

# Incentives in Context

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## Overview

1. Evidence on Effectiveness of Incentives
2. Role of Incentives in the Site Selection Process
3. County Employment by Firm Size

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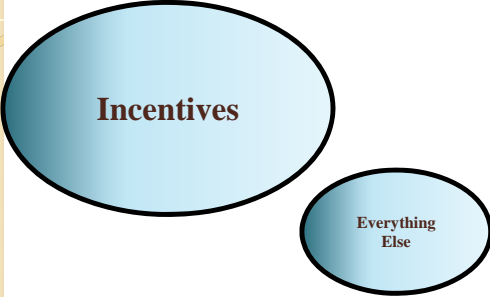
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## Common Perception About Incentives



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**Effectiveness of Incentives**

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“A lot of companies are not heavily focused on incentives. They’re heavily focused on labor, partnerships, and relationships they might have in the community at large. Incentives are something they think about, but they don’t obsess about it.”

Source: International Economic Development Council. (2012). Knowledge is Power: Working Effectively with Site Selectors.

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**Scholarly Research on Incentives**

- Incentives have little or no measurable impact on employment or growth:
  - Results hold for **statutory** and **discretionary** incentives
  - Result holds for incentives specifically targeted at distressed areas
    - Ex: Enterprise Zones, New Markets Tax Credit

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## Business Fundamentals Trump Incentives

- Common Essential Needs:
  - Workforce
  - Access to Inputs
  - Access to Customers
  - Transportation and Logistics
  - Research and Development Capacity
  - Quality of Life

“You need to find a location that works without incentives, because at some point of time in the future the incentives are going to go away.”

Source: International Economic Development Council. (2012). *Knowledge is Power: Working Effectively with Site Selectors*.

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## Importance of Incentives Relative to Other Factors

Factor	Percent Giving Highest Score for Importance
Availability of Skilled Labor	57%
State Individual Income Tax Rate	44%
State Corporate Tax Rate	42%
Local Property Taxes	42%
Availability of Community Colleges	38%
State Regulatory Environment	37%
Availability of 4-Year Colleges/Univ.	34%
Highway Infrastructure	32%
Information Technology Infrastructure	32%
Environmental Regulations	28%
Local Economic Development Tax Incentives	27%
Land Prices	27%
State Economic Development Tax Incentives	26%

Source: Center for Competitive Economies. (2009). *An Evaluation of North Carolina's Economic Development Incentive Programs*.

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## Role of Incentives in the Site Selection Process

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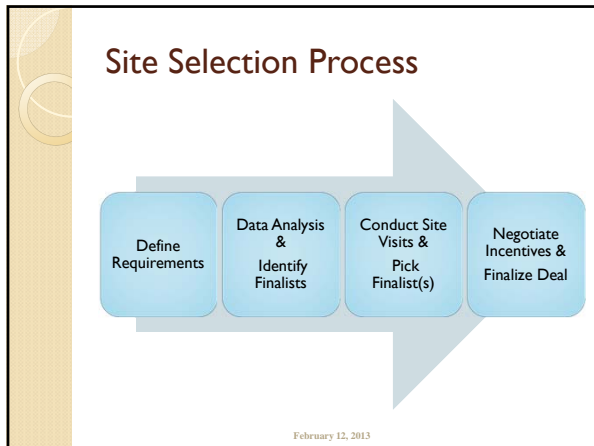
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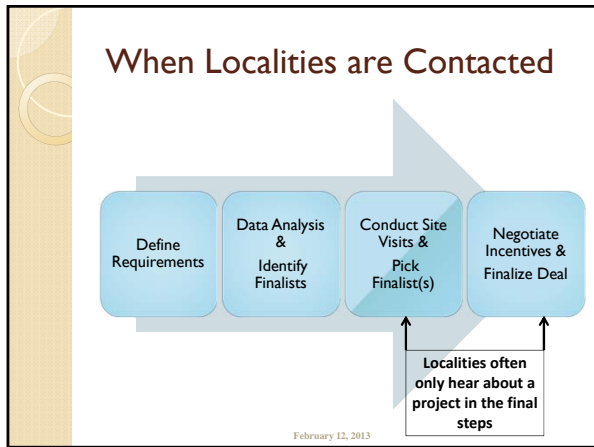
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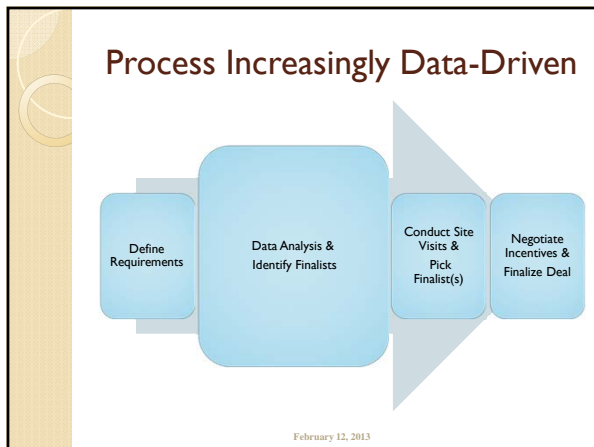
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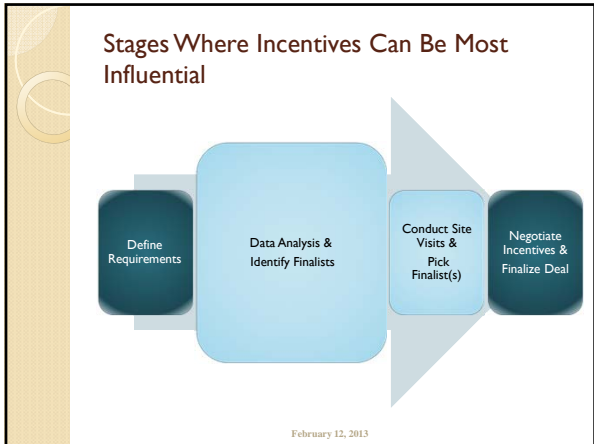
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- ### Summary of Role Incentives Play in the Site Selection
- Incentives can't make up for the absence of core business needs
  - Incentives tend to matter most at the very beginning and end of process
  - Discretionary incentives more likely to influence location decisions
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### Small Business and Employment

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## Research on Job Creation by Small Businesses

- Substantial evidence that small businesses are essential to new job creation:
  - Many studies find that small businesses create more jobs than large businesses
  - Some studies find that companies with less than 20 employees create more than 75% of all new jobs

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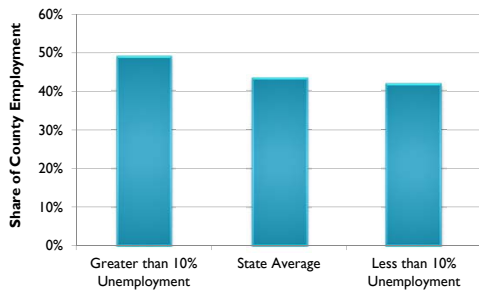
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## Average Share of County Employment by Firms with More than 500 Workers



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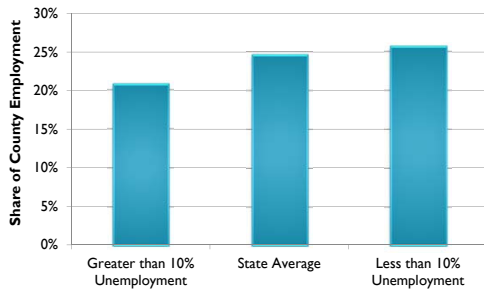
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## Average Share of County Employment by Firms with Less than 20 Workers



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**Summary on County Employment by Firm Size**

- Counties struggling with high unemployment rates tend to rely more heavily on large employers
  - More work required to assess the reasons why

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**Everything Else**

Incentives

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**Practical Considerations for Local Incentives**

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## Do the Math

- Use analysis to inform decision
  - *Economic Impact Analysis* can estimate likely benefits resulting from the project, such as:
    - Jobs
    - Personal income
    - Government Revenue

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## Know Your Consultant

- Site selection firms are increasingly diverse
  - Factors to be particularly aware of:
    - **Contingency Pay:** Some consultants are paid a percentage of incentive awards negotiated
    - **Consultant's Reputation:** Consultants differ in knowledge, how aggressive they are in incentive negotiations
  - Building good relationships with consultants may also help with future projects

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## Know the Landscape

- Incentive negotiations don't happen in a vacuum, find out what is happening
  - What are the other finalist communities?
  - Are other governments or organizations offering incentives?
  - Are you part of a bidding war?

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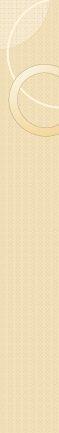
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## Major State Incentive Programs

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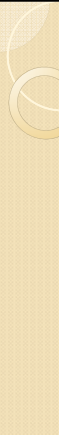
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## Major Grant Programs

- **Department of Commerce**
  - Jobs Development and Investment Grant (JDIG)
  - One NC Fund (One NC)
  - Job Maintenance and Capital Development Fund (JMAC)
- **Community Colleges**
  - Customized Training
- **Department of Transportation**
  - Economic Development Program

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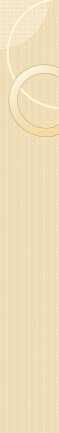
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## Jobs Development Investment Grant (JDIG)

FY2013-14 Appropriation = \$24.4 million recurring, 27.4 nonrecurring

- **Award Details**
  - Up to 12 years
  - Company retains 10-75% of employee withholding taxes
    - Based on # of jobs, duration, economic contribution to the State, level of investment, other financial supports provided, etc
- **Award Criteria**
  - Can be used for attraction, expansion, or retention
  - Project results in net increase of employment
  - Project will be revenue-positive after award
  - Grant is necessary for completion of project
- **Misc**
  - Many companies do not ultimately receive their full awards due to lower than projected performance
    - Ex. In 2011, 61% of awards were dispersed
  - Clawback provisions included in agreements
    - Department monitors performance
  - Effective Jan 2003

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## One NC Fund

FY2013-14 Appropriation = \$9 million

- **Award Details**
  - Can be used for attraction or retention
  - Fund transferred to local government, then to company
  - Targeted at high value-added and knowledge-driven industries
  - Grants can be used for
    - Purchasing equipment, renovations to existing facilities, construction or new facilities
- **Award Criteria**
  - Economic impact of project
  - Strategic importance of project
  - Quality of jobs
  - Environmental Impact
  - State \$ must be matched by local governments
    - Local gov'ts can kick in cash, fee waivers, services, free land or buildings, or building infrastructure
- **Misc**
  - Used to be called the "governor's walking around money"
  - Performance monitored by Commerce

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## Job Maintenance and Capital Development Fund

FY2013-14 Appropriation = \$6.7 million

- **Award Details**
  - Used for retention of large-scale projects
  - Grants can be spread over up to 10 years
- **Award Criteria**
  - Company must have 2,000 employees and invest \$200 million
    - 360 employees and \$65 million for manufacturing companies
  - Must be located in Tier 1 county
  - Local gov't must match at least 50% of grant value
  - Wages at least 140% of county average
  - Company covers at least 50% of employees' health insurance
- **Misc**
  - Total of 5 awards made in program's history
  - Performance monitored by Commerce

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## NCCCS Customized Training

FY2013-14 Appropriation = \$12.5 million

- **Award Details**
  - New or existing companies
  - Specific programs designed to meet needs of individual companies
  - Can be used for
    - Pre-employment training
    - Pre-employment assessment
    - Post-hire training
  - Covers cost of technical and soft skills training
- **Award Criteria**
  - Designed to support
    - Job growth
    - Technology investment
    - Productivity enhancement
- **Misc**
  - Representatives at each Community College Campus work with businesses in their communities

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## Transportation Economic Development Program

FY2013-14 Allocation = \$3.3 million

### • Award Details

- Used for major attraction and expansion projects
- Local governments generally also contribute funding

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## Resources

### Government

- Thrive NC
  - <http://www.thrivenc.com/>
- Department of Commerce "allies and partners" list
  - <http://www.nccommerce.com/about-our-department/partners-allies>
- Department of Commerce "economic development contacts" (corporate, local, non-profit)
  - <http://www.thrivenc.com/see-whos-helping-north-carolina-thrive>
- Department of Revenue Economic Incentives Reports
  - <http://dornc.com/publications/incentives/2013/index.html>

### General

- North Carolina Economic Development Directory
  - [http://www.ecodedirectory.com/north\\_carolina.htm](http://www.ecodedirectory.com/north_carolina.htm)
    - Directory also available for other states
- North Carolina Economic Developers Association
  - <http://www.nceda.org/>

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## History of Economic Development Spending and Incentives

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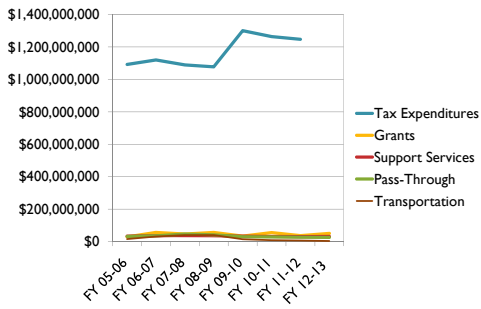
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## Different Types of Expenditures




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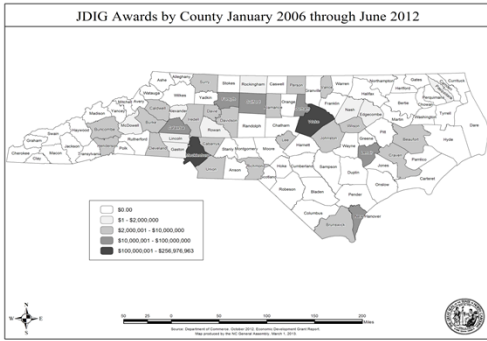
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## Jobs Development Investment Grant




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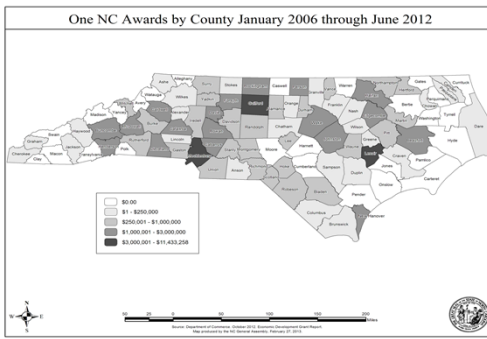
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## One NC




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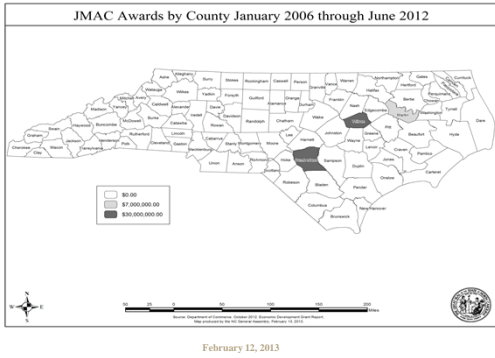
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## Job Maintenance and Capital Investment Fund



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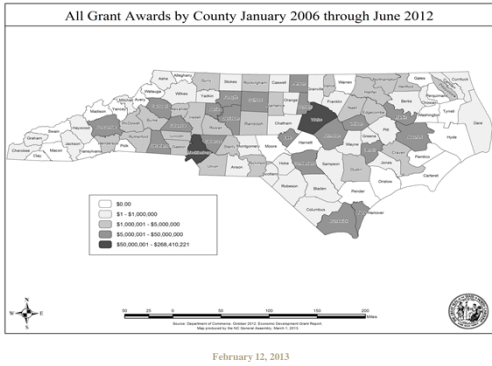
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## All Commerce Grants



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**That's all folks**

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