<u>Legislative Proposal:</u>
<u>Make Better Use of Economic Incentives</u>

- **Repeal Article 3J tax credits.** *(Section 1)*
  - UNC findings establish:
    - Statutory tax credits are not tied to NC's strategic economic development goals
    - Statutory tax credits least effective, difficult to evaluate effectiveness, most expensive
  - Implements UNC recommendation of eliminating statutory credits.

- **Phase down the corporate income tax.** *(Section 2)*
  - UNC findings establish:
    - Both incented and non-incented companies prefer a corporate rate reduction as an alternative to selected tax credits
    - Corporate rate reduction would bring NC 'in-line' with competitor states
  - Implements UNC recommendation of utilizing savings from elimination of statutory tax credits to support phased reduction of corporate tax rate to a competitive neutral rate
    - The UNC draft report recommended a reduction in the corporate tax rate from 6.9% to 6.5%.
    - Based upon an estimate provided by the Fiscal Research Division, the proposal reduces the rate from 6.9% to the revenue-neutral rate of 6.6%. The reduction is fully phased in by taxable year 2013.

- **Identify economic development goals:** *(Section 4)*
  - UNC findings establish:
    - Current economic development goals unclear
    - Difficult to measure success of economic development incentives if uncertainty as to what is expected to be achieved by those incentives
  - Implements UNC recommendation that State establish clear economic development goals by setting the goals as:

        - Increasing development in an industry identified by Commerce as being strategically important to the State
        - Increasing location of businesses in economically disadvantages areas

- **Reauthorize and modify JDIG:** *(Sections 3 through 7)*
    - UNC findings establish:
        - Discretionary incentive programs provide a better opportunity for strategic economic development targeting
        - Discretionary incentives are likely more effective than tax credits at inducing companies to create jobs and investment
        - Discretionary incentives are based upon a set of defined metrics that is used prior to approval and disbursement of funds
        - Absence of wage standard can undermine economic benefit
        - Incentives have greatest impact when business employs local residents, especially displaced workers
    - Implements the following UNC recommendations:
        - Expand JDIG program in number of annual projects and maximum annual threshold
            - Increases cap from 25 projects to 30 projects
            - Increases statutory ceiling from $15 million to $25 million
            - Extends sunset from 2010 to 2016
        - Increase amounts allocated under JDIG for economically distressed areas
            - The five additional grants allowed must be for projects located in an economically distressed area
        - Emphasize an appropriate wage standard
            - Incorporates the wage standard used by for the statutory tax credits
            - Waives wage standard for a project located in an economically disadvantaged area.
        - Emphasize stronger preference for employing local residents, especially displaced workers
            - Incorporates a 'first-source' hiring principle
        - Emphasize consistency with strategically important industry clusters
            - Adds the chair of the Economic Development Board to the Economic Investment Committee

- **Periodic review of economic development incentives.** *(Section 8)*
    - UNC findings establish:
        - NC's leaders lack objective data analysis on the state of NC's economy and the performance of the State's economic development programs
        - NC has the available data to better track the performance of the State's economy and the State's economic development programs
    - Implements the following UNC recommendations:
        - Provide for ongoing collection and analysis of strategic economic status data at the State and regional levels as basis for economic development performance assessment
        - Institute a legislative oversight function specifically to establish economic development priorities and assess performance of State and regional economic development entities
    - Broadens the scope of the Revenue Laws Study Committee to incorporate the study of economic development incentives and the continual performance assessment of economic development incentives and the entities that implement the incentives