North Carolina Should Weigh Continued Investment in the Global TransPark Authority and Consider How to Repay the Escheat Fund Loan

Final Report to the Joint Legislative Program Evaluation Oversight Committee

Report Number 2011-02

April 19, 2011

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April 19, 2011

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Honorable Co-Chairs:

Session Law 2010-31, Section 28.3(b) directed the Program Evaluation Division to conduct a comprehensive program and financial review of the North Carolina Global TransPark Authority. This report examined the progress the Authority has made towards achieving its mission and goals, the ability of the Authority to be a self-sustaining enterprise capable of paying back the loan from the Escheat Fund, and the most feasible options for the future of the Authority.

I am pleased to report the Authority cooperated with us fully and was at all times courteous to our evaluators during the evaluation.

Sincerely,

John W. Turcotte
Director

PROGRAM EVALUATION DIVISION
NORTH CAROLINA GENERAL ASSEMBLY

April 2011 Report No. 2011-02

North Carolina Should Weigh Continued Investment in the Global TransPark Authority and Consider How to Repay the Escheat Fund Loan

Summary

In 1991, the General Assembly created the North Carolina Global TransPark Authority (hereafter referred to as the Authority) to develop an industrial park facility built around a multi-modal transportation network that included an airport capable of handling international cargo flights. Absent a statutory mission, the Authority adopted a mission of creating skilled, well-paying jobs in eastern North Carolina, supporting education, research, and development efforts, and attracting economic investment from targeted industries. The Authority's enabling legislation authorized it to borrow up to $25 million from the North Carolina Escheat Fund for the development of the park; the balance on the loan as of February 2011 was $39.9 million, and the current maturity date is October 1, 2011.

The Global TransPark today is different from what was originally envisioned. Lagging transportation infrastructure development has yet to allow the Global TransPark to become the multi-modal manufacturing and distribution hub originally proposed. Furthermore, overly optimistic, initial job projections make it appear as if the Authority has fallen short of its adopted mission. The General Assembly directed the Program Evaluation Division to conduct a comprehensive program and financial review of the Authority. This evaluation found

- the Authority has made progress towards meeting its mission and goals;
- current administrative practices and operations limit the Authority's ability to achieve and demonstrate results;
- the estimated benefit to the General Fund of direct private sector employment at the Global TransPark will exceed the state's investment in the Authority by 2025;
- the Authority cannot be self-sustaining, but some options exist to reduce the Authority's reliance on state appropriations;
- the Authority cannot repay the Escheat Fund loan, and thus the responsibility falls to the state; and
- immediate divestiture in the Global TransPark for purposes of offsetting the Escheat Fund debt is not possible.

Based on these findings, the General Assembly should

- establish a repayment schedule for the Escheat Fund debt; and
- choose between two options for the future of the Global TransPark—continue supporting the Authority based on demonstrated results or incrementally divest from the park.

Purpose and Scope

The General Assembly directed the Program Evaluation Division to conduct a comprehensive program and financial review of the North Carolina Global TransPark Authority (hereafter referred to as the Authority).[1] This evaluation addressed the following research questions:

- What progress has the Authority made towards achieving its mission and goals?
- Is the Authority positioned to be a self-sustaining enterprise capable of paying back the loan from the Escheat Fund?
- What are the most feasible options for the future of the Authority?

To conduct this review, the Program Evaluation Division analyzed information from numerous sources including

- interviews with and administrative queries completed by the Authority staff regarding its administrative practices, operations, and structure;
- review of Authority finances and audit reports;
- review of the Authority's 2010 Strategic Plan;
- interviews with the North Carolina Departments of Transportation, Commerce, and State Treasurer, Global TransPark board members, Global TransPark Foundation, North Carolina's Eastern Region, Lenoir County, Lenoir Community College, Federal Aviation Administration, and Dr. John Kasarda; and
- review of legislation.

Background

The original concept for the Global TransPark was a unique industrial park facility built around a multi-modal transportation network that included an airport capable of handling international cargo flights. In 1990, at the request of Governor Jim Martin, John Kasarda, PhD, submitted a concept paper describing the potential for a global air cargo industrial complex for North Carolina.[2] The paper posited, "North Carolina, the birthplace of aviation and the state with the highest percentage of its workers in manufacturing, is a natural to combine the two in a visionary manner, thereby substantially enhancing the economic competitiveness of the state and the nation." The complex proposed by Kasarda would integrate just-in-time manufacturing systems with air freight systems.[3] Comparing the proposed complex to Research Triangle Park in his 1991 State of the State address, Governor Martin endorsed the concept as a rare opportunity for North Carolina to dominate a rapidly growing market.

At Governor Martin's direction, the North Carolina Department of Transportation commissioned a study on the feasibility of creating such a complex for North Carolina. The study concluded a state-of-the-art air

[1] 2010 NC Sess. Law, 2010-31, Section 28.3(b).

[2] Kasarda has been the Director of the Kenan Institute of Private Enterprise at The University of North Carolina Business School at Chapel Hill since 1990, and he is the leading developer of the aerotropolis concept, which positions airports as 21st century drivers of business location and urban economic growth.

[3] Just-in-time manufacturing is a repetitive production system in which processing and movement of material and goods occurs as they are needed.

cargo airport surrounded by and connected to manufacturing, distribution, and support facilities could be constructed and estimated the total cost of the complex at $733 million. According to the study, the creation of a global air cargo industrial complex would enhance the economic development prospects for the state, generating about 55,000 new jobs and contributing approximately $2.8 billion annually to the state economy.

In 1991, the General Assembly created what is now known as the North Carolina Global TransPark Authority as an independent government agency located within the Department of Transportation and governed by a 20-member board of directors.[4] The General Assembly gave the Authority the power to establish, develop, and operate a global air cargo industrial complex. Similar to local government entities, the Authority has two features that distinguish it from privately owned industrial complexes.

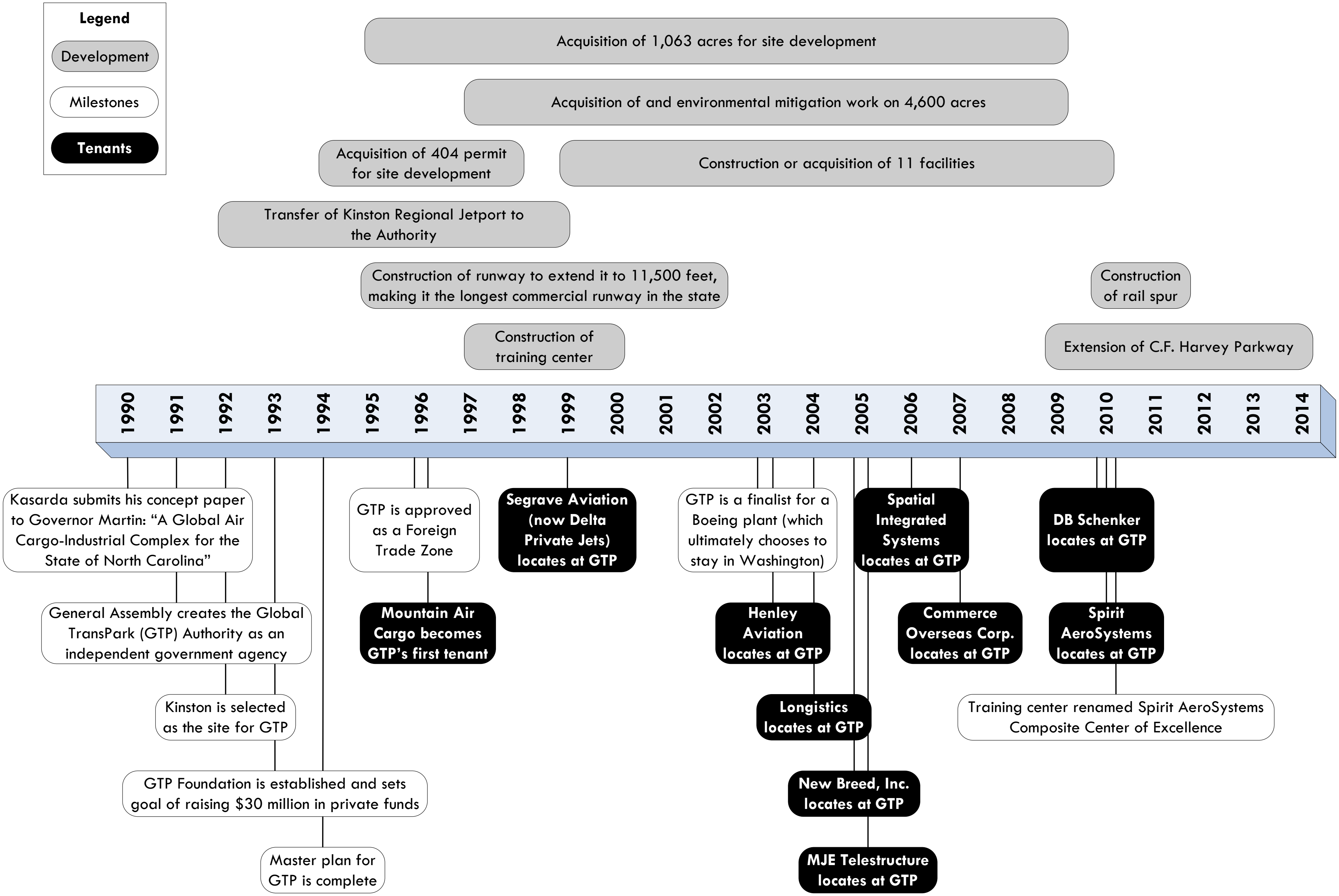
- **The Authority is exempt from property tax.** Because the Authority is a state entity, property owned by it is exempt from taxation in accordance with Article V of the North Carolina Constitution. The Authority is in a position to pass these savings along to prospective tenants. Consequently, businesses may choose to rent space at the Global TransPark rather than buy property elsewhere.
- **The Authority has zoning powers.** The General Assembly gave the Authority exclusive zoning jurisdiction over the complex site and zoning jurisdiction within six miles of the boundaries of the complex site.

In 1992, the Authority issued a request for proposals for possible sites for the complex and considered the following site information: size, cost, and environmental characteristics; access to highways, railways, airports, and seaports; availability of utilities; availability and cost of labor; availability of facility support services; quality of life in surrounding areas; zoning and permitting issues; and amount of financial support from local government entities.

After reviewing 11 proposals, the Authority selected Kinston in Lenoir County as the preferred site for the Global TransPark. The Kinston site had extensive airport infrastructure in place; a large amount of undeveloped acreage surrounding it; proximity to a number of military bases; and the potential for highway, rail, and deep-water port access. Based on the Kinston site, the Authority commissioned development of a master plan, which was completed in 1994. Exhibit 1 shows a timeline of major events related to the creation and development of the Global TransPark.

[4] 1991 NC Sess. Law, 1991-749. Seven members of the board are appointed by the Governor, three are appointed by the President Pro Tempore of the Senate, three are appointed by the Speaker of the House of Representatives, one is appointed by the Lenoir County Commissioners, and one is appointed by the Kinston City Council. The State Treasurer, Chairman of the State Ports, and Commissioner of Agriculture serve on the board. Two members serve at the pleasure of the President of The University of North Carolina and the President of the North Carolina Community College System.

Exhibit 1: Timeline of Major Events in the History of the Global TransPark



Source: Program Evaluation Division based on documents provided by the Authority.

Over time, the Authority has worked towards developing the infrastructure for the Global TransPark that was set out in the 1994 master plan. The Global TransPark has the following major features in place or underway:

- 946,566 square feet of leasable space,
- 604 acres of developable land,
- longest commercial runway in the state,
- direct rail access to the Port of Morehead City,
- access to multilane highway and multiple interstate highways,
- onsite conference, videoconference, research, education, and training center,
- secure internet access, and
- designation as a Foreign Trade Zone.

Appendix A provides a map of the complex and Appendix B describes the features of the Global TransPark in detail.

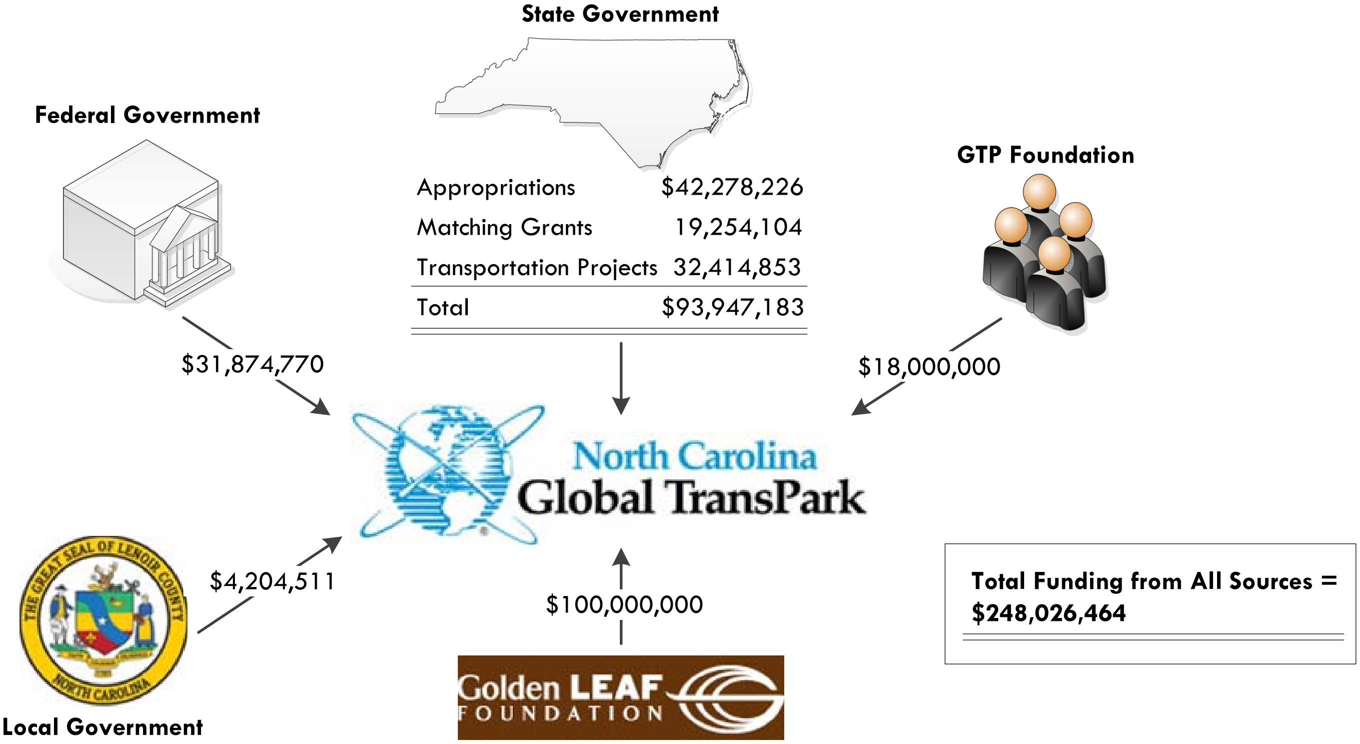
The Global TransPark has received a total of $248 million in funding from local, state, federal, and private sources since Fiscal Year 1991-92. As shown in Exhibit 2, the Authority has received $42.3 million in state appropriations for developing and operating the Global TransPark and another $19.3 million in matching grants from the state for building the infrastructure of the park. In addition, Department of Transportation funds in the amount of $32.4 million have gone toward the construction of roads and the rail spur at the Global TransPark. Federal government entities, including the Federal Aviation Administration, Department of Defense, and Economic Development Administration, have provided $31.9 million in grants for developing the park's infrastructure. Lenoir County and the City of Kinston have contributed $4.2 million to the Authority for infrastructure and economic development incentives.

The Global TransPark also has received financial and non-financial support from several other entities. The Global TransPark Foundation is a nonprofit corporation chartered to support the business development efforts of the Global TransPark through private fundraising efforts. The foundation raised $18 million of the $30 million it set out to collect in private funds. Golden LEAF Foundation contributed $100 million as part of an incentive package to land a major tenant at the Global TransPark.[5] The North Carolina Department of Commerce and North Carolina's Eastern Region support the Global TransPark in non-financial ways, such as featuring the park in marketing materials.[6]

[5] Golden LEAF Foundation is a nonprofit organization established by the General Assembly to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina.

[6] The Eastern Region, formerly known as the Global TransPark Commission, was established by the General Assembly to promote the economic development of a 13-county region that includes the Global TransPark. In 1993, the General Assembly authorized the Eastern Region to levy a $5 tax on motor vehicle registration for five years. The proceeds could be used for economic development projects and infrastructure construction projects that were within the territorial jurisdiction of the region but not within the Global TransPark.

Exhibit 2: Total Funding for the Global TransPark from All Sources (Fiscal Year 1991-92 to 2009-10)



Notes: Total funding does not include capital investment from any of the Global TransPark tenants or the $39.9 million debt to the Escheat Fund because that loan must be repaid. The $100 million from Golden LEAF Foundation was part of an incentive package to land a major tenant at the Global TransPark.

Source: Program Evaluation Division based on documents provided by the Authority.

In 1993, the Authority borrowed $25 million from the North Carolina Escheat Fund to develop the Global TransPark, and the balance on the loan as of February 2011 was $39.9 million due to the interest accrued. The Escheat Fund provides a means by which unclaimed property can be brought under the control of the state and converted to benefit the people of North Carolina. Unclaimed property is liquidated and invested in the Escheat Fund, which is managed by the Department of the State Treasurer. The original investment is held in trust for the rightful owners, and the interest earned on the investment is distributed annually to the State Education Assistance Authority, which makes loans to "worthy and needy" North Carolina resident students who are enrolled in state public institutions offering post-secondary education.

The Authority's enabling legislation authorized it to borrow up to $25 million from the Escheat Fund to finance development of the park and set a September 1, 1999 maturity date on the loan. The legislation also stated, "In the event of a loss to the Escheat Fund . . . it is the intention of the General Assembly to hold the Escheat Fund harmless from any such loss by appropriating to such Escheat Fund funds equivalent to such loss."[7]

The promissory note for the $25 million loan stipulated the loan's variable interest rate was based on the earnings record of the Treasurer's long-term investment fund and collateral for the loan was land or any other property

[7] 1991 NC Sess. Law, 1991-749, Section 8.

purchased using funds from the loan. Of the $25 million borrowed, $22.5 million was spent on buildings, land, and mitigation credits for the Global TransPark. The Authority returned the unused portion of the loan totaling $2.5 million to the Escheat Fund, along with an additional $758,048, leaving a principal balance of $21.7 million.

The Authority was unable to repay the Escheat Fund by September 1, 1999, and the General Assembly began extending the maturity date to give the Authority more time to repay the loan and the accrued interest. Since 1999, the General Assembly has extended the maturity date five times. The current maturity date for repayment of the loan is October 1, 2011. As of February 2011, the accumulated interest on the loan from the Escheat Fund was $18.1 million, and the total debt was $39.9 million.

The Global TransPark today is different from what was originally envisioned. Before a site was selected, the feasibility study projected job creation associated with investing in a global air cargo industrial complex. These projections estimated such a facility would create 55,000 new jobs, contributing approximately $2.8 billion annually to North Carolina's economy. The 1994 master plan, which was based on the Kinston site, described a vision of the Global TransPark as having direct connections to rail lines, speedy access to major seaports, and multiple connections to interstate highways. The master plan also estimated direct employment five years after initial development would reach 3,600 people. However, these estimates were predicated upon having the right infrastructure in place.

According to the master plan, after initial development is complete, business parks experience relatively slow growth in the first 8 to 10 years and significant growth in years 12 through 25. The Global TransPark will not have access to rail and ports until late 2011, and its access to multilane and interstate highways will not be completed until 2014—only then will initial development of the Global TransPark be complete. Furthermore, the total investment needed for the Global TransPark complex that was initially proposed was estimated at $733 million; to date, total investment in the Global TransPark has been considerably less. Therefore, the Global TransPark has not become the multi-modal manufacturing and distribution hub originally envisioned; rather, the Global TransPark is an industrial park with multi-modal attributes.

Findings

Finding 1: The Authority has made progress towards meeting its mission and goals.

The General Assembly created the Authority pursuant to its powers under Article V, Section 13, of the North Carolina Constitution to grant state and local governmental entities all the powers useful in connection with the development of new and existing airports and seaports. The General Assembly gave the Authority the power to acquire all required property for the project; issue bonds and notes to finance the project; and acquire and operate any facilities to aid commerce associated with the project. Although there was no explicit mission or purpose for the Authority in its enabling legislation or subsequent revisions, the implicit purpose of the

Global TransPark to create jobs was discussed in the initial concept paper, the feasibility study, and the master plan.

Absent a statutory mission, the Authority has adopted and defined its mission as

- creating skilled, well-paying jobs in eastern North Carolina;
- supporting education, research, and development efforts related to the creation of new economic opportunity; and
- attracting economic investment from identified, targeted industries.

The Authority has identified five industries to target for location at the Global TransPark: aerospace and aviation, advanced manufacturing, logistics and supply chain management, emergency response and disaster relief, and defense and security.

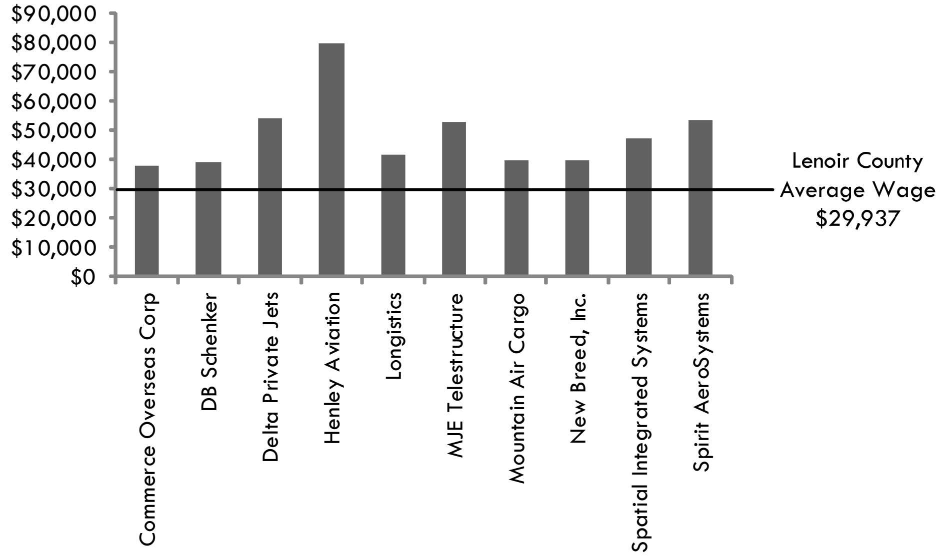
Despite its location in an economically challenged region, the Global TransPark currently has 14 tenants in four of its targeted industries, for a total of 372 jobs with a total average salary of $53,641. Creating jobs in the eastern region of the state is a challenge. Kinston, located in Lenoir County, is considered an economically distressed region; Lenoir County is designated as a Tier 1 county by the North Carolina Department of Commerce.[8] When Kinston was selected as the site of the Global TransPark, the unemployment rate for Lenoir County was 7.2% (one percentage point higher than the state) and the poverty rate was 20% (seven percentage points higher than the state). At present, the Global TransPark has 10 private companies as tenants. The Division of Forest Resources, State Highway Patrol, Division of Emergency Management, and North Carolina's Eastern Region also lease space at the park. Appendix C provides a description of each of these tenants.

There are only a few private employers in the eastern region of the state with employment levels over 1,000. When one of the Global TransPark's tenants, Spirit AeroSystems, is fully staffed, it will be the largest private employer in Lenoir County and one of nine private businesses in the 13-county economic development region that employs more than 1,000 people.[9] Further, the average annual salary for Spirit AeroSystems employees is $53,750 ($23,813 or 80% higher than the average wage in Lenoir County). Exhibit 3 shows the average wage of all the private companies at the Global TransPark was above the average wage for private employers in Lenoir County in 2009.

[8] The Department of Commerce annually ranks the state's 100 counties based on economic well-being. The most distressed counties are designated as Tier 1, the next as Tier 2, and the least distressed as Tier 3.
[9] Spirit AeroSystems has a contract with the Department of Commerce for Job Development Incentive Grant money that stipulates annual job creation targets. By 2014, Spirit AeroSystems is required to create 1,031 new jobs.

Exhibit 3

Average Salary of Global TransPark's Private-Sector Tenants Exceeded Average Salary of Lenoir County's Private-Sector Employers in 2009



Source: Program Evaluation Division based on data provided by the Global TransPark Authority and the North Carolina Employment Security Commission.

Major progress was made towards achieving the Authority's mission and goals when Spirit AeroSystems chose to locate a manufacturing facility at the Global TransPark. Spirit AeroSystems is considered a leader in the aerospace industry as the world's largest independent supplier of commercial airplane assemblies and components. In May 2008, Spirit AeroSystems announced that it would locate its new manufacturing facility to build the center fuselage frame section from composites for an Airbus commercial aircraft at the Global TransPark. The company announced it would invest at least $570 million and create 1,031 jobs by 2014. Spirit AeroSystems broke ground in September 2008 and had created 162 jobs as of December 2010. Once Spirit AeroSystems is fully staffed, it will be the second largest aerospace company in North Carolina and the largest private employer in Lenoir County.

The location of Spirit AeroSystems at the Global TransPark has increased interest from other aerospace companies. Administrators from the Eastern Region stated that in the past they had to spend a lot of time explaining where Kinston, North Carolina was located, but "now people know." Eastern Region staff stated that at recent trade shows, businesses sought out the North Carolina booth to learn more about the Global TransPark and to understand why Spirit AeroSystems chose that location. According to the Department of Commerce, there has been increased interest from aerospace companies statewide since Spirit AeroSystems announced its plans to locate at the Global TransPark. This growth in interest for prospective companies symbolizes the growing potential of the Global TransPark.

Finding 2. Current administrative practices and operations limit the Authority's ability to achieve and demonstrate results.

The Authority lacks a results-based approach to the management of the Global TransPark. Results-based management is a proactive, goal driven approach that allows organizations to demonstrate the results of their programmatic efforts.[10] There are two critical components to results-based management: strategic planning and performance management systems.

Deficiencies in the Authority's 2010 strategic planning process and product inhibit its ability to develop a results-based management approach. Strategic planning has become a generally accepted best practice for the operation of successful public and private sector organizations. To date, the Authority has had three strategic plans. The first was completed in 2002-03, and the second followed in 2006-07. In 2010, the General Assembly and Governor Perdue directed the Authority to develop a strategic plan that identified intermediate and long-term goals. The 2010 Strategic Plan was completed in December 2010 and is intended to replace previous plans.

The Program Evaluation Division reviewed the strategic planning literature, including documents created by the North Carolina Office of State Personnel, to determine critical aspects of the strategic planning process and critical elements of a strategic plan document. Exhibit 4 shows how well the Authority implemented these critical features in its 2010 strategic planning process and document.

Whereas the Authority's 2002-03 and 2006-07 plans were created by external entities, the Authority, in conjunction with administrators at the North Carolina Department of Transportation, led the effort to create the 2010 Strategic Plan. This increased level of involvement in the strategic planning process increases organizational ownership of the strategic plan document. Nevertheless, the Authority's process for developing the strategic plan was incomplete (see Exhibit 4). It did not sufficiently engage all critical stakeholders, such as North Carolina's Eastern Region or the Global TransPark Foundation, or determine its abilities to address challenges and develop strategies for addressing them. Furthermore, two of the three products associated with comprehensive strategic plan documents were inadequate or missing in their entirety. The Authority's mission statement was not explicitly stated. Rather than setting out strategic goals to address the strategic issues facing the Authority, the plan described a series of actions that would be conducted in the future, many of which were dependent on circumstances not within the Authority's direct control.

[10] The Program Evaluation Division's report entitled *Improving Regional Economic Development through Structural Changes and Performance Measurement Incentives* (May, 2008) identified the need for improved accountability for economic development entities.

Exhibit 4

Global TransPark Authority's 2010 Strategic Plan Lacked Several Critical Features

Critical Aspects of the Strategic Planning Process	
Identifying and engaging critical stakeholders	◖
Identifying an organization's mission and vision	●
Scanning the internal and external environment for an organization's strengths, weaknesses, opportunities, and challenges (commonly referred to as a SWOC analysis)	◖
Comparing threats and opportunities to an organization's ability to meet challenges and seize opportunities (commonly referred to as a GAP analysis)	○
Identifying strategic issues based on SWOC and GAP analyses and formulating strategies for addressing these issues	○
Implementing strategies	◖
Critical Elements of Strategic Plan Documents	
A mission statement that describes the purpose of an organization	◖
A vision statement that expresses the aspiration of an organization or what the organization looks and acts like when it is fulfilling its mandate	●
Strategic goals that address the strategic issues facing an organization	○
● = Fully implemented ◖ = Partially Implemented ○ = Not implemented	

Source: Program Evaluation Division based on review of strategic planning literature, documents provided by the Authority, and interviews with the Authority.

The Authority lacks a formalized performance management system to measure, monitor, and report on progress toward achieving goals identified in a strategic plan. Strategic planning links management to operational activities by connecting the goals identified in the strategic plan to the operational objectives measured by a performance management system. Developing and implementing a formalized performance management system involves three components:

- setting operational objectives;
- monitoring progress towards achieving objectives; and
- taking remedial action when performance falls short.

Through the strategic planning process organizations develop overarching strategic goals, and each level or business unit within an organization should align their operational objectives with those goals. Strong operational objectives identify what an organization wants, how much an organization wants, when an organization wants it, and how an organization is going to get it. These objectives guide each business unit's operational activities.

Successful performance management systems improve the upward and downward flows of information. Statutorily, the Authority is required to have an annual audit and to report its activities to the General Assembly on an annual basis and to the Joint Legislative Commission on Governmental Operations on a quarterly basis. The Program Evaluation Division found that despite the existence of specific reporting requirements, the Authority has been providing only oral briefings, annual audits, and quarterly financial reports to the General Assembly. Development and implementation of a formalized performance management system would allow the Authority to more easily and clearly report its activities and the result of those activities to the General Assembly, thus enhancing the Authority's accountability.

A formalized system also would improve the downward flow of information. It would allow the Authority to monitor the results of their activities, providing feedback about what is or is not working. The Authority acknowledges the lack of a formalized performance management system is an operational weakness and plans to address this shortcoming. However, until deficiencies with the strategic planning process and products are addressed, developing a formalized performance management system will have little value and will not allow the Authority to strategically focus its efforts and demonstrate the results of those efforts.

The Global TransPark Authority needs to increase the economic development capacity of its staff, strategic partnerships, and board of directors to meet its mission and goals. Although economic development is the core mission of the Authority, there are only 1.5 full-time equivalent (FTE) positions dedicated to economic development activities out of a total of 16.65 FTE. There is one full-time marketing position, and the Executive Director estimated she spends approximately 50% of her time on economic development activities. A reoccurring theme that emerged from interviews conducted for this evaluation was the need for the Authority to have greater economic development capacity. Building on the Authority's internal economic development capacity would require a full-time economic developer with connections to businesses and site selection consultants in targeted industries. However, adding additional staff to the Authority would cost money.

Another strategy for increasing the Authority's economic development capacity is to continue to strengthen its economic development partnerships. Historically, the Authority has had strained relationships with local and regional economic developers, but over the last few years these relationships have strengthened. Currently, the North Carolina Department of Commerce and Eastern Region do joint marketing with the Authority. These activities include promoting the Global TransPark on brochures and sharing booths at trade shows. In addition, the Authority has partnered with other entities for foreign trade zone marketing.

A board of directors more closely aligned with targeted industries and with statewide representation could strengthen the organization and increase its ability to attract new businesses. In interviews conducted for this evaluation, Authority board members and economic development experts suggested the Authority would benefit from a board of directors more closely aligned with its economic development mission. Currently, only one board member owns or operates a business within one of the Global TransPark's targeted industries (logistics). None of the board members represent the aerospace industry—one of the key industries for the Global TransPark—or the other targeted industries (advanced manufacturing, emergency response and disaster relief, and defense and security). Except for the Secretary of Commerce, no board members are from the economic development community. Furthermore, eight members are state administrators, and there is no representation from the western part of the state despite legislation stipulating consideration should be given to having representation from the three regions of the state.

Finding 3. Program Evaluation Division analysis of the state's investment in the Authority shows the cumulative benefits to the General Fund will exceed the cumulative costs by 2025.

To determine the cost effectiveness of North Carolina's investment in the Authority, the Program Evaluation Division conducted a cost-benefit analysis of the state's investment in the Authority to determine the "payback" period of the initial and continued investment in the Authority. The payback period is the number of years it takes for the cumulative benefits produced by the Authority's operations and activities to exceed the cumulative costs of the state's investment in the Authority. Appendix D provides a more in-depth explanation of the cost-benefit analysis conducted by the Program Evaluation Division. The analysis for determining the payback period was built on two fundamental assumptions:

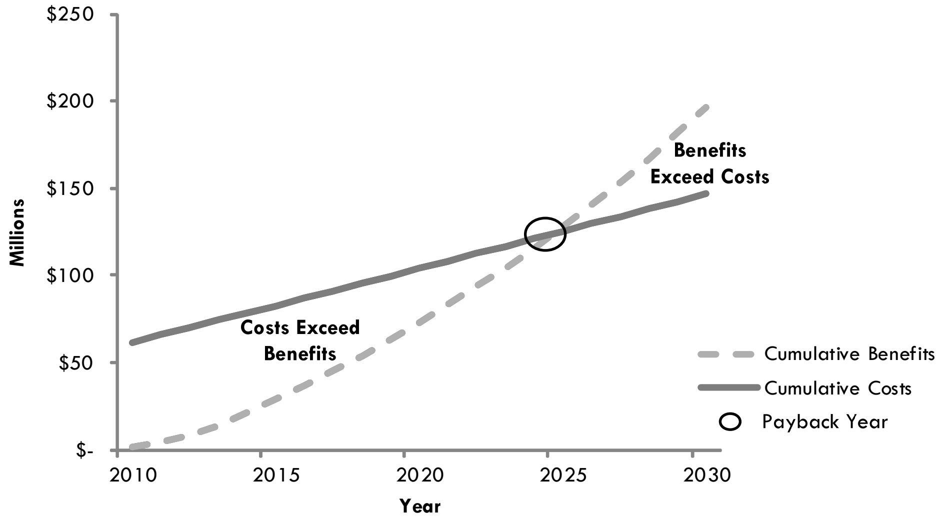
- **Costs:** The costs included in the analysis are only reflective of the past and continued investment the General Assembly has made in the Authority for the operation and development of the Global TransPark. These costs have come from the General, Highway, and Escheat Funds. The costs associated with the Escheat Fund are based on a 20-year repayment schedule.[11]
- **Benefits:** The accrued benefits are a function of average salary and direct employment counts for each of the private sector businesses located at the park. The benefits counted are only those that accrue to the North Carolina General Fund through income and sales taxes.

Exhibit 5 provides a visual depiction of the Division's payback analysis, where the intersection of cost and benefit lines represent the year in which cumulative benefits equal cumulative costs. The area to the left of the point of intersection represents the time period in which cumulative costs exceed cumulative benefits. The area to the right of the point of intersection represents the time period in which cumulative benefits exceed cumulative costs. Program Evaluation Division analysis determined the benefits of private-sector employment at the Global TransPark will exceed the state's investment in the Authority in 2025.

[11] The Program Evaluation Division ran multiple cost-benefit analyses based on different options for resolving the Escheat Fund debt through a payment schedule. Because little variation existed between payback years for each of the scenarios, this finding only presents the payback period of the least aggressive repayment option.

Exhibit 5

Estimated Benefits of Private Sector Employment at the Global TransPark Will Exceed the State's Investment in the Authority After 2025



Source: Program Evaluation Division based on data provided by the Authority and consultation with Fiscal Research Division staff.

This cost-benefit analysis provides a conservative estimate of the payback period for the development and operations of the Authority. The analysis is conservative because the estimated benefits that accrue to the General Fund do not include corporate taxes or revenues that accrue at the local level from ad valorem or property taxes.[12] Furthermore, the derived benefits that accrue to the General Fund only extend to direct private-sector employment at the Global TransPark; they do not account for the benefits that accrue from indirect or induced employment.

Increases in cumulative benefits or decreases in cumulative costs accelerate the point in time at which the payback year is reached. Holding costs constant, inclusion of additional benefits or increases in current benefits, such as growth in average salary or jobs beyond industry projections, would shorten the payback period. Similarly, any decrease in costs, such as altering the amount of the annual appropriation, also shortens the payback period.

Previous analysis of the Global TransPark did not examine the cost effectiveness of North Carolina's investment in the Authority because it did not attempt to estimate revenues that accrue to the General Fund as a result of the Authority's operating activities. In 2010, at the request of the Authority, the North Carolina Department of Commerce developed an economic impact analysis of the Global TransPark. The purpose of economic impact analyses is to estimate the total economic impact to a region or the state economy for a given number of inputs. These inputs include jobs at specified wages with an assumed level of capital investment. The analysis for the Global TransPark found existing tenant operations contribute $27.5 million to the region's gross domestic product each year. The analysis found that by 2014 when Spirit AeroSystems is fully staffed, existing tenant operations will contribute $169.3 million to the region's gross domestic product. This economic impact analysis did not

[12] These benefits were left out of the model because local taxes do not accrue to the General Fund and because of inaccuracies associated with quantifying corporate tax benefits.

examine cost effectiveness because it only estimated economic impact to the region; it did not quantify the fiscal impact to the General Fund.[13]

Program Evaluation Division analysis demonstrates the estimated fiscal impact to the General Fund from direct private sector employment at the Global TransPark will exceed the state's past and continued investment in the Authority's activities in 2025. In Fiscal Year 2010-11 the Authority received $1.43 million in appropriations.[14] The estimated fiscal impact on the General Fund from private-sector employment at the Global TransPark in Fiscal Year 2010-11 was estimated at $2.4 million. Assuming the appropriation to the Authority remains unchanged in the future, the analysis shows the estimated value of direct public-sector employment at the Global TransPark to the General Fund exceeds the amount needed for the annual amount appropriated to the Authority. Indeed, the fiscal impact on the General Fund from private-sector employment at the Global TransPark is expected to grow to $15 million by Fiscal Year 2029-30. Whereas the Program Evaluation Division's analysis shows the Authority's operations may be justified by its estimated fiscal impact on the General Fund, this analysis does not speak to the Authority's ability to become self-sustaining.

Finding 4. The Authority cannot be self-sustaining under the current operating environment; however, there are opportunities to reduce the Authority's reliance on state appropriations.

The Program Evaluation Division defined self-sustaining as generating operating revenues to cover operating expenses without an annual appropriation. The Division had to define self-sustaining in regards to the Global TransPark because it is a new expectation for the Authority. The General Assembly first required the Authority to propose a schedule to achieve financial self-sufficiency and repay the Escheat Fund in 2009.[15] The Program Evaluation Division inferred the intent behind the legislative request was reducing or eliminating the annual appropriation to the Authority. In the Authority's 2010 Strategic Plan, the Authority asks that a clear definition of self-sufficiency be established and did not identify a need for an increase in annual appropriations.

Under the current operating environment, the Authority cannot be self-sustaining because its annual operating expenses exceed its operating revenues. First, the Program Evaluation Division conducted a comprehensive review of the Authority's finances.[16] Appendices E and F provide a more in-depth description of the Authority's revenues, expenditures, and balance sheets for the past five fiscal years.

The Authority generates operating revenues from transactions related to building and space rental, land leases, landing fees, fuel flowage fees, janitorial services, computer network user fees, and Foreign Trade Zone

[13] In accordance with N.C. Gen. Stat. § 143B-437.52(a)(5), the Department of Commerce also conducted a fiscal impact analysis for the Job Development Incentive Grant it awarded to Spirit AeroSystems. The purpose of these fiscal impact analyses is to ensure the total benefits of a project to the state outweigh the costs, rendering the grant appropriate for the project.
[14] Of the $1.43 million, $1.28 million was an annual appropriation to support the operation of the Global TransPark from the Highway Fund and $150,000 was a block grant for airport improvements from the Department of Transportation's Division of Aviation.
[15] 2009 NC Sess. Law, 2009-451, Section 25.2(b).
[16] A review of annual audits revealed no material deficiencies in the management and operation of the Authority's finances.

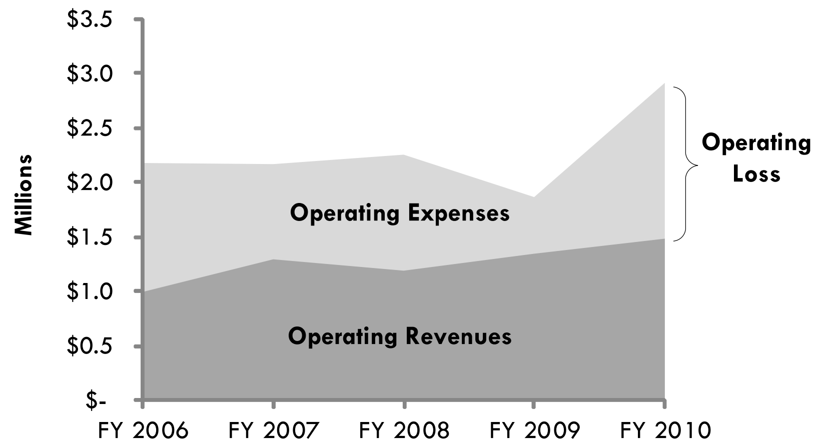
user fees. Since Fiscal Year 2005-06, the Authority's operating revenues have grown modestly.

The Authority's operating expenses are distributed across several categories. In Fiscal Year 2009-10, most of the Authority's expenses accrued through projects, salaries and benefits, utilities, and professional, legal, and accounting services. Unlike the steady, modest growth experienced by operating revenues, operating expenses increased sharply from Fiscal Year 2008-09 to 2009-10 due to an increase in capital project expenditures.

Exhibit 6 shows the difference between the Authority's operating expenses and operating revenues, or its operating loss, since Fiscal Year 2005-06. This operating loss shows the Authority's revenues have not kept track with expenses, putting into question the ability of the Authority to achieve self-sustainability.

Exhibit 6

Global TransPark Authority Has Had Operating Losses Since Fiscal Year 2005-06



Note: The Authority's annual appropriation and facility depreciation was excluded from this analysis.

Source: Program Evaluation Division based on data provided by the Authority.

The Authority's ability to become self-sustaining is compromised because some of its revenue-generating assets have been used as economic development incentives. The Global TransPark's assets have been used as incentives to entice businesses to locate at the park, and the Authority is not involved in negotiations for these incentives. For example, the state agreed to lease the Authority's 304-acre site to Spirit AeroSystems for $100 annually. At a fair market lease value of 10¢ per square foot, the 304-acre site had an annual leasable value to the Authority of more than $1.3 million dollars. Another example of an asset whose revenue-generating ability has been compromised through its use as an economic development incentive is the training center. As part of its incentive package, the training center was renamed the Spirit Aerosystems Composite Center of Excellence (hereafter referred to as the Composite Center), and Spirit AeroSystems was given priority use of the facility free of charge until 2020. Since Spirit AeroSystems has taken priority use of the Composite Center, the Authority's revenues from the center have dropped from $206,165 in Fiscal Year 2007-08 to $40,923 in Fiscal Year 2009-10.

Self-sufficiency is a reasonable expectation in the long term but requires the Authority to reduce operating expenses and/or generate more revenue. In Fiscal Year 2009-10, the Authority allocated its $1.28 million annual appropriation across three business units.[17]

- The administration and marketing business unit carries out development, marketing, and planning for the Global TransPark ($653,513).
- The airport business unit manages the physical property of the airport, maintains compliance with federal and state airport regulations, and coordinates with air traffic control and transportation security administration staff ($339,849).
- The training center business unit manages the facility and leases out available space ($286,638).

Exhibit 7 proposes five mutually exclusive options to reduce operating expenses at the park and any associated cost savings. All five options are feasible, but each has implications that present different implementation challenges. Of the options identified for reducing operating expenses at the Global TransPark, the most feasible is transfer of the Composite Center to Lenoir Community College. Lenoir Community College currently provides faculty for classes taught at the Composite Center and cost-shares an administrative assistant position with the Authority. In addition, Lenoir Community College administrators have stated they could use the space. Because of grant money the Authority received to build the center, the United States Economic Development Administration would have to approve the transfer and Lenoir Community College would have to use the facility for economic development purposes until 2017. Lenoir Community College also would need to honor Spirit AeroSystems priority use of the facility until 2020.

[17] In Fiscal Year 2010-11 the Authority received $1.43 million from the state.

Exhibit 7: Options to Decrease the Global TransPark Authority's Operating Expenses

Option	Rationale and Action Required	Implications of Implementation	Estimated Cost Savings
Transfer the Authority from the Department of Transportation to the Department of Commerce	**Rationale:** Authority's economic development mission is more closely aligned with Commerce than Transportation **Action required:** Legislation directing a Type 1 transfer	• Commerce does not manage economic development properties and has no experience running an airport • Management and promotion of a single site by Commerce does not align with the broader focus of Commerce	**$128,020**
Transfer the administration and marketing activities to the Department of Commerce or Eastern Region	**Rationale:** These entities already do some marketing for the Global TransPark **Action required:** Legislation to direct designated entity to assume this responsibility	• Neither of these entities manages economic development properties • Management and promotion of a single site by either entity does not align with the broader focus of the Eastern Region or Commerce	**$64,010**
Transfer the airport to another government entity	**Rationale:** Airport could be run by another government entity **Action required:** Legislative action; subsequent owner would have to be a government entity, be approved by the Federal Aviation Administration, agree to operate the airport as long as there is an aeronautical need, and honor the military's use for training purposes until 2015	• Airport can only be transferred to another government entity • A likely candidate would be Lenoir County because it operated the airport in the past • Airport has potential to generate increased revenue for the Authority or another approved operator	**$0**
Transfer the Composite Center to Lenoir Community College	**Rationale:** Composite Center could be run by another government entity **Action required:** Legislative action; subsequent owner would have to be a government entity, be approved by the United States Economic Development Administration, agree to operate the facility for economic development purposes until 2017, and honor Spirit AeroSystems priority use of the facility until 2020	• Composite Center can only be transferred to another government entity • A likely candidate would be Lenoir Community College because it currently provides workforce training for Spirit AeroSystems at the center and reports it could use the space	**$113,499**
Reduce Authority staff size	**Rationale:** Authority (14 full-time staff, 3 part-time staff) could operate with a smaller staff; it currently has one vacant position in the training center business unit **Action required:** Reduction in state appropriation	• Further staff reductions would compromise continued operations at the Global TransPark • State appropriation has already been reduced from $3.0 million in FY 2001-02 to $1.28 million in FY 2009-10, and the full-time staff has been cut in half during that time	**Depends on the size of the reduction:** Although $41,252 could be saved by eliminating the one vacant position in the training center business unit, this savings is eliminated if the Composite Center is transferred away from the Authority

Note: Estimated cost savings are based upon elimination of duplicative staff positions.

Source: Program Evaluation Division based on documents provided by the Authority and interviews.

Because there was limited opportunity for reducing the Authority's operating expenses, the Program Evaluation Division explored options for generating additional revenue. Revenue generation at the Global TransPark is spread across numerous activities. Rents from the leasing of land and use of capital facilities make up the vast majority (80%) of the Authority's operating revenues. Other sources of operating revenues are transactions associated with leasing space at the Composite Center, computer network user fees, janitorial service fees, and fees associated with the airport such as fuel flowage and landing fees.

Exhibit 8 examines options for increasing revenue generated by the Authority. The Authority is currently pursuing four of the five options presented:

- development of additional capital facilities;
- establishment of air cargo and passenger services;
- establishment of a mitigation bank; and
- assessment of environmental impact fees on tenants.

The one option for increasing revenue requiring legislative action involves co-locating three state agencies currently located on 25 acres of real estate by the runway. The Division of Forest Resources, State Highway Patrol, and Division of Emergency Management have considered co-locating within a shared facility with access to the runway. Co-location of these agencies would free up land that could be developed as commercial rental property, improving the aesthetics of the park and making it more appealing to prospective tenants. This action would enhance the Authority's ability to attract potential aviation tenants. Construction of a shared facility for the three agencies would cost money, but it would produce efficiency savings through economies of scale, such as reduced utility costs.

The long-term operating needs of the Authority change based on increases in revenues or decreases in annual expenditures. Adopting any of the options discussed in this finding would allow the General Assembly to adjust the Authority's annual appropriation accordingly.

Exhibit 8: Options to Increase the Global TransPark Authority's Operating Revenues

Options	Current or Required Action	Potential Benefits	Additional Considerations
Develop additional capital facilities	Authority has secured a federally backed loan to develop Global TransPark 7, a 100,800 square foot facility on 35 acres	• Having a speculative building available may attract prospective tenants	• Authority must set an appropriate lease rate to generate a profit
Co-location of state agencies	Requires legislative action to direct the Division of Emergency Management, Division of Forest Resources, and State Highway Patrol to co-locate at the Global TransPark and construction of a shared facility	• 25 acres of real estate would become available for commercial development and would be highly marketable due to its central location on the runway • State agencies would gain efficiency savings, such as reduced utility costs • Co-location of state agencies would improve the aesthetics of the Global TransPark	• Building a shared facility for the three agencies would cost money • Tenant for the 25 acres would have to be found
Establish air cargo and passenger services	Authority is pursuing air cargo services and northbound passenger service to Washington, DC	• Air cargo and passenger services would increase revenue collected from landing and fuel flowage fees • Authority becomes eligible for an annual grant of $1 million from the Federal Aviation Administration if the number of passengers exceeds 10,000 per year	• Amount of revenue generated depends on the number of flights at the airport • Air cargo services would require the Authority to increase its fueling capacity; construction of a fuel farm is estimated at $325,000
Establish a mitigation bank	Authority's 2010 Strategic Plan proposed development of a mitigation bank	• Excess credits from environmental work could generate $5.4 million	• Sale of mitigation credits is not a recurring source of revenue • Liquidation of credits reduces the amount of land the Authority could develop into commercial real estate
Assess environmental impact fees on tenants	Authority has the power to assess and levy fees and is developing an impact fee structure	• Allows the Authority to recover some of the up-front costs of environmental work it has conducted	• Environmental impact fees could only be charged to new tenants

Source: Program Evaluation Division based on documents provided by the Authority and interviews.

Finding 5. The Authority does not generate sufficient revenue to repay the Escheat Fund loan; therefore, the responsibility for repayment of the debt falls to the state.

Because current operations do not enable the Authority to be a self-sustaining entity, repayment of the Escheat Fund loan by the Authority is impossible. The Authority's enabling legislation authorized it to borrow up to $25 million from the Escheat Fund to finance development of the park. As of February 2011, the Escheat Fund debt totaled $39.9 million (the principal amount of the loan was $21.7 million and accrued interest was $18.1 million). The Authority does not have the financial means to keep this loan from growing. Interest is accruing at a variable rate that is tied to the Treasurer's long-term investment fund interest rate. The estimated annual interest for the Escheat Fund loan is $2.5 million. If no action is taken, it is estimated the Escheat Fund debt will grow to $108.3 million by 2030.[18] The Authority would have to make estimated annual interest payments of $2.5 million to keep this loan from growing any larger. Given that the Authority's operating revenues fail to exceed its operating expenses each year, the Authority will not be able to repay the Escheat Fund debt.

As part of its 2010 Strategic Plan, the Authority proposed options to address the Escheat Fund debt; the Department of the State Treasurer does not believe any of the proposals are viable strategies for dealing with the Escheat Fund debt. The Authority's solutions ranged from forgiving the loan in its entirety to transferring assets acquired through the Escheat Fund loan back to the Department of the Treasurer to offset the loan balance. Exhibit 9 provides the Treasurer's formal response to each of the Authority's proposed options.

[18] These debt growth projections are based on a fixed interest rate of 4%; the real rate of growth for this debt is variable because it is dependent on the current long-term investment fund's interest rate. Throughout the life of the loan this rate has been as high as 12.54% and as low as 3.47%.

Exhibit 9: Treasurer's Response to Authority's Proposals Regarding the Escheat Fund Debt

Authority's Proposed Options	Department of the State Treasurer's Response
Forgive the loan in its entirety	Pursuant to an enforceable promissory note, the Authority is contractually obligated to repay the $25 million investment, plus interest, to the Escheat Fund. In the event the Escheat Fund suffers a loss due to the Global TransPark, the General Assembly will hold the Escheat Fund harmless from the loss. The derived benefits of the Department of Commerce's economic impact analysis, which served as the basis for this proposed option, do not equal a payment of $25 million, plus interest, to the Escheat Fund, which was created to fund monies in trust for worthy and needy students.
Forgive the interest earned on the loan	The terms of the promissory note state the rate of interest shall be equal to the rate of interest earned on the Treasurer's long-term investment fund. Therefore, the rate of interest is set according to the terms of the contract.
Set the interest rate to zero	The terms of the promissory note state the rate of interest shall be equal to the rate of interest earned on the Treasurer's long-term investment fund. Therefore, the rate of interest is set according to the terms of the contract.
Credit the loan for the present value of Spirit AeroSystem's 100-year lease term, valued at approximately $27.6 million	The value for the 100-year lease term does not in any way make the Escheat Fund whole for the $25 million investment, plus interest, for which the Escheat Fund is owed.
Accept transfer of Global TransPark assets to offset the amount owned on the loan and assume management responsibility of these properties and capital facilities	A response cannot be offered until a third-party evaluation is conducted of all the Global TransPark's assets.

Source: Program Evaluation Division based on documents provided by the Authority and Department of the State Treasurer.

The state is responsible for repaying the $39.9 million owed to the Escheat Fund. Legislation authorizing the Escheat Fund loan stated it was the intention of the General Assembly to hold the Escheat Fund harmless from any losses associated with the investment by appropriating funds to the Escheat Fund equivalent to any loss. The current maturity date for repayment of the loan is October 1, 2011. The Department of the State Treasurer views the loan to the Authority from the Escheat Fund as a "non-performing" loan and is prepared to begin the foreclosure process if agreement of a repayment schedule cannot be reached. It is the preference of the Department of the State Treasurer to bring this debt into a performing loan status. The Department of the State Treasurer indicated some willingness to be flexible with the terms of the loan if the state would be willing to commit to an annual repayment schedule.

Based on a debt of $40 million, the Department of the State Treasurer has prepared options for a 10-, 15-, or 20-year repayment schedule. The Program Evaluation Division identified a lump-sum payment as another repayment option. The Program Evaluation Division's analysis shows the benefit-to-cost ratios of each of these repayment schedules. A benefit-to-cost ratio is a common unit of measure that allows policy makers to compare options across projects. A ratio of 1.00 means the project benefits equal the cost; a ratio of less than 1.00 means the costs exceed the benefits; a ratio of greater than 1.00 means the benefits outweigh the costs. The higher the ratio, the better the option as a course of action. Exhibit 10 summarizes the annual payment amount and benefit-to-cost ratio in 2030 for each of the repayment scenarios. All the repayment options show a positive benefit-to-cost ratio for the state in 2030, with the lump-sum payment having the highest ratio.

Exhibit 10

All Repayment Scenarios for the Escheat Fund Debt Have Positive Benefit-to-Cost Ratios in 2030

Escheat Repayment Schedule	Annual Payment	2030 Benefit-to-Cost Ratio
Lump-sum payment	$ 39,884,319	1.51
10-year repayment	$ 4,741,959	1.43
15-year repayment	$ 3,459,273	1.39
20-year repayment	$ 2,830,067	1.34

Note: The repayment scenarios assumed a loan balance of $40 million, a fixed interest rate of 4%, and a first payment date of June 30, 2011.

Source: Program Evaluation Division based on data provided by the Authority and consultation with Fiscal Research Division staff.

Finding 6. Due to federal restrictions and contractual obligations, immediate divestiture from the Global TransPark is not feasible.

In developing the Global TransPark, the state made commitments to the federal government and businesses located there. Therefore, immediate closure of the Global TransPark and sale of its assets to repay the Escheat Fund debt is not possible.

The Federal Aviation Administration will not allow the airport to close and will only consider transfer to another government entity. The Authority has received several airport development grants for facilities and real property from the Federal Aviation Administration (FAA). The federal obligations associated with facilities require the airport to be open to the public as an airport for the useful life of the project but not to exceed 20 years. Grants to acquire real property come with federal obligations to operate the airport as an airport, open to the public, so long as there is an aeronautical need. According to a representative of the Federal Aviation Administration, "Today, the Federal Aviation Administration will not allow the airport to close."

The FAA would consider transfer of the airport to another government entity. If there is no money gained in the transfer, then no money would be owed to the FAA, but the FAA would have to review the transaction. If, in the future, the airport is no longer needed for public aeronautical purposes, the owner at that time will have to reimburse the FAA for the airport land at the fair market value at that time and for any grant monies used to develop facilities if 20 years have not passed since they were received. Additionally, pursuant to the Surplus Property Act of 1944, the net proceeds of any sale must be reinvested in the airport or returned to the federal government.[19]

Furthermore, the Spirit AeroSystems lease stipulates that Spirit AeroSystems can cancel its lease with the permanent closure of the airport or the transfer of the airport to a non-governmental entity. Sale or transfer of the

[19] The airport was originally transferred from the federal government to Lenoir County and the City of Kinston pursuant to the Surplus Property Act of 1944. When the airport was subsequently transferred to the Authority, the terms and conditions of the original agreement also were transferred to the Authority.

airport to a non-government entity could be considered a material breach of this lease agreement and could expose the state to liability.

The Spirit AeroSystems Composite Center of Excellence must be owned by a government entity until 2017, and Spirit AeroSystems has priority use of the facility free of charge until 2020. The Authority received a $3 million grant from the United States Economic Development Administration in 1997 to build a training center. This grant came with a 20-year obligation to keep the facility open to the public for workforce development and training. The Economic Development Administration would consider transfer of the Composite Center to another government entity that would use the facility for economic development purposes. If the state were to transfer the center to another government entity, that entity would need to honor Spirit AeroSystems priority use of the facility free of charge until 2020.

None of the commercial real estate at the Global TransPark is currently free of encumbrances. All but one current tenant at the Global TransPark have leases expiring between 2011 and 2030, and some tenants have multiple opportunities to exercise options to extend their leases. Shutting down the Global TransPark could result in material breaches of these leases. Any material breach of lease agreements would expose the state to liability and the amount of damages would depend on what loss the tenant suffered due to the breach. An item would be considered material if it was a consideration that induced a business to locate at the Global TransPark rather than somewhere else.

If the state were to find a private buyer for the commercial real estate, the buyer would need to assume the terms of the existing leases. Potential buyers would be subject to property taxes. Because the Authority is a state entity, property owned by it is exempt from taxation in accordance with Article V of the North Carolina Constitution. The Authority is in a position to pass these savings along to prospective tenants. Indeed, the Authority's lease with Spirit AeroSystems states the Authority's status as a government entity exempt from property taxes was a material inducement for the company locating at the Global TransPark. Spirit AeroSystems's lease stipulates that if the Global TransPark is conveyed to or acquired by a non-government entity, that entity would be required to assume the property taxes on the company's land and facilities.

A small amount of land is free of encumbrances, but any potential buyers would have to purchase mitigation credits to develop it. Most of the 5,688 acres owned by the Authority have restrictions on them due to airport obligations, environmental obligations, private-sector loans, tenant use, and Foreign Trade Zone status. Currently, there are only three parcels of land, totaling 190 of the 604 developable acres, which could be sold immediately. The value of this property at the time of purchase was $1.9 million. However, in order to develop these parcels, potential buyers also would have to purchase mitigation credits. The Authority obtained a 404 permit to develop its property, but the permit is not sellable or transferable. A mitigation bank could be established to sell credits for the environmental work that has already been completed by the Authority. If the state were to find a buyer for the available acres, the buyer would have to purchase mitigation credits to develop the land.

Other issues may dissuade any potential buyers. Some land that was donated to the Authority is considered a brownfield,[20] and any new owner would have to take over the monitoring responsibilities the Authority performs pursuant to an agreement with the North Carolina Department of Environment and Natural Resources. The complex is also subject to a settlement with the Neuse Riverkeeper regarding the amount of stormwater runoff that is permitted.

Closure of the Global TransPark could dissuade global businesses from considering locating in North Carolina. According to Jim Fain, who was the Secretary for the North Carolina Department of Commerce when Spirit AeroSystems decided to open a new facility at the Global TransPark, officials told Spirit AeroSystems "we are committed to being your partner as you build this strategically important operation outside of Wichita." According to Fain, Spirit AeroSystems was looking to locate somewhere that understood the value of public-private partnerships and their business. Spirit AeroSystems has committed to creating over 1,000 jobs at the Global TransPark in the next six years. If the state does not meet its commitments to Spirit AeroSystems, the ability of North Carolina to attract global businesses in the future could be compromised.

Recommendations

Recommendation 1. The General Assembly should establish the terms and repayment schedule for the Escheat Fund debt.

The Program Evaluation Division found revenues generated by the Authority's operations are insufficient to repay the Escheat Fund debt (see Finding 5). Legislation authorizing the loan stated it was the intention of the General Assembly to hold the Escheat Fund harmless from any losses associated with the investment by appropriating funds to the Escheat Fund equivalent to any loss. Based on a debt of $40 million, the Department of the State Treasurer has prepared options for a 10-, 15-, or 20-year repayment schedule. The Division's cost-benefit analysis shows positive benefit-to-cost ratios for each of these repayment schedules by 2030 (see Finding 3).

Given the state's current budgetary position, making a lump-sum payment seems impractical. Of the payment options presented by the Department of the State Treasurer, it is in the current best interest of the state to adopt a 20-year repayment plan for the Escheat Fund debt. This repayment amount equates to $2.8 million dollars annually. Because the maturity date for the Escheat Fund loan is currently October 1, 2011, the General Assembly needs to adopt a repayment schedule for the Escheat Fund loan immediately.

[20] A brownfield is land that was previously used for industrial purposes that was contaminated and has the potential to be reused once it is cleaned up.

Recommendation 2. The General Assembly should choose between two options for the future of the Global TransPark—continue supporting the Authority based on demonstrated results or incrementally divest in the Global TransPark.

The analysis presented in Finding 3 demonstrates, based on conservative estimates, the state's past and continued investment in the Authority will reach its payback year by 2025. If the state is interested in allowing its investment in the Authority to reach its payback year, the General Assembly should consider adopting the actions outlined in Option 1 below.[21] If, on the other hand, the state chooses to no longer support the Global TransPark, Option 2 provides the General Assembly with a strategy to incrementally divest from the Global TransPark. Recall that immediate divestiture in the Global TransPark is not possible given the obligations described in Finding 6. Regardless of the course of action chosen in Recommendation 2, the General Assembly still needs to address the Escheat Fund debt.

Option 1. Continue funding the Authority based on demonstration of results and address issues identified in this report. In order for North Carolina to maximize continued investment in the Authority, the General Assembly should

- enact legislation defining the mission of the Authority as "attracting skilled, well-paying jobs and economic investment from identified, targeted industries and supporting education, research, and development efforts related to the creation of new economic opportunities;"
- modify the composition of the Authority's board of directors to require greater statewide representation and representation from the Global TransPark's targeted industries; and
- revise the reporting requirement established in N.C. Gen. Stat. § 63A-23 by requiring that written reports address progress made on strategic goals and operational objectives identified in the strategic plan and the condition of job growth and creation at the Global TransPark.

The General Assembly should then direct the Authority to

- revise its 2010 Strategic Plan to correct deficiencies identified in Finding 2 using the resources and assistance available through the North Carolina Office of State Personnel;
- develop and implement a formalized performance management system that connects operational objectives to goals identified in its revised strategic plan;
- submit the revised strategic plan and performance management system for review by the Program Evaluation Division and the Fiscal Research Division; and
- complete these tasks no later than July 1, 2012.

Implementing the recommendations outlined in Option 1 should address the operational issues associated with planning, performance management,

[21] Option 1 would not preclude any actions that more closely align the Authority with the North Carolina Railroad and/or North Carolina State Port Authority.

accountability, and governance that were identified during this evaluation. With these changes, the Authority will be positioned to meet the economic development mission defined by the General Assembly and demonstrate the results of its efforts. To ascertain whether the state's investment in the Authority is on track to reach the 2025 payback year identified in Finding 3, the General Assembly should require the Authority to issue a special report no later than February 1, 2017 documenting the estimated fiscal impact to the General Fund from private-sector employment at the Global TransPark. If the special report finds the estimated value of private-sector employment is lagging, the General Assembly should reconsider whether continued investment in the Authority is reasonable.

Option 2. Incrementally divest in the Global TransPark through liquidating and transferring assets in a manner that honors operating obligations. The General Assembly should direct the North Carolina Department of Transportation to develop and implement North Carolina's strategy for divesting from the Global TransPark. This divestiture should be completed by January 1, 2019. The Department of Transportation plan should identify financial obligations and assets whose operation must be transferred, which entails

- identifying outstanding financial operating commitments and establishing a schedule and plan to address the outstanding balance on these obligations; and
- identifying assets that would require transfer of operations and developing proposals and strategies to transfer these assets to appropriate entities that would honor obligations established by the Authority.

The plan also should identify land and commercial real estate for liquidation, which entails

- identifying the assets that can be liquidated immediately and assets whose immediate liquidation is restricted;
- developing a timeline and strategy for the incremental sale of all assets pending availability of sale;
- conducting a third-party real estate valuation for all assets pending availability of sale;
- establishing a mitigation bank to liquidate excess mitigation credits; and
- reporting on the status of the Global TransPark divestiture to the General Assembly on an annual basis.

The Department of Transportation should submit its plan to the General Assembly no later than January 1, 2012. Pursuant to N.C. Gen. Stat. § 147-69.2(b)(11), any proceeds from the sale of Global TransPark assets must be used to offset any remaining balance on the Escheat Fund loan.

The General Assembly will need to continue to fund operations at the Global TransPark until 2019 to ensure complete divestiture and transfer of the Authority's assets. However, the amount appropriated must be justified annually. This amount should reflect only the resources needed to operate the remaining assets at the park. Justification for the annual appropriation should be included in the annual report which updates the General Assembly on divestiture.

Adopting Option 2 signals a withdrawn commitment to the Authority and the Global TransPark. It would allow the state to recoup the cost for some of the investments made in the Authority. It also allows the state to transfer operation of the airport and the training center to approved government entities. If these assets are transferred to other state entities, they will require continued financial support to ensure continuity of operation.

Appendices

Appendix A: Map of the Global TransPark

Appendix B: Description of Key Features of the Global TransPark

Appendix C: Public- and Private-Sector Employers at the Global TransPark

Appendix D: Methodology for Cost-Benefit Analysis

Appendix E: Global TransPark Authority Balance Sheets (FY 2005-06 to 2009-10)

Appendix F: Global TransPark Authority Revenues and Expenditures (FY 2005-06 to 2009-10)

Agency Response

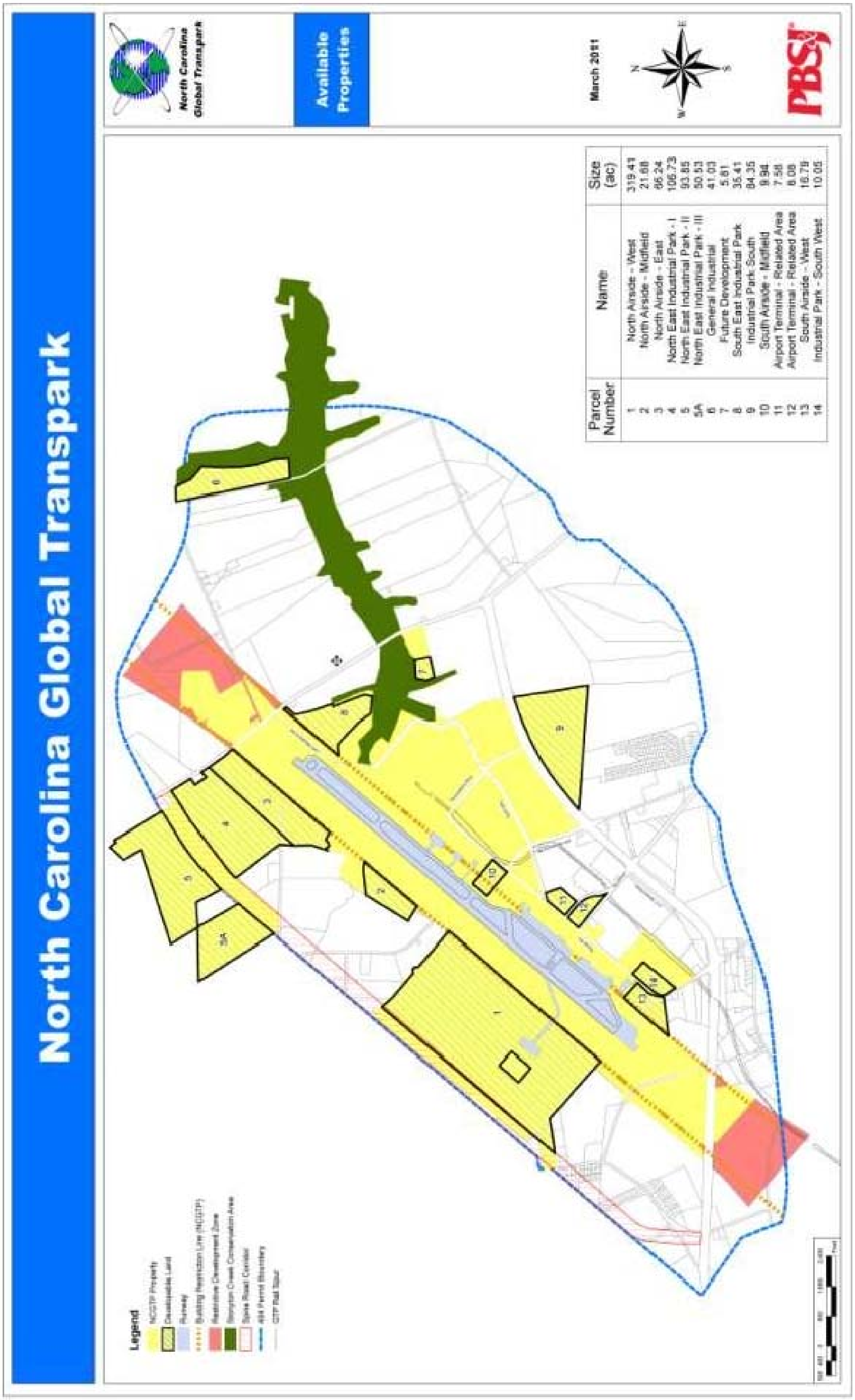
A draft of this report was submitted to the Global TransPark Authority and the Department of the State Treasurer to review and respond. Their responses are provided following the appendices.

Program Evaluation Division Contact and Acknowledgments

For more information on this report, please contact the lead evaluator, Sean Hamel, at sean.hamel@ncleg.net.

Staff members who made key contributions to this report include Kiernan McGorty, Catherine Moga Bryant, Carol Shaw, Pamela L. Taylor, and Larry Yates. John Rock, an intern with the Program Evaluation Division, and Barry Boardman, Chief Economist for the Fiscal Research Division, also contributed to this evaluation. John W. Turcotte is the director of the Program Evaluation Division.

Appendix A: Map of the Global TransPark



Source: Map provided by the Global TransPark Authority.

Appendix B: Description of Key Features of the Global TransPark

Leasable space. The Authority has constructed or acquired 11 facilities. The Authority has 946,566 square feet of leasable space, 97% of which is currently rented out. The one space available for lease is a 19,600 square-foot hangar.

Developable land. The Authority currently has 604 acres of developable land. The Authority obtained a 404 permit from the United States Army Corps of Engineers to allow site development and acquired 1,063 acres for that purpose. As a condition of the permit, the Authority had to preserve, enhance, and restore 4,600 acres of wetlands within the permitted area, which it completed in 2009. Because the Authority acquires the environmental permits necessary for construction, it can offer prospective tenants "shovel-ready" sites. The Authority received a stormwater permit in 2011 from the Department of Environment and Natural Resources's Division of Water Quality.

Longest commercial runway in the state. The Kinston Regional Jetport was transferred from Lenoir County to the Authority over a seven-year period from 1992 to 1999. The runway was 7,500 feet when the Authority acquired it, and it has been extended twice through funds from the Department of Defense, Federal Aviation Administration, and General Assembly. The jetport's runway is currently 11,500 feet, making it the longest commercial runway in the state. The Authority has applied to upgrade the airport to a Category III Instrument Landing System, which international cargo carriers require because it allows the landing of any size aircraft in any type of weather.

Direct rail access to the Port of Morehead City. By November 2011 the Global TransPark is expected to have a 5.7-mile rail spur that will connect it to the North Carolina Railroad main line and consequently the Port of Morehead City.

Access to multilane highway and multiple interstate highways. The Global TransPark has access to I-40 and I-95. Extension of the C.F. Harvey Parkway section in front of the Global TransPark to US-70 just west of Kinston is expected in 2014.

Onsite conference, videoconference, research, education, and training center. The Authority built a 33,000 square foot training center with funds from the United States Economic Development Administration. The center has state-of-the-art equipment and can provide customized services to industries, including workforce development training through Lenoir Community College. The center was renamed the Spirit Aerosystems Composite Center of Excellence in 2010, and Spirit Aerosystems has priority use of the facility. Nevertheless, parts of the center, including a large conference room, remain available to the public.

Secure fiber network. Since 2002, the Global TransPark has had an onsite fiber-optic backbone that provides tenants with secure, high-speed internet access. In 2010, the fiber-optic loop was completed, giving the Authority and its tenants network redundancy.

Foreign Trade Zone. The Global TransPark is one of six Foreign Trade Zones in North Carolina. A foreign trade zone is a designated, secure area inside the United States but outside United States Customs territory where goods can enter without a formal customs entry and many of the associated duties, excise taxes, and cargo examinations. The Global TransPark is Foreign Trade Zone #214, with three general purpose sites for warehousing and distribution for public use and two subzones for a particular industry. In 2003, Longistics became the operator of the general purpose site at the Kinston Regional Jetport, but the site has not been activated to date. In 2008, Kanban Logistics activated the second general purpose site in Tarboro; the third general purpose site in Rocky Mount has not been activated. One subzone was activated by what is now known as Rocky Mount Engine Plant in 2001, and the other was activated by NACCO Material Handling Group in Greenville in 2008.

Appendix C: Public- and Private-Sector Employers at the Global TransPark

Tenant	Number Full-Time Employees	Average Employee Salary	Industry	Tenant Description
Commerce Overseas Corporation	9	$ 38,036	Military/defense contracting	Offers supply chain management solutions to military aircraft customers throughout the world; provides spare parts solutions to a global customer base
DB Schenker	5	39,000	Logistics and supply chain management	Provides an array of transportation and logistical solutions to move goods throughout the supply chain in the world's major economic regions
Delta Private Jets (formerly Segrave Aviation)	81	54,457	Aerospace/aviation	Acts as the fixed-base operator for the Kinston Regional Jetport; specializes in private jet charter, aircraft management, and aircraft maintenance
Henley Aviation	4	80,000	Aerospace/aviation	Offers training and certification for all levels of pilots and prospective pilots
Longistics	2	42,000	Logistics and supply chain management	Operates Foreign Trade Zone at the Kinston Regional Jetport; provides transportation, distribution, and other dedicated services
MJE Telestructure	6	52,800	Emergency services	Offers inside plant infrastructure products and services specializing in direct-current power; provides disaster recovery programs to support network infrastructure reliability
Mountain Air Cargo	32	40,143	Aerospace/aviation	Provides flight and maintenance services throughout much of North and South America as an express cargo carrier; contract carrier and services provider for FedEx in the eastern United States
NC's Eastern Region	6	81,390	Economic development	Generates regional strategies through collaboration to develop and implement plans for regional economic growth and stability
NC Emergency Management	10	44,000	Emergency services	Protects life, property, and environment through a partnership among local, state, and federal agencies
NC Forestry Service	27	45,741	Emergency services	Responsible for the protection and development of 101,700 acres of woodland in Lenoir County
NC Highway Patrol	4	65,249	Emergency services	Provides aerial support for natural and man-made disasters to a 52-county region in eastern North Carolina
New Breed, Inc.	10	40,000	Logistics and supply chain management	Executes complex logistics operations by combining analysis of material flows with the application of systems to reduce and automate process steps
Spatial Integrated Systems	14	74,409	Military/defense contracting	Provides engineering services and solutions for commercial and federal marketplaces including reverse engineering, quality assurance inspection, IT enterprise application hosting, and product data management
Spirit AeroSystems	162	53,750	Aerospace/aviation	Produces the center fuselage and front wingspan for the Airbus A350 using state-of-the-art composite technology
Total Number of Full-Time Employees	**372**			
Average Salary of All Employees		**$ 53,641**		

Note: Because New Breed, Inc. did not respond to a request for current information on its employees, the Authority estimated the number of full-time employees based on 2009 information and calculated an average salary based on the salaries reported by the two other logistics companies at the Global TransPark (i.e., DB Schenker and Longistics).

Source: Program Evaluation Division based on documents provided by the Authority.

Appendix D: Methodology for the Cost-Benefit Analysis

The Program Evaluation Division conducted a cost-benefit analysis of North Carolina's investment in the Global TransPark Authority (hereafter referred to as the Authority) to determine the payback period, payback year, and the benefit-to-cost ratio of the initial and continued investment in the Authority.

Definitions of Terms

- Payback period: The number of years it takes for the cumulative benefits produced by the Authority's operations and activities to exceed the cumulative costs of the state's investment in the Authority.
- Payback year: The point in time at which the cumulative benefits produced by the Authority exceed the cumulative costs of the state's investment in the Authority.
- Benefit-to-cost ratio: Cumulative benefit produced by the Authority's operations and activities divided by the cumulative cost of the state's investment in the Authority. The benefit-to-cost ratio is a common unit of measure that allows policy makers to compare multiple options. A ratio of 1.00 means project benefits equal the cost; a ratio of less than 1.00 means costs exceed benefits; a ratio of greater than 1.00 means benefits outweigh costs. The higher the ratio, the better the option as a course of action.

Phase One: Develop Baseline Models

The Program Evaluation Division developed five baseline cost-benefit models to compare repayment options of the Escheats Fund debt: repayment of the loan on a 10-year, 15-year, or 20-year schedule; making a lump-sum payment; and taking no action to repay the loan.

1. **Cost Determination:** Costs included in the analysis are reflective of the past and continued investment the General Assembly has made in the Authority for the operation and development of the Global TransPark from three sources.
   a. General Fund: The investment in the Authority from Fiscal Year 1991-92 through Fiscal Year 2010-11 was $26,513,062. The analysis assumes no further appropriations to the Authority from the General Fund.
   b. Highway Fund: The investment in the Authority from Fiscal Year 1991-92 through Fiscal Year 2010-11 was $35,019,268. The analysis assumes the Authority will continue to receive an annual appropriation of $1.43 million to support the operation and development of the Global TransPark.[1]
   c. Escheat Fund: As of February 2011, the Escheat Fund debt totaled $39.9 million. The analysis differs based on the four repayment options.
2. **Benefit Determination:** Benefits included in the analysis are those that accrue to the General Fund through income and sales taxes paid by workers directly employed by private-sector businesses located at the Global TransPark. The Program Evaluation Division, in consultation with the Fiscal Research Division, estimated benefits based on the current average salary of these workers and most recent employment counts for each of the businesses located at the park. In addition, this analysis
   - held average salary constant;
   - assumed job growth only for Spirit AeroSystems until 2014 according to the employment obligations outlined in their Job Development Incentives Grant agreement; and
   - did not include revenues that accrue to the General Fund from corporate taxes or that accrue at the local level.
3. **Determine the annual net benefits/costs:** Total annual costs were added to the total annual benefits for each year included in the analysis.

[1] In Fiscal Year 2010-11 the Authority received $1.43 million in appropriations–$1.28 million was an annual appropriation to support the operation of the Global TransPark from the Highway Fund and $150,000 was a block grant for airport improvements from the North Carolina Department of Transportation's Division of Aviation.

4. **Determine the present annual net benefits/costs:** A discount rate of 2.4% was applied to each annual net benefits/costs to estimate the present value annual net benefits/costs. This rate reflects the projected long-term inflation rate. The analysis assumes the state's investment will keep pace with inflation.
5. **Determine the payback year:** The year the cumulative benefits surpass the cumulative costs marks the year the investment in the Global TransPark pays for itself. The table below describes the payback year for each of the Escheat Fund repayment actions.

Repayment Action	Payback Year
Lump sum	2032
10-year repayment schedule	2034
15-year repayment schedule	2036
20-year repayment schedule	2037
No action taken to repay Escheat Fund	Cumulative benefits never exceed cumulative costs

Phase Two: Sensitivity Analysis

The Program Evaluation Division adjusted each repayment model to changing conditions in the benefits accrued to the General Fund derived from private-sector employment. These models account for wage and job growth of private-sector businesses located at Global TransPark. Specifically, the sensitivity analysis assumes

- 4.23% growth in the average salary of positions at the park each year;
- job growth for Spirit AeroSystems until 2014 according to the employment obligations outlined in their Job Development Incentives Grant agreement, and then at a rate of .42% for 2015 and each year thereafter; and
- job growth for all other private-sector businesses at rate of .42% for each year in the model.

The Program Evaluation Division, with the assistance of the Fiscal Research Division, obtained the estimated growth rate for employment and wages in the Transportation and Warehousing subsector from Moody's and calculated the average rate over 20 years (2011-2030).

As in the baseline model, the sensitivity analysis did not include revenues that accrue to the General Fund from corporate taxes or that accrue at the local level. In addition, the analysis used the same method in baseline models to determine

- costs;
- the annual net benefits/costs;
- the present annual net benefits/costs; and
- the payback year.

The table below describes the payback year for each of the Escheat Fund repayment actions for the sensitivity analysis.

Repayment Action	Payback Year
Lump sum	2025
10-year repayment schedule	2026
15-year repayment schedule	2026
20-year repayment schedule	2025
No action taken to repay Escheat Fund	Cumulative benefits never exceed the cumulative costs

Because there was little variation in the payback year for the sensitivity analysis models, the Program Evaluation Division calculated a benefit-to-cost ratio for each repayment option. The benefit-to-cost ratio for each model was calculated through 2030. The table below summarizes the annual payment required and benefit-to-cost ratio for each of the Escheat Fund repayment actions. The lump-sum payment scenario reflects the principal and interest owed to the Escheat Fund loan as of February 2011. The 10-, 15-, and 20-year repayment scenarios assumed a loan balance of $40 million, a fixed interest rate of 4%, and a first payment date of June 30, 2011.

Repayment Action	Annual Payment	2030 Benefit-to-Cost Ratio
Lump sum	$ 39,884,319	1.51
10-year repayment schedule	4,741,959	1.43
15-year repayment schedule	3,459,273	1.39
20-year repayment schedule	2,830,067	1.34

Appendix E: Global TransPark Authority Balance Sheets (FY 2005-06 to 2009-10)

North Carolina Global TransPark Authority - Primary Government
Statement of Net Assets

	6/30/2010	6/30/2009	6/30/2008	6/30/2007	6/30/2006
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 5,540,756	$ 5,433,285	$ 5,118,327	$ 5,906,219	$ 6,591,428
Investment on Deposit with State Treasurer	-	155,621	1,820,262	1,820,262	1,820,262
Investment -State Treasurer Securities Lending Collateral Investment Pool	-	-	-	-	-
Accounts Receivable (Net)	246,592	164,263	97,878	99,408	54,265
Accrued Interest Receivable	-	-	-	-	-
Due from government agencies	-	-	-	-	-
Sales Tax Receivable	-	-	-	-	-
Total Current Assets	5,787,348	5,753,169	7,036,467	7,825,889	8,465,955
Non-current Assets:					
Restricted Cash and Cash Equivalents (Note 2)	5,452,117	54,167,884	479,974	248,406	32,255
Deposits for Land	-	-	-	-	776,050
Grants Receivable	-	100,000	-	-	-
Capital Assets - Non-depreciable (Note 3)	187,849,619	91,738,157	23,546,433	23,954,283	22,075,097
Capital Assets - Depreciable, net (Note 3)	50,051,663	51,124,240	49,663,478	48,153,713	49,692,919
Organization Costs	-	-	-	-	-
Software	-	-	-	-	-
Total Non-current Assets	243,353,399	197,130,281	73,689,885	72,356,402	72,576,321
Total Assets	249,140,747	202,883,450	80,726,352	80,182,291	81,042,276
LIABILITIES					
Current Liabilities:					
Accounts Payable	5,364,537	19,948,912	261,907	239,253	973,265
Accrued Interest Payable	110,603	80,734	213,005	81,894	69,118
Due to Primary Government	3,961	3,576	29,580	2,924	1,729
Deposits Payable	-	-	-	-	-
Compensated Absences	44,748	42,932	47,489	45,799	44,167
Note Payable - USDA	45,865	43,923	42,062	25,658	19,775
Note Payable - FCB	205,944	-	-	358,765	-
Note Payable - PNG	97,611	-	-	-	-
Funds Held for Others	24,600	22,647	-	-	-
Deferred Revenue	4,043	11,546	-	175	8,452
Total Current Liabilities	5,901,912	20,154,270	594,043	754,468	1,116,506
Non-current Liabilities:					
Note Payable - USDA	2,941,375	2,987,240	3,031,163	3,073,225	2,598,883
Note Payable - FCB	1,606,750	1,812,694	1,812,694	-	-
Note Payable - PNG	390,444	-	-	-	-
Note Payable - Due to NC Escheat Fund	38,360,998	36,187,166	33,933,088	32,062,906	30,469,678
Obligations Under Securities Lending Transactions	-	-	-	-	-
Compensated Absences	44,748	42,932	47,489	45,798	44,166
Total Non-current Liabilities	43,344,315	41,030,032	38,824,434	35,181,929	33,112,727
Total Liabilities	49,246,227	61,184,302	39,418,477	35,936,397	34,229,233
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	210,871,341	116,432,209	48,402,304	48,728,658	49,227,669
Restricted for Debt Service	524,180	503,926	479,974	248,406	32,255
Restricted for Construction	4,927,937	53,663,958	-	-	-
Unrestricted	(16,428,938)	(28,900,945)	(7,574,403)	(4,731,170)	(2,446,881)
Total Net Assets	$ 199,894,520	$ 141,699,148	$ 41,307,875	$ 44,245,894	$ 46,813,043

Appendix F: Global TransPark Authority Revenues and Expenditures (FY 2005-06 to 2009-10)

North Carolina Global TransPark Authority - Primary Government
Statement of Revenues, Expenses and Changes in Net Assets

	6/30/2010	6/30/2009	6/30/2008	6/30/2007	6/30/2006
OPERATING REVENUES					
Rental Revenue	$ 1,186,602	$ 1,158,024	$ 982,076	$ 954,789	$ 751,229
Miscellaneous Revenues	294,541	184,964	205,211	337,196	242,188
Total Operating Revenues	1,481,143	1,342,988	1,187,287	1,291,985	993,417
OPERATING EXPENSES					
Salaries and Benefits	849,355	896,739	1,006,924	930,959	961,044
Professional Services	158,533	123,444	170,955	241,345	244,177
Legal and Accounting	148,783	139,697	136,491	55,216	62,331
Depreciation	2,492,546	2,386,510	2,243,193	2,166,615	2,061,668
Rent	15,961	16,353	15,505	15,409	18,333
Repairs and Maintenance	66,874	65,965	88,209	58,209	150,474
Supplies and Materials	45,279	62,497	79,109	76,284	69,240
Equipment	422	4,255	26,157	6,864	22,321
Insurance	79,373	75,294	73,000	65,546	64,254
Printing and Binding	4,068	11,042	4,259	9,077	11,661
Telephone	25,310	26,533	27,264	26,656	32,789
Utilities	322,294	318,348	298,501	304,962	308,132
Travel and Subsistence	8,979	8,321	13,428	8,488	10,245
Advertising	58,833	52,950	72,782	142,070	130,345
Marketing	-	-	-	-	-
Securities Transactions Fees	-	-	-	-	-
Landing Fields and Grounds	-	-	-	-	36,384
Projects	1,090,216	28,357	43,650	90,485	1,424
Economic Development	-	-	160,000	-	-
Other	38,652	34,170	36,297	134,517	53,575
Total Operating Expenses	5,405,478	4,250,475	4,495,724	4,332,702	4,238,397
Operating Loss	(3,924,335)	(2,907,487)	(3,308,437)	(3,040,717)	(3,244,980)
NONOPERATING REVENUES (EXPENSES)					
State Operating Aid	1,280,000	1,600,000	1,600,000	1,600,000	1,600,000
Loss on Disposal	-	-	-	-	(523,503)
Noncapital Grants	-	-	160,000	236,514	221,449
Gain on sale of property	-	-	-	-	-
Investment Earnings	94,018	249,712	389,795	397,493	386,893
Interest Expense	(2,466,215)	(2,398,163)	(2,296,292)	(1,813,246)	(1,810,179)
Net Nonoperating Revenues (Expenses)	(1,092,197)	(548,451)	(146,497)	420,761	(125,340)
Income (Loss) Before Capital Contributions	(5,016,532)	(3,455,938)	(3,454,934)	(2,619,956)	(3,370,320)
Capital Contributions	63,211,904	103,847,211	516,915	52,807	714,949
Increase (Decrease) in Net Assets	58,195,372	100,391,273	(2,938,019)	(2,567,149)	(2,655,371)
Net Assets - July 1, as previously Reported	141,699,148	41,307,875	44,245,894	46,813,043	49,468,414
Prior Period Adjustment	-	-	-	-	-
Net Assets - July 1	141,699,148	41,307,875	44,245,894	46,813,043	49,468,414
Net Assets -- June 30	$ 199,894,520	$ 141,699,148	$ 41,307,875	$ 44,245,894	$ 46,813,043

Beverly Perdue
Governor

Eugene A. Conti, Jr., Ph.D.
Chairman

STATE OF NORTH CAROLINA
Global TransPark Authority

Darlene A. Waddell, CPA
Executive Director

April 13, 2011

John W. Turcotte, Director
Program Evaluation Division
NC General Assembly
Legislative Services Office
300 North Salisbury Street, Suite 100
Raleigh, NC 27603-5925

Dear Mr. Turcotte:

Thank you for the opportunity to respond to the Program Evaluation Division's (PED) recent report on the comprehensive program and financial review of the North Carolina Global TransPark Authority (Authority). The PED has been thorough in its review of the Authority's statutory mandates and operations, and we find the resulting analysis insightful and helpful.

Finding 1: The Authority has made progress towards meeting its mission and goals.

The Authority concurs with the PED's finding that it has made progress toward achieving its mission and goals, even in the face of multiple reductions in its annual appropriations and underfunding of infrastructure investment. The Authority has 14 tenants who employ 372 North Carolinians at annual salaries well above average for Eastern North Carolina. Job creation at the TransPark will continue to grow as its anchor tenant, Spirit AeroSystems, accelerates the number of new jobs it is creating.

Finding 2: Current administrative practices and operations limit the Authority's ability to achieve and demonstrate results.

Deficiencies in the Authority's 2010 strategic planning process and product inhibit its ability to develop a results-based management approach.

The Authority views its strategic plan as a "living" document. Due to time and budget constraints in 2010, rather than expending funds to hire an outside firm, the strategic plan was updated in house. Based on the PED's findings, the Authority will continue to enhance its strategic plan and incorporate the PED's recommendations.

The Authority lacks a formalized performance management system to measure, monitor, and report on progress toward achieving goals identified in a strategic plan.

As recommended in the PED report, the Authority will implement a performance management system after revision of its strategic plan. The Authority will also increase the frequency of its reporting on operational activities to quarterly to the Joint Legislative Commission on Governmental Operations and the General Assembly leadership.

The Global TransPark Authority needs to increase the economic development capacity of its staff, strategic partnerships, and board of directors to meet its mission and goals.

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The Authority acknowledges that additional staff would assist in future industry recruitment efforts, and we will continue to strengthen partnerships with other economic development allies. The current staffing level is very lean due to budget constraints. The Authority agrees it is beneficial to have additional Board members from other regions of the state and from targeted industries.

Finding 3: Program Evaluation Division analysis of the state's investment in the Authority shows the cumulative benefits to the General Fund will exceed the cumulative costs by 2025.

The Authority appreciates the PEDs acknowledgement that the Authority's cost effectiveness as an economic development arm of the State is measured both by the creation of well paying jobs in an economically distressed region and by increased tax revenues to the State's General Fund.

Finding 4: The Authority cannot be self-sustaining under the current operating environment; however, there are opportunities to reduce the Authority's reliance on state appropriations.

Under the current operating environment, the Authority cannot be self-sustaining because its annual operating expenses exceed its operating revenues.

The $1.28 million in current appropriations to the Authority supplements the Authority's self-generated income and helps maintain the agency as a viable economic development project. The Authority depends on state appropriations to achieve its mission of attracting skilled, high paying jobs and economic investment at the TransPark which offers advantages not found at other locations in Eastern North Carolina.

The Authority's ability to become self-sustaining is compromised because some of its revenue-generating assets has been used as economic development incentives.

As the PED documented, the State has used the Authority's assets to recruit industry, which competes with the agency's ability to become self-sustaining. If the current level of State appropriations is maintained, the Authority can continue to fulfill its mission of creating well paying jobs and bring additional tax revenues to the State.

Self-sufficiency is a reasonable expectation in the long-term but requires the Authority to reduce operating expenses and/or generate more revenue.

The Authority continually looks for ways to reduce operating expenses and generate more revenue, but we caution that the adoption of any of the options listed in *Exhibit 7: Options to Decrease the Authority's Operating Expenses* would impact the overall effectiveness of the project. In particular, the option to transfer the Composite Center to Lenoir Community College (LCC) would be detrimental to economic development. The Authority's purpose is much different from LCC's, which is focused on education and not recruitment of business to North Carolina. A major benefit of the Center is not what is generated in revenue, but the competitive advantage it gives the Authority, to include:

- Recruitment tool for businesses interested in the TransPark, Eastern North Carolina, as well as the state as a whole
- Incubator for start-up companies
- Hub for the agency's *secure* fiber network, used by the agency and its tenants (Timeliness of response and security of data is very important to the agency's tenants)
- Customized training services to industries through the host community college
- Research and development for existing and prospective tenants
- Trade shows, meetings, conferences, seminars, video conferencing
- Board meetings for the Authority, DOT, GTP Foundation and other private entities
- Command and control center for disaster relief agencies

The PED estimated cost savings from transfer of the Center assumes elimination of duplicative staff positions. However, two of the three full-time positions are essential to TransPark operations. The IT position is essential to manage the fiber network for our tenants and the daily IT needs of the Authority. The maintenance position would be transferred to the Airport Division, as that employee currently rotates between the Center and the Airport to meet maintenance needs and also FAA requirements for trained staff at the Airport. Additionally, relocating the agency's secure fiber network requires up-fit of another "hardened" facility to protect network information from any physical or technological threat. The one-time relocation cost is an estimated $93,000, which would further reduce, or eliminate, the realization of net savings.

The Authority estimates that only $18,500 in cost savings could be realized by elimination of one duplicative staff position at the Center, since currently LCC cost shares that position with the Authority. LCC already benefits from currently using 41% of leasable space at the Composite Center. *There could also be additional income to the Center if an agreement were put in place for LCC to cost share with the Authority in operating expenses on rooms they use. Although LCC doesn't pay room rental fees on customized training classes, the Authority should be compensated for classes held at the Composite Center from which LCC generates revenues.*

Finding 5: The Authority does not generate sufficient revenue to repay the Escheat Fund loan; therefore, the responsibility for repayment of the debt falls to the state.

The Authority strongly agrees with the PED's finding regarding repayment of the Escheat Fund loan. Authority management knows of no other start-up state agency that has been created with debt financing for infrastructure needs with no revenue stream put in place to offset the debt. This has prevented the Authority from meeting its loan obligations to the Escheat Fund.

Finding 6: Due to federal restrictions and contractual obligations, immediate divestiture from the Global TransPark is not feasible.

The Authority agrees with the PED's finding regarding immediate divestiture from the Global TransPark as not being a workable option for the State.

Recommendation 1: The General Assembly should establish the terms and repayment schedule for the Escheat Fund debt.

The Authority strongly agrees with Recommendation 1. According to the PED's cost-benefit analysis, each of the four options for repayment of the debt provide a positive benefit-to-cost ratio for the state in 2030.

Recommendation 2: The General Assembly should choose between two options for the future of the Global TransPark – continue supporting the Authority based on demonstrated results or incrementally divest in the Global TransPark.

Regarding the two options presented for the future of the Global TransPark, Option 1 would allow the Authority to continue working toward its goals and implementation of its mission to create well-paying jobs and economic opportunity in an economically distressed, former tobacco-dependent region, as well as for the State as a whole.

Authority's Proposed Recommendation 3: The General Assembly should consider the integration of the Authority, including the Composite Center, into a comprehensive Logistics Division for the State by aligning it with other state transportation entities under the Department of Transportation (DOT).

We suggest careful consideration be given to combining the State's transportation agencies under DOT. The General Assembly and the Governor instituted several actions that are currently being considered for comprehensive logistics planning, including the OSBM Statewide Logistics Study, HB-1355, the work of the Governor's Logistics Task Force, and Executive Order #85.

Again, thank you for the opportunity to review the PED's report. We look forward to implementing many of the findings and recommendations contained in the report to increase the effectiveness of the Authority in achieving its mission of creating well-paying jobs for our citizens, with resulting additional revenues for the State.

Sincerely,

Darlene A. Waddell

Darlene A. Waddell
Executive Director

C: Senator Debbie Clary, Co-Chair, Program Evaluation Oversight Committee
Senator Fletcher L Hartsell, Jr., Co-Chair, Program Evaluation Oversight Committee
Representative Julia Howard, Chair, Program Evaluation Oversight Committee
Secretary of Transportation Gene Conti, Chairman, NC Global TransPark Board of Directors
Al Delia, Governor's Senior Policy Advisor

NORTH CAROLINA

OFFICE OF THE TREASURER **JANET COWELL, TREASURER**

April 5, 2011

John W. Turcotte, Director
North Carolina General Assembly
Legislative Services Office
325 North Salisbury Street
Raleigh, NC 27603

RE: Formal Response to Program Evaluation Division Report No. 2011-02

Dear Mr. Turcotte:

Thank for you sharing the Program Evaluation Division's thoughtful and comprehensive analysis regarding the General Assembly's feasible options about the Global TransPark Authority (Authority). As the Program Evaluation Division Report correctly states, the Department of State Treasurer (Department) views the loan to the Authority as a "non-performing" loan. The Department continues to be in discussions with the Authority's management in finding ways to restore the loan to performing status. The position has been and remains that the General Assembly must decide how to repay the Escheat Fund loan back to the Department.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Ron Ottavio

Ron Ottavio
Chief of Staff

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