

Money well spent? State budget directs \$876 million in attempt to bolster, replicate megasite successes

Richard Craver - Jul 2, 2022



North Carolina Senate leader Phil Berger, R-Rockingham (right), speaks about a budget agreement reached with House Speaker Tim Moore, R-Cleveland (center), at a Legislative Building news conference in Raleigh. The 2022-23 state budget dedicates \$876 million toward a reserve fund with "high-yield" projects and new and expanded megasites in mind.

Associated Press

North Carolina legislative budget writers have embraced a version of the "success begets success" mantra when it comes to economic-development expectations for the next fiscal year.

Fresh off a series of major recruitment announcements over the past 12 months — most notably Triad projects Boom Supersonic, Toyota North America and VinFast — the 2022-23 state budget dedicates \$876 million toward a reserve fund with “high-yield” projects and new and expanded megasites in mind.

The budget bill said the fund “may be used only for projects” listed — but without specific company identification — whether they meet or exceed high-yield project metrics. The state Commerce Department will receive \$121 million to administer the fund.

Dedicating \$876 million toward economic-development projects is a wise and appropriate preemptive move by the legislature, said John H. Boyd, founder and principal with global site-selection firm The Boyd Co. of Boca Raton, Fla.

“This is money well spent,” Boyd said.

“North Carolina cannot go on autopilot and take economic development success for granted. Other states are increasing their marketing budgets, including expanded initiatives to attract new foreign direct investments from Europe and Asia.”

Boyd said that with concerns about the national economy, rising inflation, supply-chain costs and interest-rate increases, “North Carolina needs to aggressively promote its low operating costs by national standards.”

“Our BizCosts.com data bank has never seen greater data inquiries based on concerns about rising costs in high-growth Sunbelt markets, like North Carolina.”

Patrick McHugh, research manager with left-leaning N.C. Budget and Tax Center, said that with a nearly \$900 million economic-recruitment commitment, “we always need to judge major incentives against what alternative uses those funds could have been put to, both within economic development and for other public priorities.”

“This move extends a long-standing commitment to recruiting big corporations as the central pillar of how we do economic development in North Carolina.

“Like most states, we’ve been in the incentive game for decades and the new reserve potentially takes it to a new level.”

Largest puzzle piece

The biggest puzzle piece is a proposed \$450 million Job Development Investment Grant package for a project in Chatham County that correlates to Vietnamese electric vehicle startup VinFast’s plans for a manufacturing plant in the Triangle Innovation Point megasite near Sanford.



Toyota selected the Greensboro-Randolph Megasite in Liberty late last year for a \$1.29 billion lithium-ion battery production facility, which is expected to begin production in 2025 and create 1,750 jobs. At that time, Toyota and state economic officials suggested that a second phase at the plant could produce another 5,000 jobs. The budget bill states what the legislature is willing to offer to a high-yield project in Randolph that's likely that second phase: \$225 million in incentives in exchange for a capital-investment commitment of \$4.7 billion and a job-creation pledge of at least 5,000 jobs.

Walt Unks, Journal

VinFast said it would create at least 7,500 jobs from 2023 to 2027 at an annual average wage of \$51,096.

To qualify for the \$450 million in performance-based state incentives, the manufacturer would have to spend at least \$3 billion on capital investments and create at least 6,000 jobs.

VinFast has committed to \$4 billion in capital investments, which would be the largest single economic-development project in state history.

The budget bill breaks down how the \$450 million is dedicated:

- \$250 million to N.C. Transportation Department for public roadwork and wetlands mitigation. However, \$50 million of the funding would be kept in reserve until the company has created at least 3,875 jobs
- \$125 million in reimbursement to the company for site work, road work and wetland mitigation that it undertakes.
- \$75 million to Sanford for water and sewer improvements related to the project.

More Toyota, please

In December, Toyota Motor North America Inc. selected the Greensboro-Randolph Megasite for a \$1.29 billion production plant with 1,750 employees initially when production begins in 2025.

Toyota Battery Manufacturing N.C. will build lithium batteries for hybrid and electric vehicles.

The manufacturer has been made eligible for up to \$271.4 million in state incentives, while the Randolph County government is providing \$167.3 million in local incentives.

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About \$175 million would reimburse Toyota for sitework, wetlands mitigation and other expenses, while \$50 million in payment for creating and maintaining the final 1,125 job for the project.

At \$4.7 billion, the second phase also could become the largest economic development project in state history.

Boyd said the inclusion of the second phase incentive package is a clear signal that the initial phase 'is on track.'

Chipmaker to Carolina Core?

The budget bill foreshadows a potential economic-development for the Chatham Advanced Manufacturing megasite — the last of the four megasites available in the Triad and Carolina Core regions.

Although the bill does not identify the potential employers, multiple media outlets have reported on a potential chipmaker being the primary tenant at the megasite near Sanford.

The chipmaker would be required to make a capital investment of at least \$4.8 billion and create at least 1,800 jobs.

At \$4.8 billion, it also could be the single largest economic-development project in state history.

The bill offers the chipmaker \$112.5 million in performance-based incentives: \$57.5 million would reimburse the chipmaker for sitework and wetlands mitigation expenses; \$55 million would go to Asheboro for water and sewer improvement to support the expansion.

Boyd said “to keep in mind Intel received \$2 billion in Ohio incentives for their new plant in Columbus. Samsung just got a billion dollars from Texas for their chip plant in Taylor, Texas, just outside Austin.”

Adding new megasites

If Chatham Advanced Manufacturing megasite is about to secure the chipmaker project, it would leave the Triad and the state without a dedicated megasite to offer for future projects.

The budget bill addresses that likely shortcoming by establishing the N.C. Megasite Fund as a “readiness” tool for state economic officials.

The goal is identifying new megasites that would be offered to large manufacturing projects targeting — according to the bill — aerospace, automotive, clean energy, food processing and life science industries.

Readiness, in this instance, would include:

- Identifying and evaluating up to five megasites for preferred development and marketing;
- Enabling local governments or a partnership of local governments to acquire a newly identified or existing megasite;
- Supporting local governments or a partnership of local governments to install or upgrade public infrastructure, including publicly owned water, gas, and sewer systems, transportation infrastructure, and the electrical utility lines necessary to meet the needs of prospective employers for megasites;
- Supporting local governments or a partnership of local governments to fund on-site preparation, including clearing, grading, or other related expenses for megasites; and
- Facilitating coordination between the economic development entities and the N.C. Department of Environmental Quality to expedite any environmental needs related to timely site development.

In this instance, the bill only lists \$1 million in funding that would go toward “engaging a national site-selection firm ... to produce a report evaluating sites in the state and determined the five megasites best positioned for advanced manufacturing site-selection searches conducted by major employers.”

A grant for a megasite is limited to 85% of the lesser of the property’s purchase price or tax value. The local government(s) involved in a megasite project would be responsible for providing the remainder of the cost of purchase the megasite property not covered by the grant.

Historically from a site-selection process, real estate was the last piece of the puzzle, Boyd said.

“Today, with the unprecedented lack of available, shovel-ready industrial sites in most U.S. markets, real estate is playing a much bigger role, and earlier on in the site-selection process,” Boyd said.

“These mega parcels of 1,000 acres help to distinguish North Carolina versus many other states and help in compete in particular with Georgia and Tennessee for large and coveted electric vehicle projects.

“In the site selection business — the availability and readiness of these large, fully serviced sites are used as a benchmark in evaluating a state’s overall business climate.”

Supply chain project

One of the proposed projects is for a “supply chain-impact” manufacturing employer significantly involved in the construction of residential and commercial buildings.

The employer “is investing in its manufacturing process to transition away from utilizing coal-based energy byproducts to other alternatives.”

To qualify for funding, the employer would be required to make a capital investment of at least \$110 million and have at least 420 full-time or full-time contract employees over at least a five-year period.

The employer has operations in a Tier 2 county, and would agree to maintain or expand those operations during the five-year period.

State law requires N.C. Commerce Department officials to annually rank the economic health of all 100 N.C. counties. The 20 most prosperous counties are categorized as Tier 3, the next 40 counties as Tier 2 and the 40 most distressed counties as Tier 1.

Of the 14 counties in the Triad and Northwest N.C. for 2022, Forsyth and Guilford are among 12 counties listed as Tier 2, while Rockingham and Wilkes counties as Tier 1.

To help promote the availability of the fund, the budget provides \$60 million to the Economic Development Partnership of N.C., of which half would be spent on travel and tourism marketing, and the other half “on business marketing of the state.”

Sports incentives

Another \$49 million is being dedicated toward an amending of the state’s sports championship employer funding that can be spent on no more than two agreements during the budget year.

An additional \$7 million is set aside for administrative expenses.

The potential project is included in the same General Statute that was amended in September 2020 to recruit The U.S. Golf Association Golf Museum and Arnold Palmer Center for Golf History to Pinehurst Resort along with two other departments.

The USGA broke ground June 6 on its \$25 million campus branded as Golf House Pinehurst — the day following the completion of U.S. Women’s Open a few miles away at Pine Needles.

In exchange for up to \$43 million in incentives from N.C. lawmakers, the USGA is required to host a major men’s championship at least once every five to seven years and one major women’s championship at least every 10 years.

One of the components to the contract that ties the USGA to Pinehurst Resort is that the U.S. Open would be held at No. 2 five times between 2024 and 2047. The next time the U.S. Open is at No. 2 will be 2024.

According to the incentive agreement, the move is expected to produce \$800 million in economic benefit over 10 years and create more than 50 jobs for the Pinehurst/Southern Pines area. According to the bill, the average salary could be \$80,000 for at least 35 of those jobs.

Wise use of General Fund?

Although landing major economic-development projects with megasites is a high priority, some economists question the wisdom of dedicating up to \$876 million in taxpayer money to the effort.

“The General Assembly is proposing to transfer \$876 million in funds that otherwise would be available to the General Fund for other public purpose, such as education to support projects that benefit specific individual businesses that are unnamed in the bill,” said John Quintero, principal with South by North Strategies Ltd., a Chapel Hill research company specializing in economic and social policy.

“The idea is that the use of taxpayer funds to support individual entities will benefit the larger economy through the creation of jobs, investment in local infrastructure, and even the hosting of sporting events.”

“Perhaps that will be the case and the support will be worthwhile, but make no mistake: tax monies that otherwise would be available for other public purposes will be transferred for the benefit of individual firms.”

Quintero cited a report from EveryChildNC that determined the \$876 million in committed economic funding is \$443.2 million shy of the amount needed to fully fund the Leandro education plan.

“To the extent that the funds are linked to infrastructure upgrades and site preparation work, those investments at least can produce tangible improvements to the local community that will remain even if the company winds up leaving,” Quintero said.

“Funds that subsidize firms for direct job creation are more controversial, and the devil is in the details, such as the conditions imposed before the firm can draw down the public funds, the conditions that prevent ‘gaming’ employment numbers, and the conditions that would allow the state to claw back funds if conditions aren’t met or irregularities later emerge.”

Quintero said the appropriations for identifying and assembling up to five more megasites makes sense, though “significant other funds likely would be needed once a site is assembled and a firm is interested in siting a facility there.”

McHugh said that the communities “being transformed by these projects deserve to have an input on the future of their communities and get financial support to address the impacts of projects of this magnitude.”

“Yes, there is funding for local governments to invest in infrastructure like roads and water systems, but these kinds of projects create waves that extend much further into what housing costs, the need for new schools, increased demand for social services and more.

“Communities are going to need more financial support over decades to really cope with all of the costs.”

McHugh also cautioned that “we also know from history that the people who live where these projects are located often don’t see the biggest benefits.”

For example, of the 1,700 jobs created at the peak of production at the former Dell desktop-assembly plant in Winston-Salem, about half of the employees lived outside Forsyth County even though only Winston-Salem and Forsyth provided local incentives.

“Most of the jobs created historically don’t go to people who lived where major projects go, and sometimes entire communities are dislocated without sufficient compensation or assistance,” McHugh said.

“We’ll need to keep an eye on how these projects unfold to really maximize the benefits to the people who live nearby.”