

Joint Legislative Economic Development and Global Engagement Oversight Committee

Strategy Workgroup Report
January 10 2017

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UNC Center for Competitive Economies

1

NC's Economy is Big

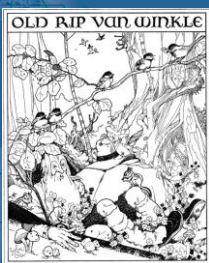
- Population = 10+ million (9th)
- GDP = \$511 Billion (10th)
- NC = 24nd largest national economy (Sweden/Belgium)
- Workforce of 5 million people
- 350,000+ businesses of many types



Big is hard to affect.

2nd qtr. 2016: USBEA, IMF

2



3

Entrepreneurial NC 1880-1900



Local investment built 100s of factories in small towns across North Carolina

- Made NC a leader in textiles, tobacco products and furniture
- Reliance on local capital and suppliers created persistent wealth
- Enduring effects on NC demography

4

NC & Incentives

NC was a late, reluctant and careful player in the use of financial economic incentives

- Bill Lee Tax Credits
- Article 3J tax credits
- OneNC
- JDIG
- Exceptional projects

5

2009 Incentives Jt. NCGA Study Committee

- 20+ member joint legislative study committee
- 18 month, \$300k multi-institutional research
- Portfolio investment return model evaluation of NC statutory tax credits and discretionary economic incentives
- Studied quarterly employment effects of 3,000 incentives from 1996 to 2006

6



2009 Findings

- Tax credits' outcomes were contrary to NC goals
- Tax reduction a better strategy
- Incentives had regional, but not NC impact
- Incentives mostly benefitted wealthy areas

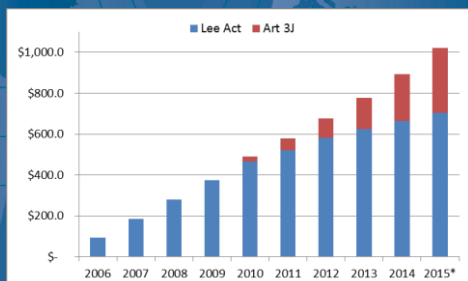
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2009 Incentives Study Committee Recommendations

- ☒ Eliminate most tax credits effective 2010
- ☒ Reduce corporate tax rate to competitive rate
- ☒ Address systemic economic policy factors
- ☒ Institute legislative oversight function (EDGE)
- ☐ Expand JDIG and One NC programs targeted to high impact firms in distressed counties

8

NCGA Eliminated \$1B/yr. Credits to Reduce Tax Rates



9

NCGA Systemic Remedies

Pivot from industry targeting to systemic economic and public policy reform

Goals

- Broad private sector employment and wage growth in response to market forces
- Gradual income improvement across NC

10

EDGE Strategy Workgroup

Purpose

EDGE workgroup to build on legislative deliberations of Tier "distressed counties" to identify long term economic goals and legislative actions for improved economies in those areas

Met in September, October, November, and December

11

EDGE Strategy Workgroup

NC House members

Rep Susan Martin
Rep John Bell
Rep Ted Davis
Rep John Fraley
Rep Rena Turner

NC Senate members

Sen. Harry Brown
Sen. Tommy Tucker
Sen. Rick Gunn
Sen. David Curtis
Sen. Bill Rabon

12

Workgroup Tasks

- Reconsider economic incentive tier structure
- Identify and quantify state and local level economic goals
- Develop policies to align economic development efforts with NCGA priorities
- Recommend legislative actions or policy changes for implementation

13

Findings

1. NC's incentives began to aid distressed areas but most incentives go to wealthy areas
2. Reliance on economic development "success" is inadequate to scale of NC economy
3. Systemic economic policies needed to enhance statewide economic climate
4. Improved competitiveness lessens importance of off-setting economic incentives
5. Incentives most significant in distressed areas

14

Alignment Options

Make tier structure more effective in Tiers 1 and 2

1. Establish and oversee goals for T1&T2 outcomes
2. Reformulate JDIG evaluation to include goals for employment, income, tax base
3. Limit total JDIG awards to T3 counties (50%)
4. Reduce maximum amount of T3 JDIG awards
5. Limit EDP bonuses to projects located in T1&T2
6. Limit JDIG eligibility to resident, permanent workers

15

Incentives and Tiers

- “Tier system” developed to prioritize use of incentives for struggling counties
- “Distress” based on unemployment, income, population growth and per capita property
- Tiers definition evolved since inception
- Little effect on distribution of incentives

16

Job Development Investment Grant (JDIG)

- Cash grants companies for locating or expanding a facility in the state
- Amount based on % personal income tax withholdings associated with the new jobs
- Grant funds are disbursed annually, for up to 12 years, to approved companies following the satisfaction of performance criteria set out in grant agreements

17

JDIG and Tiers

Tier system intended to direct JDIGs to less prosperous areas of the state:

- 40 most distressed counties (Tier 1), Tier 2 (next 40), Tier 3 (20 least distressed)

JDIG maximum amounts vary by Tier:

- Tier 1 - 100% of the grant to the company
- Tier 2 - 90% to company, 10% to Utility Account
- Tier 3 - 75% to company, 25% to Utility Account

18

2017 Tiers



19

2015 JDIGS

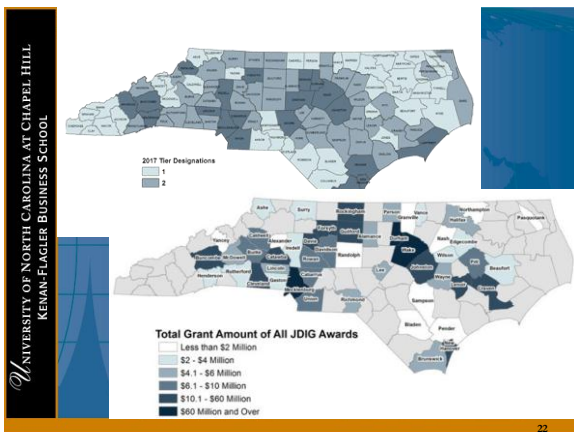
Grantee Name	County	Tier	Number of Grant Years	1st Year of Eligibility	Withholding	Amount to Company	Amount to Utility Acct	Total Award Liability
New Nerdick Pharmaceutical Industries, Inc. II	Johnston	3	12	2019	75%	\$15,981,750	\$5,287,250	\$21,149,000
Fidelity Global Brokerage Group, Inc. II	Durham, Wake	3	12	2016	48%	\$15,522,750	\$5,174,250	\$20,697,000
Dimensional Fund Advisors LP	Mecklenburg	3	12	2016	75%	\$10,319,250	\$3,436,750	\$13,747,000
Ashley Furniture Industries, Inc. II	Davie	2	12	2016	70%	\$4,607,100	\$511,900	\$5,119,000
Royal Appliance Mfg. Co.	Mecklenburg	3	12	2016	38%	\$3,753,000	\$1,251,000	\$5,004,000
RSH Home Appliances Corporation II	Craven	2	12	2016	50%	\$4,096,800	\$455,200	\$4,552,000
DB Global Technology, Inc. II	Wake	3	12	2016	35%	\$3,384,000	\$1,128,000	\$4,512,000
VeriValue International of America, Inc. II	Forsyth	3	12	2016	41%	\$2,999,250	\$999,500	\$3,998,750
REUS, Inc. II	Mecklenburg	3	12	2016	31%	\$2,659,500	\$886,500	\$3,546,000
Premier Research International LLC	Durham	3	12	2016	36%	\$2,580,000	\$860,000	\$3,440,000
Coring Optical Communications LLC	Mecklenburg	3	12	2016	45%	\$2,352,000	\$784,000	\$3,136,000
Albemarle Corporation	Mecklenburg	3	12	2016	22%	\$2,040,000	\$680,000	\$2,720,000
Interactive Personnel, Inc.	Durham	3	12	2016	29%	\$1,637,250	\$545,750	\$2,183,000
Metal Works Mfg. Co.	Cleveland	2	12	2016	75%	\$1,326,150	\$233,850	\$1,559,000
Frontier Communications of the Carolinas LLC	Durham	3	12	2016	25%	\$880,500	\$293,500	\$1,174,000
Total						\$74,000,300	\$22,627,450	\$96,627,750

20

2003-15 JDIGS



21



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JDIG/OneNC

Limited success in serving distressed counties

- 15 JDIG awards in 2015 totaling \$74 million but none in Tier1 distressed counties
- 56 OneNC awards in 2015 with 18 (\$6.3M) to companies in Tier 1 distressed counties
- T3 counties (77%), Wake/Mecklenburg (60%)*
- Large non-NC corporations (93%)*
- Minimal realized employment gains

**2008-13 data*

23

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Incentives' Limited Impact

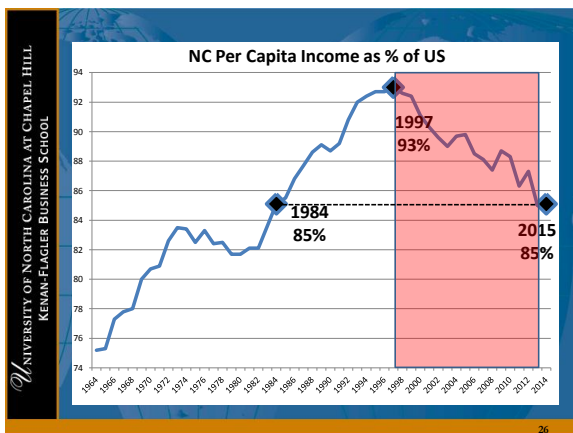
Nine years of incentives (2007-2015)*

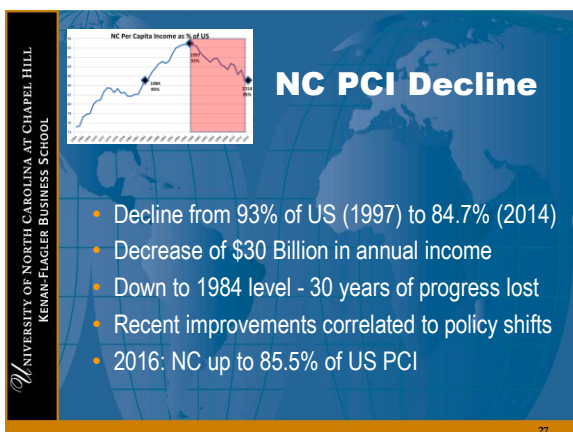
- 575 JDIG, OneNC, JMAC, IDF awards
- \$1.3 Billion authorized (\$119M actual)
- 27,809 realized jobs (3,000/yr.)
- 1% NC job growth = 50,000 jobs

**2015 NC Commerce JDIG Report*

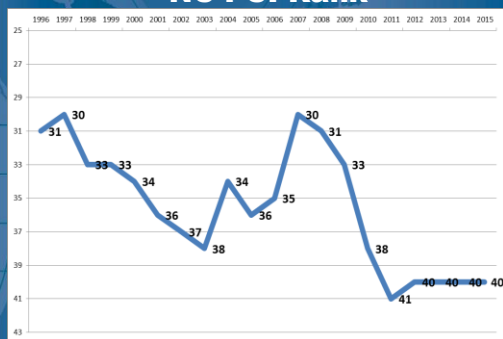
24







NC PCI Rank



28

Young Firms See Their Share of Job Creation Decline

Young Firms See Their Share of Job

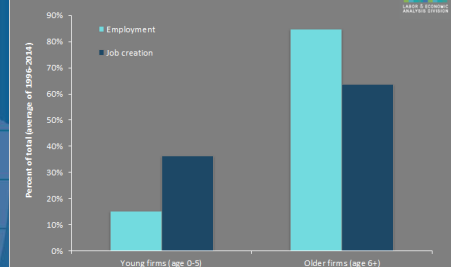
NC: Private sector employment and job creation

Source: Author's analysis of data from the Quarterly Census of Employment and Wages (QCEW). Firm age is the number of years a firm has existed in North Carolina. Job creation is tallied as changes in employment between the third month of each quarter. Both firm growth and firm age are calculated in a manner that controls for changes in establishment ownership. Seasonally adjusted and smoothed using X-12-ARIMA.

20

Young Firms Create Jobs At Disproportionately High Rate

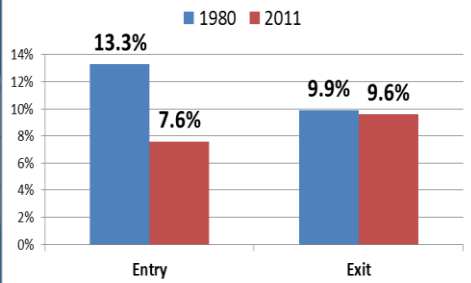
NC: Private sector employment and job creation, by firm type



Source: Author's analysis of data from the Quarterly Census of Employment and Wages (QCEW). Firm age is the number of years a firm has existed in North Carolina. Job creation is tallied as changes in employment between the third month of each quarter. Firm growth and firm age are calculated in a manner that controls for changes in establishment ownership.

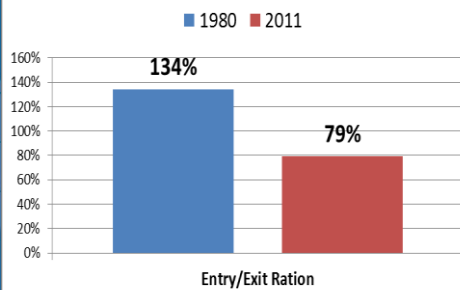
30

NC Business Dynamics



31

NC Business Entry/Exit Ratio



32

NCGA Systemic Improvements

Improved business climate for all reduces need for economic incentives for a few

- Corporate tax reduction from 6.9% (2013) to 3% in 2017
- Personal income tax reduced from max. 7.75% to flat 4.99%
- Lowered rate/broadened base of sales tax

Past 3 years has seen PCI growth in NC meet or exceed US (3.7%)

33

Limited Effects



At best, incentives can increase regional

- Income
- Employment
- Tax base

What are the goals for these gains?

Where are those gains a priority?

34

Workgroup Tasks

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35

Revised Tier Criteria

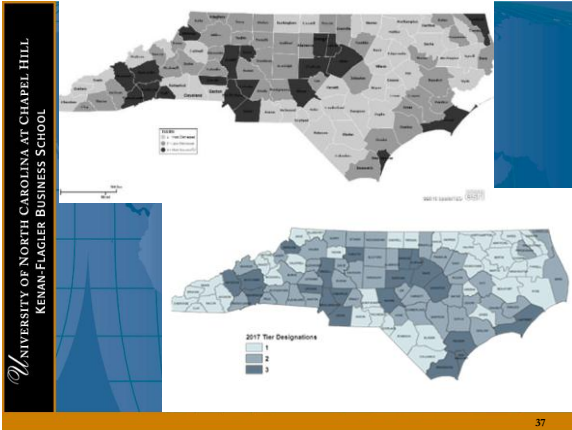
Retaining the tiers but redefined them based on:

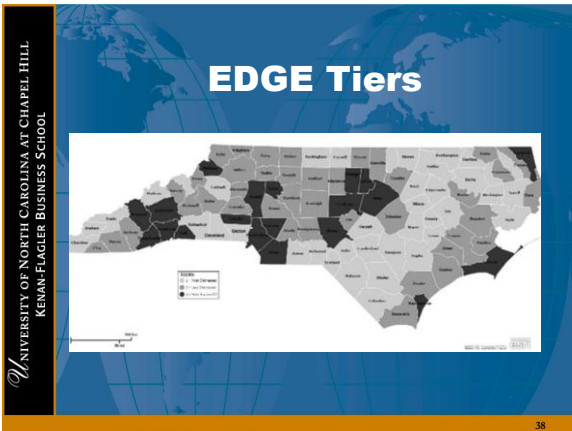
- Tax base per capita
- Median household income
- Average annual unemployment rate

40 counties in Tiers 1 and 2; 20 counties in Tier 3

Eliminated population-based "adjustment factors"

36





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Tier 1

Edgecombe	Martin	Greene
Robeson	Wayne	Harnett
Scotland	Sampson	Rockingham
Vance	Lenoir	Caswell
Bertie	Duplin	Chowan
Hertford	Wilson	Nash
Halifax	Hoke	Cherokee
Washington	Rutherford	Pasquotank
Richmond	Tyrrell	Cleveland
Columbus	Cumberland	Caldwell
Anson	Graham	Gaston
Bladen	Pitt	Mitchell
Northampton	Swain	Hyde
	Warren	

39

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Tier 2

Wilkes	Montgomery	Person
Onslow	Alamance	Macon
Burke	Madison	Ashe
Surry	Clay	Pender
Jones	Gates	Avery
Alleghany	Craven	Stokes
Beaufort	Franklin	Pamlico
Randolph	Yancey	Forsyth
Lee	Stanly	Brunswick
McDowell	Yadkin	Camden
Perquimans	Alexander	Granville
Rowan	Jackson	Catawba
	Davidson	Dare
	Guilford	Johnston

40

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Tier 3

Haywood	Carteret	Mecklenburg
Transylvania	Cabarrus	Union
Davie	Polk	New Hanover
Lincoln	Durham	Buncombe
Moore	Henderson	Orange
Watauga	Iredell	Chatham
	Currituck	Wake

41

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Specified Goals

Affirmed the economic development priority of distressed areas

- Income:** Increase NC and county incomes to cost-index adjusted US equivalents
- Employment:** Increase jobs reducing long term unemployment to state averages
- Tax base:** Increase county property tax base to NC per capita average

42

Quantified 10 Year NC Goals

Income

- Add \$30B in income to equal US PCI

Employment

- Add 500,000+ to maintain Goal UE

Tax Base

- Add \$124 B to 2015 Tax Base of \$1.0 Trillion

*Healthy economy will provide most needs.
Economic development policy "fills holes".*

43

Quantified County Goals ex. Bladen County

Income

- Goal PCI = \$42,227 (\$34,657)
- Target PCI Gain = \$6,721 (\$233 Million)

Employment

- Goal UE = 5.0% (8.1%)
- Target Gain = 574 jobs

Tax Base

- Goal NC avg. Per Capita Tax Base
- Target Gain = \$733 million

44

20 Most Distressed

1	Scotland	11	Anson
2	Robeson	11	Hoke
3	Edgecombe	13	Bladen
4	Vance	14	Rutherford
5	Bertie	15	Northampton
6	Hertford	16	Tyrrell
7	Halifax	17	Graham
7	Richmond	18	Harnett
9	Columbus	18	Madison
10	Washington	18	Swain

45

20 Most Distressed Goals

Income

- Add \$7B in income to equal US PCI

Employment

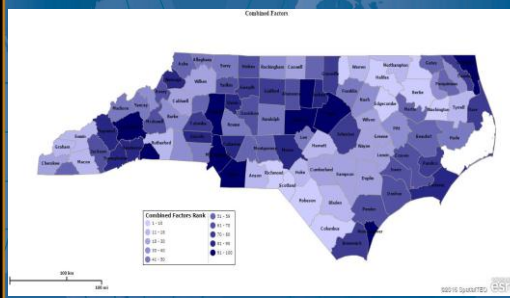
- Add 8,359 to achieve 5% Goal UE

Tax Base

- Add \$32 Billion to achieve NC average

46

Goal Attainment



47

Meet Tax Base Goal (43)

Camden	Clay	Transylvania
Tyrrell	Hyde	Watauga
Swain	Pender	Currituck
Madison	Polk	Iredell
Montgomery	Catawba	Macon
Cherokee	Beaufort	Jackson
Mitchell	Yancey	Buncombe
Lincoln	Haywood	Carteret
Warren	Ashe	New Hanover
Person	Henderson	Dare
Graham	Durham	Brunswick
Cabarrus	Chatham	Mecklenburg
Perquimans	Orange	Wake
Pamlico	Avery	
Alleghany	Moore	

48

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Meet Employment Goal (17)

Wake	Johnston
Buncombe	Granville
Durham	Alexander
Union	Yadkin
Orange	Davie
Henderson	Polk
Chatham	Stanly
Cabarrus	Lincoln
Mecklenburg	

49

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Meet Income Goal (9)

Orange	Carteret
Chatham	Moore
Wake	Onslow
Mecklenburg	Durham
Dare	

50

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Meet Income & Empl. Goals (5)

Orange
Chatham
Wake
Mecklenburg
Durham

51

Meet All Goals (5)

Orange
Chatham
Wake
Mecklenburg
Durham

52



Incentive Economic Impact Factors

- Headquarters/local ownership
- Value-added products for export
- Reliance on regional assets and local workforce
- High relative economic significance
- Necessity of incentive

53

Best Case Incentive Deal

Established firm with growth position

- Low risk with ROI upside
- Value added serving national/global market

- Imports profits into local economy

Regional inputs dependent

- Secondary growth and higher stability

Employs current local residents

- Maximum economic benefit w/minimum costs

Headquartered with local investors

- Wealth creation and absorption

Distressed county location maximizes impact

54

Relative Job Impact 1 job in Mecklenburg = ?

Tyrrell	198	Warren	75
Gates	147	Caswell	68
Camden	118	Alleghany	65
Jones	116	Yancey	58
Hyde	112	Mitchell	57
Graham	106	Chowan	56
Clay	104	Northampton	53
Perquimans	99	Madison	50
Washington	78	Swain	50
Pamlico	77	Pender	46

55

Findings

1. NC's incentives began to aid distressed areas but most incentives go to wealthy areas
2. Reliance on economic development "success" is inadequate to scale of NC economy
3. Systemic economic policies needed to enhance statewide economic climate
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56

Alignment Options

Make tier structure more effective in Tiers 1 and 2

1. Establish and oversee goals for T1&T2 outcomes
2. Reformulate JDIG evaluation on to include goals for employment, income, tax base
3. Limit total JDIG awards to T3 counties (50%)
4. Reduce maximum amount of T3 JDIG awards
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6. Limit JDIG eligibility to resident, permanent workers

57

Alignment Options

Establish and oversee goals for T1&T2 outcomes

- Set 10 year goals w/annual performance evaluations
 - \$3 billion in income growth
 - 50,000 new jobs
 - \$12 billion in tax base growth
- EDGE review "Progress toward Goal" reports at the county, regional and state levels

58

Alignment Options

Reformulate JDIG evaluation to include goals for employment, income, tax base

- Current revenue-based model biased toward higher wage, larger scale projects favoring T3 locations
- Prioritize incentive awards on contribution to income, employment and tax base goals
- Increase NCGA involvement in Economic Investment Committee (EIC) in evaluating JDIG awards

59

Alignment Options

Shift more JDIG use from Tier 3 to Tiers 1 and 2

- Limit total JDIG awards to T3 counties to 50% (or less) of annual authorization
- Reduce current 75% to maximum amount of T3 JDIG awards to 50% (or less)
- Support NCEDP employment performance bonuses to results located in T1&T2
- Limit JDIG eligibility to resident, permanent workers

60

Discussion of Options

Make tier structure more effective in Tiers 1 and 2

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