

spotlight

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STARS AND CARS

\$8 Million Proposed for Roanoke Rapids Economic Development

S U M M A R Y : Northeastern North Carolina is trying to reverse its economic misfortune with two large economic development projects that could pull \$8.25 million from the General Fund. Proponents want to avoid the legacy of the Global TransPark, but studies used to justify the projects are based on similarly faulty assumptions. A proposed Advanced Vehicle Research Center draws on no existing regional strengths; an entertainment district relies on transforming the region's tourism. The General Assembly should not fund either project. Members should be sure to read reports on similar proposals—and read them with skepticism.

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North Carolina's Northeast Partnership, Inc., the economic development partnership for 16 counties from the Outer Banks to Halifax County, is pitching for \$8.25 million in taxpayers' money. The House included in its version of the state budget \$7.5 million (of a requested \$15 million) for an Advanced Vehicle Research Center in Northampton County near Roanoke Rapids. A proposed entertainment district, including the Randy Parton Theater, under the House budget, would also receive \$750,000 for marketing, in addition to at least \$1.5 million from the Roanoke Rapids Sanitation District.¹

The Northeast Partnership seems to be using questionable results to promote the value of these projects, however. Dick Dell is the man behind the vehicle research center, but was also the person who conducted the feasibility study. Other organizations did the economic impact analyses and the feasibility study for the Parton Theater, but these organizations had to rely on assumptions from the Partnership. Those assumptions are questionable at best, and undermine the claims for the projects.

Entertaining Enterprise

A July 8 press release about the entertainment district gives the impression that a study done by Economic Research Associates (ERA) found the

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entertainment district to be a viable project. But ERA only focused on one 1,500-seat theater if other aspects of the project—such as a 200,000-square-foot retail center and two hotels that will add 400 rooms to the region’s 1,000 existing rooms—were completed and operating before the theater opens. There is no reported study on the feasibility of the hotels or any of the other theaters in the entertainment district, although the ERA study shows that some of the hotels in the region currently operate at just 50 percent occupancy.²

The Partnership also touts³ an economic impact analysis by the Carolina Center for Competitive Economics (C3E) at the Kenan-Flagler School of Business in Chapel Hill. Over 30 percent of the direct economic effects in the analysis are from construction. As a result, the C3E states, “the proposed investment, while having significant direct impacts, *may not have considerable indirect and induced employment impacts*,” [emphasis added].⁴

In addition, “the model does not presume that the jobs created are long-term positions. *This is especially true of construction jobs.*” The model does assume, however, that all of the economic activity in the entertainment district is entirely new to the region. Even at its most pessimistic, the impact analysis assumes a 20 percent reduction in retail and restaurant revenues—but not in ticket sales.

One reason for this distinction is the assumption that tourists and seasonal visitors would drive theater attendance; visitors to the Outer Banks now spend almost no money in the region other than for the rental property. The problem with this assumption is that, according to the feasibility study, “Initially it is anticipated that the Theater will draw more heavily from resident and seasonal visitor markets than other potential markets.”

ERA noted in its feasibility study for the Theater that “only a relatively small share [of those who stop in the entertainment district] are likely to arrive at the property at a time when they could conveniently attend a show AND be willing to engage in an unplanned time commitment that would keep them off the road for two hours or possibly longer.” Those staying on the Outer Banks would have to make a day-trip to Roanoke Rapids, since the drive can reach four hours or more, only about 90 minutes less than the trip to Alexandria, Virginia.

A final note on the economic impact analysis: the Northeast Partnership provided an underlying assumption that the jobs created by the entertainment district would have average salaries of \$64,860—over 150 percent higher than the region’s current average salary of \$25,029.

Vehicle Research

Dick Dell, chief promoter of the Advanced Vehicle Research Center (AVRC) proposed in Northampton County, also wrote the feasibility and viability study in October 2002.⁵ The study was more like a business plan than a feasibility study, however—and an incomplete plan at that.

Unlike the theater study, which makes clear the assumptions underlying the study and the conclusions about feasibility, the AVRC study says only, “We believe that such an enterprise is needed today and the need will increase in the near future for a number of reasons including environmental factors.” It goes on to state, however:

There are significant challenges that must be met in order for this enterprise to be successful. Those challenges include the need for federal, state, and local assistance in the start-up of the enterprise. Private investment will be available as the enterprise reaches a level of profitability.

Needless to say, Mr. Dell provides no clue when or what that “level of profitability” might be. Instead, he notes that there is a “need for rapid implementation of the project” because “there are certainly a number of other automotive testing facilities that can be used for much of this type of testing. ... It should be expected that some other localities will implement similar projects.”

In his focus on the need for government funds and a quick start, Mr. Dell finds it may be useful to start the project as a non-profit corporation: “While that status will assist in the ability to secure state and federal assistance funds, *it is not possible to raise private investment funds.*”

The rest of the report provides a site plan, costs for facilities and equipment, a list of auto manufacturer websites, a mailing list for fuel cell companies, sources of government grants, and speculative comments on the effects on education in the state. For some reason, the study suggests advertising in a publication called *Automotive Intelligence* instead of industry standards such as *Automotive News*, the Society of Automotive Engineering's *Automotive Engineering International*, or the specialist *Automotive Testing Technology International*.

Mr. Dell seems well intentioned and cares deeply about cars. His bio says, "He has been an automotive enthusiast and a collector and restorer of classic automobiles for more than 40 years." His vision may even be correct, but, contrary to his conclusion, that vision can and should rely on private investors. Even Sen. Robert Lee Holloman of Northampton County, who is working in the General Assembly to obtain money for the project, told the *Raleigh News & Observer*, "We just want to make sure it's solid," and, "We don't want another Global TransPark [GTP]," referring to the project outside Kinston begun in the early 1990s.⁶ But the feasibility and other studies on the AVRC and the entertainment district use the same methodology as those for the GTP: they guess.⁷

The Vision Thing

In April 2005, the C3E worked with North Carolina's Northeast Partnership to develop a "Regional Partnership Vision Plan," as required by the General Assembly (S.L. 2004-124, Section 13.6).⁸ A valuable and easily understood tool in such plans is cluster analysis. Such analyses show, for example, that the Research Triangle region has strengths in pharmaceuticals, informatics, and automotive parts manufacturing. The 16 counties of Northeast North Carolina have employment concentrated in six clusters: tobacco products, feed products, wood processing, farming, seafood products, and textiles and apparel. Only tobacco and farming fared better than the rest of the country, while the other four clusters lost ground.

As one would expect for a region seeking to create an Advanced Vehicle Research Center, "motor vehicles" is one area of improving competitiveness. The motor vehicles, however, are boats and boat building is naturally a coastal activity. Competitiveness in wood products and furniture is improving much more rapidly without any government incentives.

The Vision Plan suggests the possibility of creating "value-added tourism" based on the number of visitors to the region. It notes, "Another example of infrastructure development and service delivery that can lead to higher-value-added tourism is the Partnership's initiative to develop "Theatre and Entertainment Districts." The "s" implies more such projects will follow in other towns.

Let Markets Work

A letter to the editor of the *New York Times* on August 1 by Dennis Cuneo of Toyota Motor North America reiterated the primacy of strategy in corporate decision-making. In responding to claims that Toyota chose to locate a new plant in Canada because of health costs and illiterate Americans, Cuneo said the main reason Toyota located in Canada was that it already had a similar plant down the road whose management could help run the new factory.⁹

As more details emerge about the Dell plant in Winston-Salem, it becomes ever more apparent that the very generous incentives given to Dell had little effect on the final decision. FedEx chose to put a hub at the Piedmont International airport instead of GTP.

The most successful clusters develop naturally, gradually, and incrementally: Charlotte's banking, Detroit's cars, Seattle's coffee, Akron's tires, or the Triangle's information and biotechnology sectors. Japan developed a strong automotive industry because of competition the government sought to curtail, but ceded its lead in high-definition television to Korea and was never able to fulfill its dream of fifth-generation computers despite heavy government promotion.

The lessons for state and local government, and for regional economic development partnerships, cannot be overstated: regions, as much as individuals, must make the most of what they have; sometimes the result is not what

was expected or desired, but picking winners is a foolish undertaking; and the best policy is simply to create a positive environment that allows all businesses naturally to flourish or wither without handicap or crutch.

The General Assembly has a final chance to establish a precedent against wasting more public money on private ambitions. The conference committee still has time to eliminate funding for the Advanced Vehicle Research Center and the Roanoke Rapids Entertainment District. The \$8.2 million could pay the salaries of two teachers in each school district in the state, or more than three-fourths of the teachers in Northampton County.

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Notes

- 1 Philip D. Brown, "RRSD loans city \$1.5 million to help with entertainment district," *Roanoke Rapids Daily Herald*, July 15, 2005
- 2 "Final Report: Randy Parton Theater Feasibility Study," Economics Research Associates, April 15, 2005
- 3 "Entertainment District – Major Travel Destination Announced for Roanoke Rapids," North Carolina's Northeast Partnership, Inc., June 30, 2005, <http://www.ncnortheast.com/Press%20Release%20-%20June%2030,%202005%20Entertainment%20Project.pdf>
- 4 Michael Luger, Ph.D and Keren Israeli, "Economic Impact Analysis of Proposed Entertainment District in Roanoke Rapids, NC," Carolina Center for Competitive Economics, June 2005, <http://johnlocke.org/site-docs/spotlight/EntImpact>
- 5 *A Report on the Feasibility and Viability of a Center for Research, Engineering and Development of Advanced Technology Vehicles in North-east North Carolina*, October 2002, <http://johnlocke.org/site-docs/spotlight/AVRCFeasibility>
- 6 Amy Martinez, "Turnaround may pin on auto center," *Raleigh News & Observer*, July 12, 2005
- 7 Michael Walden, "Global TransPark Is a Risky Investment for the State," *North Carolina Insight*, September 1992, pp. 49-57
- 8 *Regional Partnership Vision Plan: North Carolina's Northeast Partnership*, April 2005, Carolina Center for Competitive Economics, <http://www.kenan-flagler.unc.edu/assets/documents/cceNENCEconPlan.pdf>
- 9 Dennis Cuneo, "Building Auto Plants," *New York Times*, August 1, 2005, <http://www.nytimes.com/2005/08/01/opinion/01toyota.html?n=Top%2fOpinion%2fEditorials%20and%20Op%2dEd%2fLetters>