



Analytics

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RE: Is the Strategic Fund strategic?

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Over the past 10 fiscal years the Delaware Economic Development Office's Delaware Strategic Fund has awarded over \$201 million to firms and organizations in Delaware. Over \$126 million of the awards have been outright grants, while \$38 million has been in the form of loans, almost \$34 million in convertible loans, and the remainder in preventure and equity funding. Has there been a logic to this largess?

The answer is mixed.

Are the disbursements used to offset the business cycle? The awards did not increase substantially in and following the 2001 recession, but did soar during the recent recession.

Are the awards simply bribes? Delaware is in competition with other states to retain and attract jobs, and that frequently requires the state to ante up. Nevertheless, it is striking to see the grants that have been given to large corporations over the years, including: Playtex Products (\$7.3 million), Chrysler (\$5.3 million), P&G (\$1.8 million), GM (\$1.5 million), Kraft Foods (\$1.2 million), Wal-Mart (\$1.2 million), ICI Americas (\$1.0 million), Scott Paper (\$1.0 million), Bank of America (\$400 thousand) and Comcast (\$267 thousand).

Is the ROI reasonable? The grant dollars per job saved or created have averaged \$3.1 thousand over the decade, not an unreasonable amount. And, logically, the loan dollars per job have been higher at \$7.8 thousand. The job data maintained by DEDO, however, is what is promised at the time of the deal and is not subsequently adjusted. Repayment of loans is tracked, but jobs tied to grant awards are not tracked. Chrysler and GM have, of course, shut down. The half million dollar grant to keep Volkswagen at the Port of Wilmington was a bust. There are no guidelines in the enabling legislation with regard to acceptable risk.

There is no evidence that either DEDO or any other state agency follows up after grants are rewarded to see if the terms of the original agreement are complied with (e.g., the promised number of jobs either created or retained). Nor is there evidence that the pattern of the grants corresponds with industries that have become sources of growth in Delaware's economy.

Are there unusual awards? Of course, politics is in play. There were grants to Winterthur, the Ezion Fair Baptist Church, the YWCA, and the Sunday Breakfast Mission. Grants were given to retailers such as Wal-Mart and the Greenhill Car Wash. The University of Delaware's Small Business Development Center has received \$3.7 million in grants over 14 years and has requested \$521,000 for FY-12, and the University's Center for Composite Materials has received numerous grants. Invista, a

subsidiary of the privately held Koch industries has been a major winner with \$15.7 million in grants. Kaolin Mushroom Farms received a grant and a convertible loan.

Has DEDO benefited? Over the decade DEDO has awarded itself nearly \$4 million in grants, much of which is for operating expenses. Nearly \$746,000 has been awarded in FY-11. It is interesting that the state agency that prepares and presents the proposal to Delaware's Strategic Fund has done so well and has been able to circumvent the annual budget process.

Is the loan default rate acceptable? From the data available, the total loan defaults to date are \$2.7 million. This is roughly a 7% default rate on the total of \$38 million of loans issued during the decade.

Recent data shows that last year across the U.S. state and local governments gave \$70 billion to private firms and organizations in the form of grants, loans, and subsidies. While there are anecdotes about successful state coups landing large firms, there is no professional research literature evidence that these give always benefit state and local economies over time.

At the very least, there should be a coherent logic behind Delaware's Strategic Fund largess and there should be due diligence regarding subsequent compliance.

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