tax revenue.

Paige said that in some instances, incentives offers have become more about the retention of existing jobs than the pledge of new ones. Recent examples include Hanes Geo Components, Sara Lee Corp. (NYSE:SLE) and US Airways Group Inc. (NYSE:LCC) in Winston-Salem; Thomas Built Buses in High Point; Unilin Flooring NC LLC in Thomasville; and RF Micro Devices Inc. (NASDAQ:RFMD) in Greensboro.

"You have to consider other benefits of incentive packages," said John H. Boyd, the president of The Boyd Co. Inc., a site-selection company in Princeton, N.J. He listed property and sales taxes, infrastructure improvements, enhanced skill levels in local labor market brought about by the new industry, and public relations value of having the company with a local address.

"Keep in mind, these past 20 years that you talked about have coincided with free trade and the global migration of much of our nation's manufacturing base to offshore locations," Boyd said.

According to state incentives data, there have been at least 101 state incentives packages made to corporations in the Triad and Northwest North Carolina since 1993.

Those projects represent $3.4 billion in capital-investment commitments, about 19,000 pledged jobs and a state incentives price tag of $475 million. Dell accounted for up to $268 million of the total, along with about $142 million for the FedEx Corp. (NYSE:FDX) cargo hub at Piedmont Triad International Airport.

However, the N.C. Commerce Department also does not have a readily available list of how many pledged jobs were created and have been retained. It uses a similar format to verify that recipients are fulfilling their incentive obligations, and if not, lowering the payments proportionately.

Washing away incentives

The global nature of business competition, and the fickleness of consumer trends, can wash away the best intentions of incentives in just a few years.

Dell pledged to create 1,700 jobs within five years, boldly convinced that individual and corporate appetites for desktop computers would remain strong for another 15 years.

But consumers preferred increasingly lower-priced laptops. And with no local Plan B, the Dell plant was doomed. It reached an employment peak of 1,150 jobs.

Another example is Lee Apparel Co., a 1991 incentives project eerily parallel to Dell.
The local community won an intense national competition for the plant, which provided the finishing fabric touch to jeans. Lee pledged 840 jobs in the midst of the 1991-92 recession. The victory was touted in the Journal "as about as traditional and substantive as good economic development news gets." Lee officials were persuaded in large part because of local elected officials' willingness to establish an incentives policy. The offer primarily consisted of $1.3 million for infrastructure needs at the Centre 311 business park in eastern Winston-Salem.

Although Lee created up to 614 jobs, by 1996 the company eliminated 47 percent of the workforce in reaction to heightened foreign competition. VF Corp. (NYSE:VFC), the parent company of Lee, closed the plant in March 2007, citing its offshore production as the reason for cutting the final 391 jobs.

Clawbacks more prominent

The reason why clawbacks have become more prominent in incentives packages is Bristol Compressors Inc. -- a hard-knock lesson for not giving upfront money to companies.

Bristol made compressors for heating and air-conditioning equipment. It pledged in 1993 to spend $40 million on an 180,000-square-foot plant in Sparta and create 750 jobs.

Between Alleghany County, Sparta and other backers, about $15.5 million in incentives were provided to Bristol provided that employment and investment benchmarks were met.

Bristol announced in August 2001 that it was closing up shop and that more than 400 workers would lose their jobs. A year later, Alleghany officials and other interested parties filed a lawsuit claiming that Bristol had breached its agreement and owed them $7.3 million. The company said that a $440,000 check it wrote in late 2002 was sufficient payback.

Alleghany officials argued that a termination clause required full reimbursement of all incentives if the plant didn't stay open for 10 years. Bristol officials maintained that the contract allowed for the abandonment of manufacturing, and money was owed only for the years that benchmarks were not met.

In April 2004, jurors ruled in Bristol's favor, deciding that the incentives contract was too vague. Bristol did make an additional modest payment.

Still, the story has somewhat of a happy ending for Sparta, according to longtime mayor John Miller.

"We received infrastructure improvements for the city from having the plant that we may have waited years to get, if we ever got them," Miller said. "Martin Marietta took over the plant in 2003 and has been a steady employer, though not at the level we had hoped from Bristol Compressors."

Tracking the progress

Local residents are not alone in not having a good way to track how incentives packages are paying off.

Advocacy group GoodJobs-First released a study in November 2007 that found just 30 states, including North Carolina, provide limited online information about incentives packages. The group gave North Carolina a "D+" grade for its policy; no state received a grade higher than a "B."

GoodJobsFirst has cited Dell numerous times in case studies on incentives, including its latest national study that it will release on Wednesday.

"Many of the states provide information about deals as they have been awarded, but they do not report outcomes of the deals over time, such as jobs actually created," according to the 2007 report.

North Carolina has been "a bellwether state" for economic incentives because it has featured prominent packages and has attracted critiques of the process from both the political left and right, said Greg LeRoy, the executive director of GoodJobsFirst.

Analysts say that there is debate about whether communities that enforce clawbacks may be hurting themselves regarding future major projects. LeRoy said that businesses and communities are paying close attention to how Winston-Salem and Forsyth decide to use the $26.5 million from...
the Dell incentive payback.

"I believe that because the clawbacks are becoming more prominent in incentive contracts, it makes other economic factors, such as location, work force, etc., more attractive," LeRoy said. "Of course, my goal would be for the money being dedicated to incentive go to local businesses that plan to stick around for the long haul."

The lack of a scorecard also irritates critics of incentives who have pleaded for years for more accountability.

"Shouldn't we be trying to assist small businesses in an across-the-board way instead of dumping money into companies that literally have no loyalty to North Carolina?" said Robert Orr, the executive director of the N.C. Institute for Constitutional Law. Orr is a former N.C. Supreme Court justice and candidate for the 2008 GOP nomination for governor.

FedEx in the spotlight

The FedEx hub is next up in the incentives spotlight.

In terms of hype, only Dell has exceeded the economic shot-in-the-arm expectations that have shadowed the project since FedEx chose PTI as the hub site in April 1998.

Delays -- environmental, legal and economical-- have combined to thwart the start of overnight-sorting operations at the hub since June 2003. The entire project is expected to cost about $500 million, with the Federal Aviation Administration paying 90 percent of the $130 million cost to build a third runway.

Part of the local appeal for the FedEx project was that the company had been saying for years it would have 750 employees when it began overnight-sorting operations. The projections were for 225 full-time positions and 525 part-time jobs. It also said it would hire up to 1,500 full- and part-time employees when the hub was fully operational.

However, Jim McCluskey, a company spokesman, said that FedEx now plans to hire up to 200 employees for the initial phase of the overnight-sorting operation for an overall work force of about 360. That includes employees transferred from local ground operations.

"We remain strongly committed to the Triad communities and believe our plan to open the sorting hub in the fall is positive, given economic times when companies are cutting back," McCluskey said. "We're not immune from what's occurring in the economy, but we believe we're in a better situation than many businesses because goods still have to be moved."

Incentives scorecard

Having an incentives scorecard makes sense both from an economic and good-faith standpoint, said John H. Boyd, the president of the site-selection company.

"Absolutely a systematic record or scorecard would be totally appropriate," Boyd said.

"Just as the county has successfully gone to school from the Dell case study, it can also learn much from the collective body of smaller projects approved in recent years. They all will build on the Dell experience as the county crafts new deals in the future."

Boyd said that changing economic conditions have to be factored into measuring the success or failure of incentives package.

"To be fair, there have been unforeseen events that have arisen, such as the credit crunch, a precipitous drop in the economy, a new technology breakthrough, an unexpected merger/acquisition, a terror event, a new regulatory impact, etc." Boyd said.

"What may have been solid business plans earlier have unraveled."

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