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Failed Projects of Economic Development Incentive Programs

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Economic development incentives are used by policymakers to attract and increase business activity as well as to encourage businesses to locate in and/or expand operations in Mississippi, which allows the State to remain competitive with other states. There are a variety of incentives used in Mississippi to achieve the goal of fostering job creation and stimulating the local economy. The Mississippi Development Authority (MDA) is the primary agency in the State responsible for the management of economic development oversight. Accordingly, MDA is tasked with providing good stewardship of the State's interests and negotiating deals to attract business into the State.

The Office of the State Auditor (OSA) recently conducted a limited scope review of five (5) of the incentive programs under which the State provides loans and/or grants for economic development projects. OSA examined MDA's records on projects funded under the Mississippi Major Economic Impact Act (MMEIA), which was once a specialized piece of legislation enacted for the purpose of providing specific incentives to major economic development projects. The other incentive programs reviewed were the Industry Incentive Financing Revolving Fund (IIFRF), the Mississippi ACE Fund (ACE), the Rural Impact Fund Grant Program (RIF), and the Existing Industry Productivity Loan Program. From 2010 – 2017, the State awarded grants and/or loans to 243 economic development projects through these incentive programs. Currently, 112 of these projects are categorized by OSA as having an Active status, 103 projects are listed as Inactive, 17 have been Canceled, and 11 are considered Failed.

Active projects are those that have not yet completed all of the requirements specified in their contracts or have not been closed out by MDA. Projects are considered Inactive by MDA when businesses have met all of their contractual obligations and are closed out by MDA or have ceased operations in the State. MDA also defines as Inactive those projects which have not met contractual commitments and for which MDA has requested repayment or is pursuing remedies, or has referred to OSA or the Attorney General's Office. For the purposes of this report, OSA defines projects that have not met contractual obligations and have ceased operations within the State as Failed. Canceled projects are those which were awarded grants or loans by the State, but did not materialize. In most cases, while the projects were awarded grants or loans, no monetary funds were disbursed by MDA or all monies were repaid by the grantee or borrower.

MDA has disbursed a total of $672.9 million to economic development projects under these incentive programs. A total of $185.6 million has been disbursed on failed inactive projects from 2010 – 2017, as indicated in Table 1.

Table 1

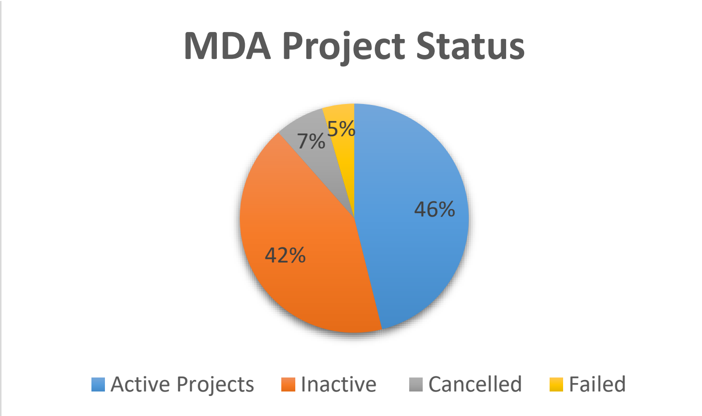
Projects	Funding Source	Amount
Twin Creeks	MMEIA/ACE	$23,480,239
KiOR	IIFRF	$76,250,000
Stion	IIFRF	$74,760,199
GreenTech Automotive	IIFRF	$4,879,292
Alphagen	ACE	$60,000
Eco-Elite	ACE	$15,000
MS Forge, Inc.	ACE	$200,000
Southern Airways Corporation	ACE	$250,000
WPG America, Inc.	ACE	$40,000
Sanderson Plumbing	Existing Industry	$2,500,000
Schulz	ACE	$3,200,000
Total		**$185,634,730**

Chart 1 shows the percentage of projects that are currently under each program incentive classification. Active and Inactive projects were evenly distributed, representing 46% and 43%, respectively. Failed projects represented 5% of total projects that were funded and 7% of the projects were Canceled.

Overall, the five (5) incentive programs reviewed committed to creating a total of 35,997 new jobs and a total capital investment of $8.3 billion. This reflects

$8.59 investment generated for every dollar awarded under these programs and $12.37 investment generated for every dollar spent. Even the IIFRF program, which represented the largest amount lost (see Table 1) on failed projects, generated an investment of $9 for every dollar spent.

Chart 1



Mississippi Major Economic Impact Act

The Mississippi Major Economic Impact Act, jointly administered by MDA and the State Bond Commission, was created by the Legislature to provide incentives to aid local communities in the development requirements of large capital projects. Under MMEIA, funding is derived from the issuance of State general obligation bonds. Bonds are defined in MS Code §57-75-5 as "general obligation bonds, interim notes, and other evidences of debt of the State of Mississippi." The Governor has typically introduced special legislation to address the customized needs of projects funded under MMEIA.

Projects may include industrial and commercial enterprises, research and development, warehousing, distribution, transportation, processing, and mining establishments. Projects are eligible for funding under MMEIA if they offer a minimum capital investment of $300 million by the private sector or the U.S. government. Employers may also qualify if they have a capital investment of $150 million from private or U.S. Government sources and create 1,000 net new jobs. They also qualify if they create 1,000 new jobs that pay 125% of the most recently published average annual wage of the State.

From 2010 – 2017, there have been five (5) economic development projects funded under MMEIA. Combined, these projects committed to adding 5,000 jobs and a capital investment of $2.25 billion. MDA disbursed a total of $141.8 million to these projects. There was one (1) failed project under MMEIA, Twin Creeks Technologies (Twin Creeks). Another project, Schulz Xtruded Products (Schulz), received funding under MMEIA before being canceled.

Twin Creeks was a silicon panel production company that was located in Senatobia, MS. MMEIA was amended by SB 3189 during the 2010 Regular Session to qualify Twin Creeks for funding under MMEIA. As per the contract with MDA, Twin Creeks was to invest $132 million and create 500 jobs. In return, the company was awarded a $23.5 million loan from the State. After failing to meet contractual obligations, the company eventually filed bankruptcy and ceased operations in Mississippi.

Schulz, a supplier of piping components in Tunica County, received $15 million from MDA under MMEIA. The project was initially committed to creating 500 jobs and investing $300 million. However, the project never met its job commitment and the project was categorized as canceled by MDA. In January 2017, Precision Castparts Corp. purchased the company. The acquiring company paid off the outstanding $17.5 million debt and in February 2017, the company paid a $10,000 penalty for failing to meet its capital investment commitment.

Industry Incentive Financing Revolving Fund

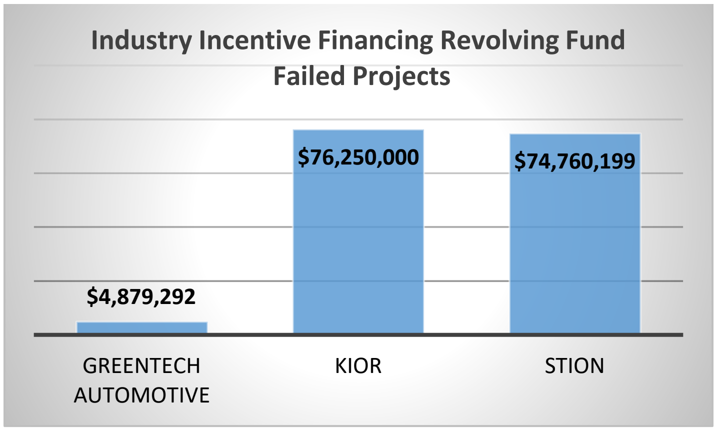
The Industry Incentive Financing Revolving Fund is a special fund designated to provide economic development incentives without having to create specific legislation when projects are identified. In MS Code §57-1-221, MDA was given sole discretion in providing loans and grants under this fund. Loans and grants are awarded to local governments or companies to meet specific needs of projects, with terms negotiated between the entity and MDA.

The funds may be used for activities such as site preparation, infrastructure improvements, building construction, training, or relocation of equipment. The requirements for projects funded through IIFRF are job creation and capital investment. However, projects, which contribute to a "significant regional impact," as determined by MDA, may also qualify. Business enterprises receiving these incentives must commit to the creation of 150 – 250 new jobs and a $15 - $30 million capital investment depending on the tier ranking of the county in which the business is located.

During the period of 2010 - 2017, MDA awarded grants or loans to 38 projects using this funding source. Projects receiving this incentive committed to creating 15,788 jobs and $4.5 billion in capital investments.

MDA disbursed a total of $400 million to these projects. There were three (3) projects that failed during this period: KiOR, GreenTech Automotive (GreenTech), and Stion (see chart 2). The total amount expended on these failed projects was $155.8 million.

Chart 2



KiOR was a **startup** biofuel company located in Columbus, MS that was to convert wood chips into biocrude. In 2010, KiOR was given a $75 million loan to build a plant in the State. An additional $2 million in research grants was given to two Mississippi universities on behalf of KiOR for workforce training. KiOR agreed to invest $500 million and create 1,000 jobs in the State. While some biofuel was produced at the Columbus plant, it fell far short of the intended volume. In late 2014, KiOR defaulted on the loan from the State and filed for bankruptcy. The matter is currently in litigation.

GreenTech, an electric car startup company, received an IIFRF loan in 2011 in exchange for investing $60 million in the local economy and creating 350 new jobs in Tunica County. MDA has expended *$4.8 million* on this project to date. In 2016, GreenTech defaulted on the first loan payment. Subsequently, GreenTech made a single payment of $150,000 on the loan in November 2016. OSA conducted a compliance review of the company in November 2016 and determined the company never fulfilled its contractual obligations pertaining to capital investment and/or job creation. On June 5, 2017, OSA issued a demand of $6.3 million to GreenTech, which includes the principal amount, interest and recovery costs, for failure to meet the obligations of the Memorandum of Understanding.

Stion was a startup solar panel manufacturing company, which received *$74.8 million* from MDA under IIFRF. Stion was initially committed to creating 1,000 jobs in Hattiesburg, MS and investing $400 million. However, Stion failed to meet these obligations. In October 2017, Stion announced that it was discontinuing operations and would close the plant on December 13, 2017. MDA is attempting to sell assets of the company and in March 2018, the OSA issued a formal demand that the company pay $92,943,780.86 for failure to perform their obligations.

Mississippi ACE Fund

The Mississippi ACE Fund is a program aimed at providing grants for local economic development entities to assist in funding extraordinary economic development projects to trigger economic growth in Mississippi. An extraordinary economic development project is defined in MS Code §57-1-16 as a "new or expanded business or industry which maintains a strong financial condition and minimal credit risk and creates substantial employment, particularly in areas of high unemployment."

Businesses receiving funds under this incentive program must demonstrate that they qualify as an extraordinary economic development opportunity and display an economic disadvantage by locating the projects in specified counties. It is typically used when there exists fierce competition between states to procure a particular project. ACE is funded through appropriations or funds made available by the State Legislature or funds from other sources designated for ACE. In order to be eligible to receive ACE grants, projects must demonstrate a need for assistance with construction, renovation, or expansion. Recipients are encouraged to use ACE funds in conjunction with other State and federal programs.

During the period of 2010 – 2017, there were 143 projects funded under the ACE program. Businesses receiving ACE grants for their projects agreed to create 15,363 jobs and invest nearly $2.6 billion in the local economy. As of 2017, MDA has disbursed $82 million to support these projects. Of this amount, $2,263,755 was spent on projects that ultimately failed. These projects included **AlphaGen, Eco-Elite, MS Forge Inc., Southern Airways Corporation, WPG Americas Inc., and Twin Creeks Technologies** (which also received funding under MMEIA).

- **AlphaGen**, a Ceramix polymer ceramic coatings manufacturer, announced plans to locate a plant in Neshoba County in 2011. The company agreed to an initial investment of $1.4 million and the creation of 200 jobs. MDA awarded a grant of $60,000. The City of Philadelphia also obtained a Community

Development Block Grant (CDBG) to renovate a building for a business that was never used. MDA is currently pursuing remedies, having already issued multiple requests to the company.

- **Eco-Elite**, located in Neshoba County, received a grant for $15,000, in exchange for a commitment of 25 jobs and an investment of $4.5 million. The company has since closed and MDA issued a request for recovery of funds in March 2017.
- In 2013, **MS Forge, Inc**. announced its intention to locate a manufacturing plant in Ackerman, MS. The project was awarded $200,000, thereby agreeing to create 60 new jobs in the region and invest $7 million. After the company closed, MDA issued a request for repayment in March 2017, but has not received a response from the company.
- **Southern Airways Corporation** agreed to create 65 new jobs in DeSoto County and make a capital investment of $275,000 in return for a grant totaling $250,000. The company has since closed its facility and MDA sent a request for repayment to the company in November 2017.
- **WPG Americas, Inc**., in Desoto County, received a $40,000 grant in exchange for creating 60 new jobs and an investment of $500,000. Since the project failed, MDA has sent multiple requests for repayment to the company.
- **Twin Creeks** received $498,755 in ACE funding.
- **Schulz** received $3.2 million in ACE funding.

Rural Impact Fund Grant Program

Established in MS Code §57-85-1, the Rural Impact Fund Grant Program is intended to provide grants and loans to rural communities and rural business to assist and promote businesses and economic development in rural areas. Eligibility for this grant is limited to municipalities with a population of 10,000 or less and counties with a population of 30,000 or less according to the most recent federal decennial census. RIF funding is derived from appropriations or funds otherwise made available by the State Legislature and funds from any other source designated for the RIF. Projects which may be funded under RIF include construction, rehabilitation, repair of buildings, sewer and transportation system improvements; which directly affect the project site and any other projects approved by MDA.

Of the 40 projects that received assistance under RIF from 2010 - 2017, 34 have been closed out by MDA after fulfilling their obligations, four (4) projects remain <u>active</u>, and two (2) have since been <u>canceled</u>. MDA expended a total of $7.8 million on projects under RIF, and these projects committed to creating 1,302 new jobs and investing $128 million. While no projects funded under RIF <u>failed</u> during this time, one project, **DuraSip** in Neshoba County, received $7,500 before subsequently being <u>canceled</u>.

Existing Industry Productivity Loan Program

The Existing Industry Productivity Loan Program is intended to provide loans to existing industries and local governments to assist in improving productivity and competitiveness through new technology. Existing industry is defined by MS Code §57-93-1 as "a manufacturing enterprise that has been operating in this State for not less than two (2) consecutive years that meets minimum criteria established by the Mississippi Development Authority." This loan program does not have a stipulation for job creation. In fact, businesses receiving this incentive may reduce workforce by up to **20%**. Funding for this incentive is derived from State general obligation bonds.

Under the Existing Industry Loan Program, there were 17 projects funded from 2010-2017. A total of $40 million have been expended by MDA on projects under this program. The companies agreed to create 1,440 new jobs and a total combined investment of $114.7 million. During this time period, one (1) project under this program failed: Sanderson Plumbing.

Sanderson Plumbing was a toilet seat manufacturer located in Columbus, MS. In 2014, the company filed bankruptcy and closed. Sanderson committed no jobs and the projected investment was not included in the MDA records provided to OSA. Sanderson Plumbing defaulted on the $2.5 million loan given to the company by MDA.

In reviewing the five (5) incentive programs, it is clear that Mississippi has lost the majority of money on projects funded under the Industry Incentive Financing Revolving Fund. This is largely due to three (3) alternative energy companies that <u>failed</u> (KiOR, GreenTech, and Stion), costing the State a combined total of $155,889,491 (see chart 3). The State also lost a substantial amount under MMEIA ($22,981,484) due to the failure of Twin Creeks. The breakdown of amounts expended on <u>failed</u> projects by incentive program is also shown in Chart 3. MDA has issued requests for recovery of funds to six (6) of the <u>failed</u> companies for an amount totaling $75,325,199, while a few other failed projects are currently involved in ongoing legal proceedings.

Mississippi, like most states, has historically used a variety of incentives and subsidies to attract new businesses to the State and to promote expansion of existing business in order to stimulate job creation and economic growth. The five (5) incentive programs discussed herein are just a few of the programs under the purview of MDA. While analyzing all of these incentive programs was beyond the scope of this review, Mississippi has enacted legislation requiring evaluation of economic development projects. HB 1365 (Regular Session 2014) created the Economic Development Programs and Tax Incentives Evaluation Act of 2014. The Act directs the University Research Center, in consultation with the Director of MDA and the Executive Director of the Legislative Budget Office, to prepare an economic analysis of the economic development programs and tax incentives offered by the State. The first report was released in January 2016. Although the study found the incentive programs analyzed yielded an overall positive return to the State, there were some problems noted, such as projects receiving multiple incentives prohibited the accurate estimation of impacts for a particular incentive. Additionally, inconsistency or incompleteness of data collected makes a thorough analysis difficult. Issues such as these must be considered to ensure accuracy in analysis and reporting.

It would be prudent to continue and expand on evaluation efforts in order to safeguard the public interest and inform evidence-based policy decisions to strengthen Mississippi's financial health and stimulate economic growth in the State.