

# **AT WHAT COST? NORTH CAROLINA'S "BUDGET" FOR ECONOMIC DEVELOPMENT**

Presentation to the NC Joint Select Committee on Economic  
Incentives

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# GOALS OF PRESENTATION

- Discuss the rationale for improving transparency of NC economic development policies
- Build on the recent “Economic Development Inventory” with analysis of spending categories (e.g. agriculture, technology, small business, etc.) and trends that may help reveal state priorities
- Propose recommendations to improve economic development spending and reporting



# TRANSPARENCY AND STATE ECONOMIC DEVELOPMENT POLICIES

- State governments operate in increasingly competitive economic environment.
- Diverse mix of policies and programs ranging from entrepreneurship initiatives and workforce training, to a wide range of tax incentives meant to attract and retain businesses.
- Despite growing scale and importance of economic development, few states have budgeting and review procedures to measure what they are getting in return for their spending (or even make an informed guess at the total fiscal out-go)



# NORTH CAROLINA'S GOOD DEED

- In January 2008, North Carolina's Fiscal Research Division released an Economic Development Inventory (EDI), which attempts to identify *all* state-financed economic development programs and their funding trends.
- Excellent first step toward providing tools needed to encourage better oversight of this growing category of state expenditures



# FINDINGS FROM THE INVENTORY

- Estimates total spending on economic development at \$1.29 Billion
- Breaks down spending among three categories:
  - Tax Incentives (\$1.1 B)
  - General Fund (“on budget”) Appropriations (\$117 M)
  - Transportation (\$67 M)
- Lists specific programs and tax incentives that compose the state’s economic development spending and who administers these programs.





## WHY DOES THIS MATTER?

- This type of information is vital for lawmakers and citizens to know how their state tax dollars are being spent.
- Only by identifying the full spectrum of programs and itemizing such figures can we begin to assess the **appropriateness, efficiency, and effectiveness** of the state's economic development spending.



## WHAT WAS MISSING?

- Further analysis that examines commitments by categories and changing trends. Does spending match with the state's goals/development strategy?
- How is spending changing over time. Is it growing? Are we spending too much or too little?
- Relative comparisons to other state programs
- "Homegrown" vs. recruitment/attraction, big firms vs. small firms, other useful classifications



## WHAT DID WE DO?

- Drew on EDI data to organize program spending by strategic categories (originally designed by NC Economic Development Board)
- Adjusted figures for inflation and looked at changes between FY 1995-96 and 2006-2007
- Compared costs to other major state program priorities





# ECONOMIC DEVELOPMENT SPENDING CATEGORIES

- Agricultural Development
- Community Economic Development
- Entrepreneurship, Small Business, Export Promotion
- Industrial Development
- Industrial Training
- Regional Local Assistance
- Technology Development and Modernization
- Other



# ECONOMIC DEVELOPMENT SPENDING CATEGORIES

## **AGRICULTURAL DEVELOPMENT**

Agriculture Finance Authority  
Agronomic Services  
Aquaculture Development  
Land Loss Prevention Project  
Marketing Division and Markets  
State Coalition of Farm and Rural Families  
Coastal Seafood Industrial Park

## **COMMUNITY ECONOMIC DEVELOPMENT**

Association of CDCs  
Commission on Indian Affairs  
Community Development Initiative  
State Institute of Minority Economic  
Development  
State Minority Business Development  
Agency

## **ENTREPRENEURSHIP, SMALL BUSINESS & EXPORT PROMOTION**

Business License Information Office  
Center for Community Support  
Entrepreneurial Development Board  
International Trade Division  
Small Business and Technology Center  
Small Business Centers  
Small Business Development Programs  
Technological Development Authority  
State Germany and Japan Centers

## **REGIONAL / LOCAL ASSISTANCE**

Coastal Resource Center  
Councils of Government  
Division of Community Assistance  
Mountain Resource Center  
Rural Economic Development Center  
Rural Economic Dev Center  
Rural Electric Authority Administration



# **ECONOMIC DEVELOPMENT SPENDING CATEGORIES (cont'd)**

## **TECHNOLOGY DEV & MODERNIZATION**

Advanced Technology Center  
Board of Science and Technology  
Center for Applied Technology  
Energy Division  
Ergonomics Center – Dept. of Labor  
Industrial Extension Service  
Regional Development Institute  
State Biotechnology Center  
State Center for Advanced Manufacturing  
State Univ. Institute for Eng. and Science  
Center for Applied Technology

## **INDUSTRIAL DEVELOPMENT**

Business and Industrial Development  
Division  
Industrial Finance Center  
Regional Commissions  
Other Regional Development Partnerships

## **INDUSTRIAL TRAINING**

Apprenticeship Training  
Commission on Workforce Preparedness  
Focused Industrial Training  
New and Expanding Industry  
Occupational Extension  
Forest Products Manufacturing Center  
Laser Technology Center  
Minerals Research Lab  
Nonwovens Cooperative Research  
Office of Waste Reduction  
Pulp and Paper Center  
State Technology Center at University  
Textiles Extension

## **OTHER**

Economic Development Board/Planning

# EXAMPLE CATEGORY LISTING

ENTREPRENEURSHIP, SMALL BUSINESS, & EXPORT PROMOTION	FUNDING(06-07)
Office of International Trade	\$2,503,188
Small Business Technology Dev. Center (SBTDC)	\$2,132,772
Business ServiCenter	\$525,000
FSU Business Center	\$86,705
UNC-C Ben Craig Center	\$116,058
NCCS- Small Business Center Network	\$5,689,882
One NC Small Business Fund	\$5,000,000
NCCS- Military Business Center	\$1,000,000
Section Total	\$17,053,605



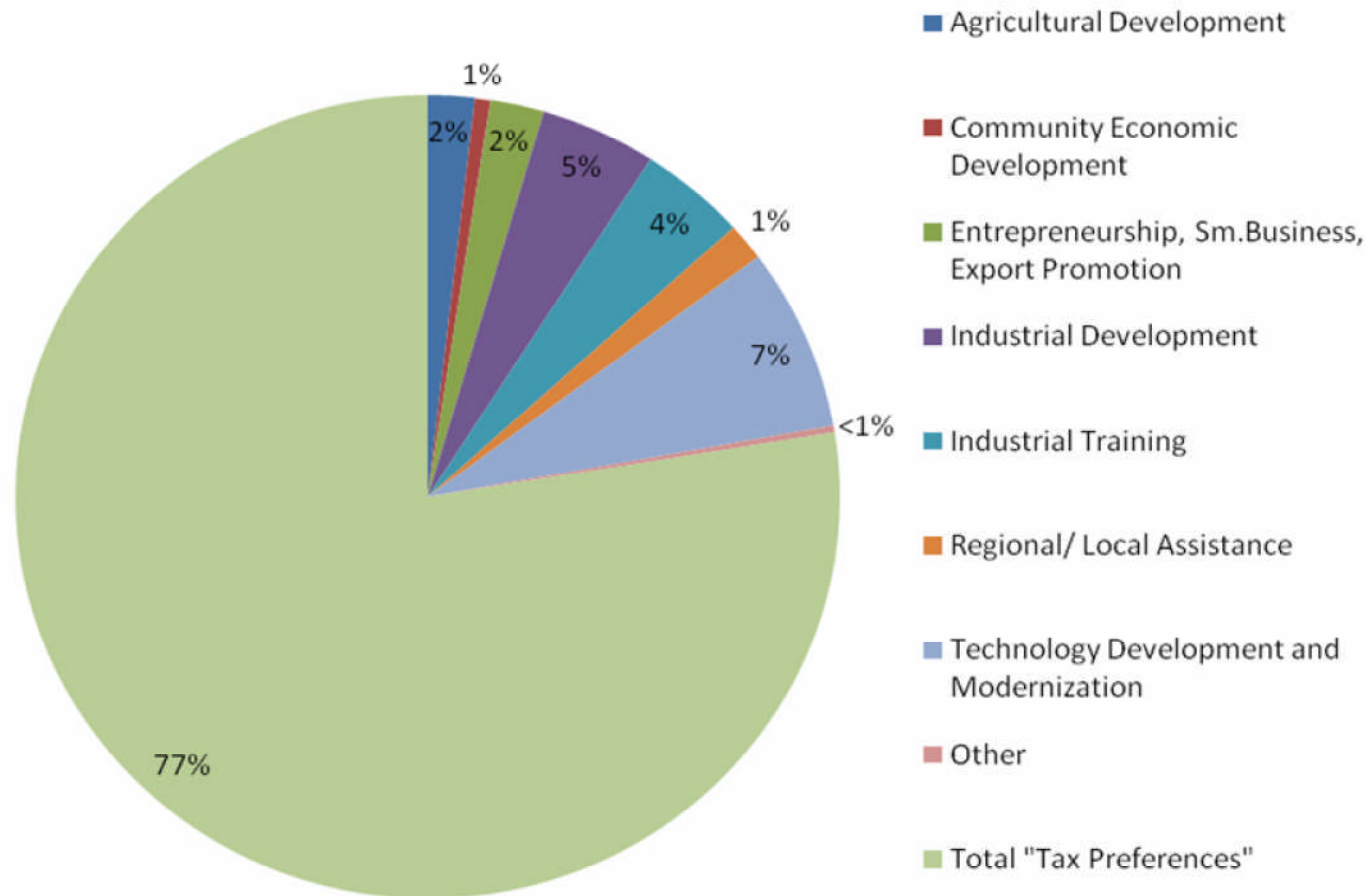


## WHAT DID WE FIND?

- Economic development is a growing state priority. The state's "budget" for economic development has roughly doubled since 1996 (\$666 million to \$ 1.2 billion)
- Tax-based subsidies are a fast growing piece of the economic development pie. Tax incentives currently represent 90% of the state's economic development spending, up from approximately 77% in 1995-1996.
- Comparing tax incentives for economic development against other state expenditures such as Smart Start and Earned Income Tax Credit shows the relative scale and importance of economic development.

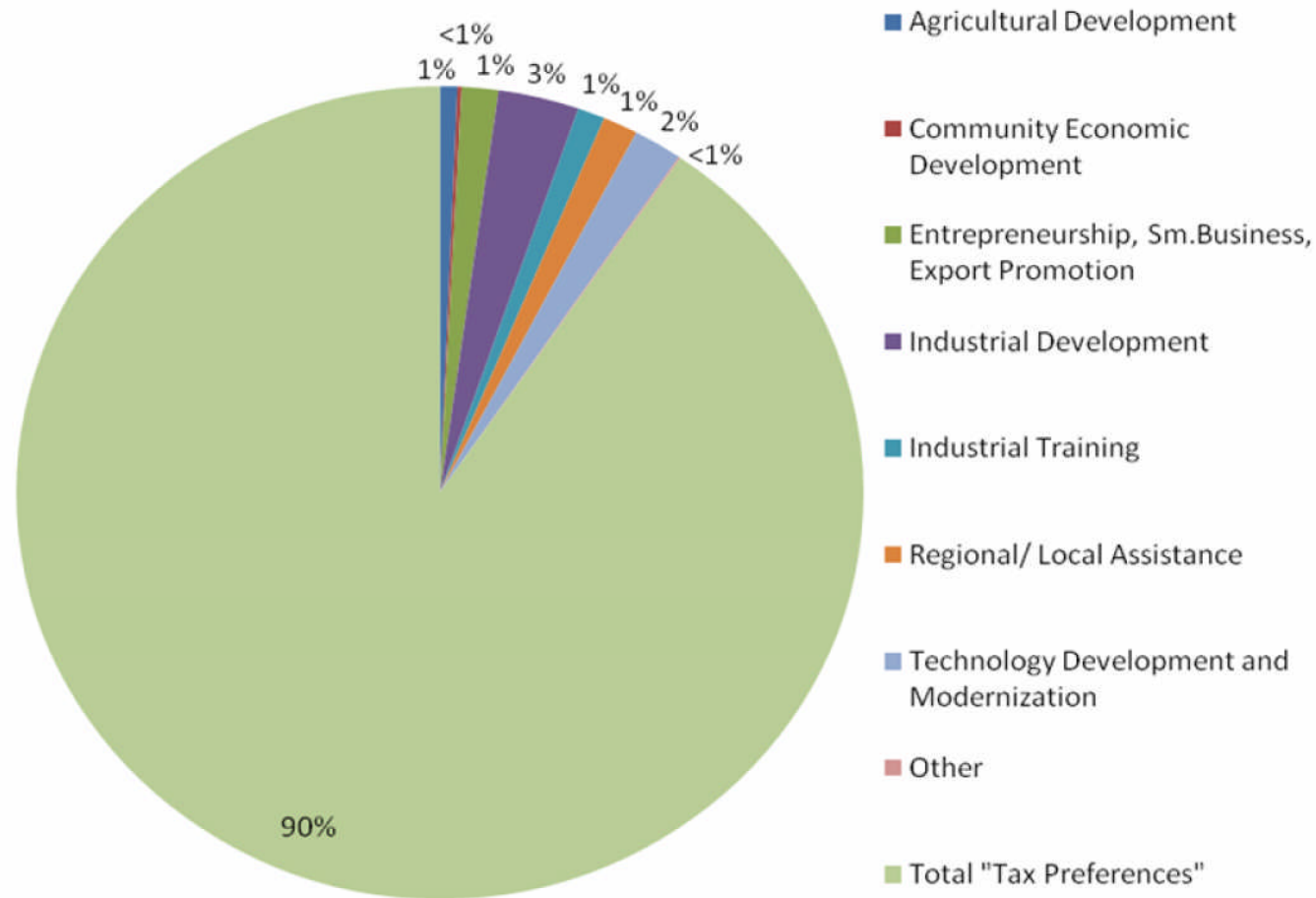


# 1995-96 NC Economic Development Spending (by category)



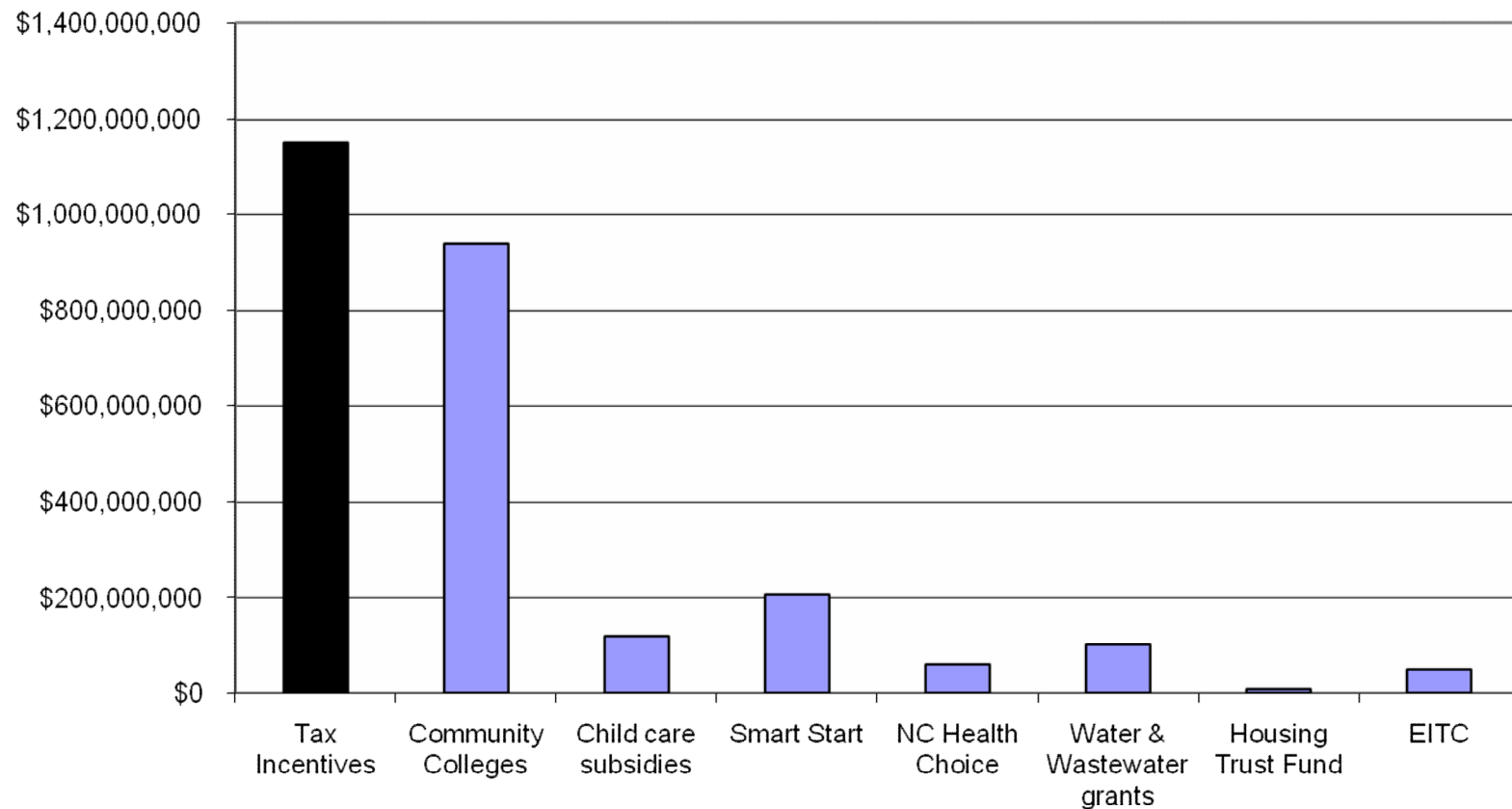
Data Sources: 1) 1997 Review of North Carolina's Economic Development Budget, NC Economic Development Board  
2) Managing for Higher Returns: What does North Carolina actually spend on economic development and how can these investments be better managed? (March 1997), CFED

# 2006-07 NC Economic Development Spending (by category)



Data Source: North Carolina Economic Development Inventory (January 2008), Fiscal Research Division of the NC General Assembly.

# Economic Development Tax Incentives vs. other State Expenditures (2007-2008)



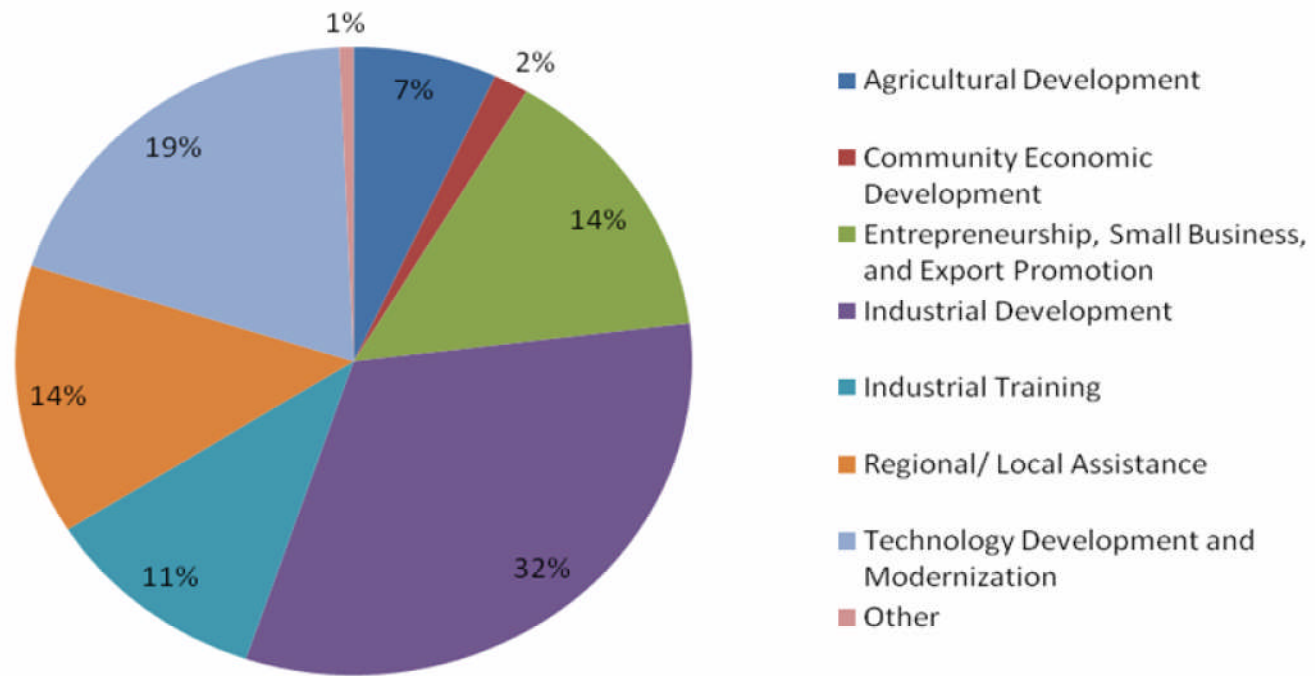


## ADDITIONAL FINDINGS

Arranging on-budget programs into relevant spending categories can help reveal priorities:

- Industrial Development (32% of on-budget spending) appears to be a top priority in development spending
- Technology Development & Modernization (19%) Entrepreneurship, Small Business and Export Promotion (14%), and Regional/Local assistance (14%) also appear to be high priorities
- Agriculture (7%) and Community Development (2%) received relatively low priority in terms of economic development spending

# NC's On-Budget Economic Development Spending by Category (2006-2007)



Data Source: *North Carolina Economic Development Inventory* (January 2008), Fiscal Research Division of the NC General Assembly.



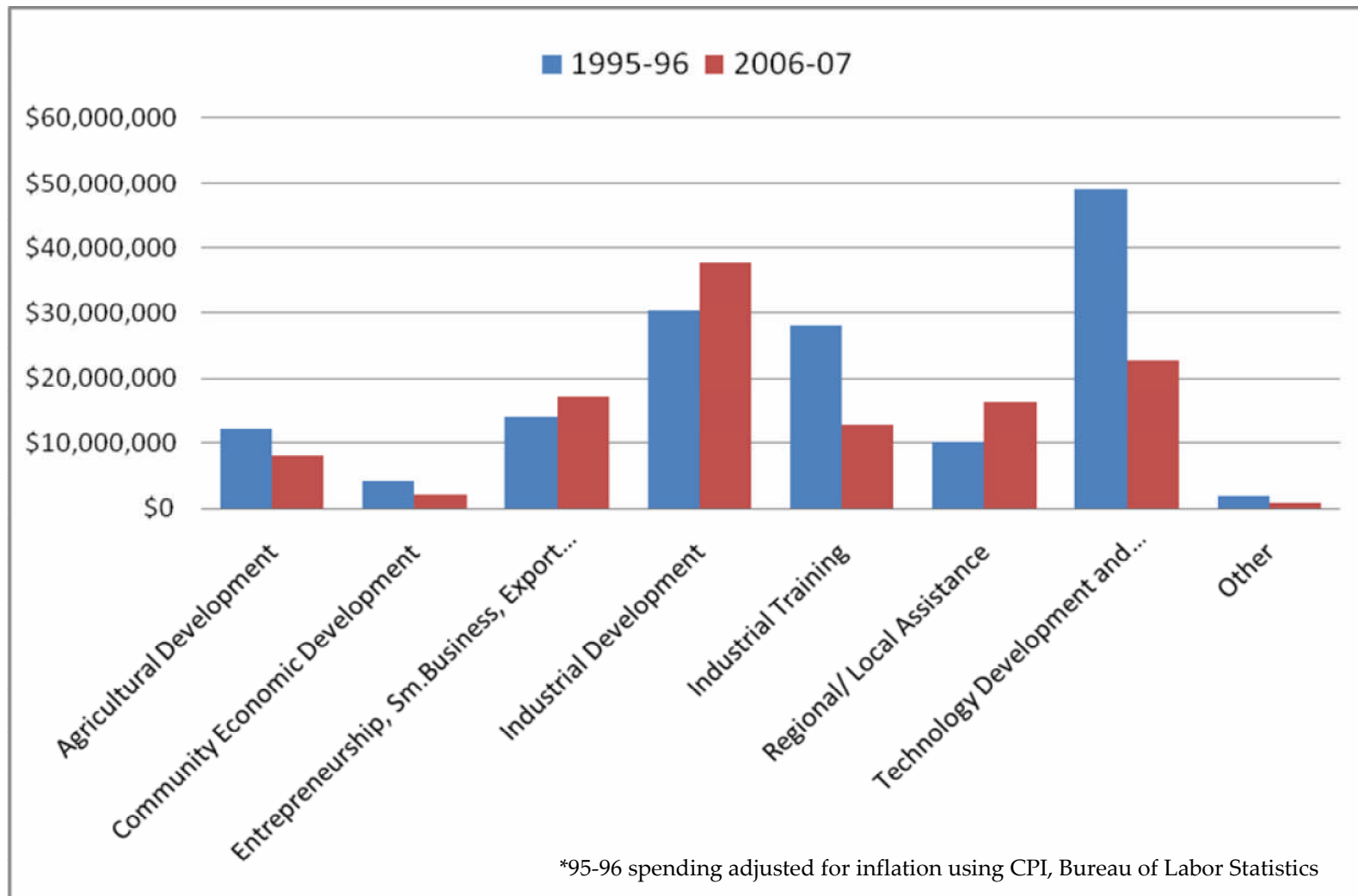


## CHANGES OVER TIME

Comparing categories across time can be difficult: changing program names, terminations, re-organizations, no standard report.

- On-budget spending for Industrial Development and Regional Assistance appears to have grown
- On-budget spending for Technology Development and Industrial Training appears to have shrunk
- Correcting for inflation, on-budget spending appears to have dropped since 1996 (\$117m last year vs. \$149m in 1996)

# NC On-Budget Economic Development Spending By Category (95-96 and 06-07)





# RECOMMENDATIONS

North Carolina has an opportunity to step to the forefront of this issue and become a national leader in fiscal accountability for economic development.

- Make the EDI a systematic report that is presented to standing legislative committees (i.e. Commerce, Appropriations and/or Finance committees)
- Expand the scope of analysis in future inventories to look at spending by functional categories and trend-lines across time that could help reveal changing priorities. Analysis that looks at recruitment/attraction compared to retention/expansion activities would also be useful.



## RECOMMENDATIONS (cont'd)

- Form a task group to develop appropriate performance measures for evaluating incentives. Likewise, develop evaluation measures to understand what purpose these subsidies have played in terms of bringing a business to the state or generating economic growth.
- Require Management Information Systems (MIS) and sunset reviews for economic development programs (including those “off-budget”) to improve accountability and effectiveness. This type of spending dwarfs other state commitments and should be subject to similar if not more rigorous accountability.



# CONCLUSIONS

- Large amounts of funding for economic development in North Carolina. This spending should raise questions about how priorities are being set, the scale of commitment, and whether sufficiently rigorous planning, budgeting, and evaluation functions are in place.
- Due to the controversial nature of incentives, greater transparency of the kind provided by the EDI report is needed.
- There are many promising tactics for improving our business incentive efforts, but before the state can improve the system it needs a much clearer idea of what is happening now.





## PARTING THOUGHT

*Are incentives good or bad? Neither. The problem is they have been used to such an extent to win a competition rather than to accomplish clearly defined goals...[this practice] can end up being like winning a javelin catching competition. The thrill of victory is soon replaced by economic agony.*

- Andrew Grose, Former Director of Nevada's  
Economic Development Programs