

North Carolina's Economy and Economic Incentives

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NC's Economy is Big

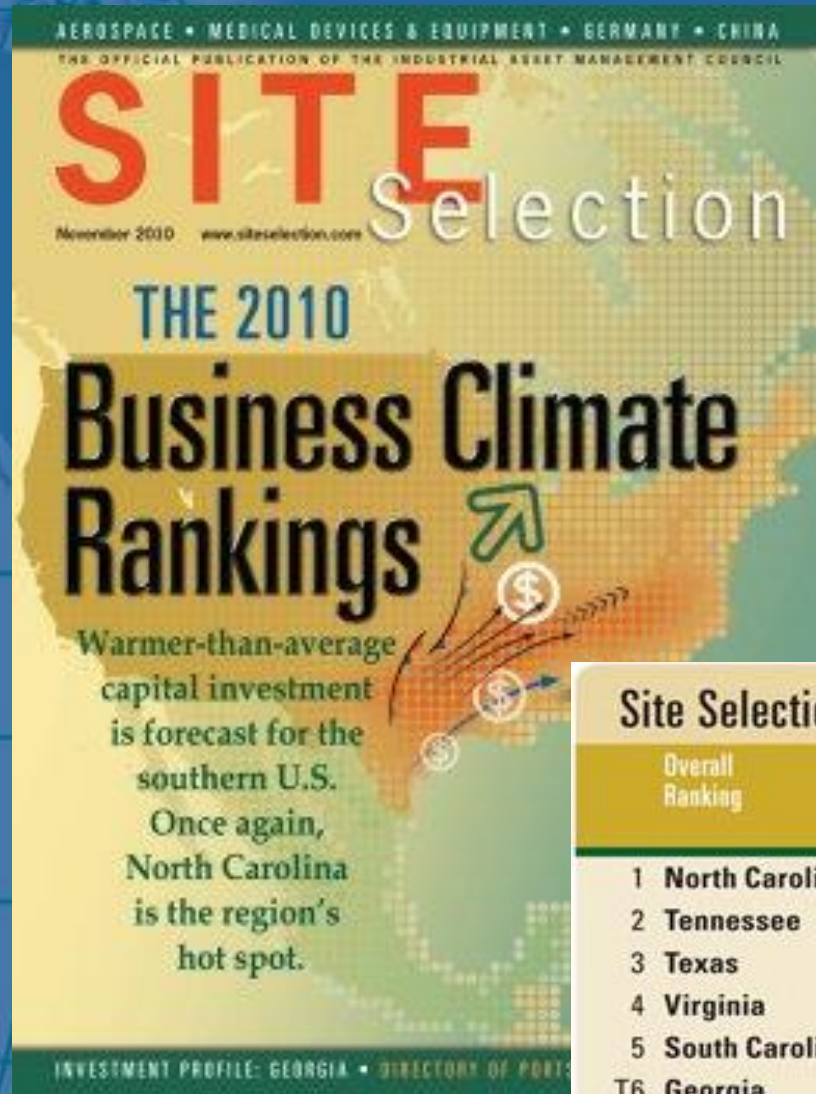
- Population of 9,061,032 (10th)
- Workforce of 4,600,000
- GSP of \$400 Billion (9th) passing GA, VA, MI, MA since 2003
- NC would be 23rd largest national economy

A big economy is hard to affect

NC Economic Development

Our capacity to effect NC economy is limited

- NC has 500,000+ businesses
- Direct assistance possible to only a few thousand companies
- Targeted incentives to a few dozen firms
- Just 1% gain in employment requires creation of 40,000+ new jobs
- Even great success can be insufficient



North Carolina Ranked
“Best Business Climate”
9 of last 10 years
by *Site Selection*
magazine

Site Selection's 2010 Top State Business Climate Rankings

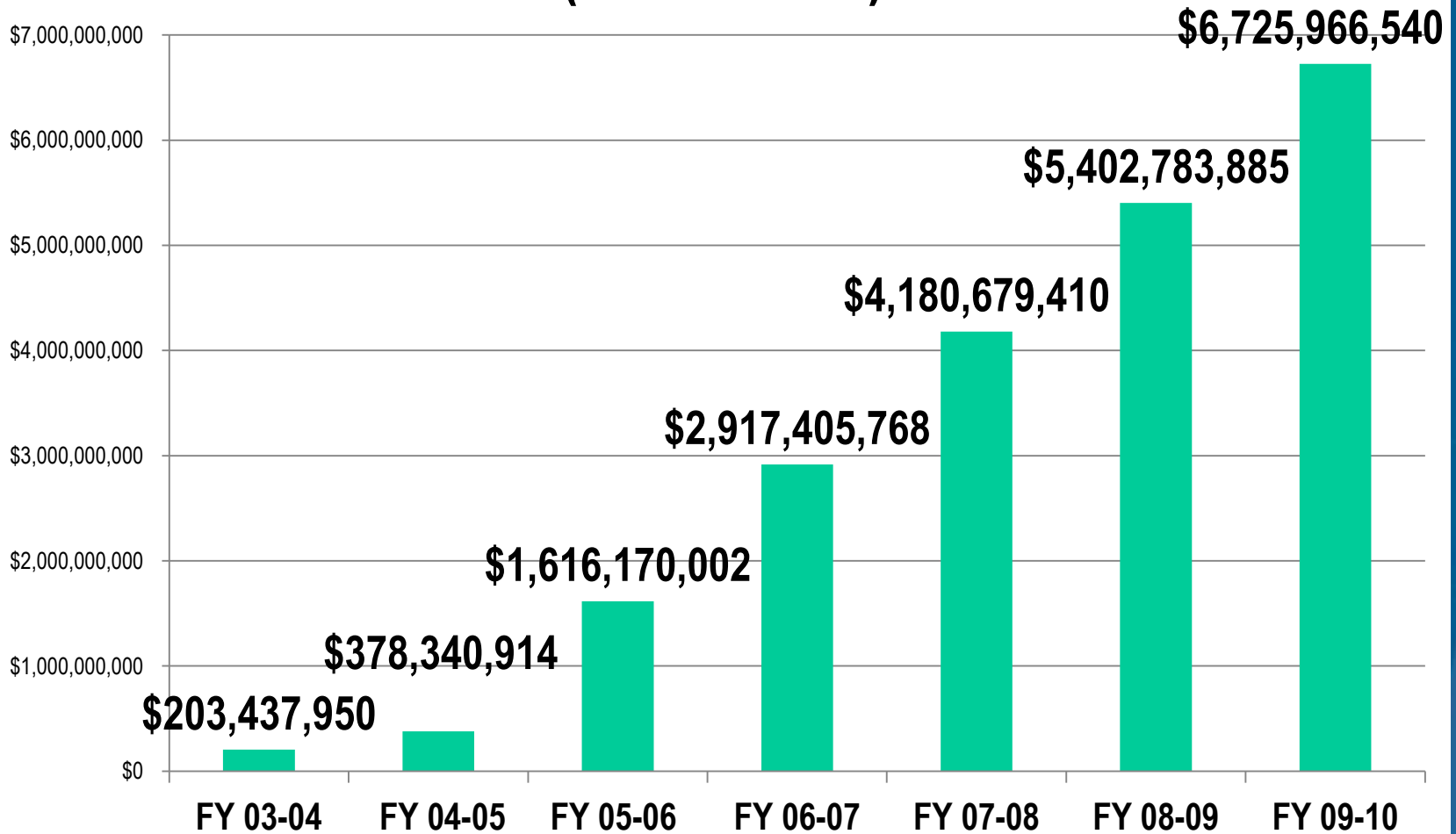
| Overall Ranking | Executive Survey Rank | 2009 New Plant Rank | New Plant Rank per Million Pop. | Competitiveness Rank | 2010 New Plant Rank (Jan. – Aug.) | Final Total Points | |
|-----------------|-----------------------|---------------------|---------------------------------|----------------------|-----------------------------------|--------------------|-------|
| 1 | North Carolina | 1 | 7 | 10 | 6 | 2 | 379 |
| 2 | Tennessee | 4 | 5 | 2 | 4 | 10 | 371 |
| 3 | Texas | 2 | 2 | 21 | 3 | 9 | 365 |
| 4 | Virginia | 8 | 9 | 8 | 1 | 1 | 357 |
| 5 | South Carolina | 5 | 16 | 14 | 11 | 4 | 343 |
| T6 | Georgia | 3 | 17 | 29 | 15 | 7 | 328 |
| T6 | Ohio | 14 | 1 | 3 | 7 | 12 | 328 |
| 8 | Indiana | 11 | 10 | 5 | 7 | 14 | 326.5 |
| 9 | Louisiana | 7 | 15 | 11 | 2 | 27 | 326 |
| 10 | Alabama | 9 | 14 | 9 | 12 | 20 | 317 |

NC Economic Development by Fund Source, FY 2008-09

| | |
|------------------------------|-------------------------|
| Bill Lee Act Credits Taken: | \$ 93,060,434 |
| Other Tax Expenditures: | \$993,800,000 |
| General Fund Appropriations: | \$121,392,275 |
| Transportation | \$ 13,851,766 |
| Total | \$ 1,222,104,475 |

FRD Economic Development Inventory February 2010

NC Economic Development Spending (Cumulative)

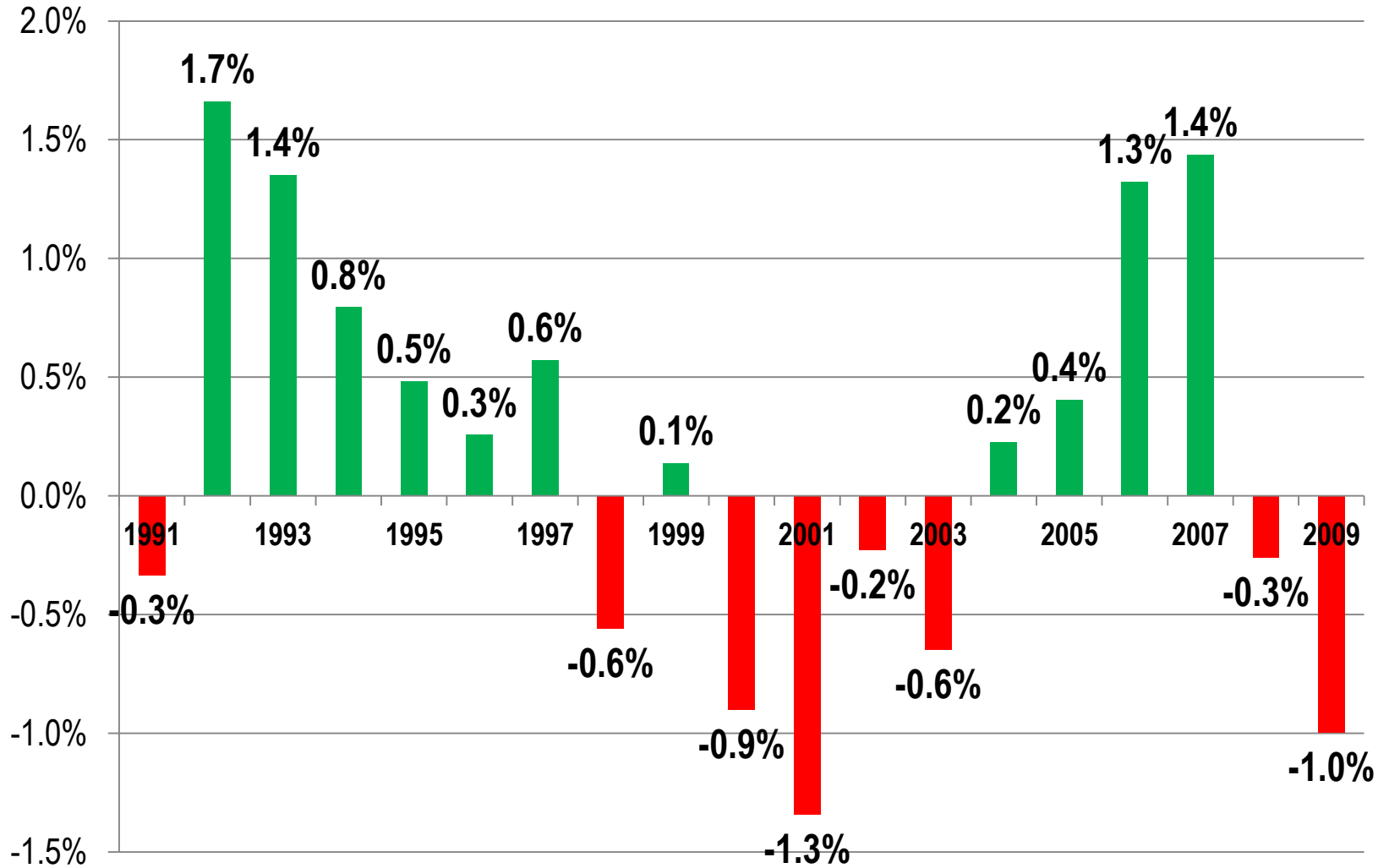


Return on Investment?

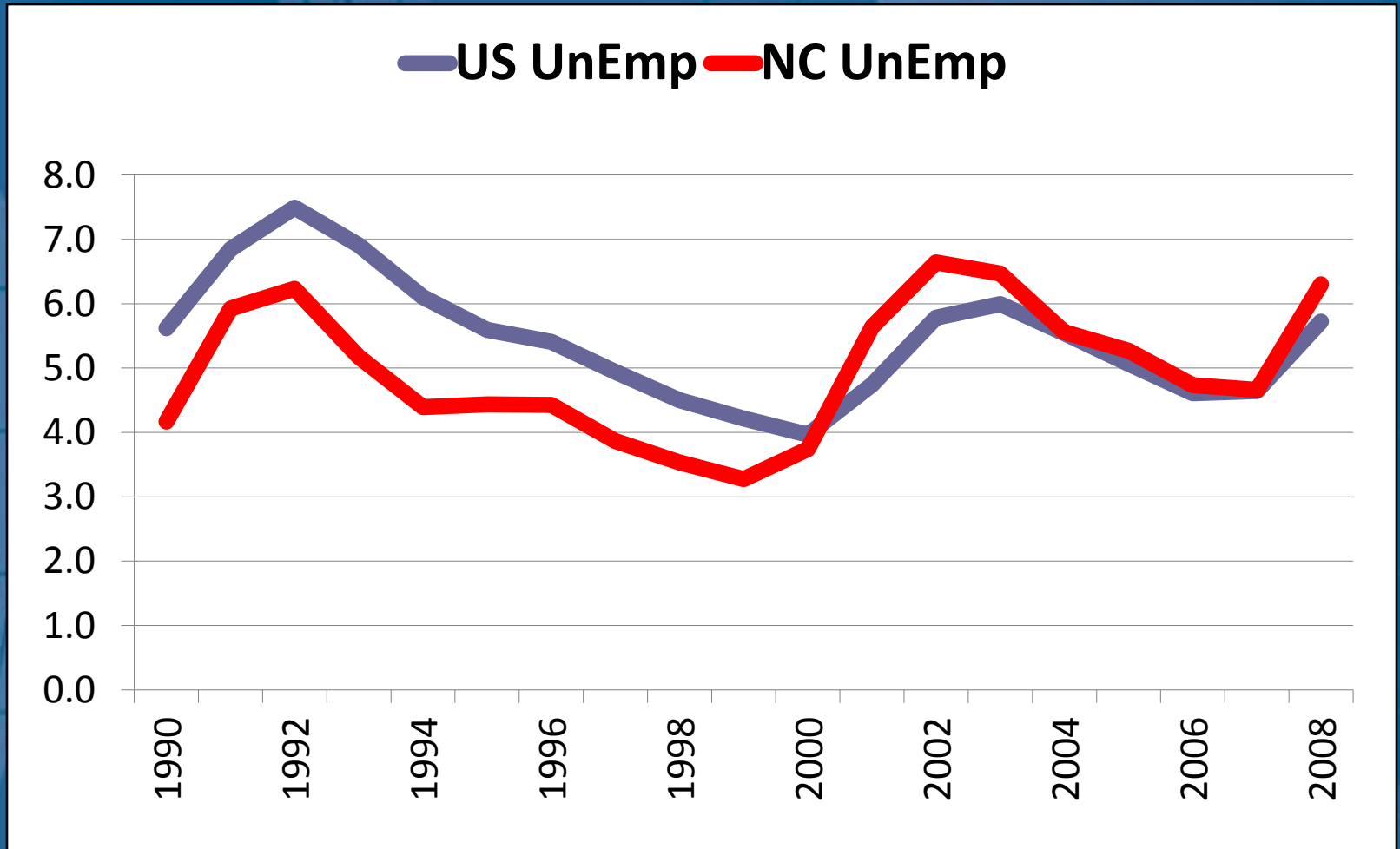
Over the last decade.....

- Job growth and unemployment worse than US
- Job creation not keeping up with workforce
- Wage and income growth lags behind US (45th in last decade)
- Falling further behind US in per capita income

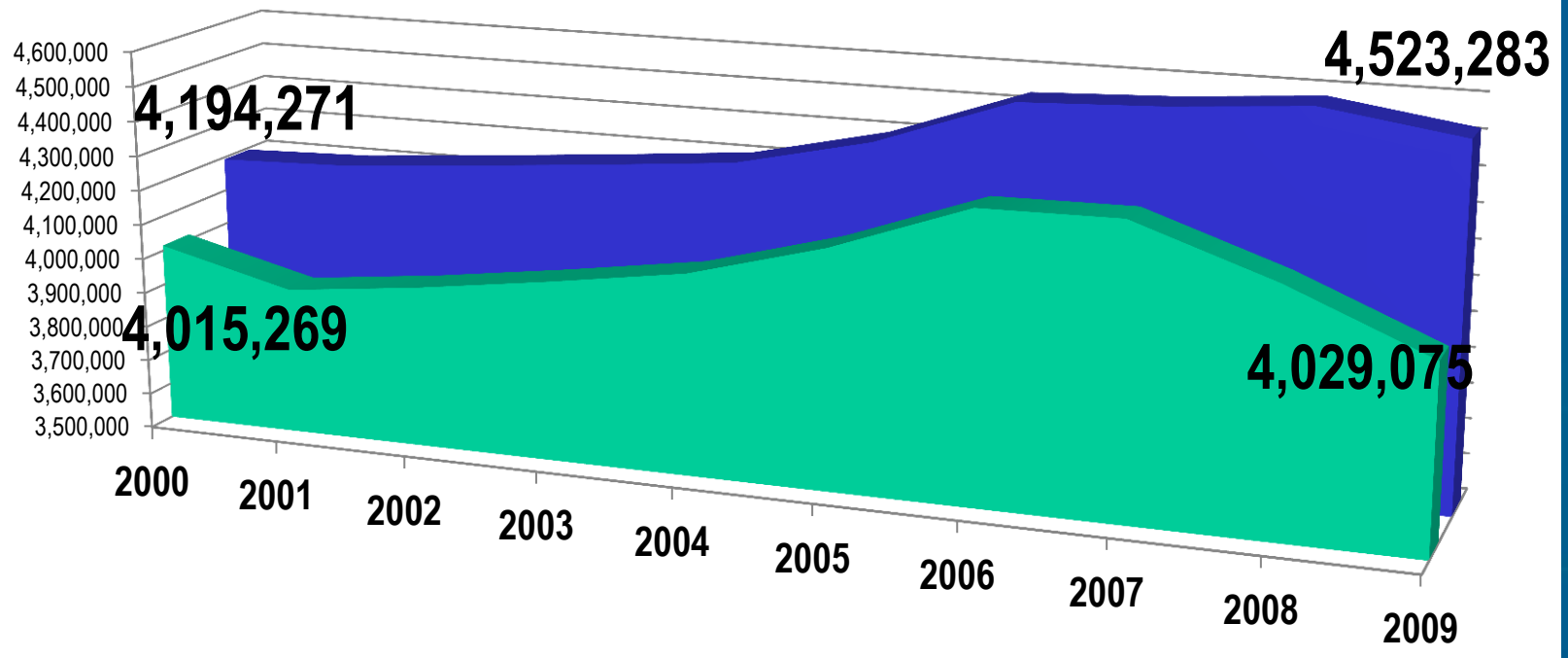
NC vs. US Employment Growth



NC v. US Unemployment

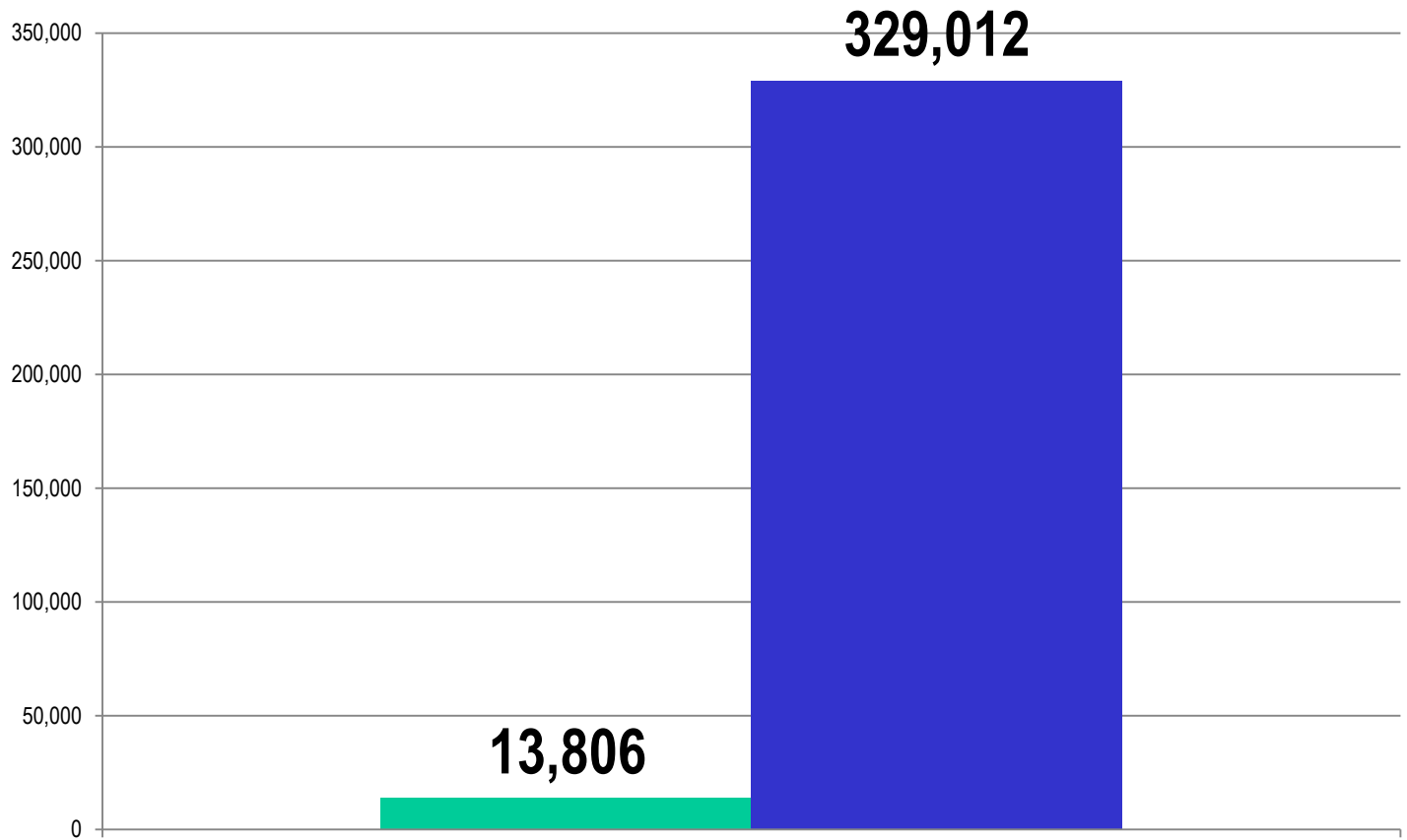


■ Employment ■ LaborForce

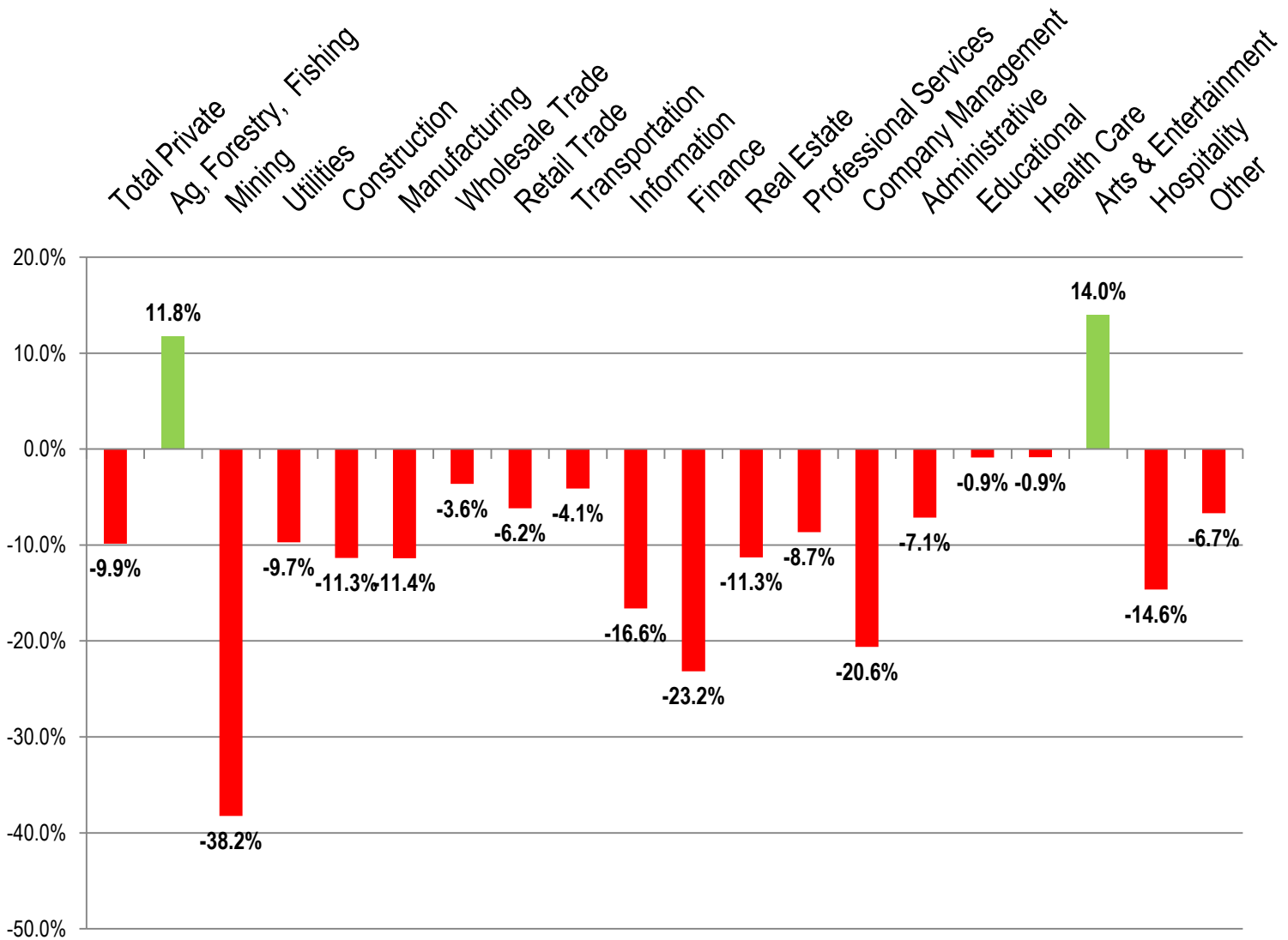


NC Labor Force/Employment 2000-09

■ Employment ■ Labor Force



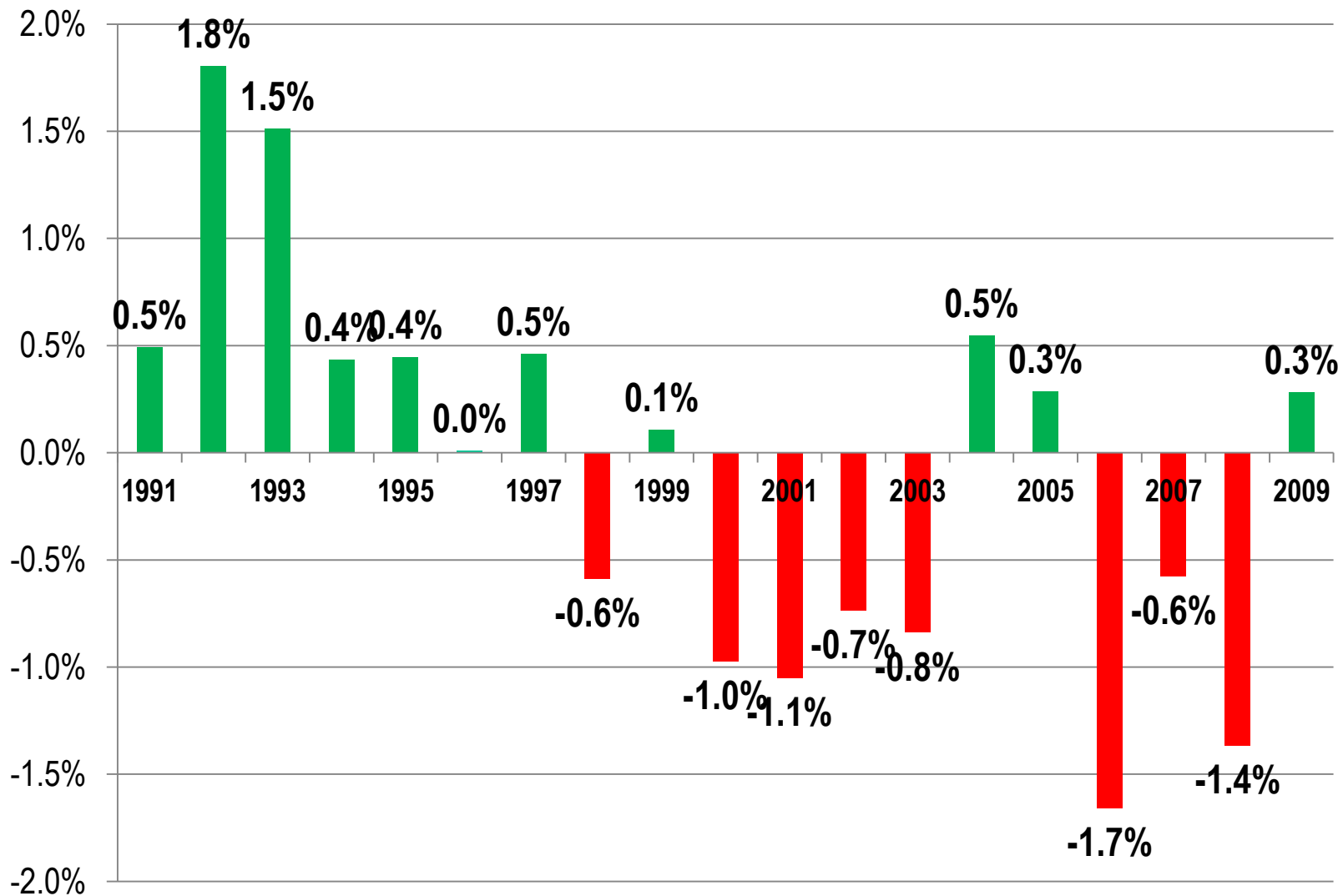
NC vs. US Wages by Industry (2008)



NC vs. US Wages

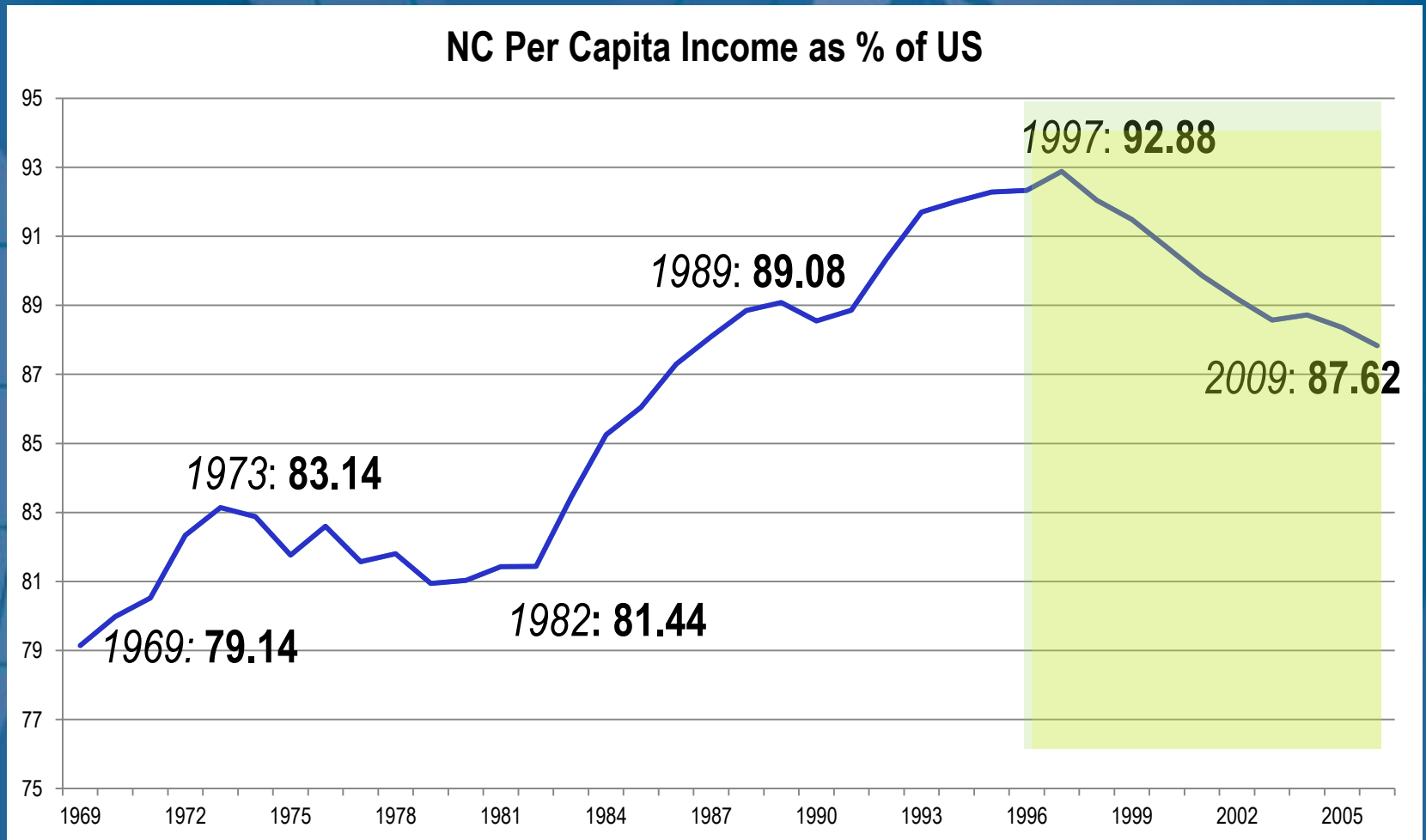


NC vs. US Per Capita Income Growth



Relative Per Capita Income Drop

93% of US in 1997 to 87% in 2009



NC Per Capita Income

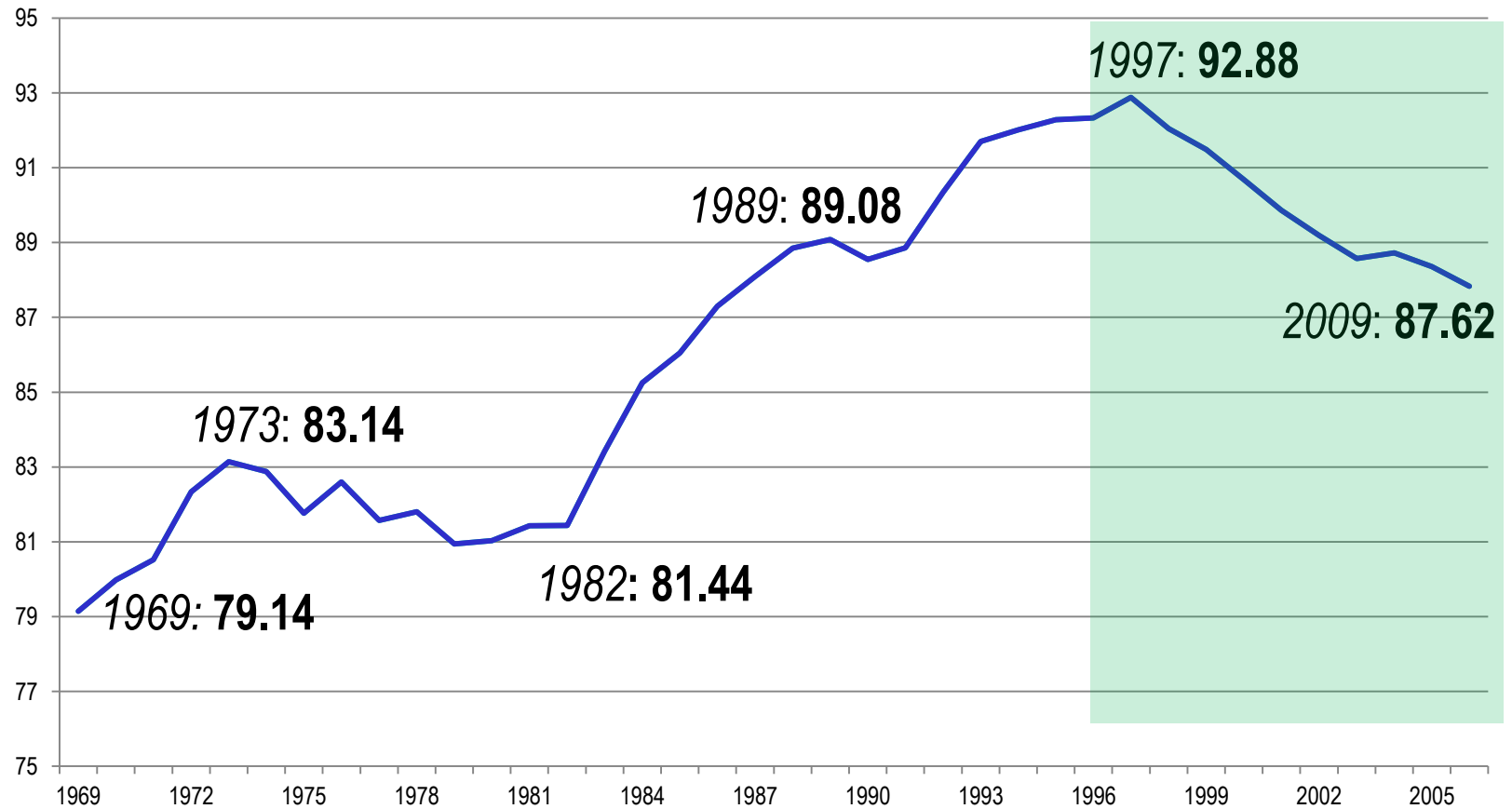
Giving back hard fought progress

- NC per capita income grew from **79%** of US's in 1969 to more than **93%** of US's in 1997
- Since 1997 NC's per capita income has fallen to 87% of US, **from 31st to 37th place nationally**
- If this trend continues, by 2020 NC's per capita income will decline to 80% of US income
- **Same level as in 1970 – 50 years' progress lost**

Relative Per Capita Income Drop

93% of US in 1997 to 87% in 2009

NC Per Capita Income as % of US



Joint Select Committee On Economic Development Incentives

- 18th month study of 5,000 firms (1996-06)
- Used “portfolio approach” to determine which incentives achieve the greatest return
 - Quality Job Creation
 - Distressed Areas Benefit
 - NC Competitiveness
- Studied Lee Act tax credits, JDIG, and One NC Fund

NC Economic Incentives

Statutory Incentives

- **Tax credits** to qualifying businesses for job creation, training and investment
- Lee Act and Article 3J

Discretionary Incentives

- **Cash grants** to new and expanding businesses for job creation and/or retention
- Job Development Investment Grant (JDIG)
- One North Carolina Fund

Findings: Time to Update NC's Incentive Portfolio

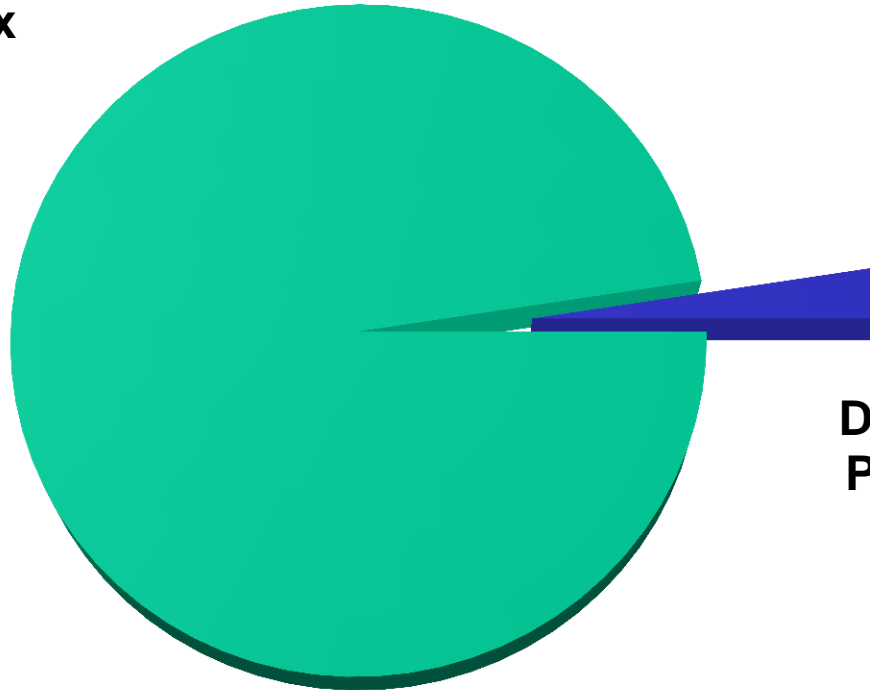
Current incentive portfolio relies too much on tax credits that are less effective than in 1990s

- Incentives are following firms to wealthier areas, rather than leading them to poorer areas
- Few tax credit incented firms show job growth – most have same or fewer jobs after tax credits
- OneNC & JDIG potentially better than tax credits
- Corporate tax rate uncompetitive

Incentive Portfolio Allocation

Incentive Amounts by Incentive Type

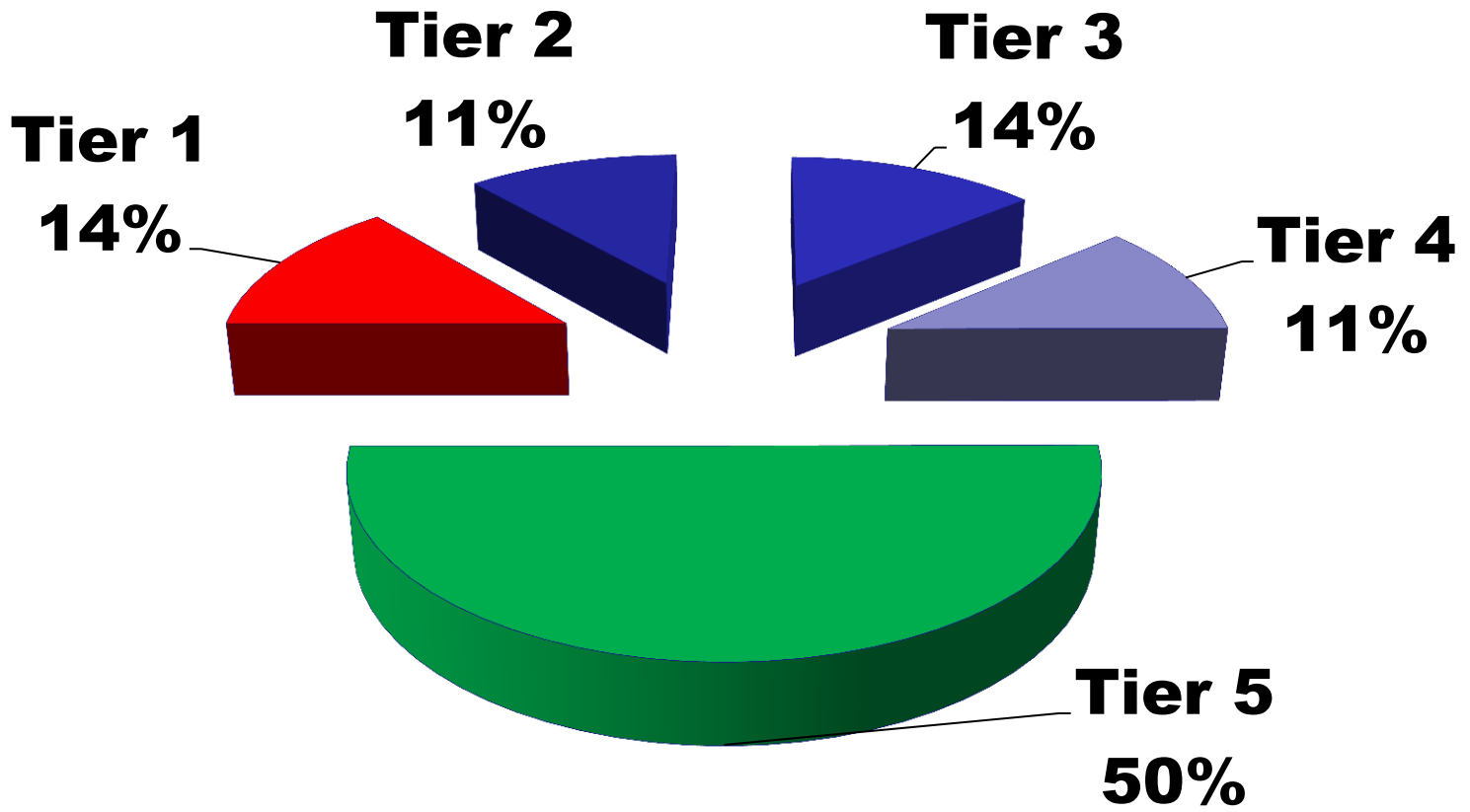
**Statutory Tax
Credits
98%**



**Discretionary
Performance
Grants
2%**

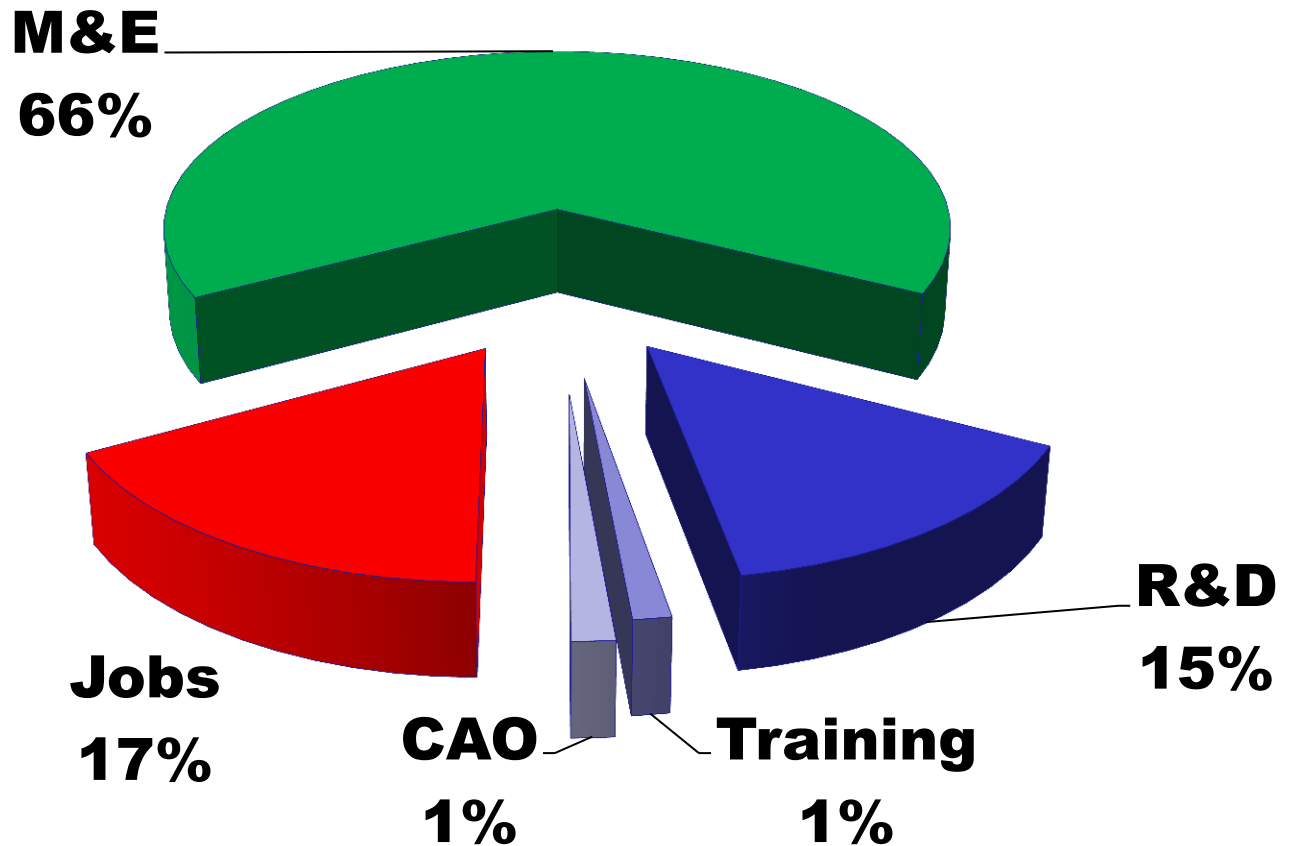
Tax Credits - 2002-06

\$875 Million

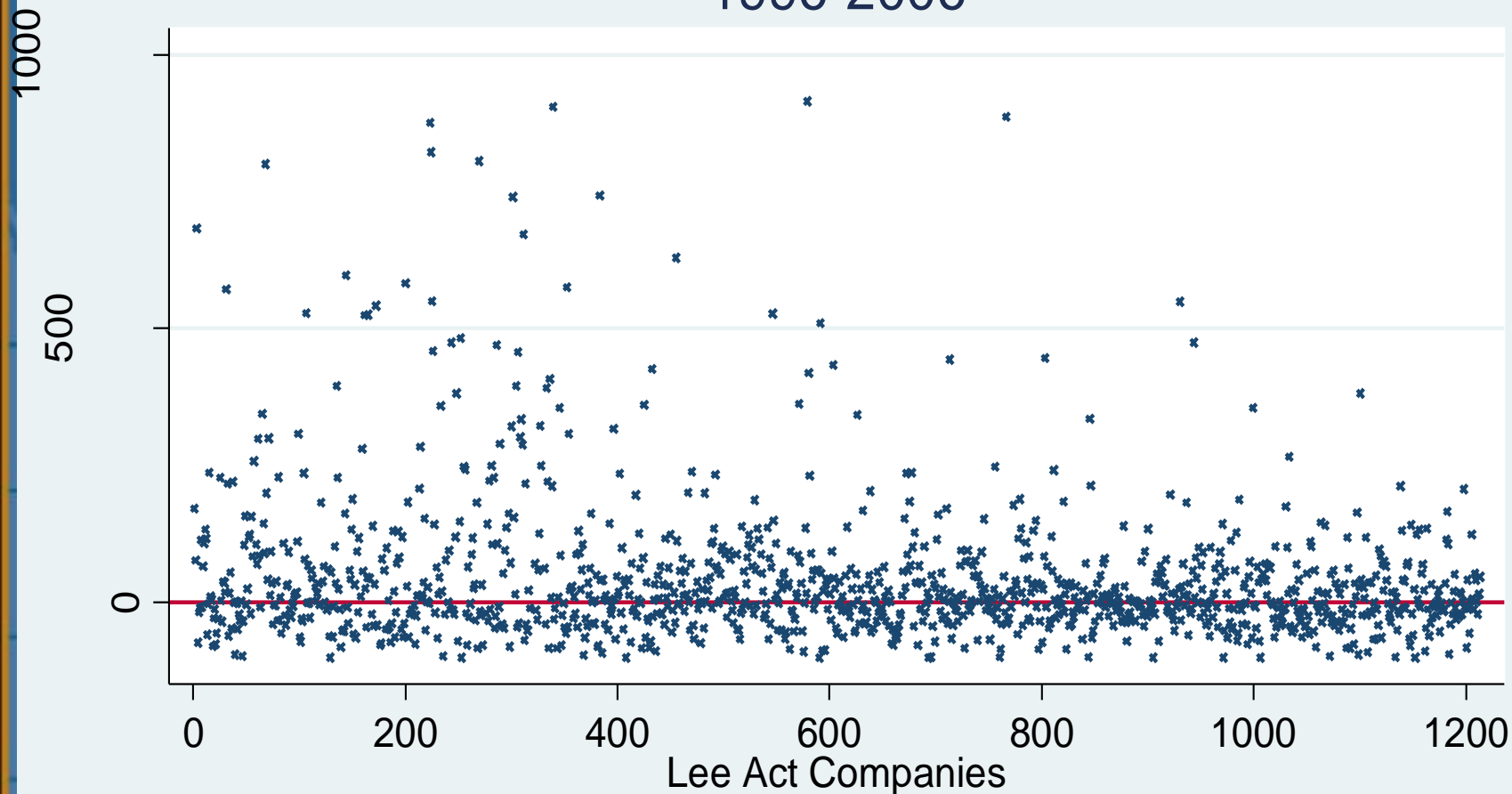


Tax Credits

1996-06 = \$2.1 Billion



Employment Growth Rate: Lee Act Companies with Single Location 1996-2006



1. 37 companies with growth rate greater than 1000% are eliminated from graph
2. 697 (57.46%) companies' growth rates from 96 to 06 are positive
3. 501 (41.30%) companies growth rates from 96 to 06 are negative
4. 15 (1.24%) companies' growth rates from 96 to 06 are zero

Current Economy Favors Discretionary Incentives

Discretionary incentive programs have flexibility to address more current market priorities

- Tax credits require profits to use
- Discretionary incentives reduce capital/credit requirements
- Performance based incentives offer better accountability and enforcement
- Greater utility for strategic, proactive targeting

When Incentives are Most Effective

- Other location factors are relatively equal
- Company employs existing residents
- Company is headquarters of export industry
- Company in growth stage: “new job upside”
- Before the auction starts: “pro-activity reward”

Recommendations

- Expand JDIG and One NC programs with amounts targeted to distressed counties
- Eliminate Article 3J statutory credits
- Reduce corporate tax rate to competitive neutral rate
- Increase economic development research and marketing budgets targeting growth firms
- Institute legislative oversight function for economic development programs

Legislative Oversight Needed

- | Institute legislative oversight for economic development
 - Legislature funds economic development through many programs
 - \$1.77 Billion between FY02-03 and FY08-09
 - Only \$177,000 spent on oversight through Economic Development Board
 - Program success may not equal NC success

Legislative Oversight Function

Regular and informed assessment of NC economic goals achievement

- Updated state and regional economic data
- Defined NC economic goals and measures
- Alignment of program missions and state policies with strategic economic objectives
- Assessment of economic goals progress
- Direct legislative leadership and commitment