

# LOCAL ECONOMIC DEVELOPMENT INCENTIVES IN NORTH CAROLINA

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PRESENTED BEFORE

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## Executive Summary

Almost all state incentive deals in North Carolina are accompanied by separate local incentive deals with county and or municipal governments. In some cases local incentive packages have actually overshadowed those from the state. At the moment, however, no aggregate picture of these local incentives exists. This study estimates the value of local incentives that companies have received in addition to One North Carolina Fund grants and Job Development Investment Grants (JDIG) from the state. The One NC Fund and JDIG are North Carolina's two primary discretionary incentive programs. The findings of this study are based on 338 local incentive packages from 2001 to 2008 that companies received in addition to these state grants.

## Methodology

Despite the widespread use of local incentives, gathering reliable data on local incentive deals is difficult, because local governments in North Carolina are not required to report these expenditures to the state. The data from this study are based primarily on media coverage of county and municipal incentive offers found in local newspapers and business journals. Reliable media reports of local incentive amounts were found for 148 business location decisions (Figure 1).

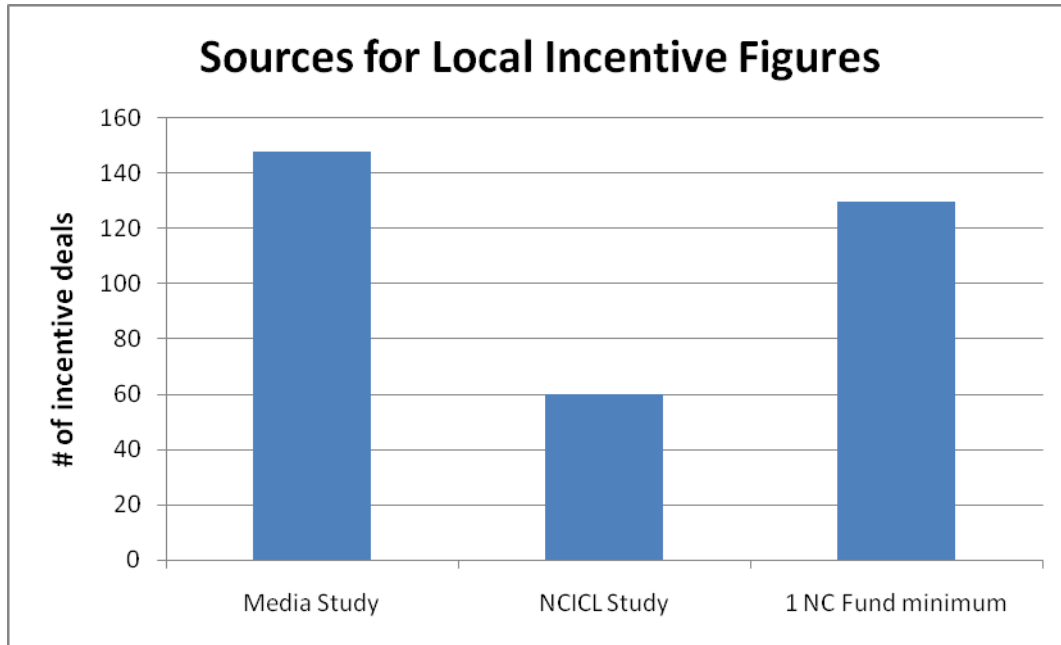
A secondary data source used in this analysis is a 2007 study by the North Carolina Institute for Constitutional Law, which documents over 353 local incentive offers in the state between 2004 and 2006. The incentive figures for most of these offers come from county incentive records obtained through the Freedom of Information Act. As a result, the study focuses on incentives offered by counties, although some figures include municipal incentives. Supplementary data on county and municipal incentives came from city council minutes, county commissioner minutes, newspaper clippings, and press releases. Data from the NCICL study was used to double check local incentive figures from the media study. In addition, incentive amounts for 60 of the cases in this study are based on figures from the NCICL report.

The remaining 130 local incentive offers included in this study are estimates based on the One NC Fund matching requirement. In the absence of specific data on the local incentive amount, the study assumes that the local government(s) offered an incentive package to the company that was equal in value to the grant from the One NC Fund.<sup>1</sup> Most local governments that use One NC Fund grants, however, usually exceed the match requirement. As a result, the aggregate data presented in this study most likely underestimates the actual size of local incentive offers attached to these grants from the state.

## Figure 1

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<sup>1</sup> Data on all One NC Fund and JDIG awards are official figures obtained directly from the North Carolina Department of Commerce.



## Findings

All companies that received state incentives from the One NC Fund and or JDIG program also received incentives from county and or municipal governments. These incentives came in the form of cash grants, building and land purchases, infrastructure assistance, reduced fees, low interest loans, etc. Cash grants were by far the most common form of local incentive and usually were paid out over a 3 to 10 year period, often as a refund of property taxes paid by the company.

This study estimates that these local incentive packages had a median value of at least \$200,000; the average incentive package was much higher at almost \$2 million.<sup>2</sup> The large discrepancy between the median and the average is due to several very large outliers. There were 7 cases where the value of the local incentive package to the firm exceeded \$10 million. Million dollar incentive deals, however, were not uncommon. The study found 70 documented cases - one fifth of all cases - where the value of the local incentive package exceeded \$1 million.

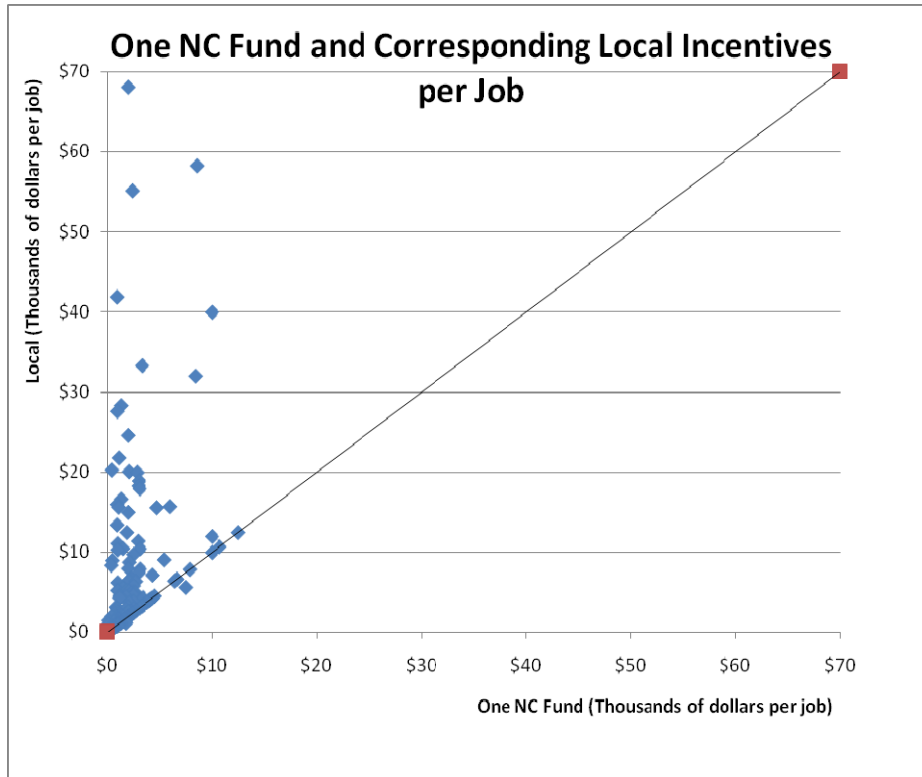
Local incentives that accompanied One NC Fund grants usually exceed their matching requirement, and often by a substantial margin (Figure 2). The study found local incentive figures for 152 One NC Fund grants; in 110 of these cases the local incentive offer to the company was larger than the grant they received from the One NC Fund.<sup>3</sup> The study also identified at least 15 cases where companies receiving multi-million dollar JDIG awards received even larger local incentive offers (Figure 3).<sup>4</sup>

<sup>2</sup> Each local incentive offer represents the sum of county and municipal incentives

<sup>3</sup> Over 280 One NC Fund grants were awarded to companies from 2001 to 2007. Specific local incentive amounts received by these companies were unavailable for 130 of these cases.

Even when accounting for the number of jobs connected with each incentive deal, there were over 50 cases in which local governments paid more than \$10,000 per job (Figure 4). The most costly incentives, in terms of dollars per job, were also local incentives. While the most expensive JDIG award had a maximum cost of \$37,000 per job, the study found 6 instances in which local governments offered more than \$40,000 per job in incentives.

Figure 2



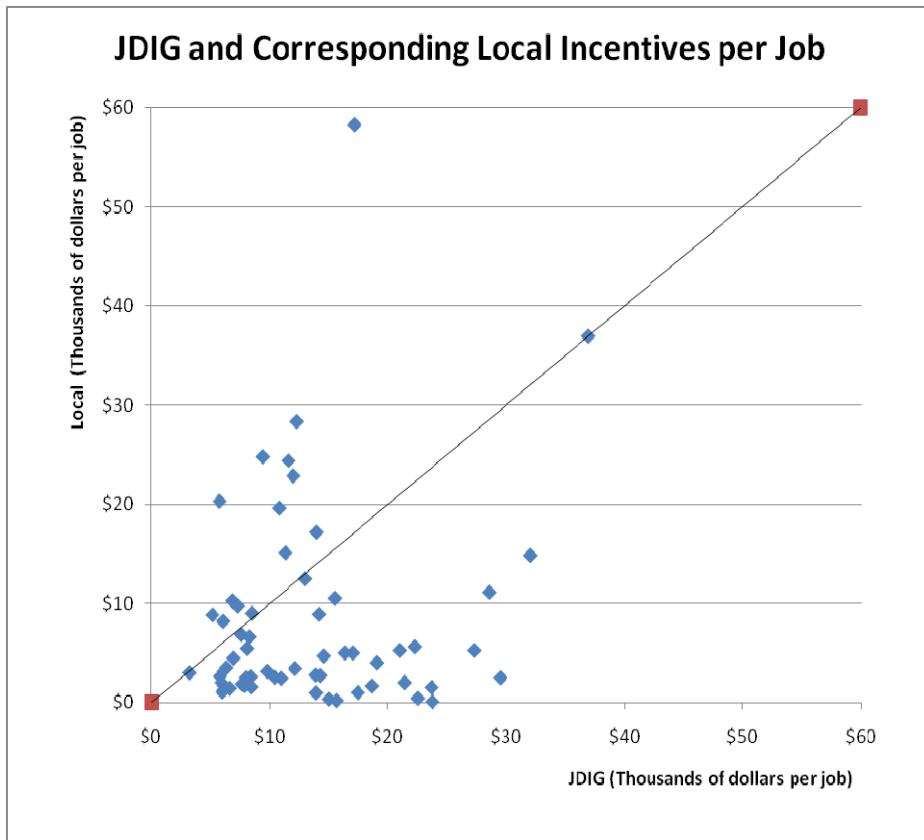
\*Figure 2 excludes an the following outlier:

2005, Forsyth County, Lowe's Co. , \$189,474 per job from local governments, \$5,263 per job from One NC Fund

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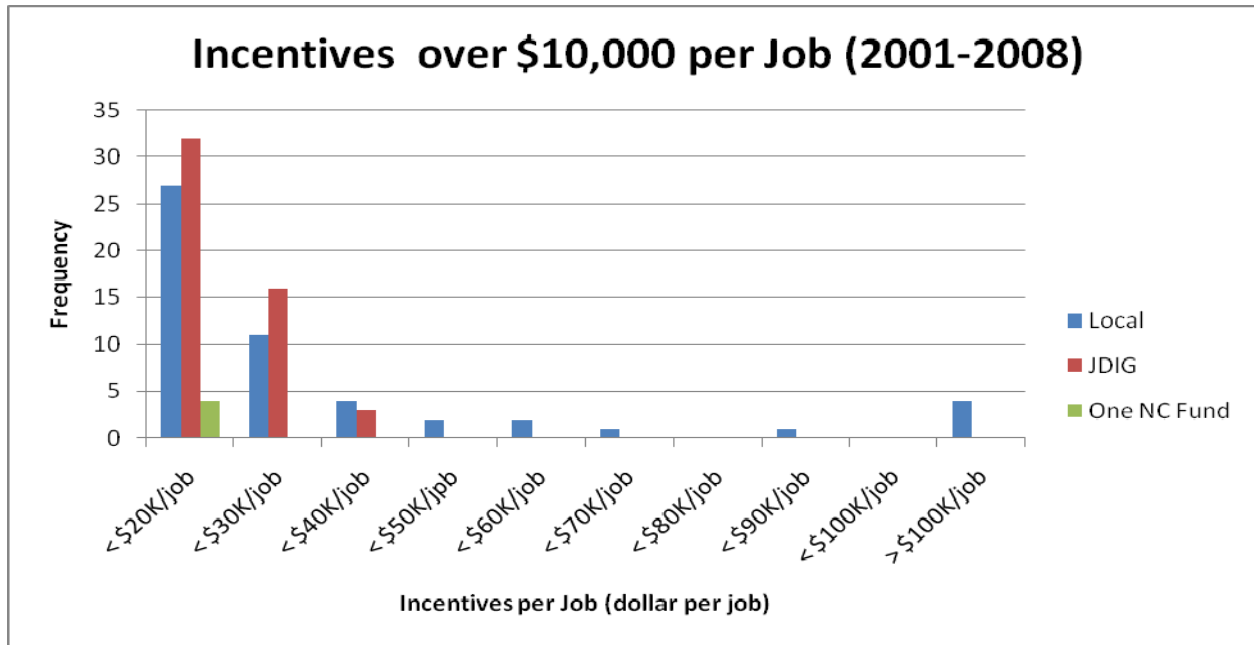
<sup>4</sup> These companies usually received additional state subsidies including Lee Act tax credits and One NC Fund grants

Figure 3



\* Figure 3 excludes the following outlier:  
2006, Caldwell County, Google, \$785,714 per job from local governments, \$22,857 per job from JDIG

Figure 4



The findings of this study show that One NC Fund recipients often receive far more in local incentives and that JDIG awards usually come along with very large local incentives. From 2001 to 2008 the One NC Fund and JDIG programs were used to offer \$530 million in incentives to 350 companies; these same companies were offered at least \$484 million in local incentives.

In some cases these large local incentives can tip the business location decision in favor of North Carolina, but most probably do more harm than good in terms of their social benefit to state residents. Timothy Bartik, one of the leading experts on incentives, estimates that as few as 10% of incentives may actually change the outcome of a business location decision. The availability and cost of adequate labor, land and facilities are usually the most important site selection factors. Incentives can become more decisive when competing communities have a similar labor costs and worker skill levels, but this usually occurs when companies are deciding between neighboring communities that share the same labor market, such as High Point and Greensboro. Incentives used to attract companies across municipal or county lines only generate net social costs for the state as a whole. The NCICL study found that between 2004 and 2006 local governments approved over \$6 million in incentives to assist intra-state relocations.

Even if a large local incentive does help North Carolina attract a prospective company, there is still the risk of the winners curse. When localities offer more than \$30,000 per job they risk making incentive deals with net social costs. Attracting jobs to high growth metropolitan areas with low unemployment and overburdened infrastructures increases this risk, especially if majority of the jobs go to in-migrants. Unlike state incentive programs, however, local incentive offers to companies are not always guided by economic and fiscal impact analyses. With limited information on the company's bottom line or bids from competing localities, local governments that do not use these subsidy controls leave themselves

vulnerable to overbidding. Caldwell County and the town of Lenoir, for example, offered over \$160 million in incentives to Google without even having completed a fiscal impact analysis.

### **Recommendations**

The easiest way that the state can encourage more prudent local incentive investments is by providing localities with better information. The state could promote more cost effective local incentive deals by conducting local economic and fiscal impact analyses for county and municipal governments. These analyses could provide local governments with a better picture of a project's real impact on employment, income and public revenues, encouraging them to set a price ceiling on their incentive offers.

Increasing the return on the state and local incentive investments will ultimately require better coordination of state and local incentive negotiations. At the very least, the state needs to have a good idea of how much localities are prepared to offer before they make their own bid. Increased cooperation can also improve the negotiating position of state and local officials if they can agree to negotiate with the prospect as a united front. Such cooperation could also make it harder for companies to start up costly in-state bidding wars between neighboring localities.

