NC·EDA
North Carolina Economic Development Association

2022 Local Incentives Study

Sponsored by the North Carolina Economic Development Association and Creative Economic Development Consulting, LLC

2022

Summary

The North Carolina Economic Development Association and Creative Economic Development Consulting surveyed local economic development agencies across North Carolina to gauge the usage and terms for incentives for economic development. The findings were compared to a 2011 study to see how incentive policy has changed in the state. The results of this study can be used to inform local governments about standard incentive practices in North Carolina.

98%
require an incentive contract

North Carolina local governments have increased requirements for incentives while keeping the amount paid in incentives about the same over the last 10 years. More local governments have implemented thresholds for eligibility including investment, jobs, wages, and employer contributions to health insurance. The percentage of local governments that require an incentive contract increased from 92% to 98%. The percentage of local governments with an adopted policy also increased. Cash grants, unrestricted, offered as an incentive declined from 94% to 81%. While local governments implemented restrictions on incentives and formalized incentive policies, they offer about the same amount in incentives. Most communities offer grants equal to 71-80% of net new property tax revenue for five years. Approximately the same percentage of counties offer incentives compared to 2011, 94%, while there was significant increase the percentage of municipalities offering incentives, 91%.

The incentives survey was sent to members of the North Carolina Economic Development Association and promoted through e-communications and social media. There were 92 responses, coming from 63 of the state's counties, 23 municipalities, and six nonprofits. The survey asked for information on county, municipal, and nonprofit incentives. Comparisons are made in this report between data gathered in this survey and the findings of the 2011 *North Carolina Local Incentives Survey* published by Sanford Holshouser Economic Development Consulting.

Local government incentives are nuanced. Most incentive policies typically include a "case-by-case" phrase allowing elected leaders flexibility to offer more for significantly impactful projects or deny incentives to companies that would have a negative impact. Even policies with clearly defined grant levels based on jobs and investment leave room for negotiation with projects that have high economic impact or locate in a strategically important area. Thus, this survey asked respondents to "answer the questions based on a typical project."

County Incentives

There was a slight increase in the percentage of counties with an adopted incentive policy - 66% compared to 60% in 2011. More counties have an investment threshold; however, the most popular threshold remained the same at $1M-$1,999,999 in new capital investment. More counties have a job creation threshold, with the most popular still being the small thresholds of 0-10 and 11-20 jobs. The average county wage standard published by the NC Department of Commerce is the most common wage standard used to qualify for incentives. There was a big shift in the requirement for employers to pay a portion of employee health insurance. The percentage of counties that require this rose from 30% to 68%. Manufacturing and Distribution still are the lead sectors eligible for incentives, closely followed by Headquarters. A newly added sector, Information, surpassed R&D for the third slot. Most incentives are available across the entire county with no specific geographic location requirements within the county. Counties reported that grants equaling 71-80% of net new property tax revenue tied with 51-60% as the most cited grant percentage. This is a change from 2011 when the 71-80% category was a clear standout. Five years remained the most often cited years of grant payout (74%). Ten-plus years was the second most cited grant payout time frame at 11%.

Lead sectors eligible for incentives: **Manufacturing, Distribution, HQs, Information, and R&D**

Municipal Incentives

The 2011 study did not break out all municipal incentive data as this study does. Thus, we have more data specifically on municipal incentives in this study. A 2015 local government survey conducted by Dr. Jonathan Morgan with the UNC School of Government had considerably higher municipal participation. The book, *Budgeting In North Carolina Local Governments,* would be a good resource for more information on municipal incentives.

More municipalities (75%) have adopted incentive policies, exceeding the county percentage. Most other responses about municipal incentives are similar to county responses. This was expected, as most municipalities will align incentive policy with that of the county. Investment, job, wage, and employer benefit eligibility requirements mirror county responses. Target sectors are similar as well, except for R&D edging out Information as the fourth most cited eligible sector. Incentive grants as a percent of net new tax property revenue are similar at the municipal level, with 71-80% being the most popular response. As with counties, municipal grants are most often paid over five years.

Grants typically equal **71-80% of net new property tax revenue**

Nonprofits

There were six responses to the survey from nonprofit organizations. Not all six answered all questions; thus, we decided not to report the results here given the small sample size.

Use and Requirements of Incentives

Beyond eligibility requirements of investment, jobs, wages, and employer contributions to health insurance, local governments consider return on investment, economic impact, potential to strengthen a cluster, and infrastructure impact when considering applications for incentives.

Cash is king in incentives, with 81% reporting it as the most popular form of incentive. However, cash grants offered as an incentive was down

81%
offer cash grants as incentives

considerably from the 2011 study at 94%. The second most often cited form of incentive is infrastructure improvements (65%). Very few local governments place restrictions on cash incentives; 79% report no requirements. However, grants are typically paid after taxes are paid – post performance.

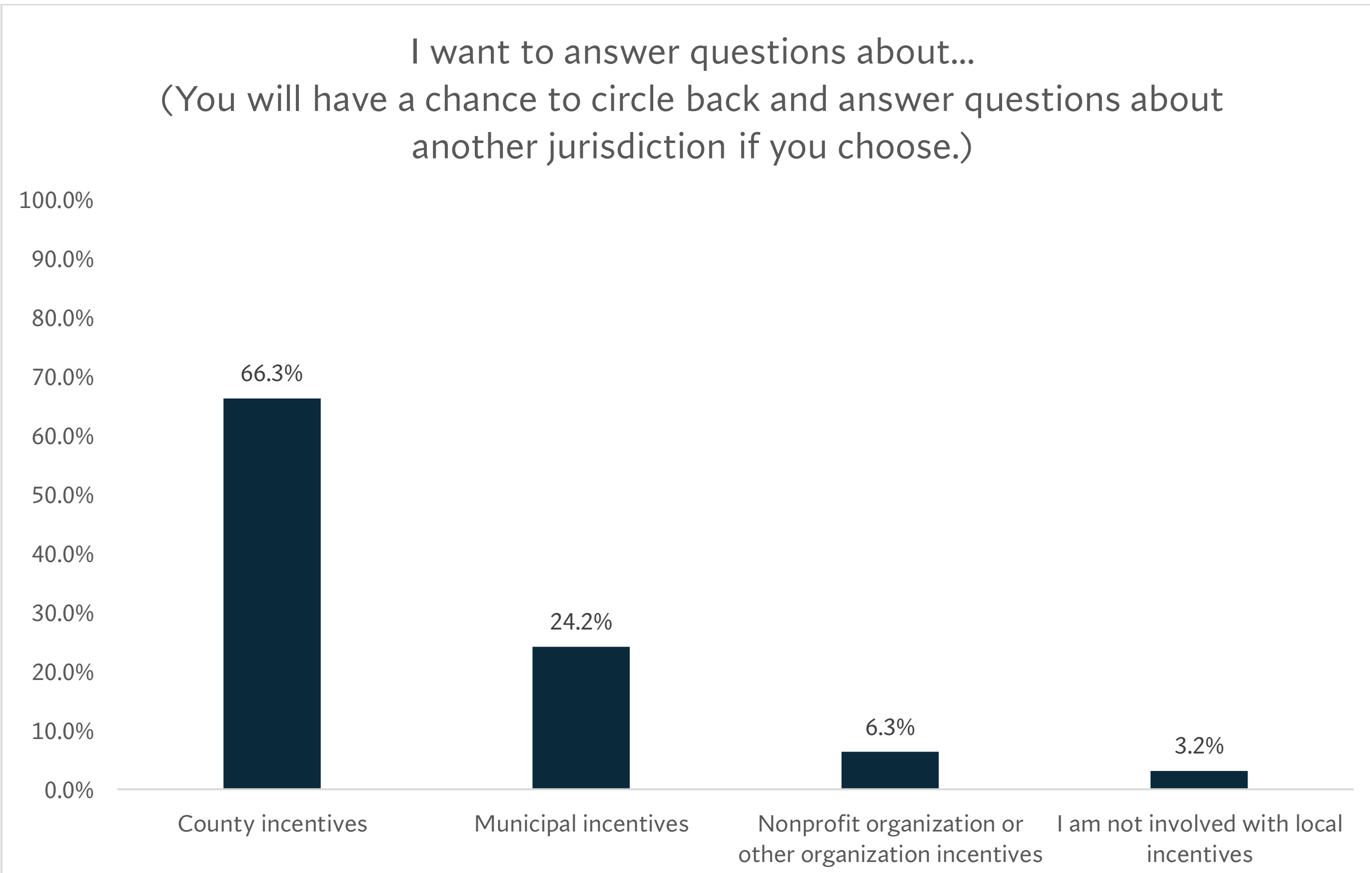
Approximately 98% of respondents require an incentive contract. Contracts typically include clauses for annual performance reporting by the company (83%), repayment of a portion of incentives for failure to perform (65%), and repayment of all incentives for failure to perform (41%). New businesses apply for incentives at a much higher rate than existing businesses. Less than half (47%) of communities report offering retention incentives.

Conclusions

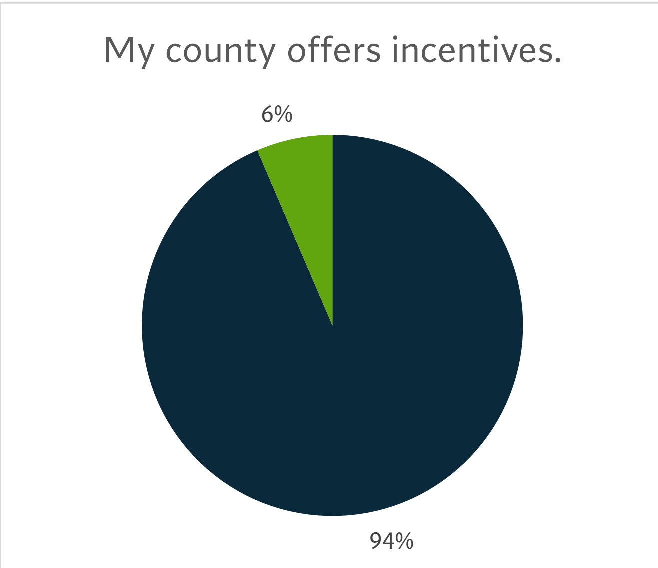
The data show that local governments are getting more sophisticated with incentive policies, reflected in more eligibility requirements, contracts to monitor performance, and formally adopting incentive policies. Municipalities are also more involved with incentives and aligned with their county compared to the 2011 study. At the same time, local governments have not changed the typical amount of incentives offered. The standard in North Carolina remains cash grants approximately equal to 71-80% of net new property tax revenue paid over five years.

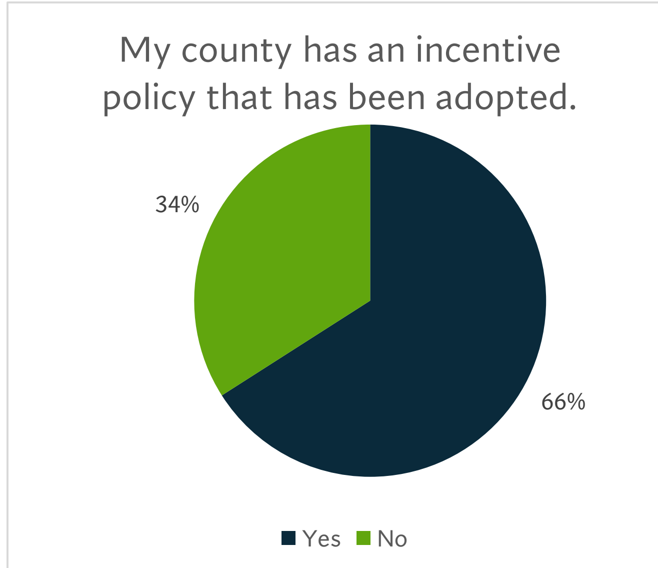
Survey Responses

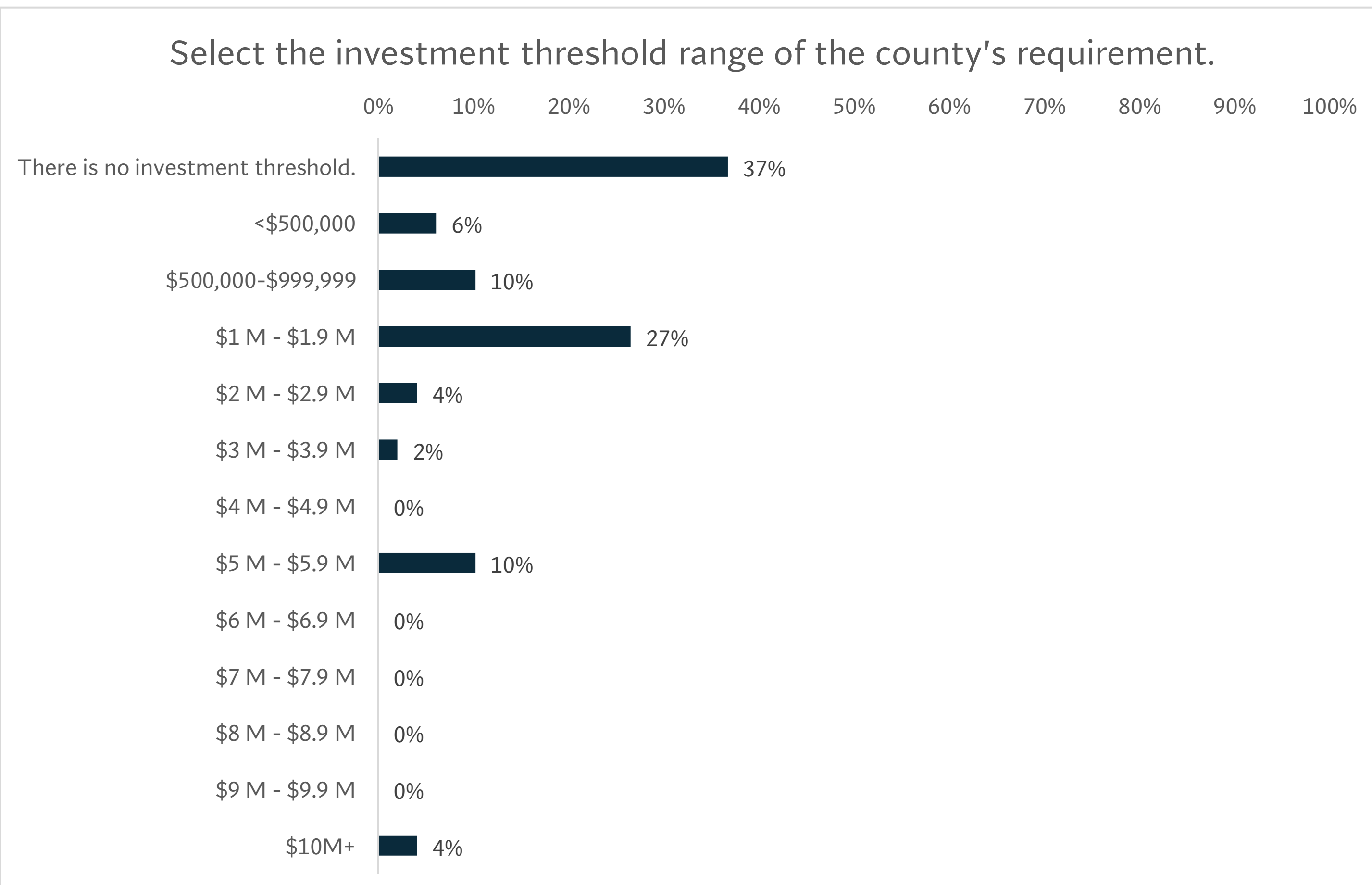
The incentives survey was an online survey. It was sent to members of the North Carolina Economic Development Association and promoted through e-communications and social media. The survey was conducted in January 2022. There were 92 responses.

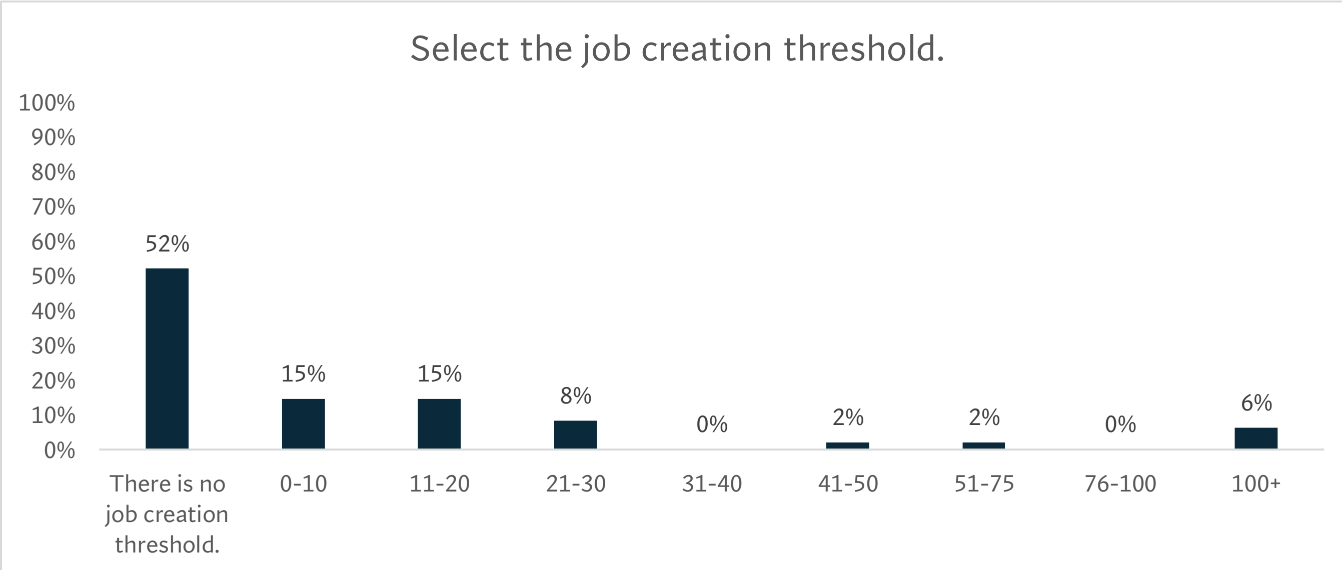


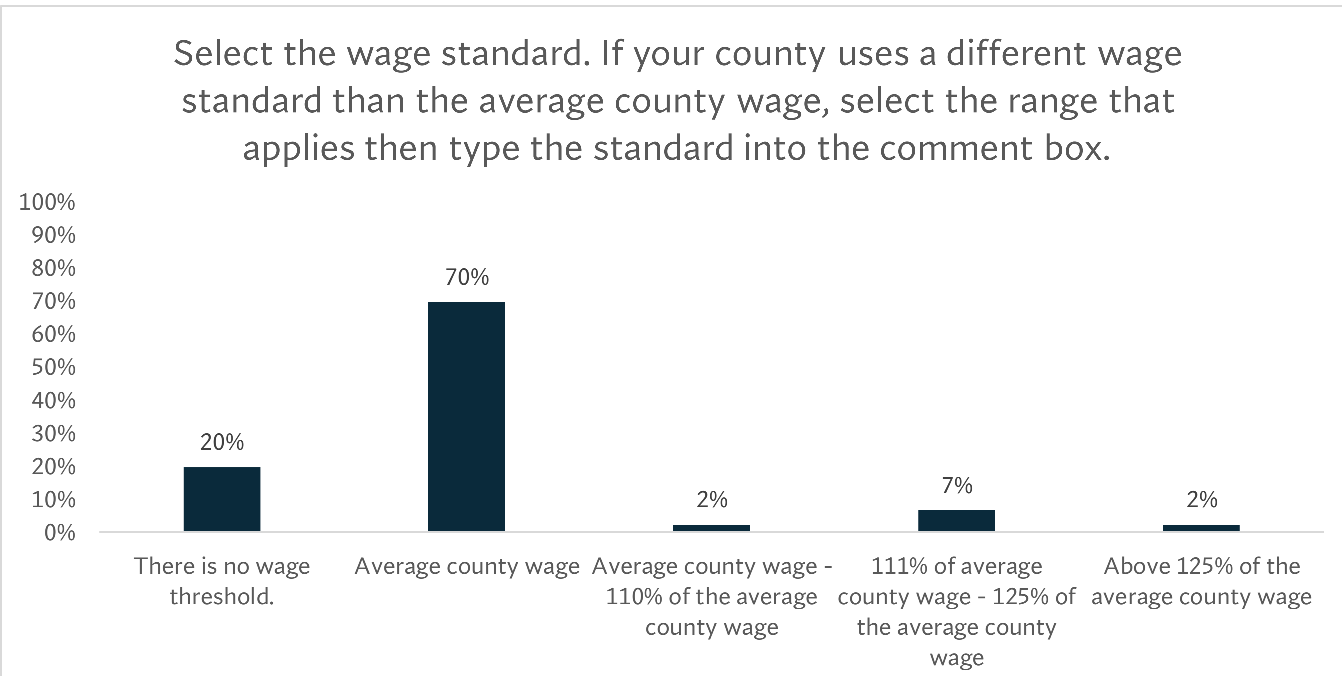
County Incentives





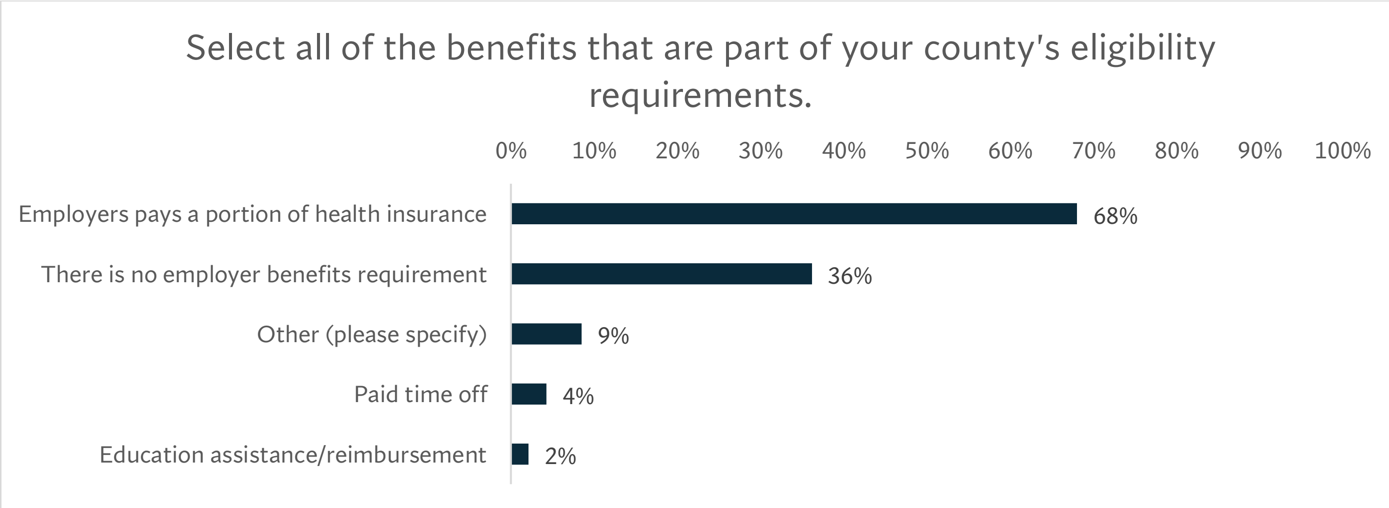






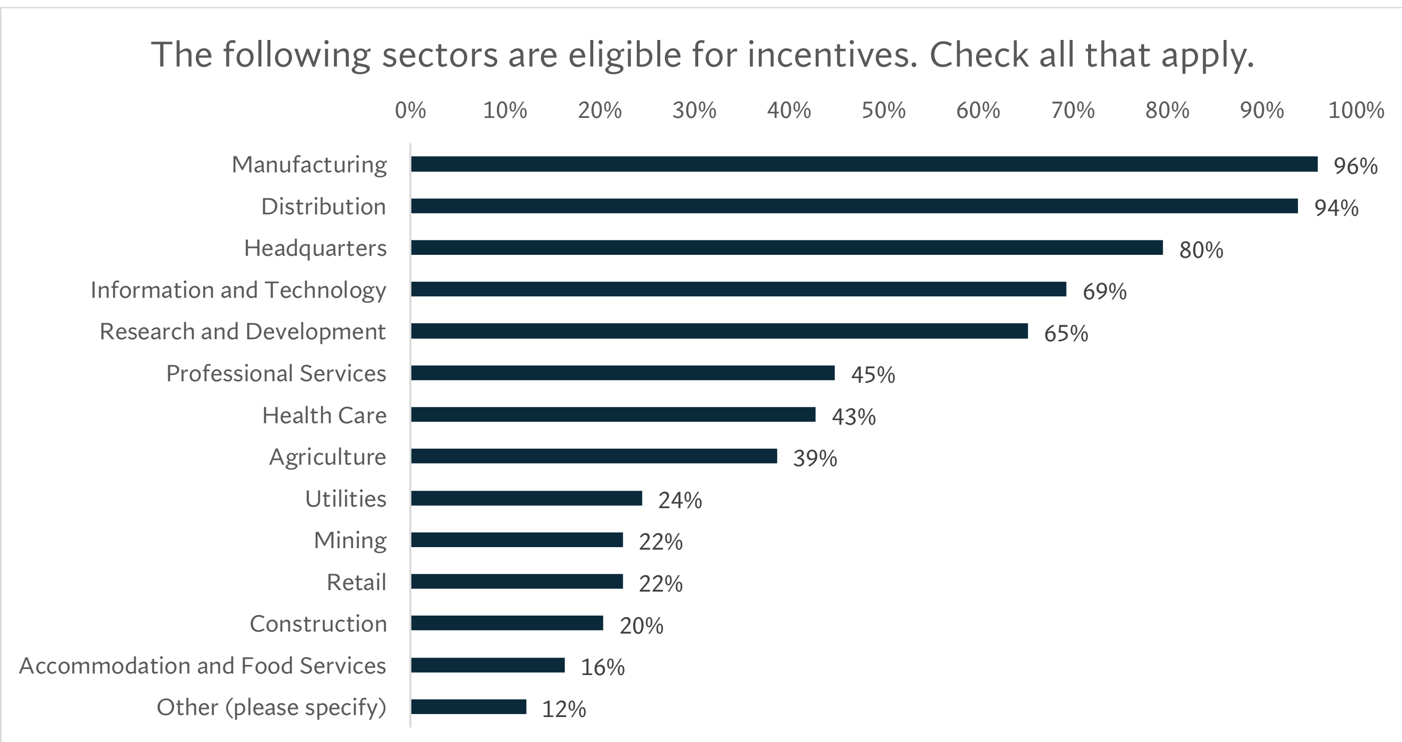
Comment Box: My county uses a standard other than average county wage.

- We adjust packages based on the wage / job # / investment combination.
- 100% of the average wage rate or the Standard Occupation Classification code for our MSA.
- $20.93 for additional job-related incentives.
- Discretionary to go outside of county wage.
- We look at the skill levels needed in any given year and provide incentives based on skills.
- $15.90/hour living wage.
- Industry standards as County Average is distorted by large companies.



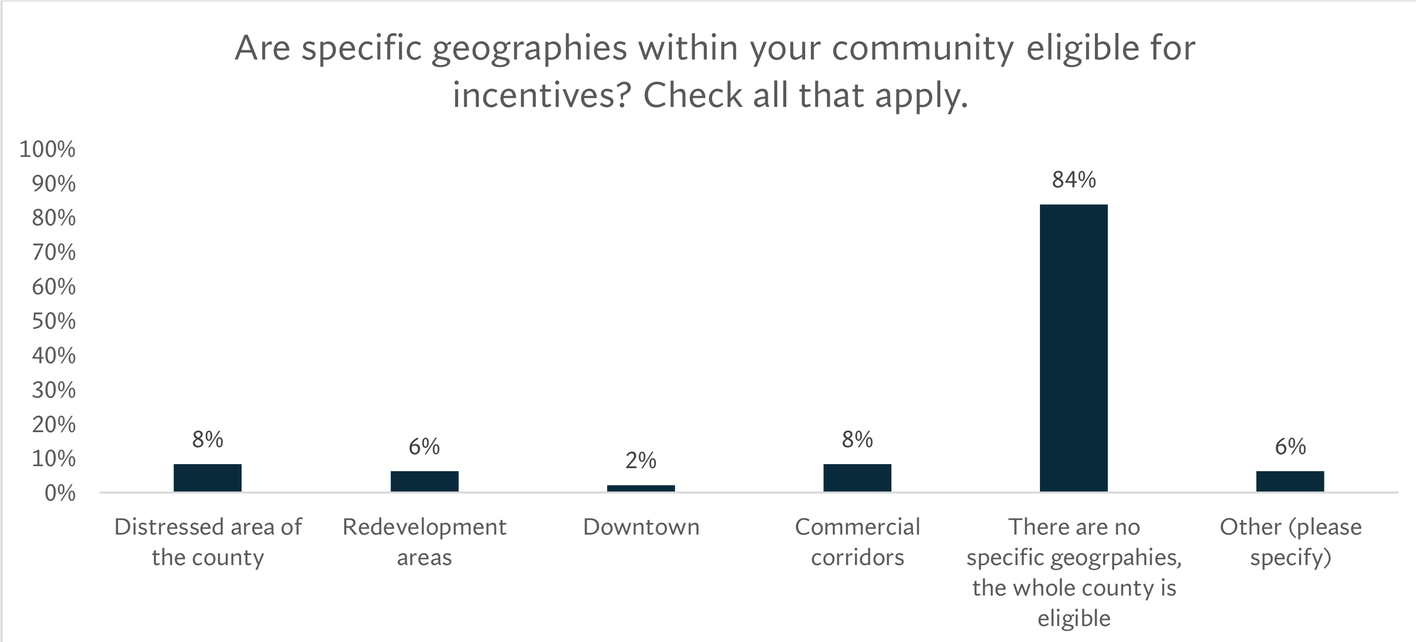
Other (please specify)

- Additional ancillary benefits that the project brings to the community primarily through 3 buckets (DEI initiatives, env. sustainability, workforce dev partnerships).
- Additional incentives for childcare subsidy, equitable hiring practices.
- 50% of healthcare benefits.
- Pension, 401k, etc.



Other (please specify)

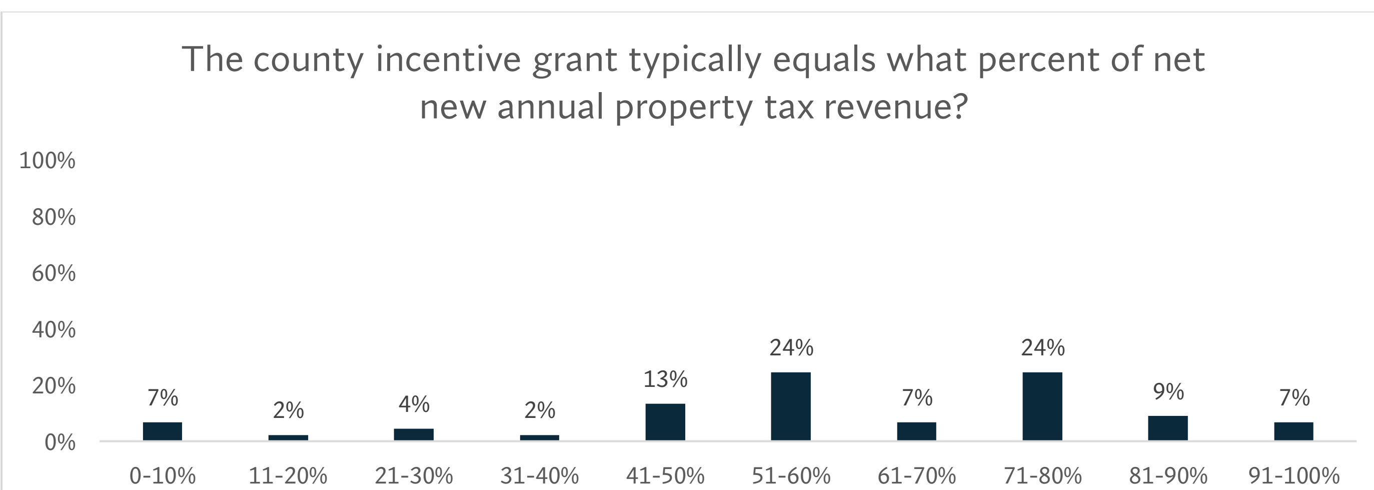
- Any that create jobs at or above the average wage
- No retail, residential
- Life Sciences
- Air courier hub
- Any industry

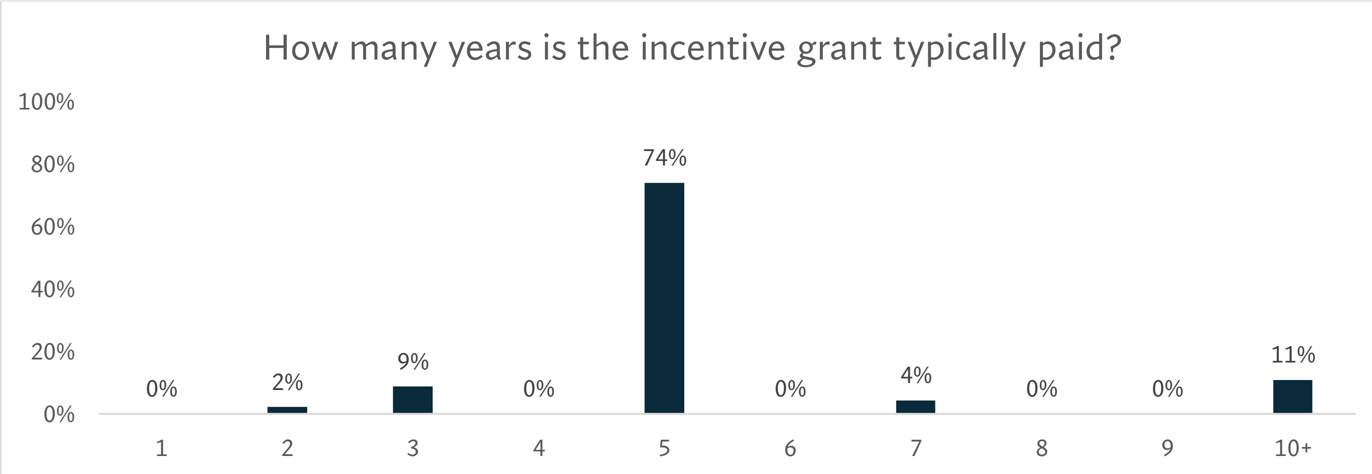


If your county has other incentive eligibility requirements, please list.

Responses

- "But for" requirement; must certify that the project would not happen otherwise.
- All non-residential, permanent job creating projects will be considered for incentives. However, jobs paying below a living wage will receive less support.
- Sustainability policy.
- The company must agree to a minimum investment amount. The company must agree to maintain operations at the project site for at least 150% of the term of the grant; if the business fails to remain at the site for the required term, a clawback provision will recapture all or part of the grant funds. The full-time jobs must be maintained throughout the duration of the contract term.
- Training incentives.
- We don't have a policy-we have guidelines, and we use a scoring matrix with preferred attributes to develop recommendations.



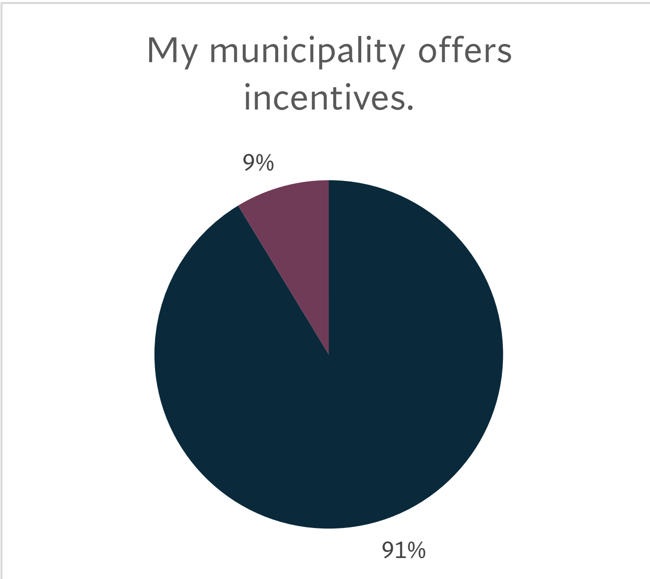


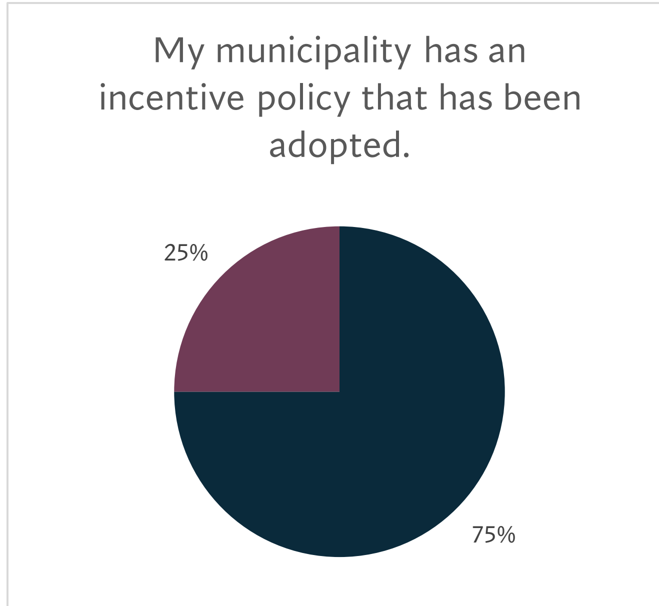
List any revenue streams other than property taxes used to calculate an incentive.

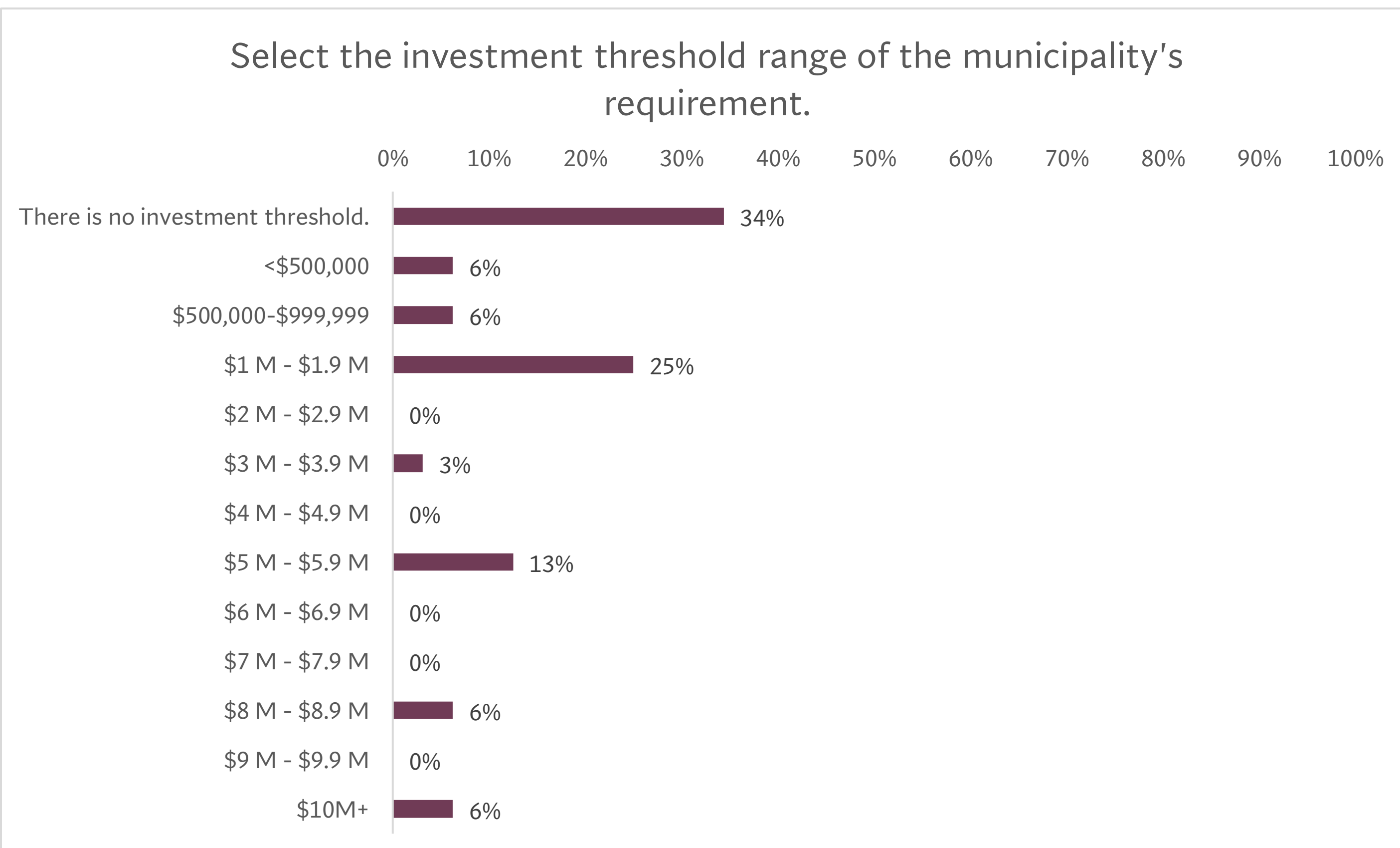
Responses

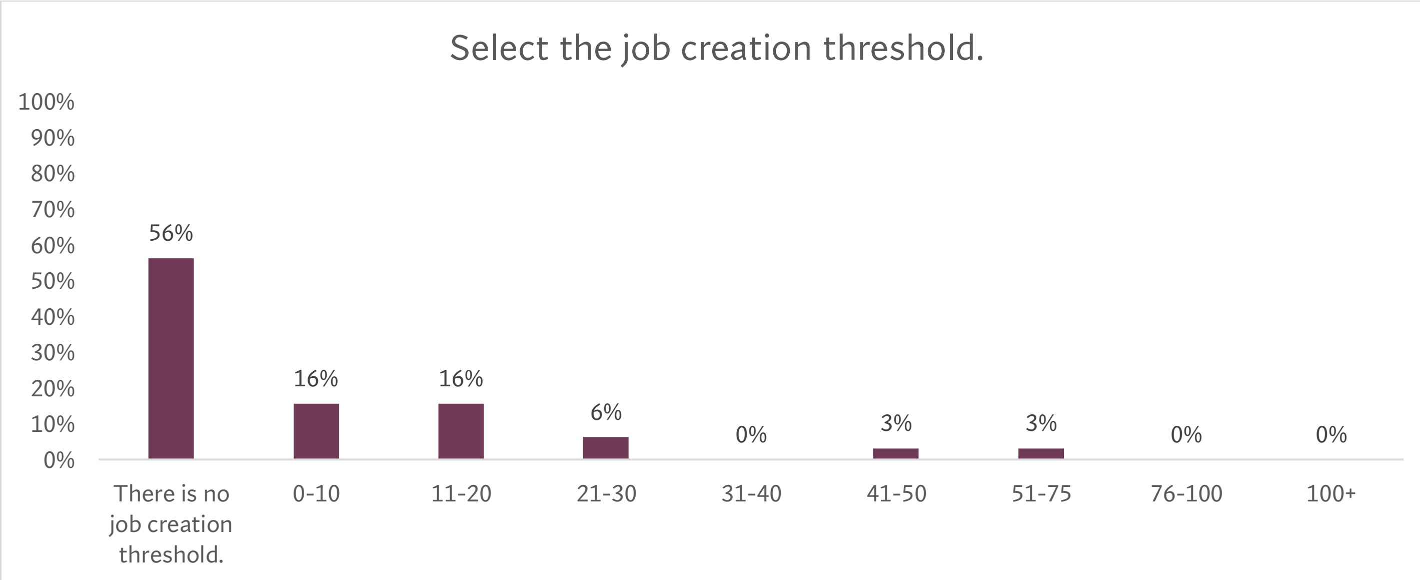
- Rare: $0.01 for every verified $1 spent on locally taxable company expenditures.
- Land
- We consider wages paid and jobs created for job creation grants.
- Sales, income
- Retail sales tax

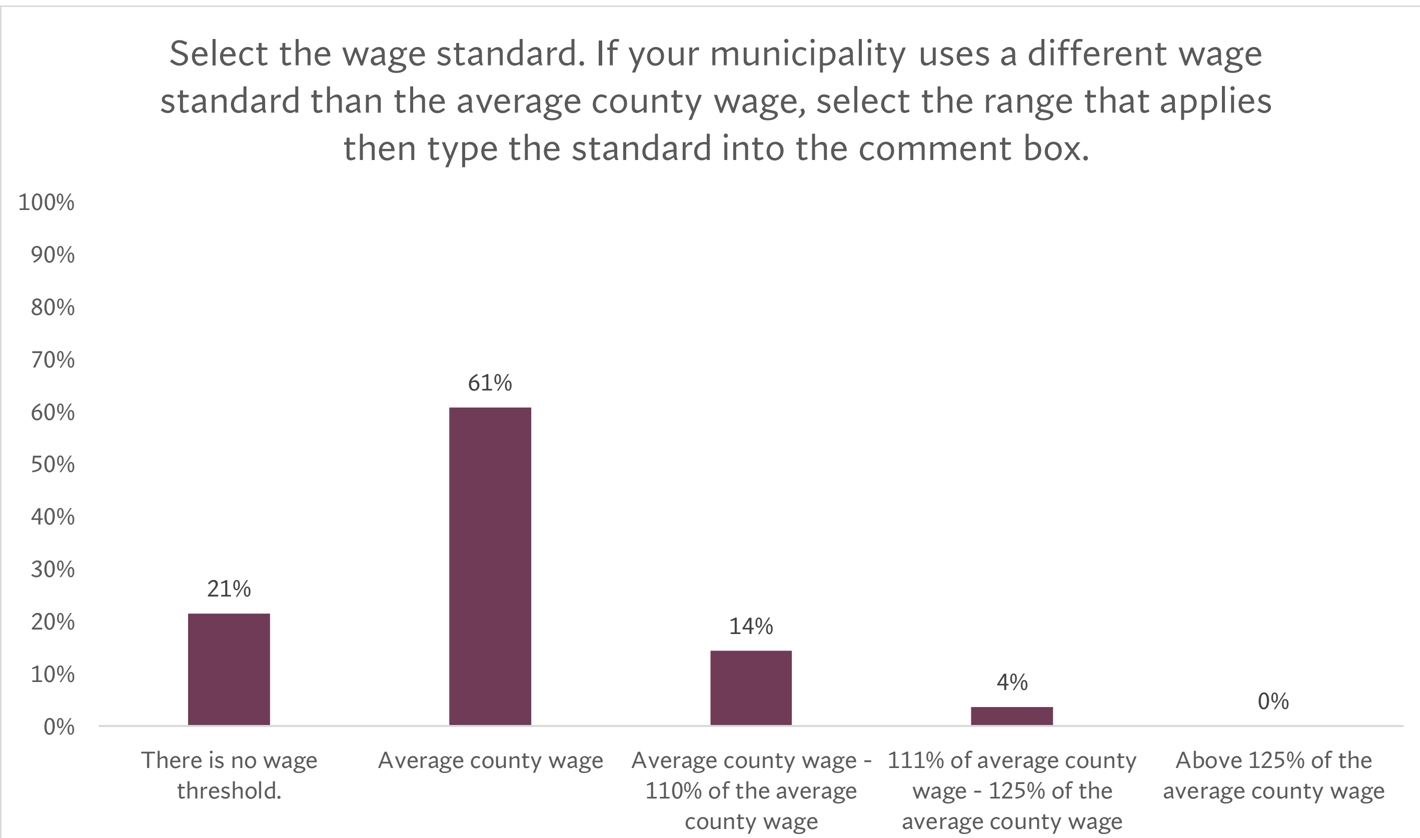
Municipal Incentives





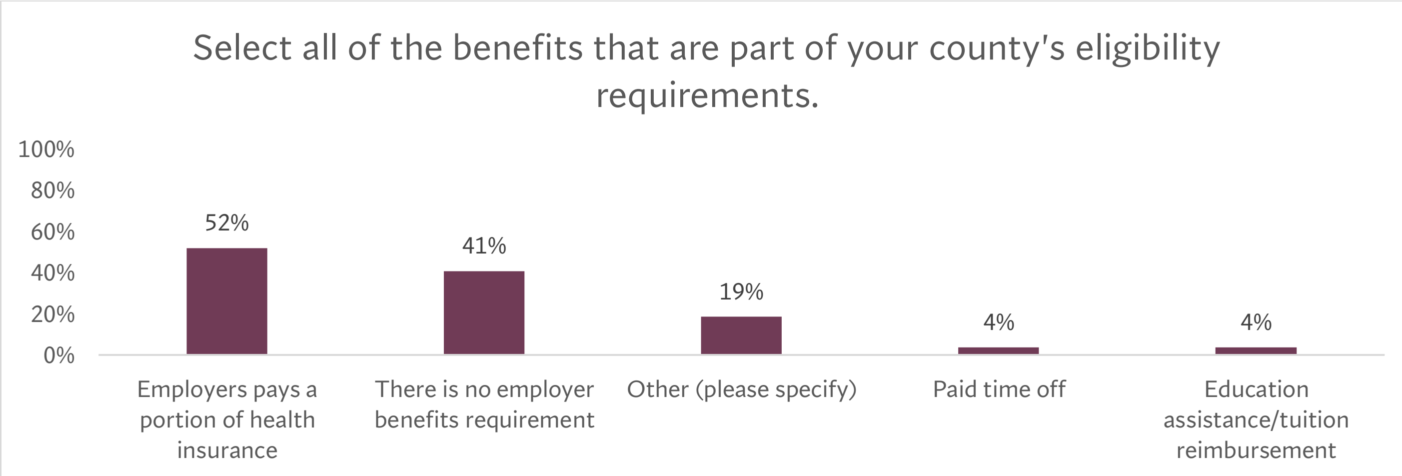






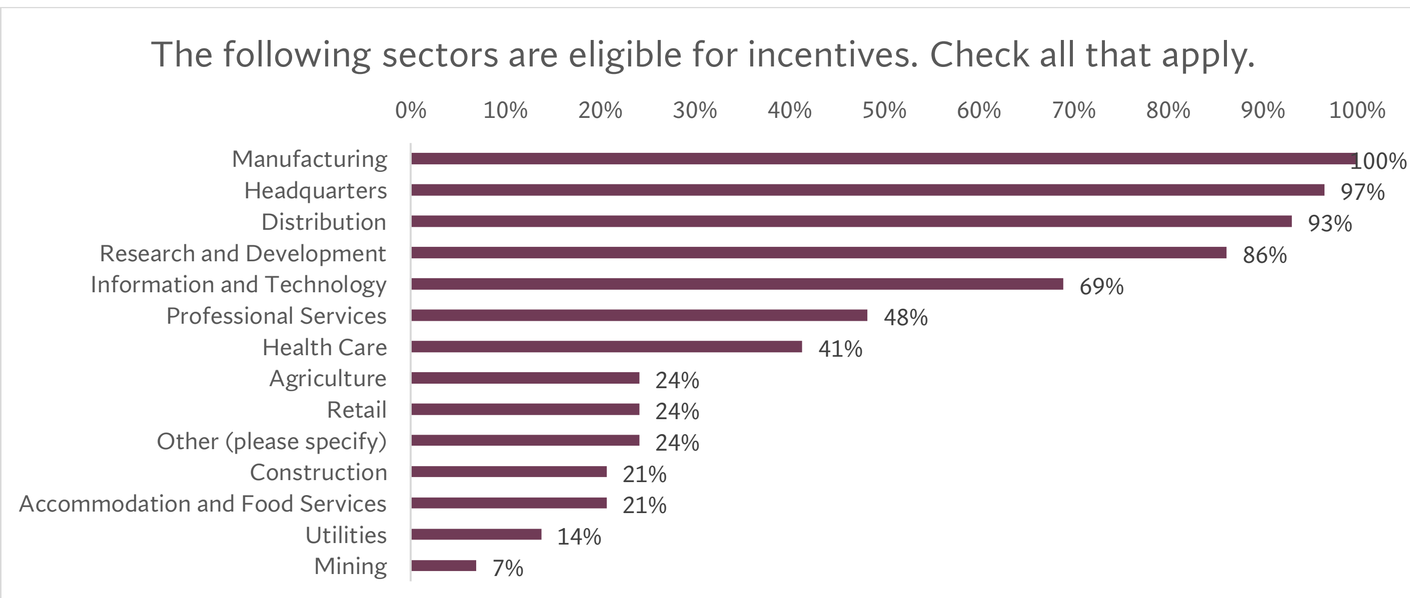
My county uses a standard other than average county wage.

- Wages dependent on industry.
- We offer extra percentage for headquarters projects.
- Higher consideration to projects offering above the average wage; no percentage identified.



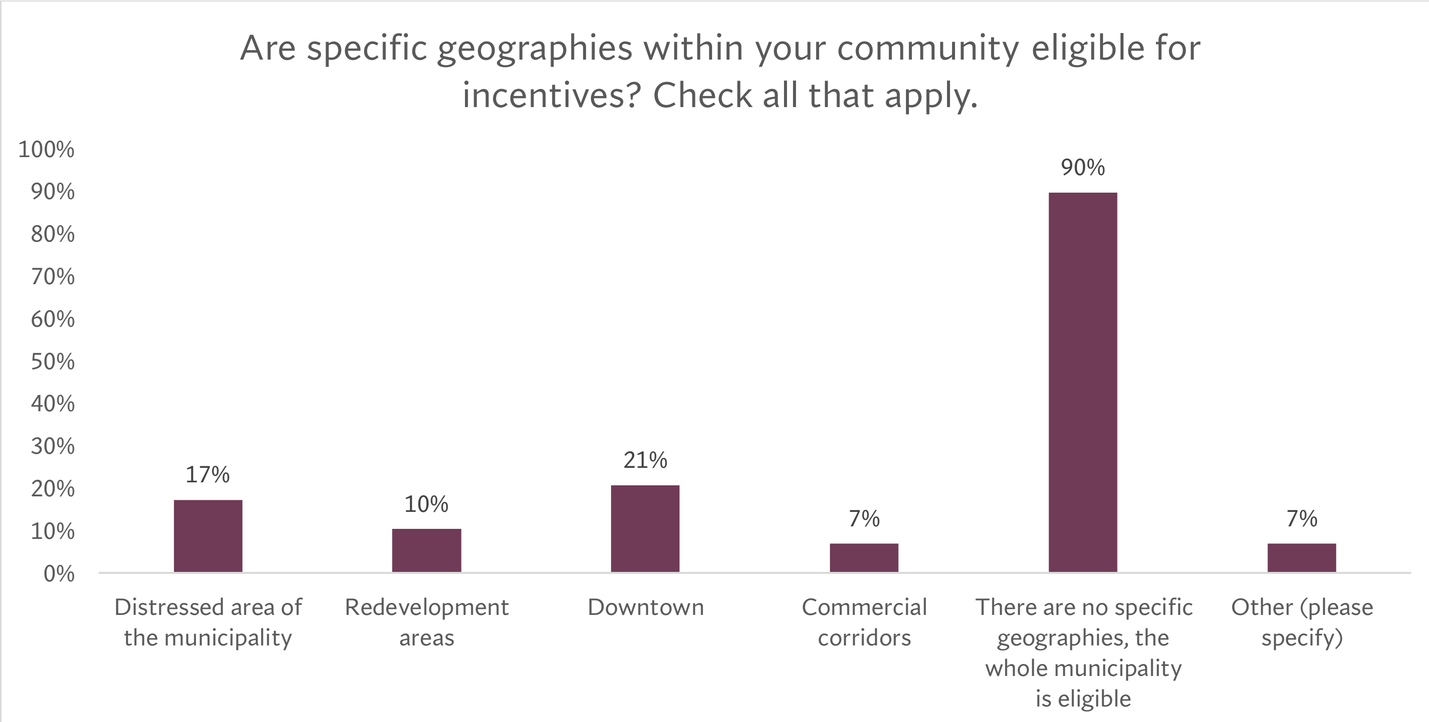
Other (please specify)

- All these enhance the likelihood and intensity of incentives.
- Done on a case-by-case basis.
- 50% of healthcare benefits.
- Retirement.
- Benefits weighed into the consideration but no set requirement.



Other (please specify)

- Mixed-use redevelopment.
- They look at each project independently in regards to how they apply incentives. If they increase property taxes and create new jobs they will consider, but not usually for retail.
- Tourism-attraction drawing people from 100 mi.+ radius; Transportation
- Life Sciences, Finance
- Class A Office and Industrial
- Aerospace
- Re: Health Care, obviously only privately owned health care businesses. We have done infrastructure assistance for a major retail project back in the early 2000's but that's an aberration not the norm.

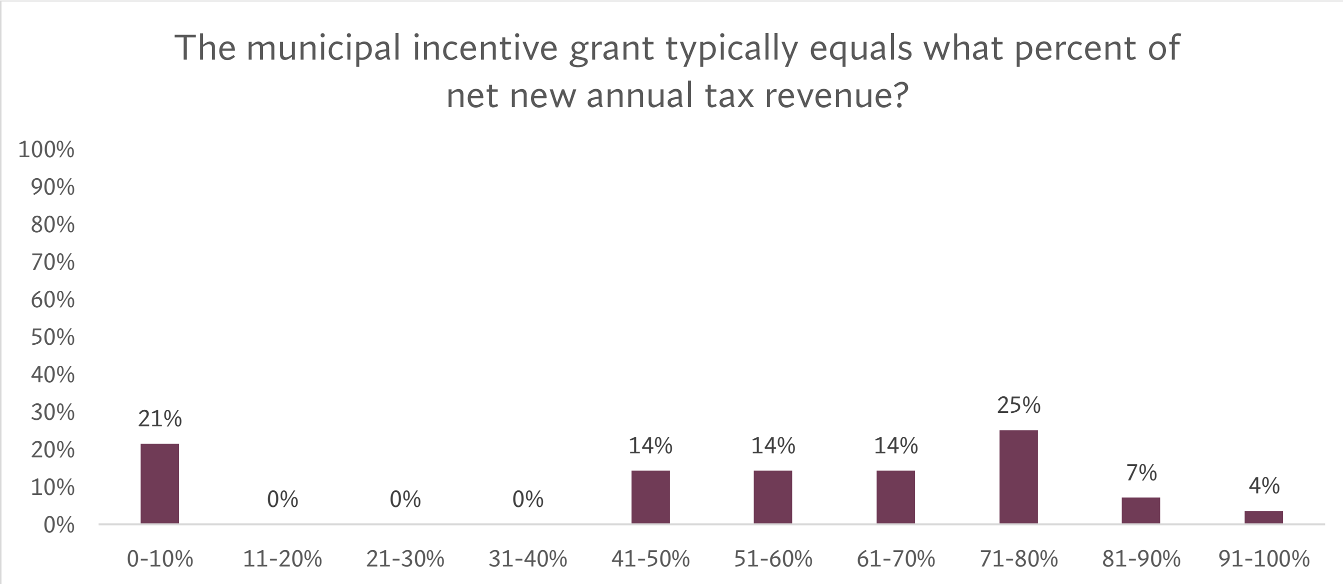


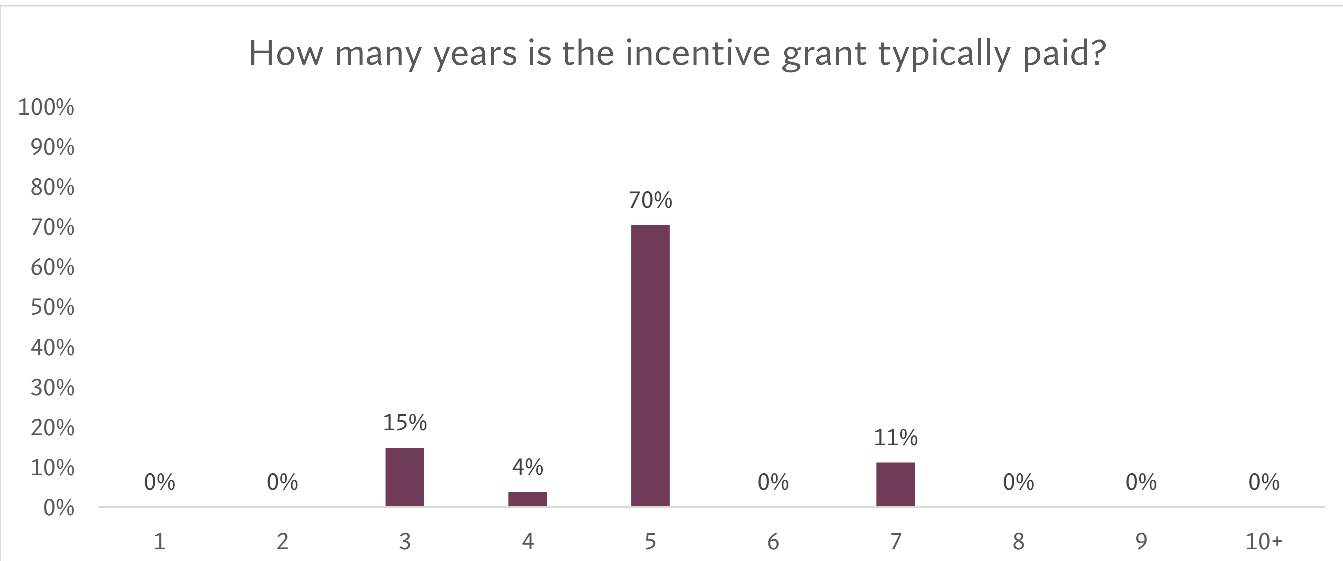
Other (please specify)

- We have additional programs for targeted areas.
- We have a CDBG funded facade grant, which is not a traditional incentive but for existing businesses it's an assistance.

Other eligibility requirements include

- DEI Initiatives & Community Engagement must be demonstrated.
- We consider each project separately, often providing a per job created grant.
- The level of incentives available to a company is determined based on their type of industry, wages, benefits offered, number of jobs created, and taxable investment.
- Must be in operation 3+ years prior to request; must have minimum of 5 employees and be committed to expanding;
- The company must agree to a minimum investment amount. The company must agree to maintain operations at the project site for at least 150% of the term of the grant; if the business fails to remain at the site for the required term, a clawback provision will recapture all or part of the grant funds. The full-time jobs must be maintained throughout the duration of the contract term.
- Typically, we would require that the county also be a participant.
- The same scoring matrix is used for the municipalities that the county uses to determine recommendations (not a published policy).
- Housing projects - market rate



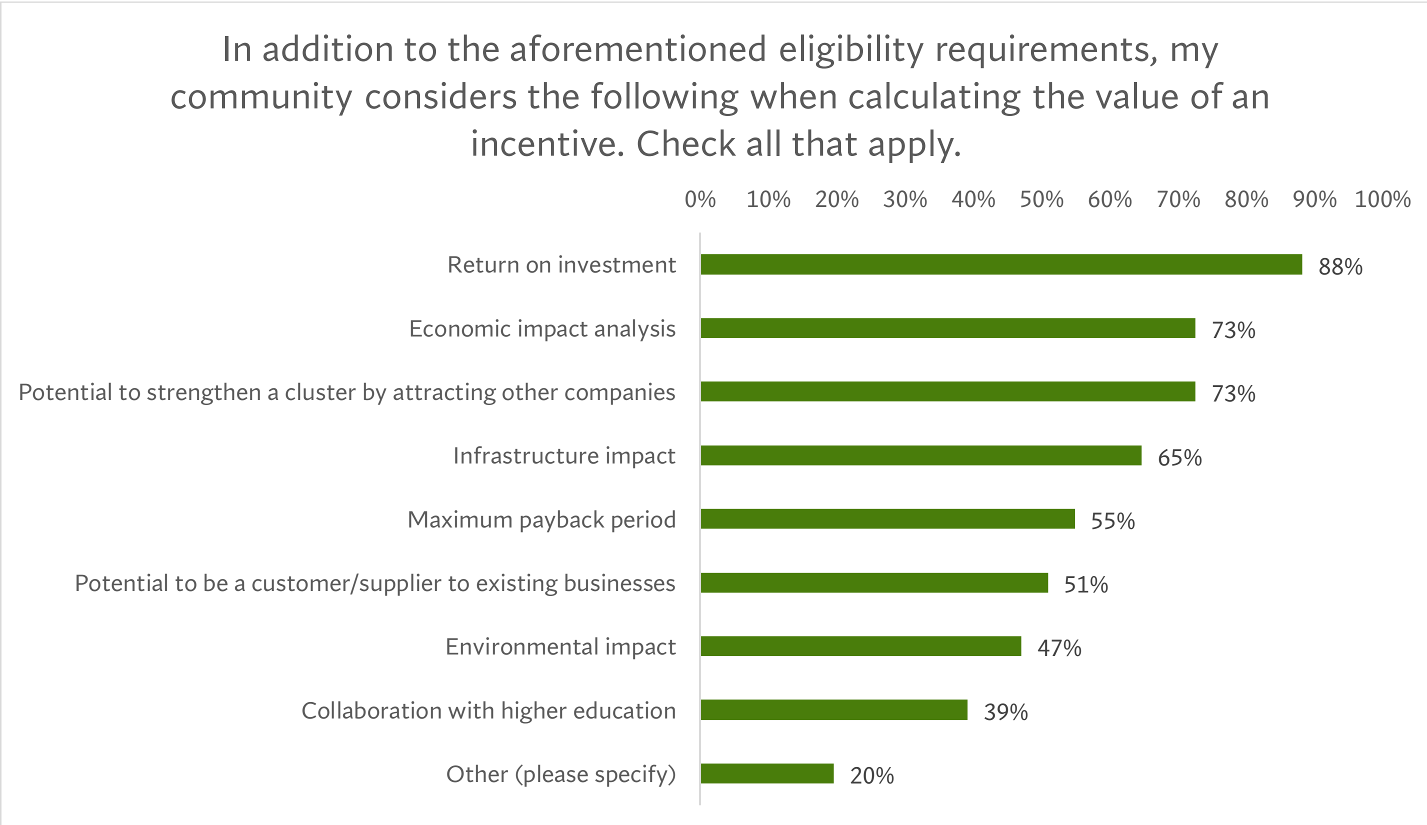


List any revenue streams other than property taxes used to calculate an incentive.

Responses

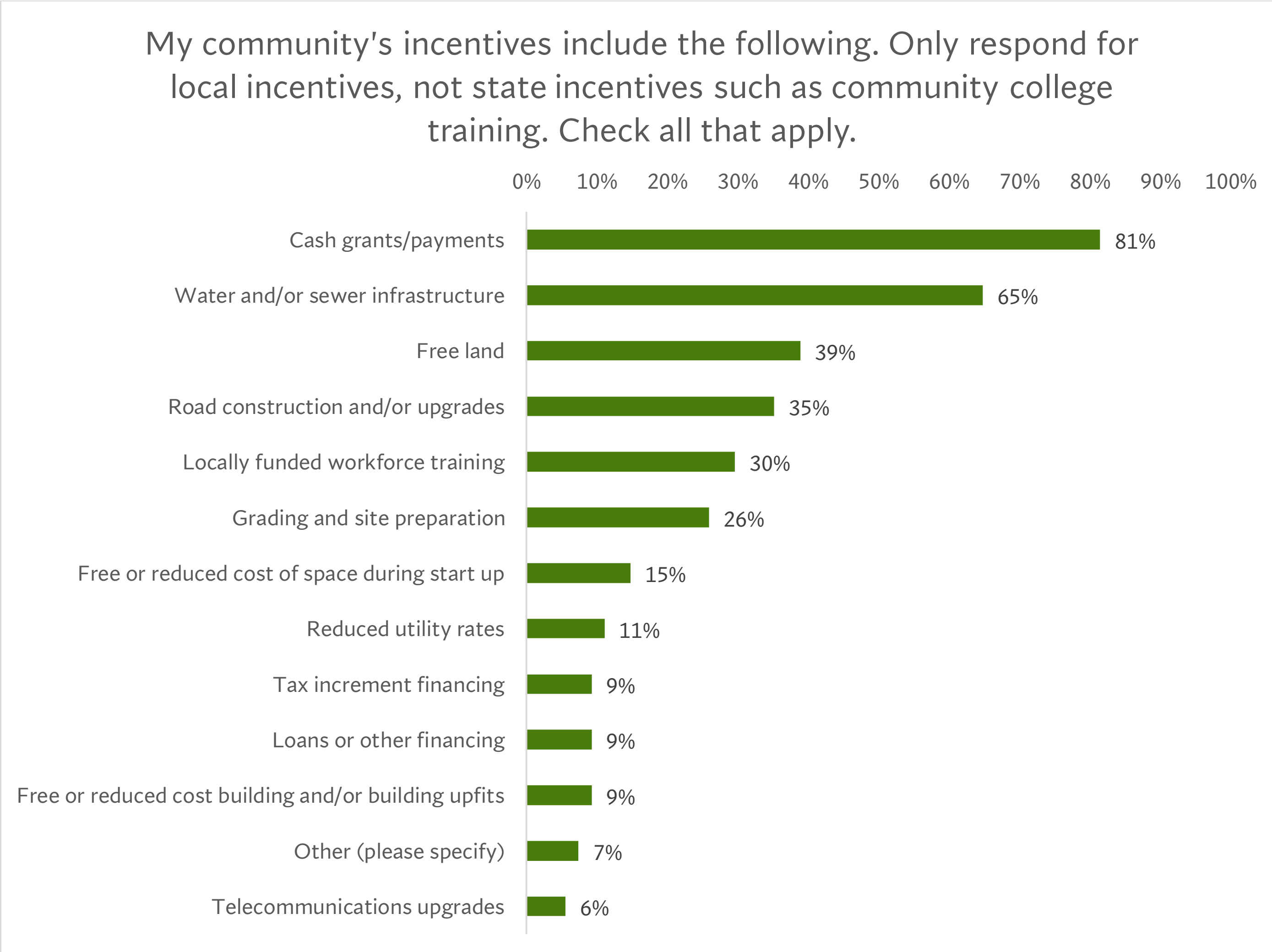
- Land
- One of our cities has a job creation grant. For every job over a baseline of 10 the company is eligible for a cash grant. Either $800, $900, or $1,000 depending on what their wages are in relation to the county average wage.
- Sales tax
- Property tax
- Utility and municipal services revenue.
- Consideration of water revenue and sales tax revenue where applicable.

Both County and Municipal Incentives



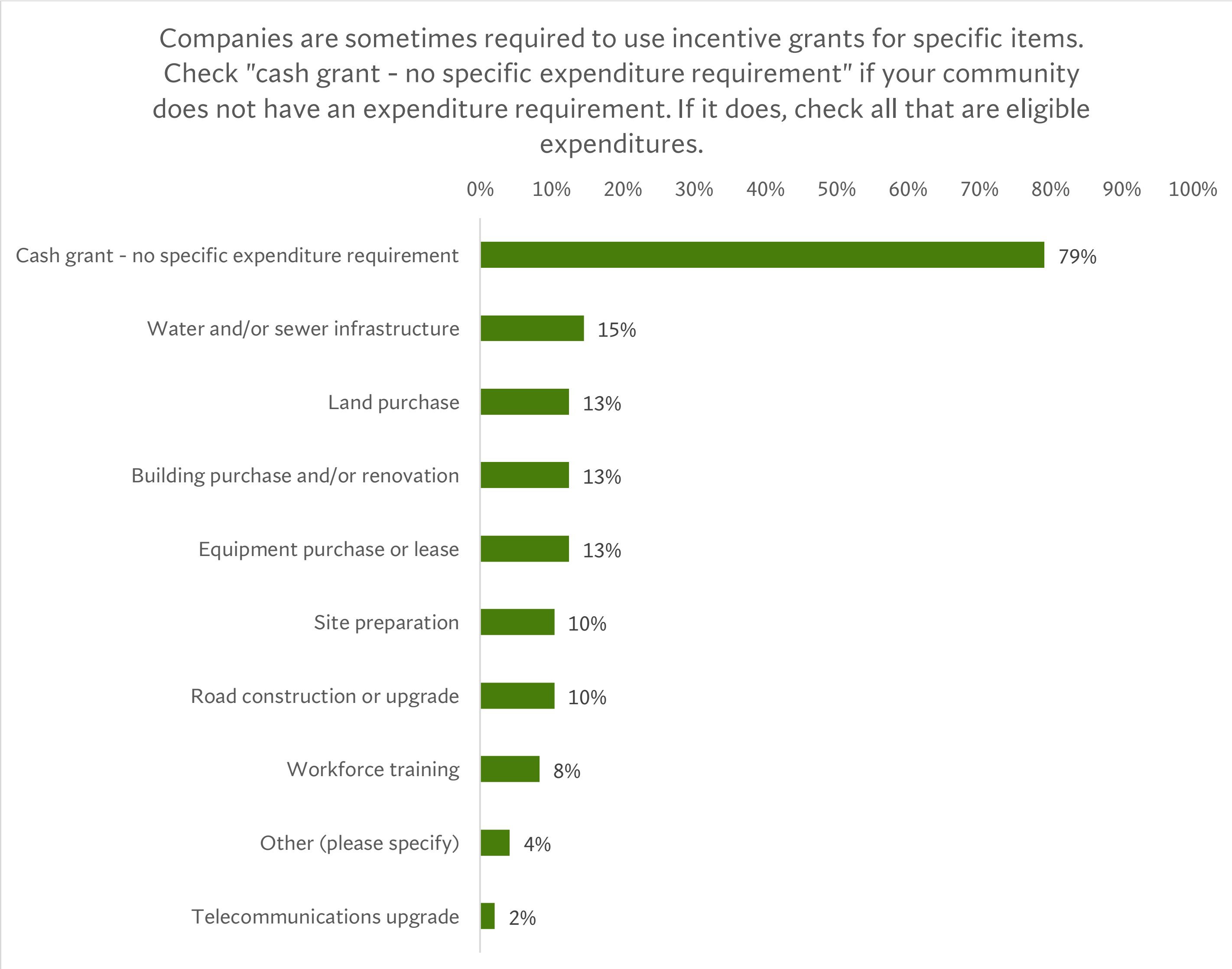
Other (please specify)

- Advancement of community DEI goals
- Economic diversification
- Community Citizenship and Engagement
- Potential for jobs for local residents
- The project's ability to be catalytic.
- Use of government-owned utilities and services.
- Depreciation on real and personal property over time.
- While wages are not a part of the policy, the impact of higher paying jobs are part of the informal calculus for staff to make recommendations.
- Name brand/strength of company.



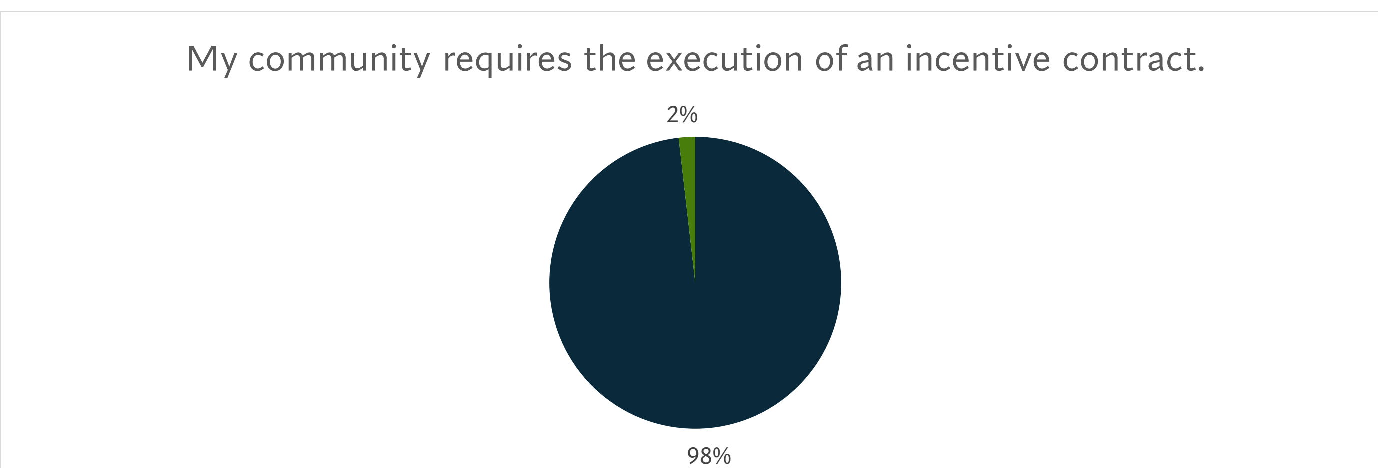
Other (please specify)

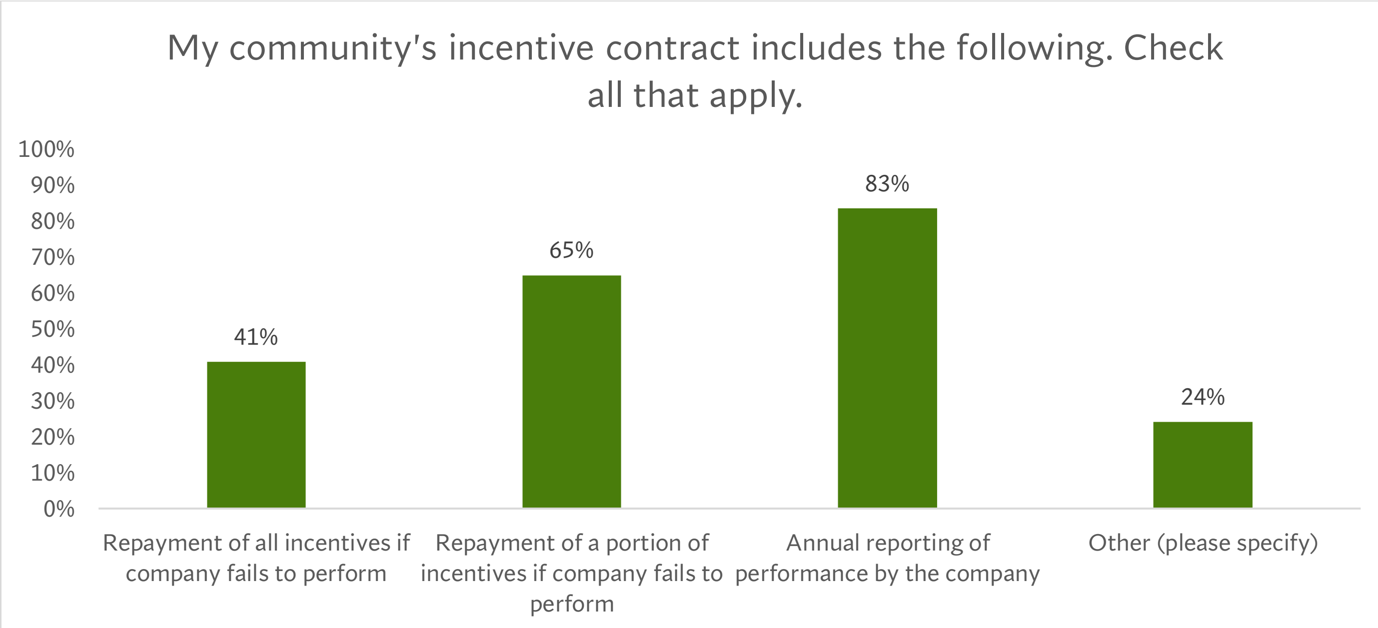
- Free advertising and employee recruitment. Eligible for dedicated / expanded public transportation service.
- All state and federal programs, no local.
- Reduced land price
- Property tax reimbursement based on number of jobs.



Other (please specify)

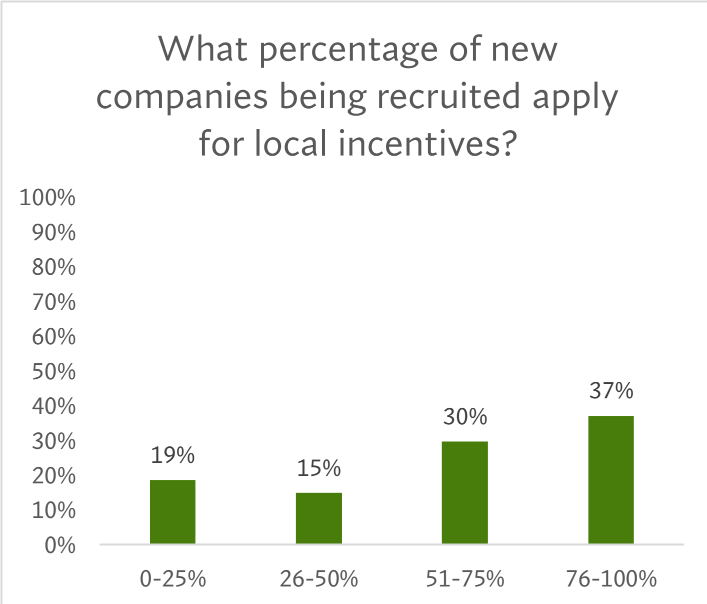
- The incentives are performance-based and typically pay after performance requirements are met on a yearly basis.

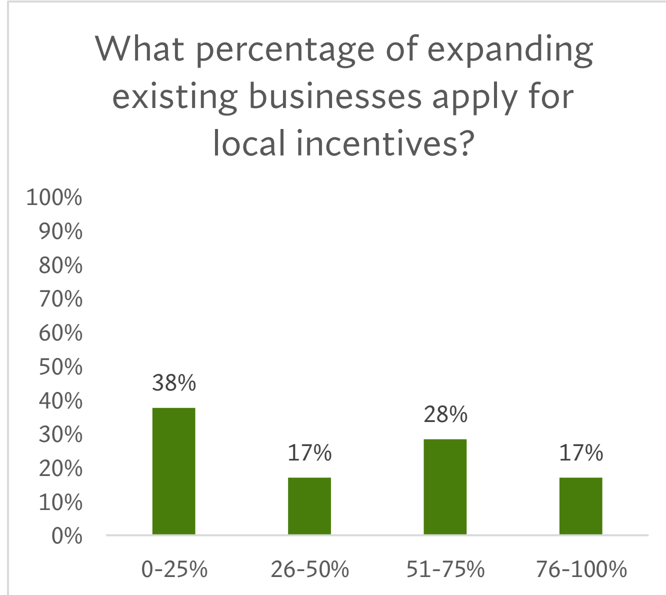


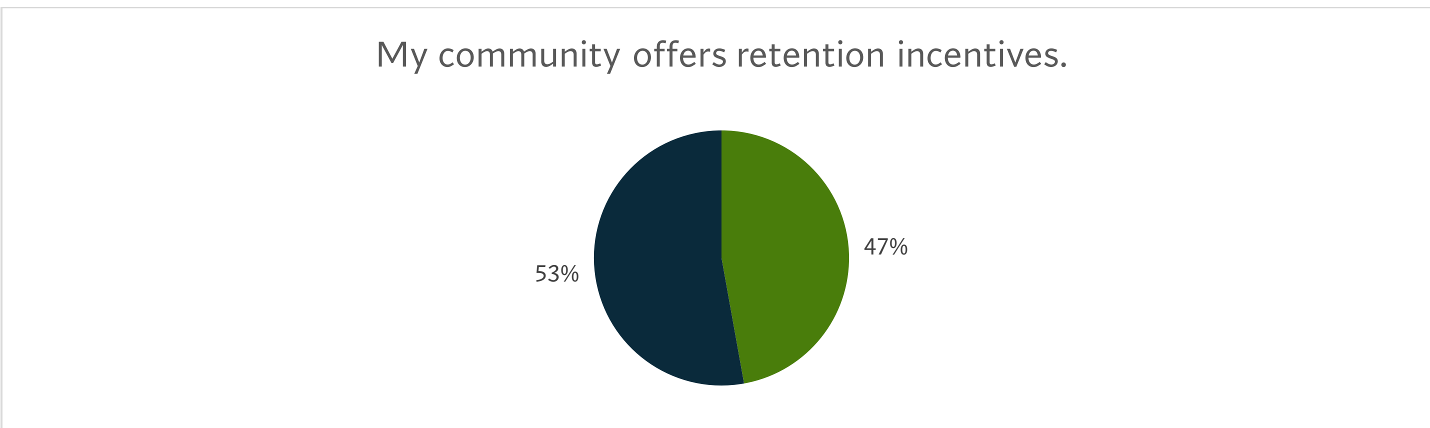


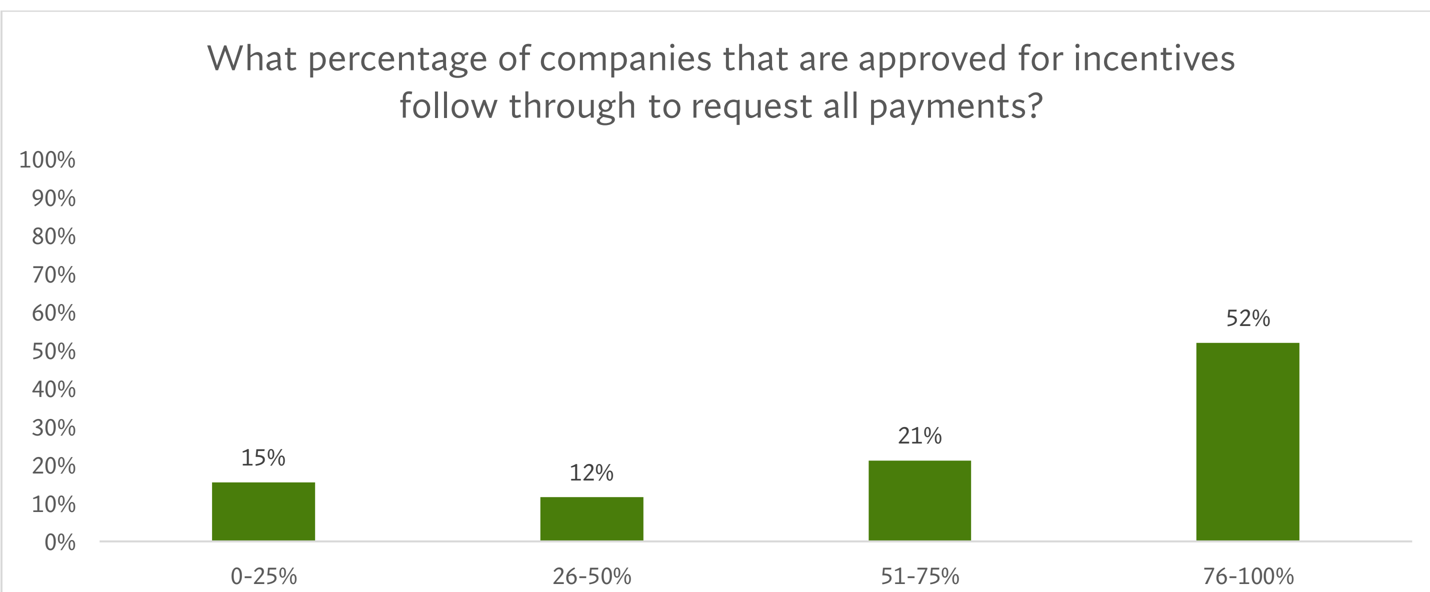
Other (please specify)

- Must be up to date on taxes and have no penalties.
- Clawback if company ceased operations. Payments made AFTER job creation verified and taxes paid.
- Option to repurchase property if project not completed.
- Pay for performance with backloaded payments.
- As payment is reimbursement of tax bill, incentives are not paid if company fails to perform.
- Incentives are post performance, so they do the investment and then incentives are calculated.
- Post-performance, company can only get the incentive once the job and investment thresholds are met.
- Company pays for land upfront; get money back as incentive indicators are achieved--typically jobs created and investments made.
- My office checks commitments annually before incentives are paid.
- Any incentives are paid post-performance.
- Plus interest during the period of default.
- Prorated repayment based on percentage of benchmark achieved.


What percentage of new companies being recruited apply for local incentives?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
19%
15%
30%
37%
0-25%
26-50%
51-75%
76-100%


What percentage of expanding existing businesses apply for local incentives?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
38%
17%
28%
17%
0-25%
26-50%
51-75%
76-100%


My community offers retention incentives.
53%
47%


What percentage of companies that are approved for incentives follow through to request all payments?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
15%
12%
21%
52%
0-25%
26-50%
51-75%
76-100%

Is there anything else you would like to share about local incentives?

Responses

- 75% of the time, our incentives are catered to meet the specific needs of the project and to avoid providing the minimum amount required to close the deal.
- Neither the county nor the municipalities have an adopted incentive policy. They have guidelines that we use in offering incentives, but they want to look at each project individually and see if it merits any incentive.
- Our normal incentive period is 5 years but for truly transformative projects that 5-year term may be extended.
- We are planning to revise our policy in the next 3-5 year in order to further prioritize wage growth and equitable hiring.
- State law should require a policy for utilization of incentives, like an investment policy. Not that I want it, but where is the LGC oversight?
- Would be helpful to have a forum to discuss the approval process (closed session, advertisement, public hearing) and different approaches on this. Some use project names, others use company name. What are best practices?
- Companies only receive incentives if they perform.
- The state as a whole needs a retention policy. Our No.1 goal should be to help our current employers with more than training money. We need better policies to keep them in North Carolina, help them grow and expand to newer facilities. Second, we need more help to construct spec buildings. My town misses several great opportunities a year because we have no facilities to sell or lease.
- Our incentive payout if 40-120% of taxes based on wage rate. We pay out 5 years per investment if Business Personal Property heavy and 7 years if Real Property heavy investment.
- Very case specific.
- We intend to lower our floor for new and existing investment requirements. Existing is minimum 1.5m and new is 8m but hoping to lower soon.

References

Pearson, Ernest and Morphis, Crystal, CEcD. 2011. *North Carolina Local Incentives Survey*. Sanford Holshouser Economic Development Consulting, LLC.

Study Sponsors

The North Carolina Economic Development Association serves as the voice for North Carolina's economic development community – providing professional development, networking opportunities and advocacy to secure the state's economic future. More than 700 economic development professionals and allies are members of NCEDA and recognize the value of effective economic development activities that recruit new investments in North Carolina's economy and that support the growth of our state's existing businesses and entrepreneurial ventures. NCEDA supports their efforts through a broad range of professional education and training, association networking opportunities, and advocacy of their interests through collaboration with the Economic Development Partnership of North Carolina, the North Carolina Department of Commerce and our state legislators. Members include professional economic developers at the local, regional and state levels, as well as professionals in allied fields, such as architects, commercial real estate developers, utility company representatives, and academics. Together, they share and promote a common vision for creating and sustaining economic prosperity for North Carolina. https://nceda.org/

Creative Economic Development Consulting, LLC, provides strategic planning, product development, organizational development, and economic impact analysis services to economic development organizations and communities. Creative EDC is an innovative firm that owns four proprietary programs: Certified Entrepreneurial Community®, CreativeSiteAssessment.com, Certified Industrial Buildings, and CBOSS-Creative Back Office Suite of Services.

The incentives study was completed as a no-cost service to NCEDA as part of the firm's "pay-it-forward" commitment. www.creativeedc.com