



What We Know about Economic Development Incentives

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Overview

1. What are economic development incentives?
2. How do they work?
3. What are they used for?
4. What is the controversy about?
5. How can they be used more effectively?

Stimulus or Corporate Give-Away?

From Webster's Dictionary:

- **Incentive** – something that incites (moves to action, spurs, stirs up, etc.)
- **Inducement** – something that moves by persuasion or influence, stimulates, or causes the formation of
- **Subsidy** – a grant or gift of money

Types of Incentives

- Tax
- Non-tax
- Statutory
- Discretionary

Tax Incentives

- Overall tax rates and structure
- Tax credits
- Tax abatements (not in NC)
- Other tax relief
 - Rebates, refunds
 - Exemptions and deferrals
 - Accelerated depreciation
- Tax increment financing

Non-tax Incentives

- Direct cash grants
- Free land or at below-market prices
- Infrastructure
- Low-interest loans
- Worker training
- Innovation and technology support
- Export assistance

Site Development

- Site-specific infrastructure
 - Water and sewer extensions
 - Electric and natural gas utility access
 - Reduced utility rates and fees
 - Street and road improvements
- Help with regulatory problems and permitting (“one-stop” permitting)

How Incentives Work

Supply-Side

- Stimulate private investment by reducing the costs of inputs:
 - Land
 - Labor
 - Capital
- Lower the costs of doing business

How Incentives Work

Demand-Side

- Stimulate private investment by helping firms compete through:
 - Modernization
 - Technology and automation
 - Market development
 - Upgrading worker skills

Incentives for What?

- ✓ New job creation
- ✓ New capital investment
- Job retention
- Research and development (R&D)
- Job training
- Higher wages
- Employee benefits

State ED Incentives in NC

- Article 3J Tax Credits (replaces Lee Act)
- Research & Development Credits
- One North Carolina Fund
- Job Development Investment Grant (JDIG)
- Site and Infrastructure Grant Fund
- Industrial Revenue Bonds (IRB)
- Industrial Development Fund (IDF)
- Community Dev. Block Grant (CDBG)
- New and Expanding Industry Training

Local ED Incentives in NC

- Cash grants tied to performance
 - Based on projected tax revenues
- Land, infrastructure, site preparation
- Project Development Financing (TIF)
- Incentives for retail projects

State Incentives for Dell

■ Computer mfg. credit	\$200 million
■ Lee Act tax credits	\$ 21.4
■ JDIG	\$ 8.8
■ Training	\$ 3.3
■ Golden Leaf funds	\$ 3.3
■ Infrastructure	\$ 3.0
■ Triad workforce dev.	\$ 1.7
■ Sales tax refund	\$ 1.0
Total (over 15 yrs.)	\$242 million

Local Incentives for Dell

■ Winston-Salem

■ Upfront project costs	\$ 7.0 million
■ Cash incentives (15 yrs)	\$ 8.4
■ Land costs	\$ 3.5
■ Total	\$18.9

■ Forsyth County

■ Site preparation	\$ 6.0 million
■ Cash incentives (15 yrs)	\$ 8.8
■ Land costs	\$ 3.5
■ Total	\$18.3
Total	\$37.2 million

The Incentives Debate: Pros and Cons

Arguments for:

- They actually influence business location decisions—“but for”
- Generate new tax revenues that would not otherwise be available
- It’s the way the game is played
- Necessary evil to compete
- Investment in economic future
- Companies say they matter

Top 10 Site Selection Factors

1.	Labor costs	95.0%
2.	Highway accessibility	90.9
3.	Corporate tax rate	90.8
4.	State and local incentives	88.6
5.	Availability of telecom services	88.3
6.	Tax exemptions	86.7
7.	Occupancy or construction costs	85.5
8.	Availability of skilled labor	85.1
9.	Energy availability and costs	82.4
10.	Availability of high-speed internet	82.1

Arguments against:

- They don't work
- Slippery slope; escalating demands
- Counterproductive competition among jurisdictions
- Firms don't always deliver
- Divert public dollars away from other programs and investments

Do ED Incentives Work?

- Not typically the most important factor in location decisions
- Can tip the scale in some cases
- Do not compensate for major shortcomings in a location
- Tend to benefit prosperous communities

An Investment Approach

- Strategy
- Accountability
- Transparency
- Confident Negotiation
- Monitoring and Evaluation

Best Practice

- Strategic planning and targeting
- Increasing use for existing industry
- Tying incentives to company performance:
 - ❖ Job creation
 - ❖ Capital investment
 - ❖ Production
- Performance-based contracts

Incentives and Accountability

- Safeguards to protect the public investment
- Measuring results and outcomes
 - Economic impact analysis
 - Fiscal impact analysis
 - Cost-benefit analysis
 - Return-on-investment
 - Program evaluation
- Clawback provisions

Questions to Consider

- Are state incentives connected to long-term strategic ED goals?
- Are they sufficiently targeted?
- Are we accurately estimating the costs and benefits on projects?
- Are there sufficient safeguards in place?

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