

UNC Economic Incentives Analysis

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UNC Incentives Analysis Tasks

- ☑ Definition of Relevant Incentives
- ☑ Definition of Economic Incentives Goals
- | **Identification of Economic Incentives Recipients**
- | **Economic Incentives Utilization Process**
- | **Corporate Tax Rate Reduction Alternative Assessment**
- | Identification of Economic Incentives Outcomes
- | Economic Incentives Competitive Analysis

Definition of Relevant Incentives

William S. Lee

- Creating Jobs
- Machinery and Equipment
- Research & Development
- Worker Training
- Central Office/Aircraft Facilities

JDIG

One NC Fund

Company specific incentives

Definition of Incentives Performance Measures

Return on Incentive (ROI) criteria

- | Job creation: initial and long-term
- | Distressed areas benefit: jobs, impact, and reemployment
- | Quality of employment: wages, benefits, sustainability
- | Competitiveness: diversification, value added and global

Describe Incentives Recipients

“What Companies Have Received Economic Incentives, How Much, And How Much More?”

- | Geographic distribution of recipients and amounts
- | Industry distribution of incentives
- | Size of firms in incentive programs
- | Changes in distribution of incentives over time
- | Cost of incentives granted to date and future forecast

Describe Incentives Recipients/Outcomes

- | database of companies that received incentives between 1996 and 2006
- | Approx. 4,000 companies from NC Revenue and Commerce
- | “Mirror” database of NON-incented firms
- | Compare performance based on Employment Security Commission jobs and wage data
- | Calculate relative returns of different economic incentives and recipients

Have Historic Trends Continued?

- | A few big companies claim large share of incentives
- | Most incentives are not tied directly to job creation
- | Most incentives go to firms in less distressed tiers
- | Most incentives to expansion of existing firms
- | Incentives elevate local wages
- | Gaps in required information reporting

Preliminary Analysis: Most Trends Continue

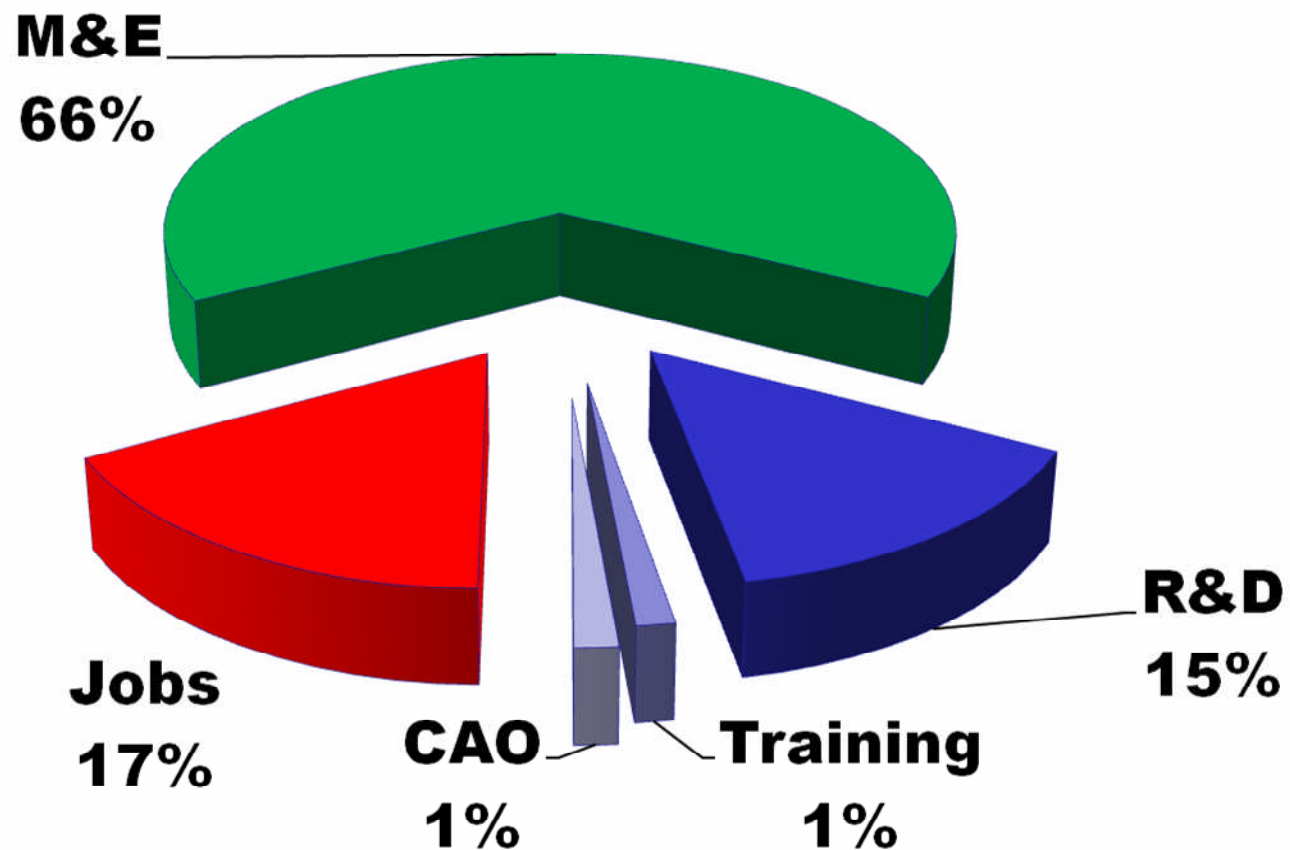
- | Incentives continue to be mostly for investment, not job creation or worker training
- | A few companies still receive large share of incentives
- | More firms are perennial recipients
- | Incentive distribution has continues to favor less distressed areas
- | Gaps persisted in required reporting

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



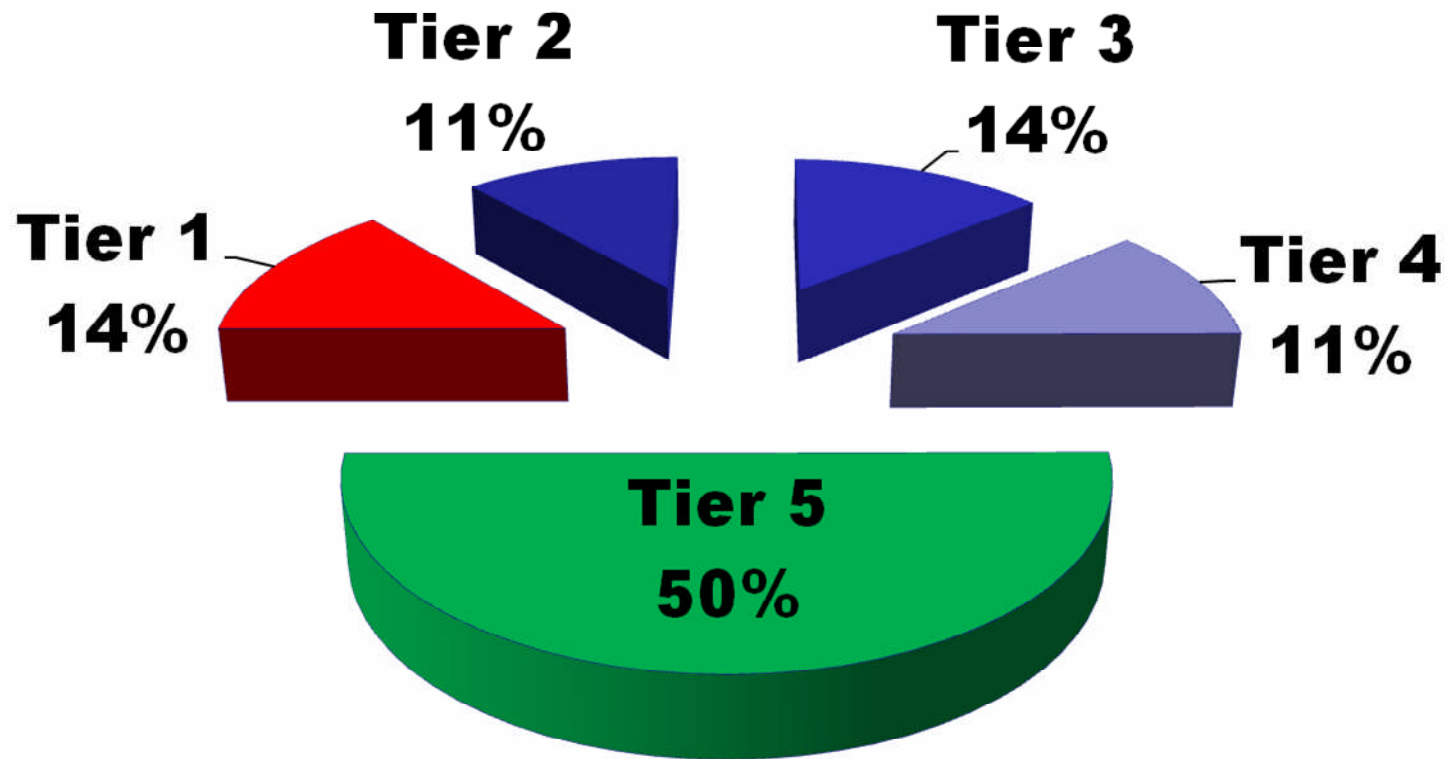
Incentives Favor Less Distressed Areas

Prior analysis found:

- | Incentives allocation reflects existing industry distribution
- | Majority of incentive go to companies in the least distressed (Tier 5) counties
- | This trend has persisted, as incentives appear to follow, rather than drive, economic activity

All Lee Credits - 2002-06

\$875 Million



Ongoing Incentive Portfolio Analysis

- | Complete database of incented companies (Lee, JDIG, OneNC)
- | Track performance of incented firms over time
- | Compare to similar non-incented firms to assess significance
- | Use committee return priorities to assess relative performance of different incentives

Incentives Use Process

“How is the Economic Incentives Game Played?”

- | Develop case studies of incentive deals to describe process and player roles
- | Identify local incentive contributions
- | Describe consultants' role and compensation
- | Describe NC's competitive position vs. rivals

Incentives Use Process

Donald Schronce, Senior Research Associate

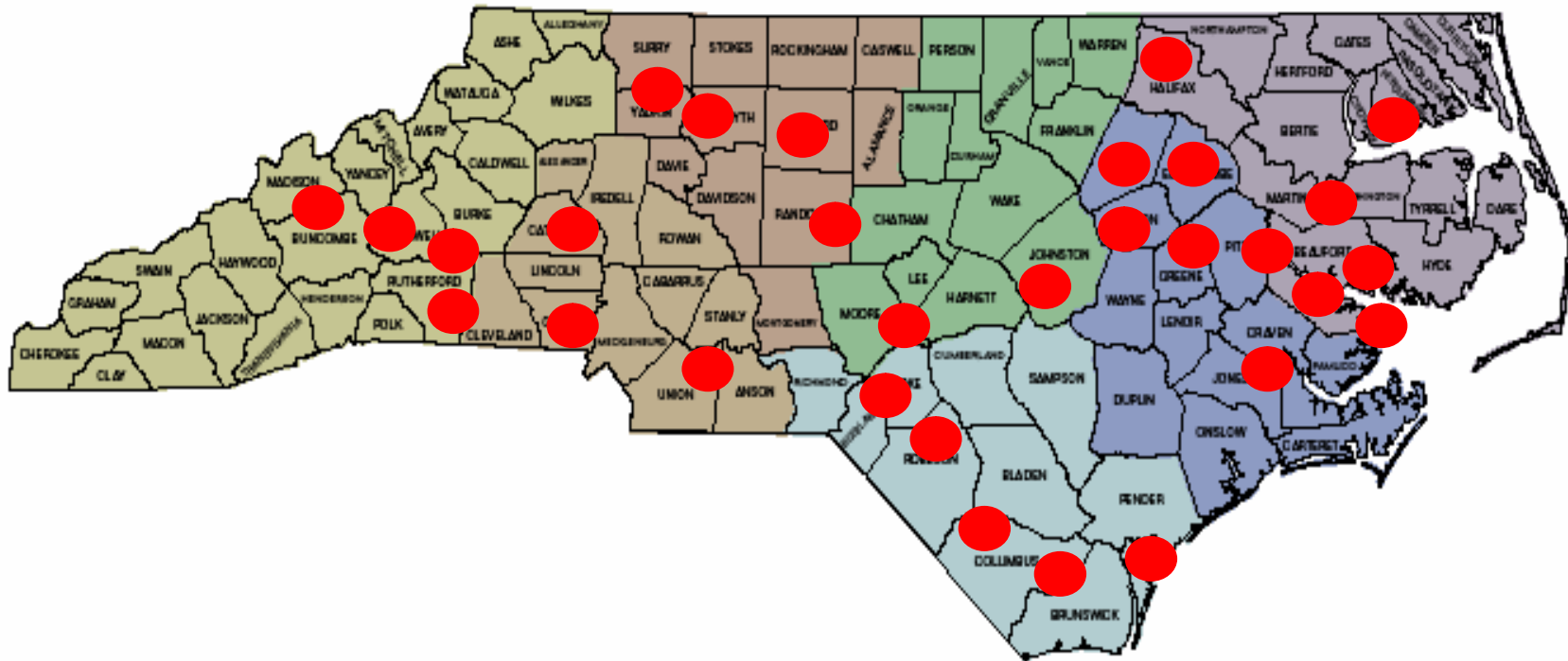
- | Accredited economic development professional
- | Local economic developer, Mitchell and Transylvania counties; Laurens, SC; Cape Breton, Nova Scotia
- | Senior Developer, NC Dept. of Commerce
- | Economic development research consultant

Incentives Use Process

Case studies of 20 companies incented
between 2002 and 2005

- | Regional partnerships
- | Industry sector
- | Incentive types
- | Expansion/New location

Preliminary Case Study Candidates



Case Study Data

Initial round of case studies completed identified abundant data sources

- | NC Dept Revenue, Commerce and Emp. Security reports
- | Local public records
- | Interviews of company executives, county manager, local officials, site consultants, etc.

Case Study Issues

- | Confidentiality required to assure candor of sources
- | Access to records from competing states
- | Cooperation of site location consultants
- | Final selection of case study candidates

Corporate Tax Reduction

“How would the economic impact of cutting corporate taxes compare to incentives”

- | Analyze the scale and distribution of economic impact and compare to incentives impact
- | Dr. Roby Sawyer, NCSU Department of Accounting, College of Management