

JOINT SELECT COMMITTEE ON ECONOMIC DEVELOPMENT INCENTIVES

Understanding How Incentives Work Best for North Carolina

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Do Incentives Work? Yes.

2003 Analysis by Dr. Michael Luger found:

- 2,000+ companies generated \$1.48 billion in Lee credits from 1996 to 2003
- Created over 135,000 new jobs
- Invested \$16.5 billion in new machinery and equipment
- Conducted \$3.3 billion in new R&D
- Trained 35,350 workers

Do Incentives Work? Yes, but.....

- Incentives – like investments – vary in their rates of return
- NC's incentives constitute a “portfolio” of investment assets and strategies
- Which incentives best achieve NC's economic development priorities?
- Are there alternatives that better achieve those priorities?

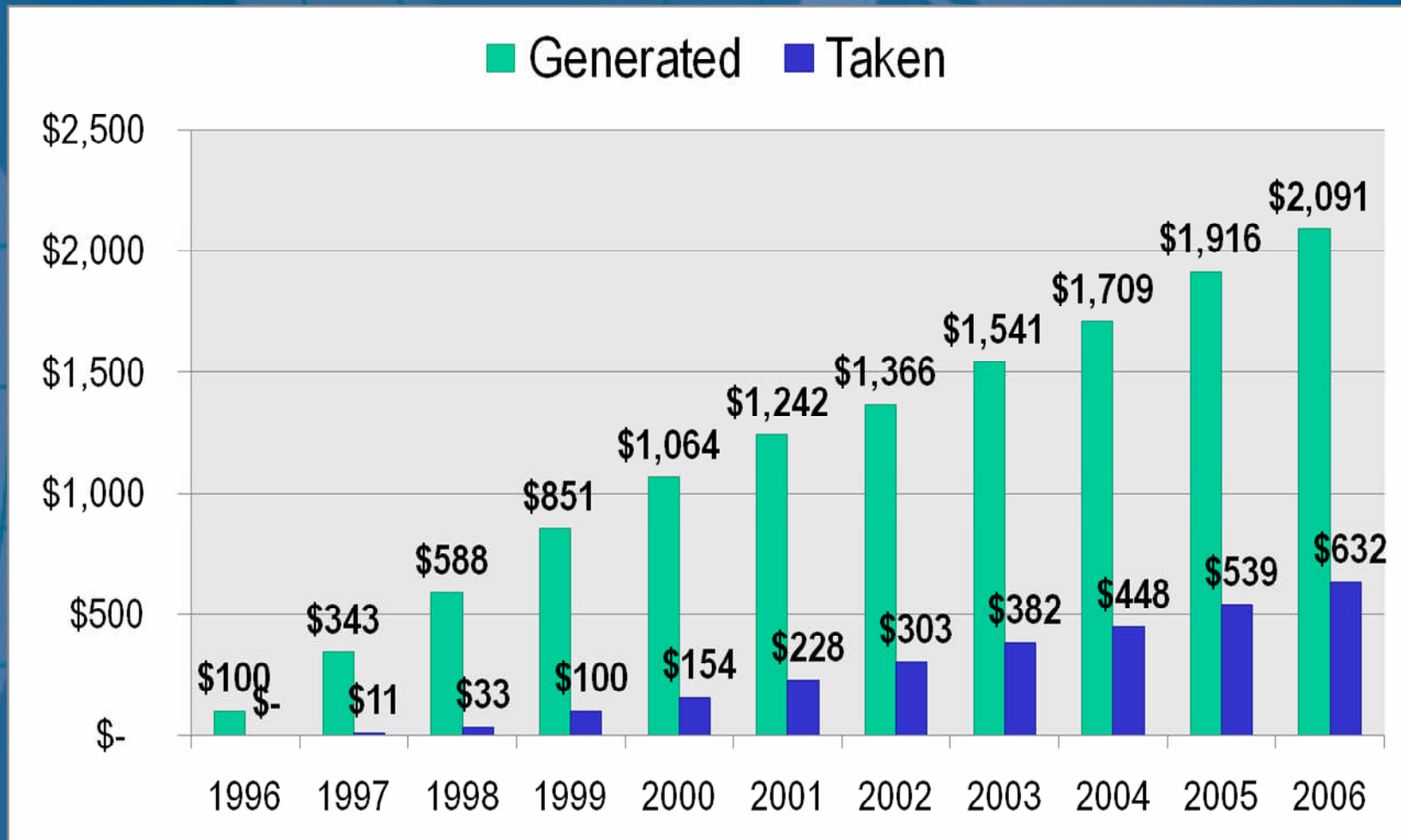
Prior Lee Act Analysis 1999-03

- Reports of incentive amounts are overstated (Generated vs. Taken)
- Most incentives are not tied directly to job creation
- Most incentives go to firms in less distressed tiers
- Relatively few companies participate due to complexity, ineligibility, ignorance

Preliminary Current Analysis

- Maximum Lee Act “cost” exceeded \$2B in 2006
- Most incentives continue to be for investment, much less for job creation or worker training
- A few companies receive most of incentives
- Incentive distribution continues to favor less distressed areas
- Some incentives have greater effect on distressed areas

Lee Act “Costs” Have Exceeded \$2 Billion



Lee Act Costs are Overstated

Prior analysis found:

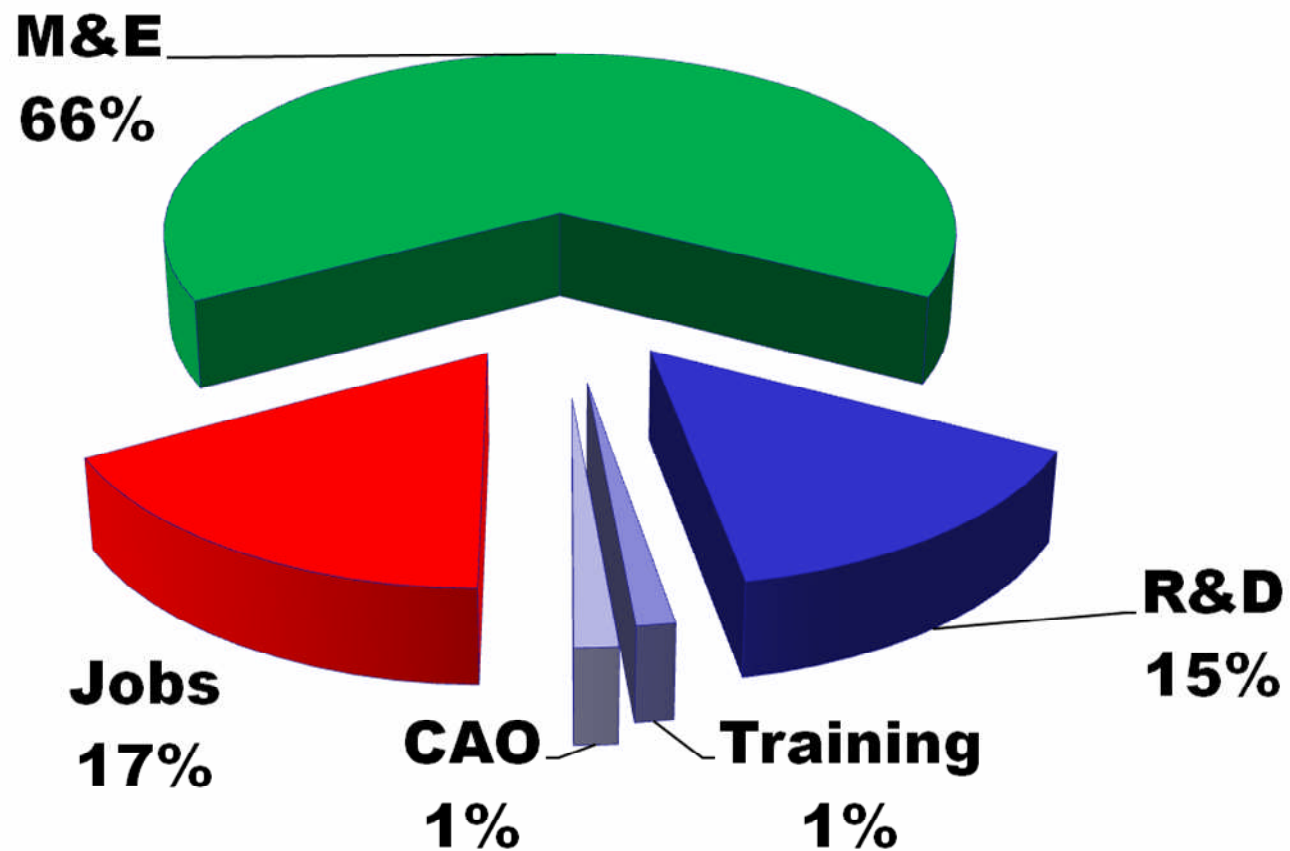
- >30 percent of all outstanding Job Creation and M&E tax credits will expire untaken
- Post incentive, many companies downsized eliminate jobs and remove M&E from service
- Companies will fall out of compliance with performance requirements

Most Incentives Are Not Directly For Job Creation

Prior analysis found:

- Most incentives are for investment – Machinery & Equipment and Research & Development
- Incentives for Job Creation and Worker Training lag far behind
- These trends continued in more recent years

Lee Credits 1996-06 = \$2.1 Billion

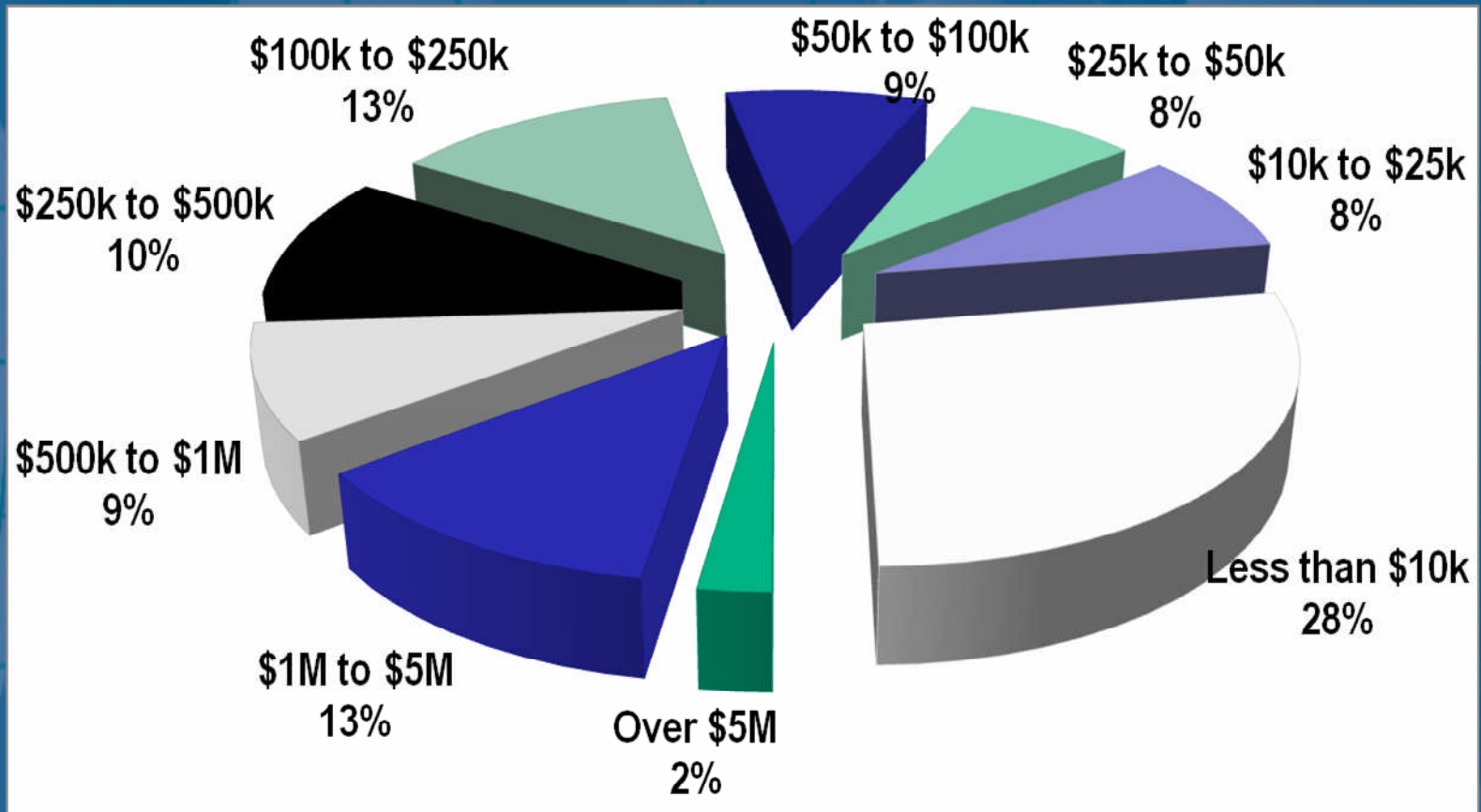


Most Incentive \$ for a Few

1996 to 2002:

- 1,967 companies received Lee incentives
- 46 (2%) received total \$523 million (39%)
- 860 (44%) received total \$9.6 million - less than \$25k each
- What are the relative ROIs of these different populations of companies?

Lee Act 1996 – 2002: 1,967 Incented Firms



Incentive \$ per Size

