

# Local Incentives in North Carolina

Presentation to the NC Joint Select Committee on Economic Development Incentives

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# Large Local Incentives

## **2004 - Forsyth County and Winston-Salem**

State: \$240 million

Local: \$37 million

Rationale: Bidding war with Virginia, then intra-state bidding war

Surprise: Virginia offered only \$30 million; Dell now considering closing plant



## **2006 - Caldwell County and Lenoir**

State: \$100 million

Local: \$165 million

Rationale: Outbidding SC

Surprise: Google later puts a server farm in SC; Google now giving incentives back



# Questions

- When a company locates or expands in NC, how large are the local incentive packages that they receive on top of state incentives?
- How much do local governments pay per job in incentives?
- How costly (\$/job) are local incentives relative to state incentives?

# Outline

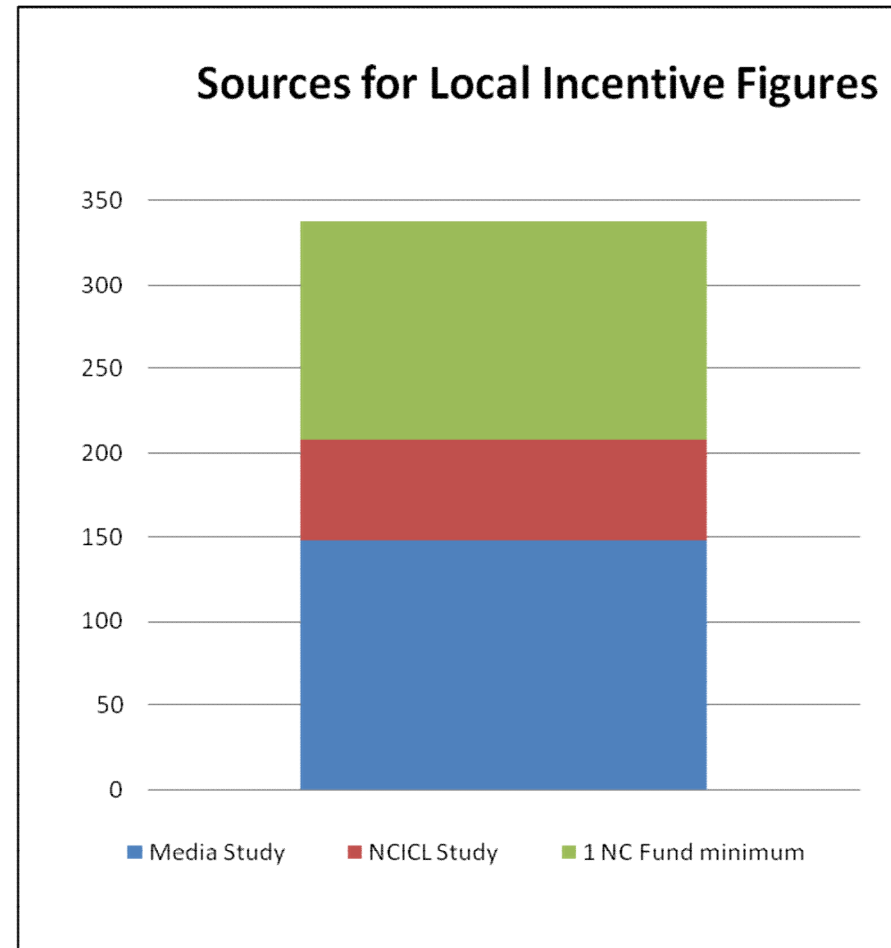
- Methodology
- Findings
- Large local incentives
- Recommendations

# Methodology: Data Issues

- No aggregate data on local incentives in NC
  - Local governments not required to report incentives to state
- Media reports and surveys give us an estimate

# Methodology: Local Incentives

- **338 local incentive deals (2001-08)**
- **208 based on actual figures**
- **Data sources:**
  - 148 based on C3E media study (2001-08)
  - 60 based on NCICL survey of NC counties (2004-06)
  - 130 based on One NC Fund match requirement (2001-08)

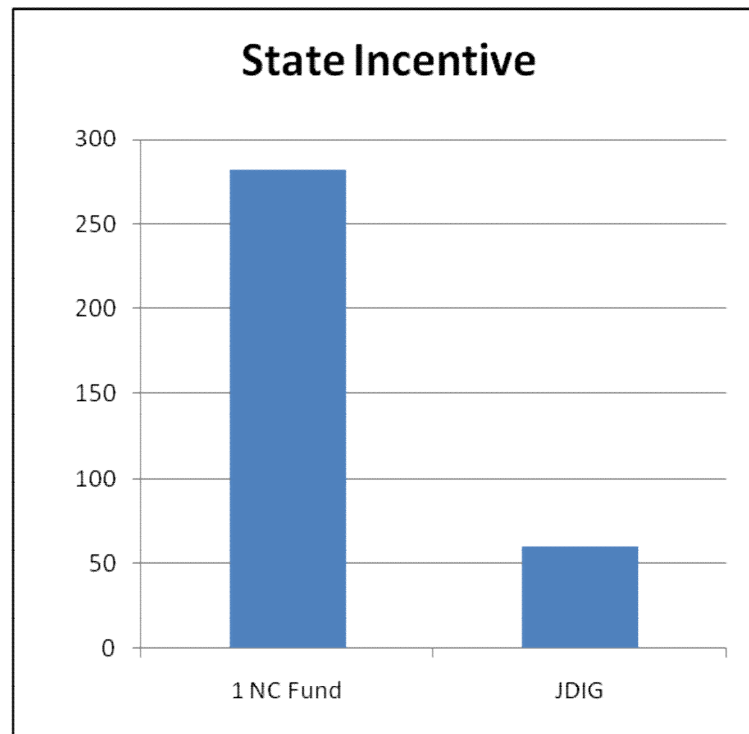


# Methodology: Local Incentives

- Incentive values represent:
  - total offers of county and or city
  - multiple different types of incentives:
    - Cash grants
    - Refunded property taxes
    - Cheap facilities or land
    - Extension of sewer & water lines
    - Waiver of fees

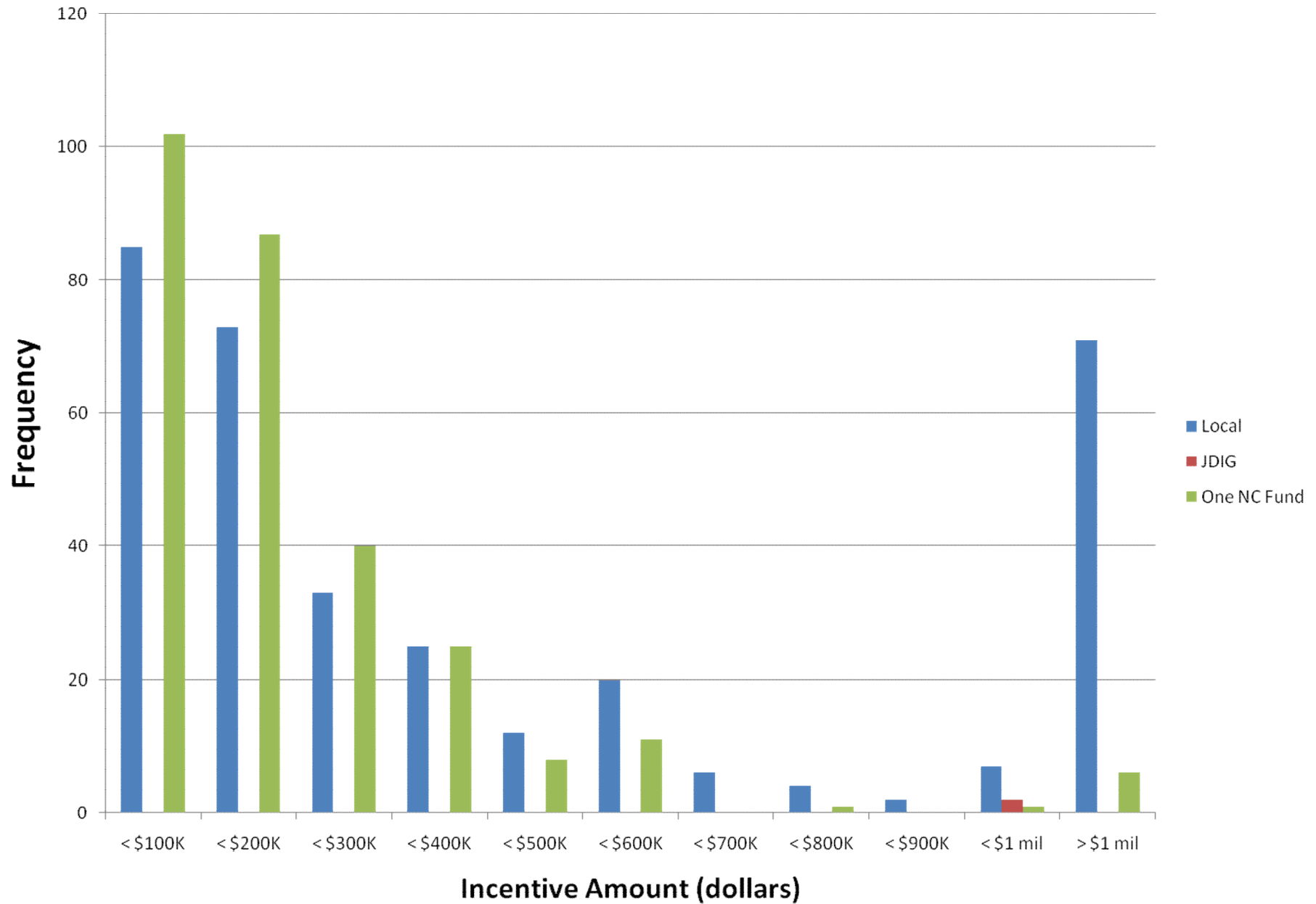
# Methodology: State Incentives

- 282 One NC Fund grants (2001-08)
- 60 Job Development Investment Grants (2003-08)
- Data source: NC Commerce

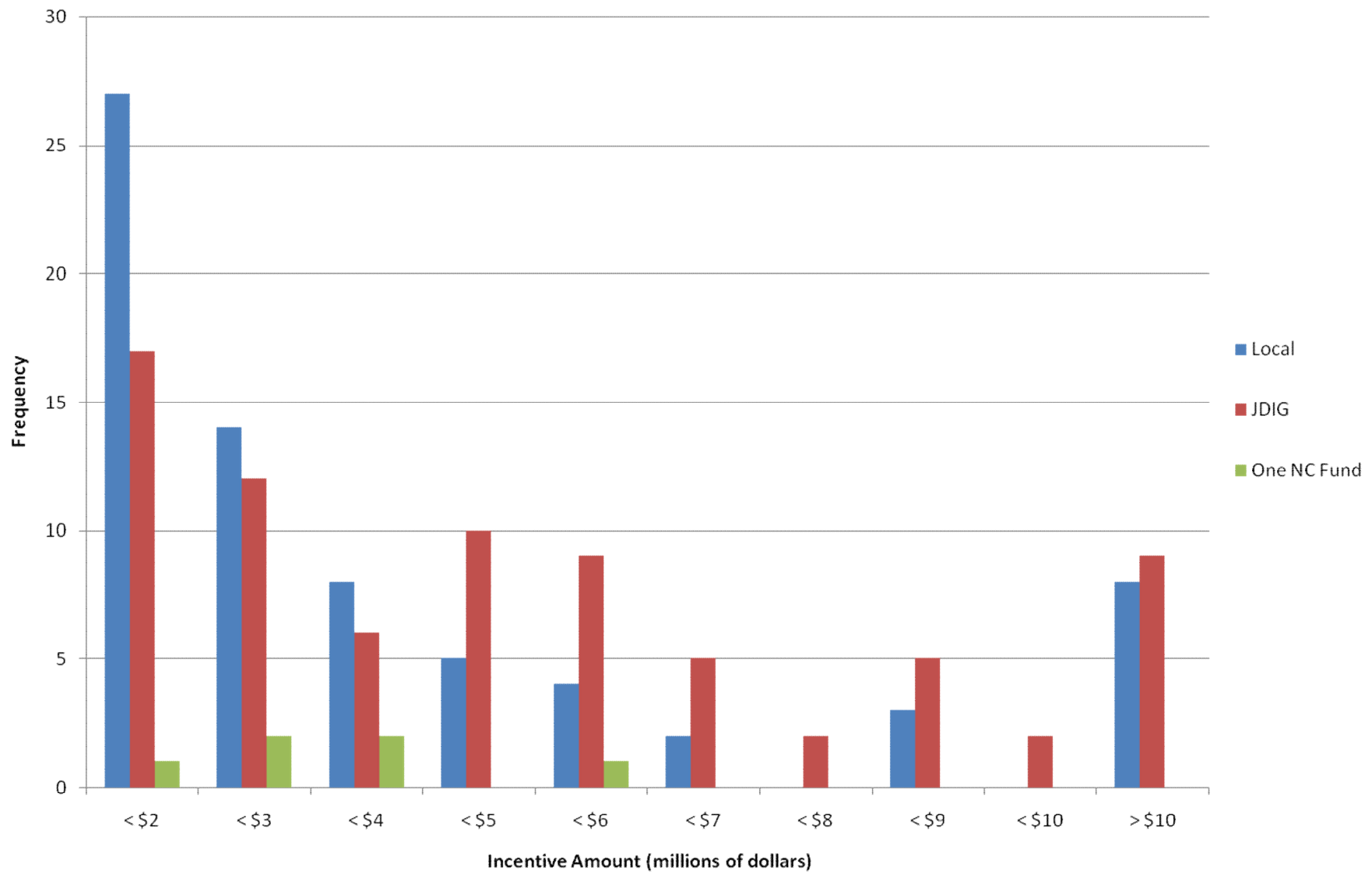




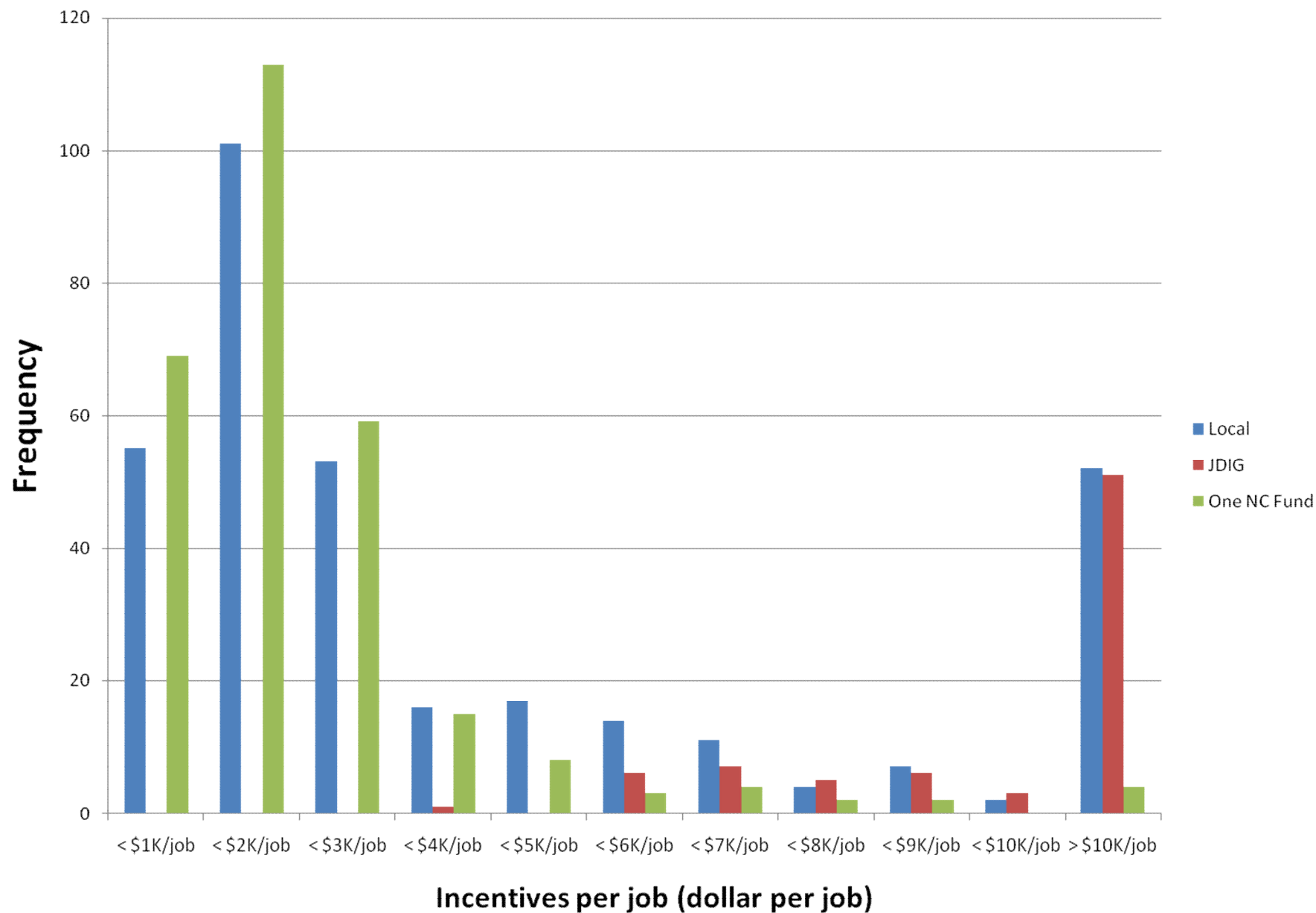
## Size of Incentives in NC (2001-2008)



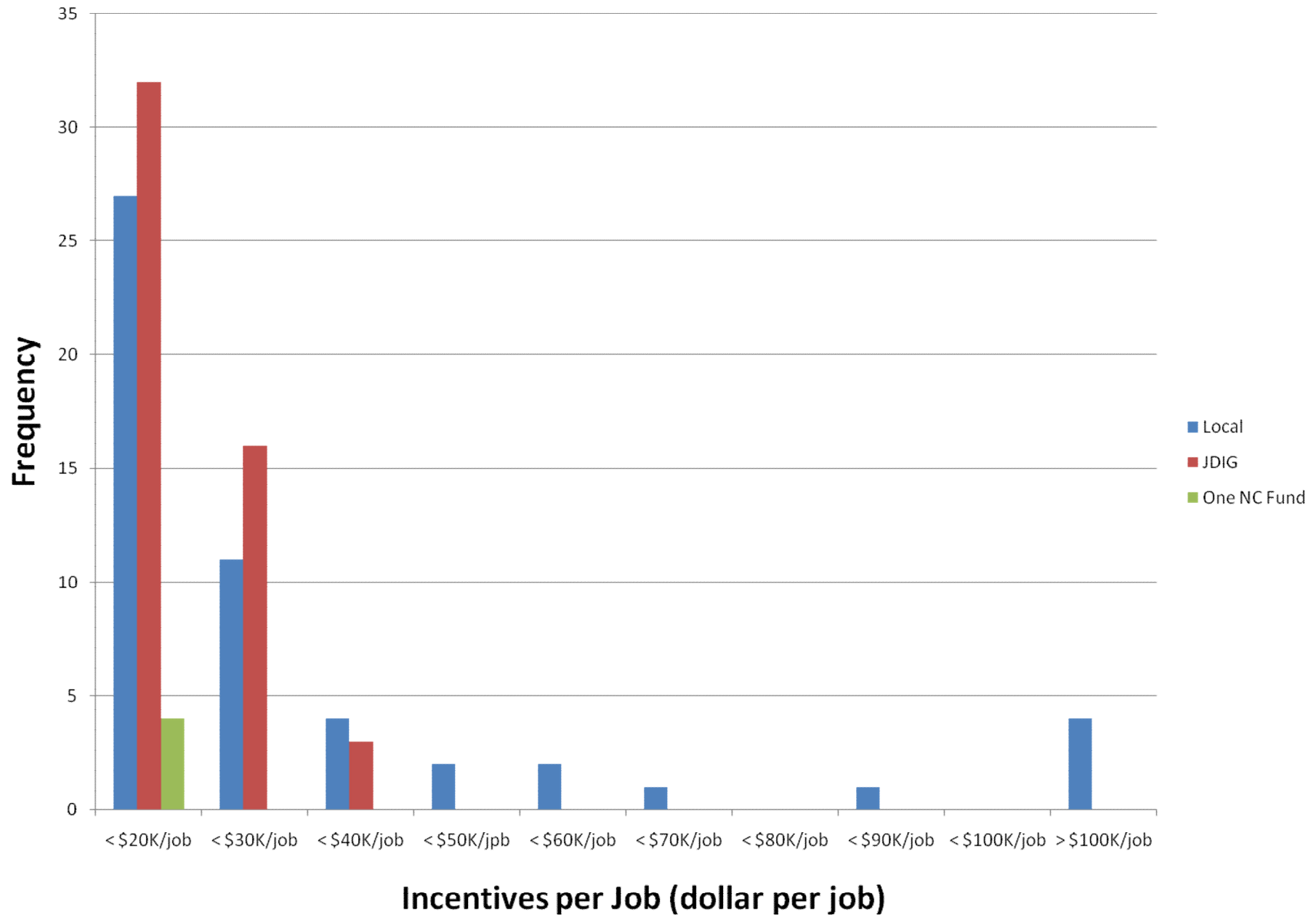
## Size of Incentives in NC over \$1 million (2001-2008)



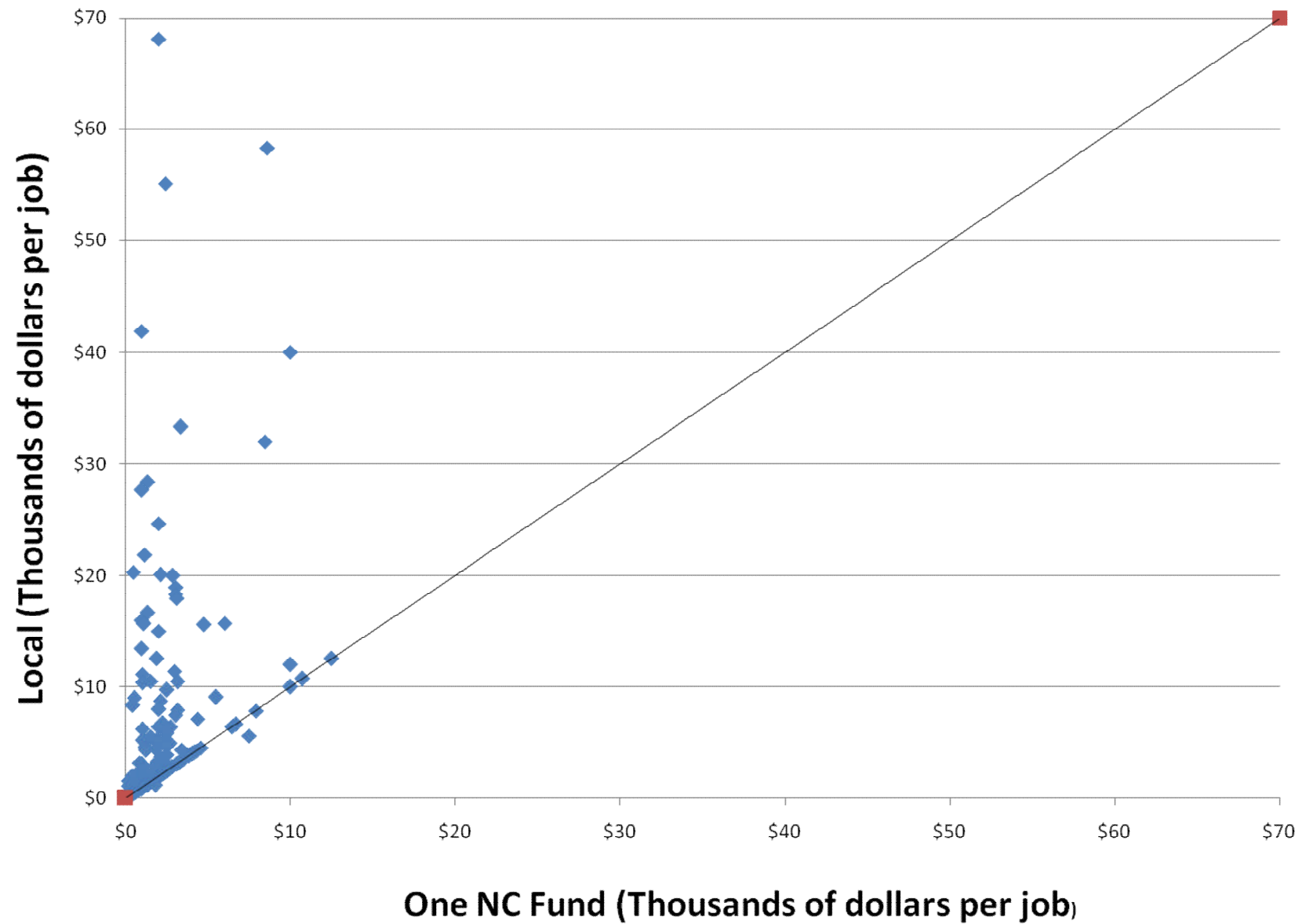
## Incentives per Job (2001-2008)



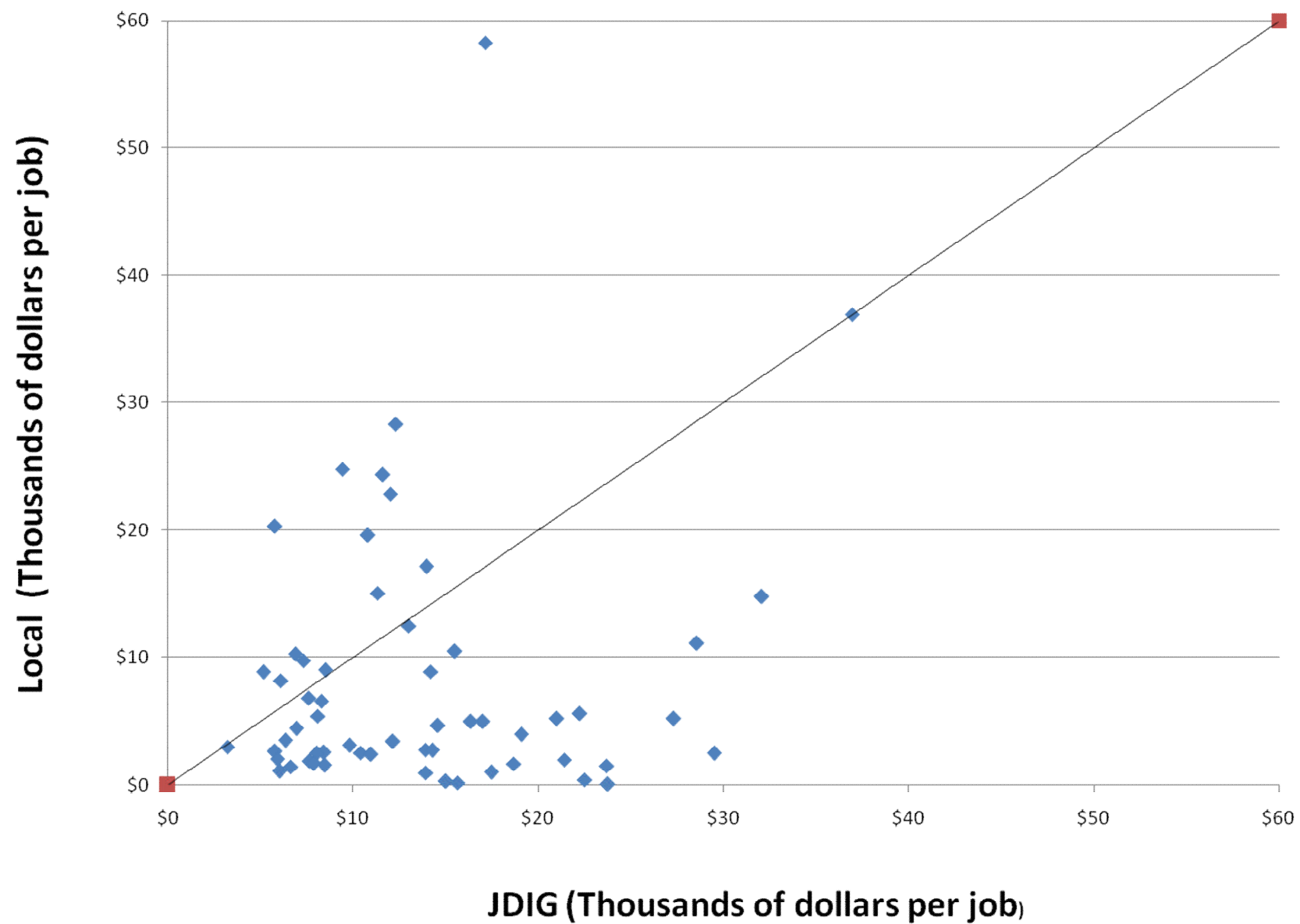
## Incentives over \$10,000 per Job (2001-2008)



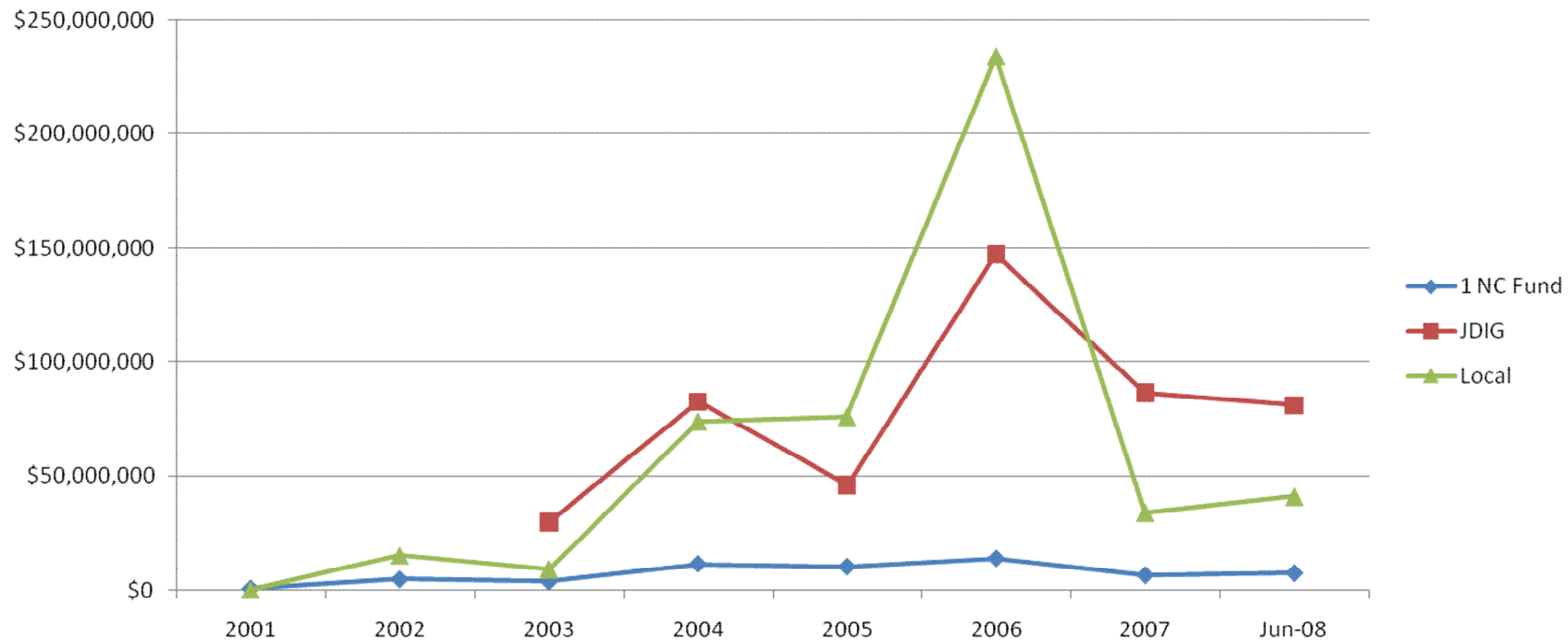
## One NC Fund and Corresponding Local Incentives per Job



**JDIG and Corresponding Local Incentives per Job**



## NC Discretionary Incentives & Corresponding Local Incentives



INCENTIVE	TOTAL AMOUNT COMMITTED
One NC Fund	\$59.4 million
JDIG	\$472 million
Local Incentives	\$484.1 million

# Key Findings

## **State incentives often come with large local incentives**

- 1/3 of companies receiving discretionary incentives from the state also received local incentive packages worth over \$1 million

## **Local incentives have cost the most per job, not JDIG**

- 20 local incentive packages over \$30,000 per job

## **Large state incentives often come with even larger local incentives**

- 17 out of 60 JDIG grants were accompanied by even larger local incentives

## **JDIG and One NC Fund recipients were also offered at least \$484 million in local incentives**

- State discretionary incentives have a maximum value of \$530 million



# What is wrong with large local incentives?

- Marginal influence of incentives as a site selection factor
  - Lack of coordination with state and other communities
  - Lack of cost-benefit analysis
- 
- ➔ **Local governments overbid for business**
  - ➔ **Lack of funding for essential public services**

# Site Selection Factors

## Area Development 2008 Corporate Survey

1. Highway Access
2. Labor Costs
3. Energy Costs/Availability
4. Skilled Labor
5. Rent/Construction Costs
6. Available Land
- 7. Corporate Tax Rate**
- 8. State and Local Incentives**
9. Environmental Regulation
10. Tax Exemptions

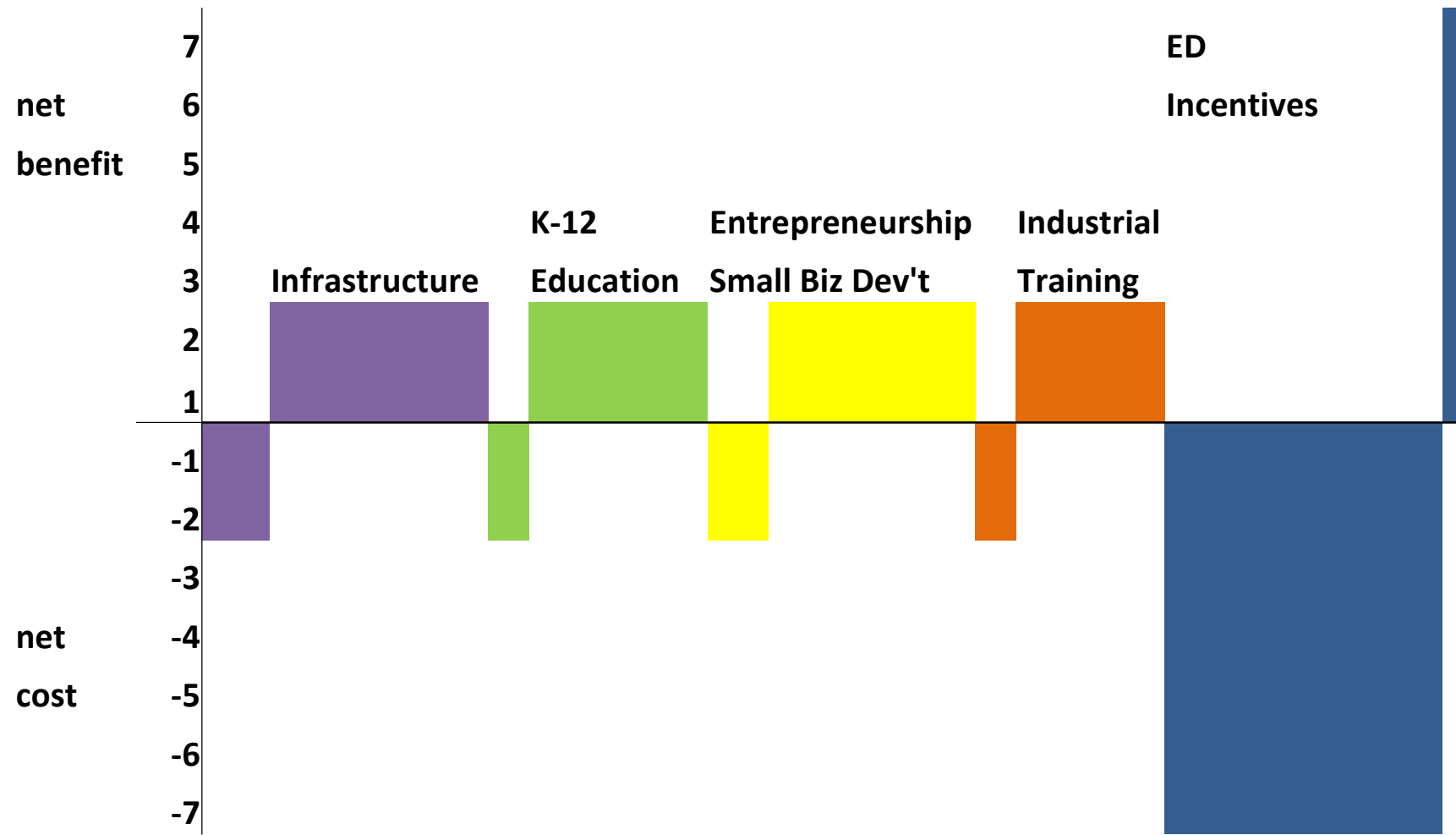
# Intra-State Competition

- \$6 million in local incentive from 2004 to 2006
- Forsyth **vs.** Guilford County - **Dell**
  - \$37 million
- Vance → Granville - **Dill Air Controls**
  - \$300,000
- Rocky Mount → **Raleigh** - **RBC Centura**
  - \$750,000

# Economic & Fiscal Impact Analysis

- Large local incentive deals can have net social costs if:
  - High in-migrant ratio
  - Low unemployment
  - Inadequate infrastructure
- EIA & FIA prevent overbidding
- Few localities in NC use impact analyses

# An Unbalanced Portfolio



# Recommendations

- Better Cooperation
  - Coordinate state and local incentive negotiations more closely
  - Promote cooperation at the metropolitan level
    - Offer fewer, but larger One NC Fund grants to be matched by regions
    - Promote project sharing between neighboring jurisdictions
- Better Information
  - Require local governments to disclose details of incentive deals
  - Conduct local economic/fiscal impact analysis for local governments or labor markets
- Better Local Incentives
  - Encourage more In-Kind incentives: Access Roads, Customized training
  - Support First Source Hiring Programs linked to customized training

# References

- “The Incentives Game”. 2007. North Carolina Institute for Constitutional Law
- Bartik, Timothy J. "Jobs, productivity, and local economic development: what implications does economic research have for the role of government?." National Tax Journal 47.n4 (Dec 1994): 847-861.
- “2007 Corporate Survey”. *Area Development* . Accessed 12/8/08  
<http://www.areadevelopment.com/corpSurveySeries/feb08/taxesAndIncentives.shtml>