

Joint Select Committee On Economic Development Incentives

UNC Economic Incentives Analysis
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Key Legislative Questions

- How have incentives been used?
- Which incentives achieve the greatest return?
- Are there changes and/or alternatives that better achieve economic priorities?

NC Economic Incentive Types

Statutory Incentives

- Tax credits to qualifying businesses for job creation, training and investment
- Lee Act (Article 3J)

Discretionary Incentives

- Cash grants to new and expanding businesses for job creation and/or retention
- Job Development Investment Grant (JDIG)
- One North Carolina Fund

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Incentives Performance Measures

Quality Job Creation

- Initial and long-term employment, wages, sustainability

Distressed Areas Benefit

- Employment and reemployment

NC Competitiveness

- Economic significance, diversification, value added, strategic coherence

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NC Incentives Portfolio

1996 - 2006: \$2 billion in economic incentives

- 5,000+ incented companies
- Constitute “portfolio” of investment strategies
- Incentives – like investment types – can vary widely in their return
- Recipients – like portfolio companies – differ in their performance
- Which incentives /companies best achieve NC’s economic development priorities?

Incentives Have Limited Effect on Corporate Locations

- National surveys indicate incentives are relatively low in importance in location decisions
- **Site Selection** magazine (2008) survey of corporate executives ranked incentives eighth
- UNC survey of NC incented and non-incented ranked incentives 12th and 13th respectively
- Incentives do not compensate for inadequate workforce or infrastructure

Incentives are Most Persuasive When ...

- Other location factors are relatively equal
- Prospects are highly mobile (and more are)
- Tailored to companies' specific priorities
- Benefits are front-loaded
- Combined with other assistance
- Before the auction starts

Incentives Have The Greatest Economic Benefit When...

- Company employs local residents, minimizing public service outlays
- Company has catalytic effect on local suppliers
- Company is in growth mode with job creation upside
- Company is a headquarters in an export industry, creating local wealth

Updating NC's Incentive Portfolio

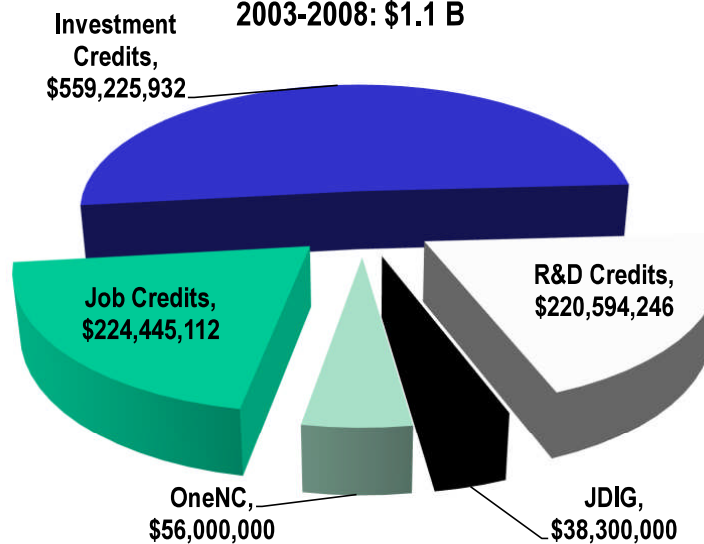
- Current portfolio relies too much on statutory tax credits that are less effective than in 1990s
- Majority of tax credit incented firms showing little job growth
- Investment tax credits strongly associated with job loss
- R&D credits show best correlation with job growth
- Job creation tax credits show weak effect

The Carolina Center for Competitive Economies (C3E)

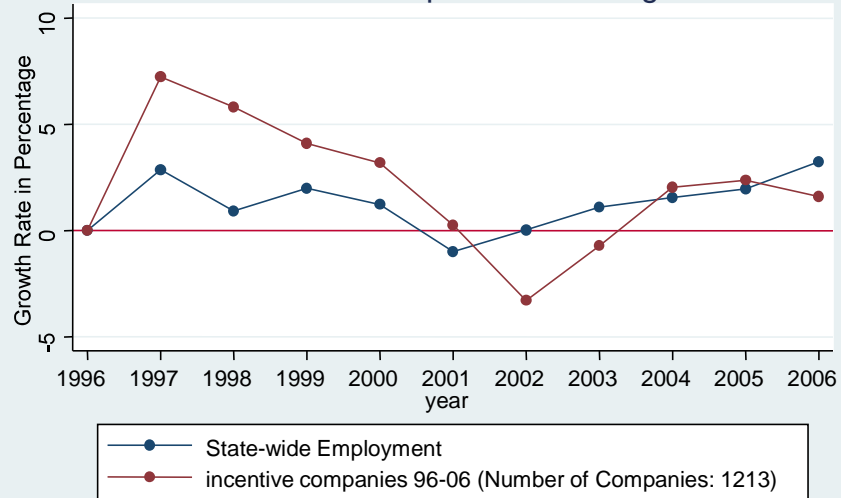
Kenan Institute for Private Enterprise

Historic Portfolio (Generated)

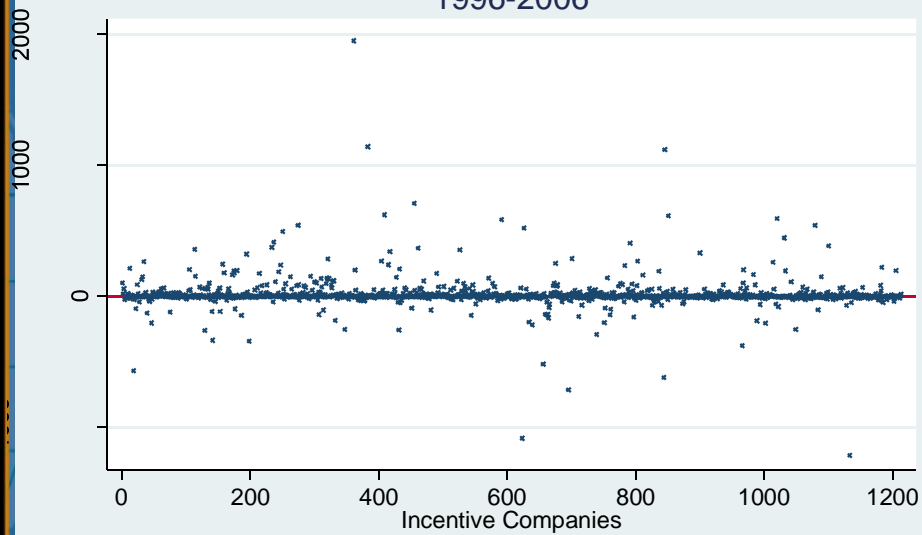
2003-2008: \$1.1 B



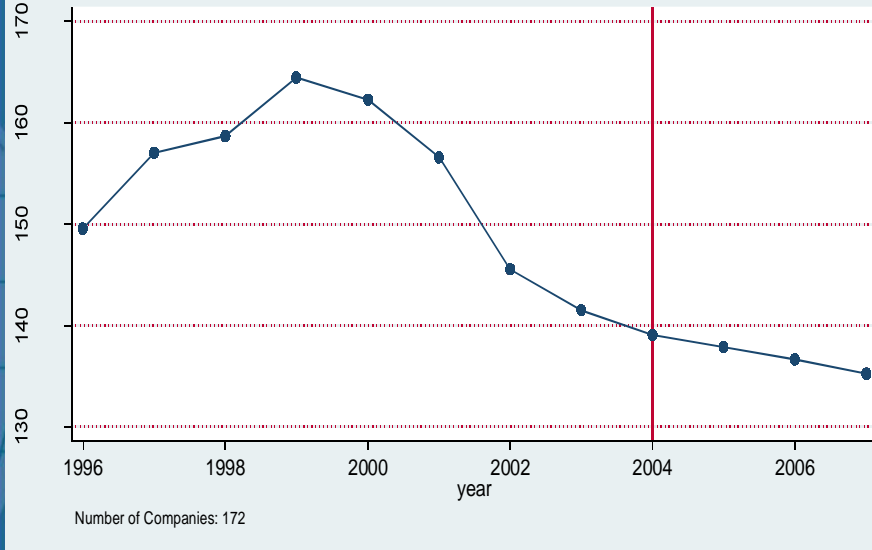
Employment Growth Rate: State vs. Incentive Companies with Single Location



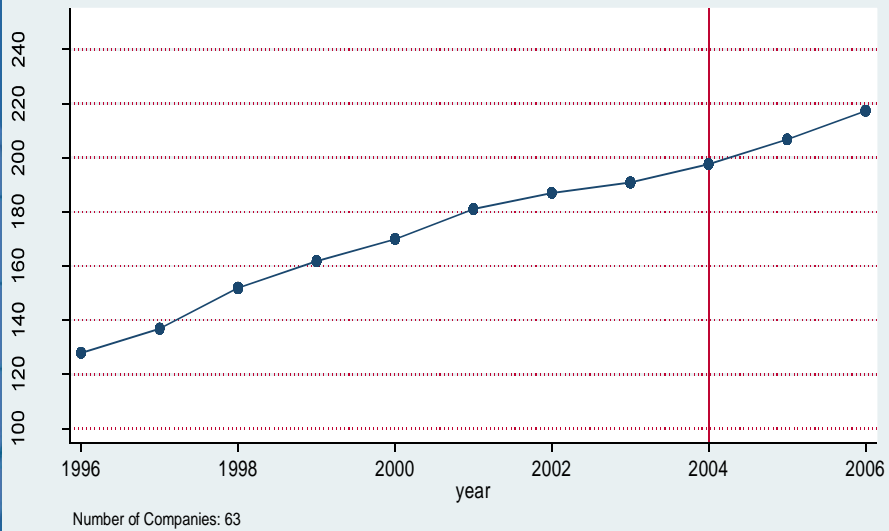
Employment Change: Incentive Companies with Single Location 1996-2006



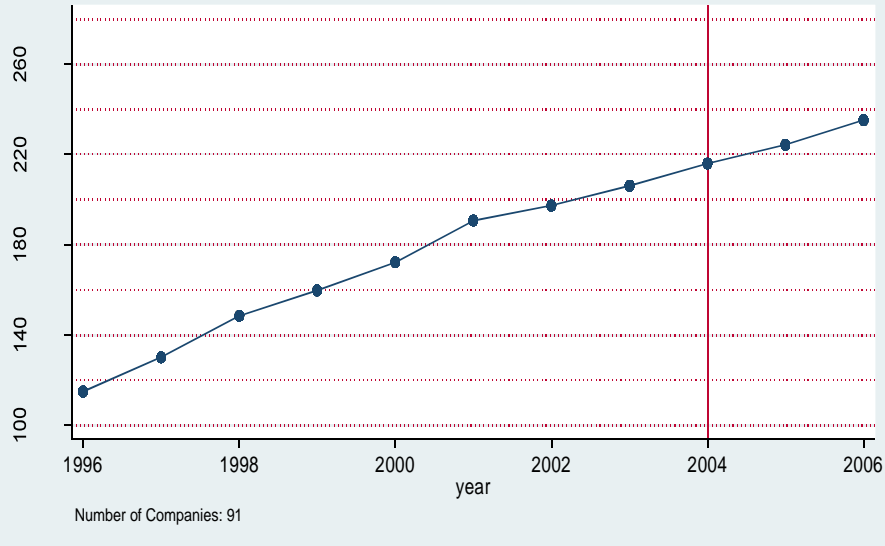
Average Employment for Companies only Received Machine and Equipment Tax Incentive in 2004



Average Employment for Companies Received Research and Development Tax Incentive in 2004



Average Employment for Companies Received Create Jobs
Tax Incentive in 2004



Current Economy Favors Discretionary Incentives

- Discretionary incentive programs have flexibility to address more current market priorities
- Tax credits require profits to use
- Discretionary incentives reduce capital/credit requirements
- Performance based incentives offer better accountability and enforcement
- Greater utility for strategic, proactive targeting

NC Corporate Tax Rate

- UNC survey found executives preferred lower tax rate to selective tax incentives
- Rate reduction positive effect on more firms
- Reallocating incentives portfolio can support corporate tax rate reduction
- Reducing current 6.9% rate to competitive neutral rate of 6.5% cost \$56 million (2005)

NC Corporate Tax Rate

North Carolina	6.90%
Alabama	6.50%
Tennessee	6.50%
Georgia	6.00%
Virginia	6.00%
Florida	5.50%
South Carolina	5.00%

Incentive Portfolio Adjustment Recommendations

- Retain Research and Development Tax Credit
- Eliminate Article 3J statutory credits (scheduled to “sunset” in 2011) effective 2010
- Expand JDIG program with increased amounts targeted to distressed counties
- Phased reduction of corporate tax rate to competitive neutral rate of 6.5%
- Increase economic development research and marketing budgets for proactive targeting

Retain Research and Development Credit

- Only investment credit associated with job growth
- Corresponds to federal credit
- \$221 Million in credits generated 2003-2008
- Est'd \$250 Million in credits will be generated and \$124 Million taken during 2010-2015

Eliminate Article 3J Credits

- Statutory tax credits have declined sharply in job creation effect
- Development of JDIG and OneNC offer more effective discretionary alternative
- Potential total savings of \$574 Million in retained tax revenues during 2010-2015
- Most savings in later years

Expand JDIG Targeting Distressed Counties

- Doubling JDIG program with increased amounts targeted to distressed counties
- Emphasize incumbent workforce utilization and coordination with community college workforce development
- Est'd additional cost of \$74 Million total in 2010-2015

Corporate Tax Rate

- Phased reduction of corporate tax rate to competitive neutral rate of 6.5%
- Est'd cost of \$56 Million (2005) annual at full reduction
- Highly variable nature complicates forecasts

Enhancing Economic Development Marketing

- Increase economic development research and marketing budgets for proactive targeting
- Collection and analysis of strategic economic status data and market opportunities
- Institute a legislative oversight function to assess economic development agencies
- Est'd \$1.5 million/year

Final Steps

- Meetings with economic development stakeholders on incentive findings and options
- Development of draft legislation for Committee consideration
- Assist in legislative process through July 2009