

Introduction to the Joint Select Committee on Economic Development Incentives

October 24, 2007

Questions Triggered by Recent Incentive Decisions

**Costs and benefits
involved with State
and local
governments' use of
public dollars to
entice corporate
investment**

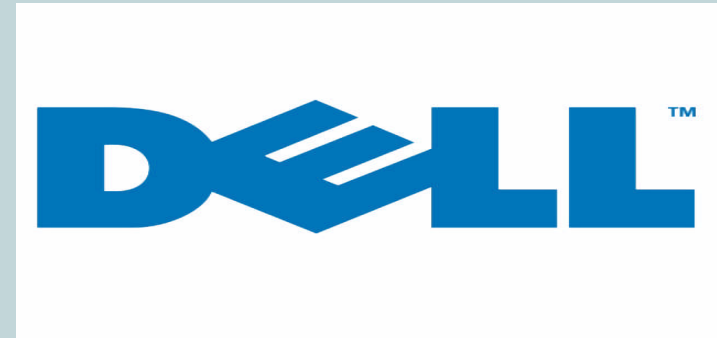
**The accuracy of
the economic
model used for
awarding
incentives**

**Public money
already committed
by the time the
deals become
public**

**The lack of public
disclosure of
sufficient data and
analysis of economic
development
incentive decisions**

**Questions about the
amount of the offer**

**Questions about the
accuracy of the economic
model used to award the
incentive**



**Questions about the role of
State and local governments**

**Questions about the
confidentiality of the recipient**

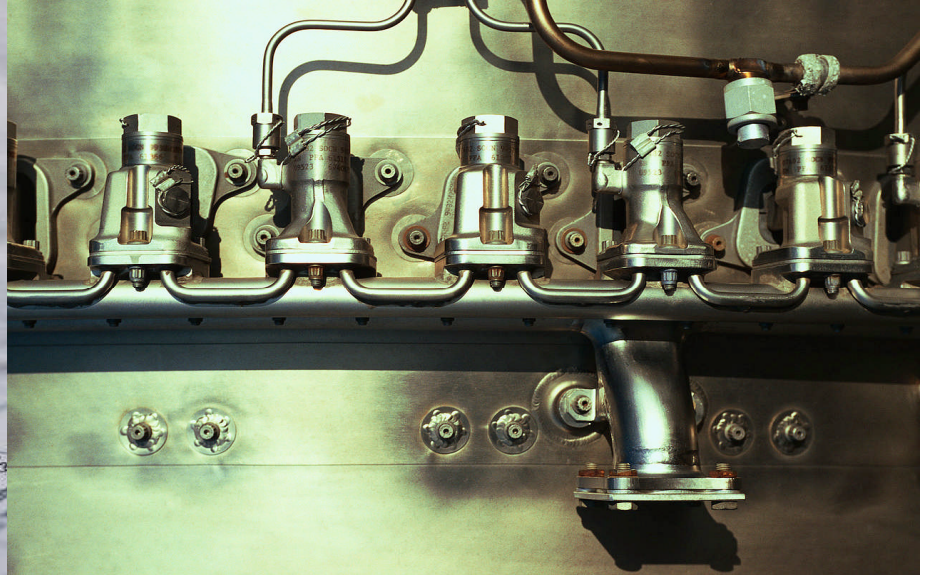
Committee's Charge

- **Interaction be/ economic incentives and other economic development tools**
- **Role of State and local governments**
- **Extent to which incentives have promoted economic development and at what cost**
- **Adequate information for legislators**
- **Annual reports by incentive recipients**
- **How to adequately protect State's investment**
- **Any other information helpful in its deliberations**

Other Legislative Committees

- **2003 (Report to the 2004 Session)**
 - **Joint Select Committee on Economic Growth and Development**
- **2005 (Report to the 2006 Session)**
 - **House Select Committee on Economic Development**
- **2006 (Just appointed)**
 - **Joint Legislative Economic Development Oversight Committee (*statutory*)**
- **2007**
 - **Joint Select Committee on Economic Development Incentives**

**NC Incentive Programs Prior to 1996:
Infrastructure, NCCCS, Tax Structure, &
Competitiveness Fund**



What Happened in the mid-1990s?

- **Maready v. City of Winston Salem (1995)**
 - Economic development is a public purpose
 - Expenditure does not lose its public purpose merely because it involves a private actor
- **Projects North Carolina might have gotten seemed to be going elsewhere**
 - New businesses
 - Expanding businesses

Economic Development Board: Incentives Task Force

- **State's trade tools of training & infrastructure matched by others**
- **Growing use of incentives lowered effective tax rates on investments and raised the after-tax rate of return**
- **NC did not need to match other states incentive packages dollar for dollar**
- **NC did need to address the issue of how tax incentives affected the rate of return**

1995 Task Force Recommendations

- **Incentives should be tailored to meet specific economic policy goals**
 - High quality jobs
 - Widely shared prosperity
- **Incentives should be fiscally responsible and accountable**
 - Corporate tax incentives
 - Forfeiture provisions

Skeleton of Bill Lee Act, Enacted in 1996

- **Investment tax credit with an investment threshold. Less developed counties would have a lower threshold**
- **Expansion of jobs tax credit to all counties. Higher level of credit per job for less developed counties**
- **R&D credit**
- **Job training tax credit**

1998



NUCOR

**Sales and Property Tax
Reductions**

**Enhanced investment tax
credits**

Applicable to franchise tax

**Credit may equal 100% of
tax due**

1999



Target businesses in urban areas

Sales tax exemptions and reductions



Expand definition of central admin. office

New, more generous investment tax credits

And so on, and so on ...

- **2000**
 - Buckeye Project
 - Midway Airlines
 - Blue Ridge (Champion Buyout)
- **2001**
 - Lowe's
 - Alcoa
- **2002**
 - FedEx
- **2003**
 - Merck
 - RJ Reynolds Tobacco Company
- **2004**
 - Phillip Morris, Lorillard, RJ Reynolds Tobacco Company
 - Timco
 - Dell
- **2005**
 - Dole
 - Cheesecake Factory
- **2006**
 - Efird and American
 - Novo Nordisk
- **2007**
 - LabCorp



Shift from creating jobs to retaining jobs!

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“Whether these incentives are lawful ... was settled by *Maready* ... To the extent plaintiffs question the wisdom of the incentives and whether they will in fact provide the public benefit promised, they have sought relief in the wrong forum. Once the Supreme Court held in *Maready* that economic incentives to recruit business to NC involve a proper public purpose, it became the role of the General Assembly and the Executive Branch ... to determine whether such incentives are sound public policy.” *Blinson v. State*, 16 October 2007 (Lawsuit brought in response to Dell incentives)

Committee's Charge

- **Opportunity to see what the State is doing and at what cost**
- **Opportunity to revisit and reassess the State's economic development goals**
- **Opportunity to evaluate whether the State's policies on incentives further these goals**
- **Opportunity to identify the incentives and policies that will give the State the greatest impact for its investment of public monies**
- **Opportunity to determine sound public policy**