Introduction to the Joint Select Committee on Economic Development Incentives

October 24, 2007
### Questions Triggered by Recent Incentive Decisions

<table>
<thead>
<tr>
<th>Costs and benefits involved with State and local governments’ use of public dollars to entice corporate investment</th>
<th>Public money already committed by the time the deals become public</th>
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</thead>
<tbody>
<tr>
<td>The accuracy of the economic model used for awarding incentives</td>
<td>The lack of public disclosure of sufficient data and analysis of economic development incentive decisions</td>
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</table>
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 between 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

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!

Goodyear

Bridgestone

Firestone
“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