



Business Incentives and Economic Development Expenditures: An Overview of North Carolina's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at North Carolina's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in North Carolina.

In fiscal year (FY) 2013, the most recent year for spending data available for all program types, the state spent \$177 million on economic development program expenditures and \$2.3 billion on economic development tax expenditures.¹

Overview of Business Incentives

North Carolina administers a smaller number of programs, with a total of 22 active programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives as well as through non-tax programs such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.



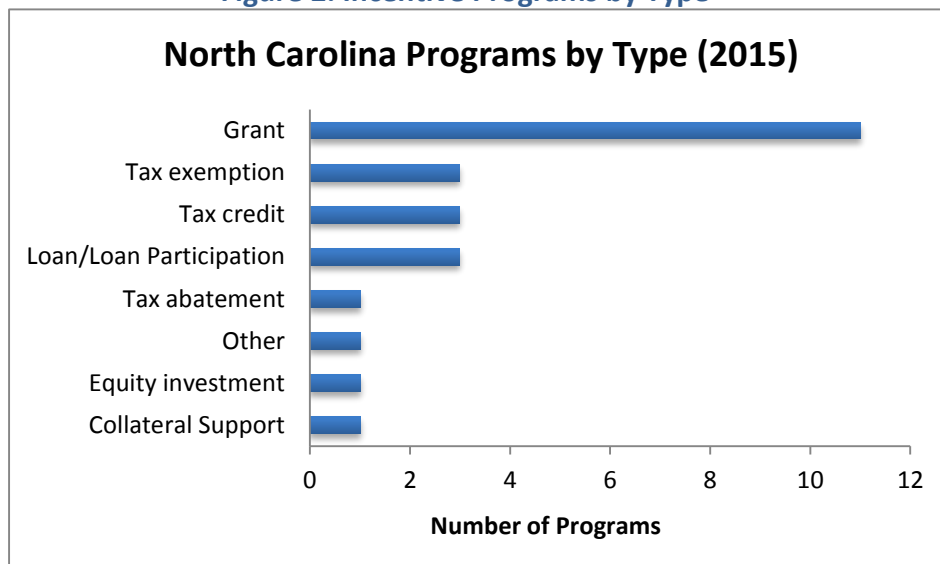
Figure 1: North Carolina State Business Incentives by Agency, 2015

State Agency	Number of Programs
North Carolina Department of Commerce	8
North Carolina Department of Revenue	5
North Carolina Rural Economic Development Center, Inc.	4
Golden LEAF Foundation	1
North Carolina Biotechnology Center	1
North Carolina Commission on Workforce Development	1
North Carolina Community College System	1
North Carolina Recycling Business Assistance Center (RBAC)	1

Source: C2ER State Business Incentives Database

or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.²

Figure 2: Incentive Programs by Type**



Source: C2ER State Business Incentives Database

** Note: Programs may appear more than once if they provide multiple incentive types.

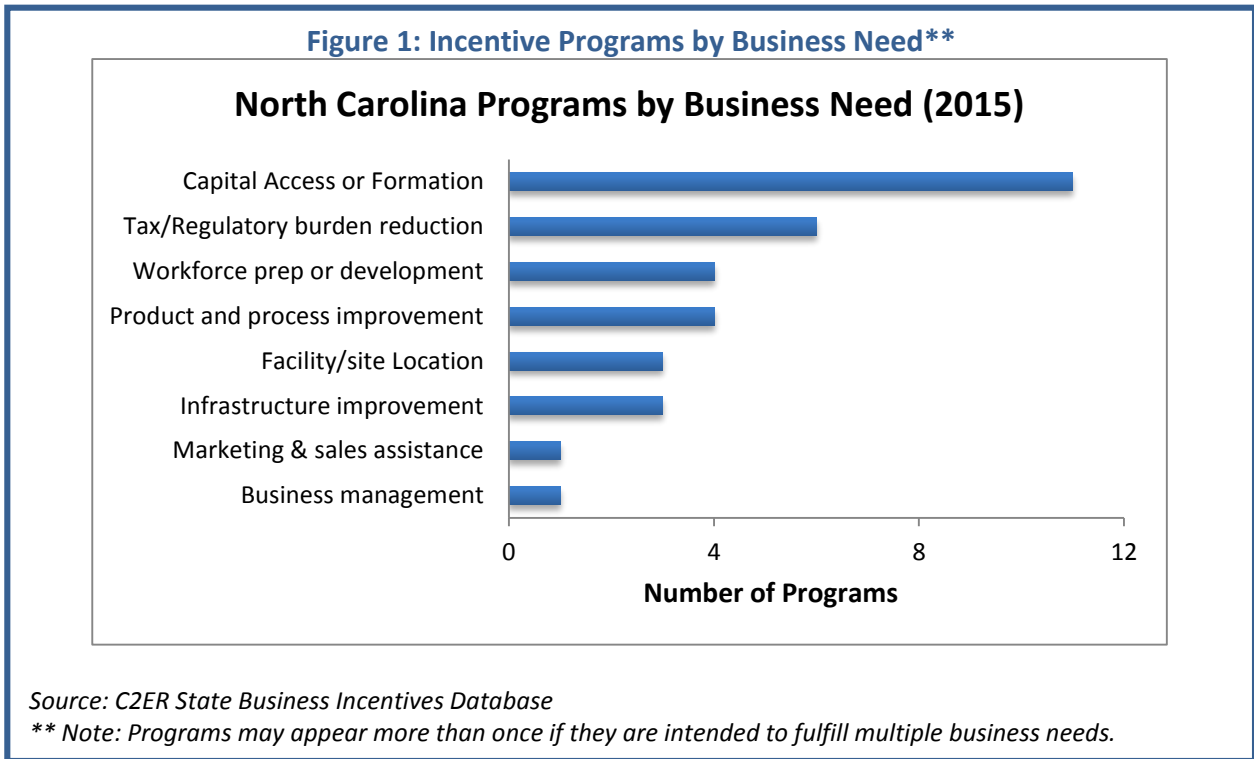
² The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Hawaii.



North Carolina’s incentive programs are currently provided through eight different state agencies. The North Carolina Department of Commerce, the North Carolina Department of Revenue, and the North Carolina Rural Economic Development Center manage nearly all of the state’s active programs. Five specialized state agencies such as the North Carolina Biotechnology Center manage one active program each (See Figure 1).

Half of North Carolina’s incentive programs function at least partially as grants. North Carolina places a greater focus on using grants to stimulate business and job growth compared to most states. Tax exemptions, tax credits, and loans make up a smaller portion of the state’s incentive programs (See Figure 2).

The largest portion of North Carolina’s incentive programs assist with capital access, which corresponds with the state’s bundle of grant programs. The second-largest need assisted by North Carolina’s incentive regime is reducing tax burdens. Workforce preparation, process improvement, and facility/site location compose a smaller portion of programs (See Figure 3).



Some of North Carolina’s tax incentive programs are focused directly on the state’s largest industries. According to U.S. Cluster Mapping, some of North Carolina’s largest unique employment industries are Distribution and Electronic Commerce and Education and Knowledge Creation. To assist the growth of each of these fields, North Carolina reduced businesses’ taxes through the Data Center and Software Exemptions program to boost the tech industry and the Credit for North Carolina Research and Development to encourage investment in research and development.



Economic Development Program Expenditures

Examining North Carolina's budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs.

Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.³

According to [North Carolina's FY 2015-2017 Governor's Recommended Budget](#), which details actual FY 2014 spending, the state spent \$176 million⁴ on economic development in FY 2014. This level of spending represents an average of \$671 per business, which is lower than the median average of \$877 per business spent in other states for that fiscal year. The majority of North Carolina's economic development expenditures went to the Department of Commerce and the Department of Agriculture and Consumer Services. The Department of Labor also received a small portion of FY 2014 expenditures. The Department of Commerce received the bulk of funding, with around 88 percent of total state spending.

State Economic Development Expenditures Function Areas

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

In comparison to economic development expenditures nationally, in FY 2014 North Carolina spent a greater proportion of its budget (relative to other states) on programs related to business assistance, business finance, community assistance, international trade and investment, minority business development, program support, special industry assistance, and tourism; and a lower share on programs related to administration, domestic recruitment/out-of-state, entrepreneurial development, other program areas, strategic business attraction fund, technology transfer, and workforce preparation & development.

Between FY 2007 and FY 2008, economic development spending jumped in North Carolina, increasing from \$186 million in FY 2007 to \$322 million in FY 2008. Economic development program expenditures then decreased until FY 2010 and remained steady until FY 2014. North Carolina appropriated \$127 million to spend on economic development in FY 2015, representing a 39% decrease from FY 2014 levels. This runs somewhat counter with national trends in economic development spending, as most states decreased spending between FY 2008 and FY 2011 following the Great Recession but have since made very gradual spending increases. (See Figure 5.)

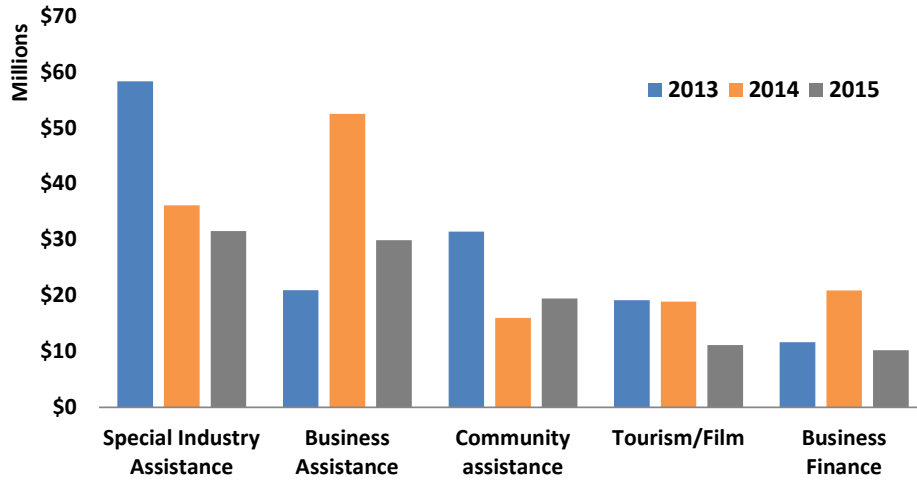
³ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf

⁴ This total excludes all federal and local economic development expenditures.



Figure 3: State Economic Development Funding by Function

NC State Economic Development Funding by Function, FY13-15

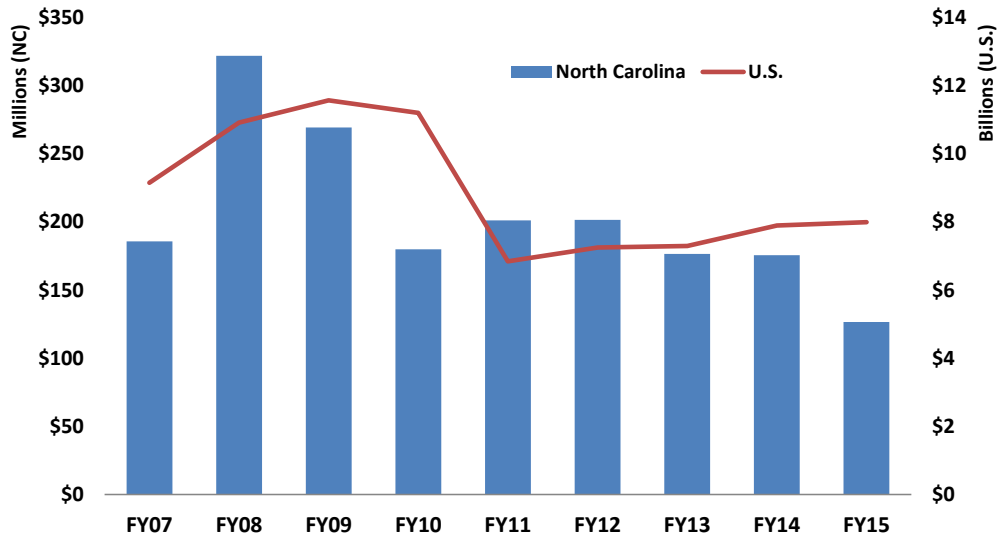


Source: C2ER State Economic Development Expenditures Database

** Note: FY15 represents appropriated spending. All other years depict actual spending.

Figure 2: Total State Economic Development Funding

Total State Economic Development Funding, FY 07-15



Source: C2ER State Economic Development Expenditures Database

** Note: FY15 represents appropriated spending. All other years depict actual spending.



Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁵ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

Every two years, the North Carolina Department of Revenue (DOR) releases a [tax expenditure report](#) which revises revenue losses for the previous fiscal year and estimates the cost of expenditures for the current and next fiscal year. The most recent report was released in December 2013. It lists revised totals for FY 2013 and projections for FY 2014 and FY 2015.

The most recently published report, *North Carolina Biennial Tax Expenditure Report 2013*, was used for the analysis in this section. Data was collected by reviewing and recording all line items in the report related to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. Data from FY 2013 was used because it is the most recent data available which is not estimated.

In FY 2013, North Carolina’s economic development tax expenditures totaled approximately \$2.3 billion. North Carolina primarily administered its tax expenditures through DOR. The North Carolina Utilities Commission and Department of Transportation administered some of the expenditures related to utilities and transportation.

In FY 2013, about 62 percent of North Carolina’s economic development tax expenditures were for sales and use taxes. Approximately 24 percent went to corporate income taxes. The rest went to excise taxes and other revenue charges. Nearly three-quarters (73 percent) of the economic development tax expenditures went to assist particular industries. Nearly half (48 percent) of the expenditures for industry assistance went to manufacturing. Other industries that received a substantial portion were agriculture (19 percent) and transportation (12 percent).

Analysis of Available Outcome Data

The North Carolina Department of Commerce (DOC) releases several [reports on economic development incentives](#) on a quarterly or annual basis that detail spending and outcomes for the largest incentive programs that the agency maintains. For example, an annual report lists the estimated economic impact of the Job Development Investment Grant (JDIG), the states’ largest grant fund, including current recipients and the number of expected jobs created. A quarterly report details the recipients of the One North Carolina Fund over the course of the fund’s history and the jobs that fund recipients have maintained. DOC also publishes an annual report on tax credits that list the jobs created from companies that are new or expanding and have received tax credits in each of the state’s counties. Most of these reports are required by a series of state laws.

⁵ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm



DOR annually releases [reports](#) detailing the amounts each recipient of each of its economic development tax incentive programs received or saved. Each of these reports is composed of tables which do not have any written analysis of the data reported. These reports are arranged together on DOR's website in a table that presents information about the tax incentive's existence. The total number of credits taken and refunds claimed as well as the sunset date of the program, the statute, forms required, and installments are listed in each row with the corresponding report.

Conclusion

North Carolina currently administers a relatively small number of incentives, with an emphasis on non-tax over tax incentives. The state's economic development program spending per business establishment relatively low compared to other states. The state administers a large number of economic development tax expenditures, specifically industry specific tax incentives. Most of these industry specific incentives were for manufacturing, agriculture, and transportation.

North Carolina has created a well-defined and comprehensive process for examining the overall outcomes of the state's incentive portfolio and ensuring that its incentives effectively meet the state's overall economic development goals. While the Department of Revenue also publishes data online, it leaves evaluation and analysis to the individual user.



Appendix A: Full List of North Carolina State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
Industrial Development Fund	North Carolina Department of Commerce	Infrastructure Improvement; Capital Access or Formation	Grant; Loan/Loan Participation
Industrial Revenue Bonds	North Carolina Department of Commerce	Capital Access or Formation; Facility/site Location	Other
Credit for North Carolina Research and Development	North Carolina Department of Revenue	Tax/Regulatory burden reduction	Tax credit
North Carolina Microenterprise Loan Program (NCMLP)	North Carolina Rural Economic Development Center, Inc.	Capital Access or Formation	Loan/Loan Participation
One North Carolina Fund	North Carolina Department of Commerce	Capital Access or Formation; Facility/site Location	Grant
Job Development Investment Grants (JDIG)	North Carolina Department of Commerce	Capital Access or Formation	Grant
Credit for Investing in Renewable Energy Property	North Carolina Department of Revenue	Tax/Regulatory burden reduction	Tax credit
Open Grants Program	Golden LEAF Foundation	Business management; Marketing & sales assistance; Workforce prep or development; Capital Access or Formation; Product and process improvement	Grant
Property Tax Abatement	North Carolina Department of Revenue	Tax/Regulatory burden reduction	Tax abatement
Incumbent Worker Training Program	North Carolina Commission on Workforce Development	Workforce prep or development	Grant



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Job Maintenance and Capital Development Fund (JMAC) Grants	North Carolina Department of Commerce	Capital Access or Formation	Grant
Recycling Business Development Grants	North Carolina Recycling Business Assistance Center (RBAC)	Product and process improvement	Grant
Customized Training Program	North Carolina Community College System	Product and process improvement; Workforce prep or development	Grant
Port Enhancement Zone (PEZ)	North Carolina Department of Commerce	Workforce prep or development; Tax/Regulatory burden reduction; Facility/site Location	Tax credit; Tax exemption
Economic Infrastructure Program	North Carolina Department of Commerce	Infrastructure improvements	Grant
Capital Access Program (NC-CAP)	North Carolina Rural Economic Development Center, Inc.	Capital Access or Formation	Collateral Support
Loan Participation Program	North Carolina Rural Economic Development Center, Inc.	Capital Access or Formation	Loan/Loan Participation
Fund of Funds Program	North Carolina Rural Economic Development Center, Inc.	Capital Access or Formation	Equity investment
Data Center and Software Exemptions	North Carolina Department of Revenue	Tax/Regulatory burden reduction; Product and process improvement	Tax exemption
Manufacturing Exemptions	North Carolina Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
Institutional Development Grant	North Carolina Biotechnology Center	Infrastructure improvement	Grant
The Film and Entertainment Grant Fund	North Carolina Department of Commerce	Capital Access or Formation	Grant



Appendix B: NC Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	\$ 4,407,588
Business Assistance	Business retention/expansion	\$ 51,345,889
Business Assistance	Other Business Assistance	\$ 1,118,769
Business Finance	Fund Management	\$ 7,141,018
Business Finance	Grants to businesses	\$ 13,774,825
Community assistance	Funding for targeted geographic zones	\$ 2,993,931
Community assistance	Grants to local/regional dev. orgs.	\$ 1,940,455
Community assistance	Infrastructure (e.g., road/sewer/telecommunications)	\$ 183,520
Community assistance	Technical assistance/capacity building to communities (including rural)	\$ 10,902,835
Domestic Recruitment/Out-of-State	Marketing/Prospect Dev. (Domestic)	\$ 1,183,382
Entrepreneurial Development	Assistance to start-ups	\$ 459,437
International Trade and Investment	Foreign direct investment (excl. overseas representation)	\$ 2,729,947
Minority Business Development	Other Minority business development	\$ 4,589,101
Program Support	Data dissemination/web site	\$ 844,422
Program Support	Economic research	\$ 5,312,179
Program Support	In-state regional offices	\$ 1,341,438
Special Industry Assistance	Agriculture/agribusiness	\$ 14,225,517
Special Industry Assistance	Biotechnology/life sciences	\$ 12,600,338
Special Industry Assistance	Energy and environment	\$ 36,827
Special Industry Assistance	Other Special Industry Assistance	\$ 9,283,083
Strategic Business Attraction Fund	Other Strategic Business Attraction Fund	\$ 9,012,858
Technology Transfer	Other Technology Transfer	\$ 356,245
Technology Transfer	Technology commercialization	\$ 66,943
Tourism/Film	Major events/festivals	\$ 6,595,312
Tourism/Film	Other Tourism/Film	\$ 1,909,226
Tourism/Film	Tourism development	\$ 10,428,005
Workforce Preparation & Dev.	Apprenticeships	\$ 777,108
TOTAL		\$ 175,560,198



Appendix C: NC Economic Development Tax Expenditures (FY 2012-13)

Description	Total Funds (in millions)
Professionals over 75 Years Old	Negligible
Individuals Practicing Art of Healing	Negligible
Savings Banks and Savings & Loan Associations	0.2
Discount for Timely Reports – Cigarettes	5.1
Unsalable Cigarettes	0.1
Discount for Timely Reports -- Other Tobacco Products	0.6
Refund for Unsalable Tobacco Products	Negligible
Discount for Timely Reports	2.9
Sacramental Wine	Negligible
Double-Weighting of Sales Factor in Apportionment of Capital Stock	13.9
Cooperative Marketing Associations	0.6
Chambers of Commerce	2.5
Deduction from Capital Stock for Billings in Excess of Costs	Negligible
Tax Credit for LLCs Subject to Franchise Tax	0.3
Piped Natural Gas Credit	3.6
Cap for Holding Companies	125.0
Double-Weighting of Sales Factor in Apportionment Formula	52.5
Sales-Only Apportionment for Capital-Intensive Corporations	29.5
Certain Cooperative Companies	2.0
Insurance Companies Taxed on Gross Premiums	0.0
Dividends from Foreign Sources	17.2
Net Economic Loss Carryforward	220.2
Depreciation of Certain Emergency Facilities	Negligible
Reforestation and Cultivation of Trees	Negligible
Income from International Banking Facility	Negligible
Marketing Assessments on Tobacco	NA
Natural Gas Expansion Surcharges	Negligible
Earnings of Certain Trusts	Negligible
Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners	Negligible
Savings & Loan Association Interest	Negligible
Percentage Depletion over Cost Depletion	4.7
Expenses Related to Nontaxed Dividends for Bank Holding Company	22.4
Credit for Bank Holding Companies Related to Expenses on Nontaxed Earnings	2.2
Credit for Electric Power Holding Companies Related to Expenses on Nontaxed Earnings	1.0
Credit for Costs at NC Ports	0.7
Credit for Manufacturing Cigarettes for Exportation	5.6
Film Industry Production Expenses	24.3



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Tax Credit for Recycling Oyster Shells	Negligible
Credit for Investing in Renewable Energy Property	33.2
Credit for Renewable Fuel Dispensing Facilities	Negligible
Credit for Constructing Renewable Fuel Facilities	0.1
Alternate Credit for Constructing Renewable Fuel Facilities	0.0
Tax Credit to Refund Motor Fuel Excise Tax for Biodiesel	0.1
Work Opportunity Tax Credit	0.8
Credit for Donations to a Nonprofit to Acquire Renewable Energy Property	Negligible
Credit for a Renewable Energy Property Facility	0.4
Credit for Investing in Major Recycling Facility	1.9
Credit for Rehabilitating Income-Producing Historic Structure	6.9
Credit for Rehabilitating Non-income Producing Historic Structure	5.1
Small Business R&D Credit	0.2
Low-Tier R&D Credit	2.4
University Research Credit	0.6
Other R&D Credit	33.8
Interactive Digital Media Credit	2.7
Credit for Income-Producing Rehabilitated Mill Property	21.8
Credit for Non-income Producing Rehabilitated Mill Property	0.4
Credit for Creating Jobs	8.6
Credit for Investing in Business Property	33.1
Credit for Investing in Real Property	0.4
Laundromat Self-Service Machines	3.2
Amenities Exemption for Admission Charges on Entertainment Activities	0.7
Commercial Logging Machinery	7.2
Wood Chippers for Out-of-State Use	Negligible
Items Taxed by Article 5F	198.3
Telephone Equipment	52.0
Radio and Television Broadcast Equipment	3.4
Cable Service Broadcast Equipment	1.0
Tangible Property Purchased for Commercial Fishing	1.0
Items Used by Laundries and Dry Cleaning Businesses	2.2
Lubricants, Materials and Electricity Used by Major Recycling Facility	2.9
Diesel Fuel for Railroads	16.6
Durable Medical Equipment	66.4
Sales by Blind Merchants	0.7
Lease or Rental of Films for Exhibition	5.6
Audiovisual Masters	0.5
Packaging Items for Manufacturers	102.1
Packaging Items for Retailers	19.7
Food Sold by a Nonpublic or Public School	11.3



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Food Sold by a Public School Cafeteria to Certain Childcare Centers	0.3
Vending Machine One-Cent Sales	Negligible
Meals for the Elderly	0.9
Motor Vehicle Exemption Less Highway Use Tax	425.0
Goods Sold Through Vending Machines	9.9
Water Delivered Through Main Pipes	100.1
Telephone Charges Related to Occupancy of an Accommodation	0.2
Electricity and Eligible Business Property for an Internet Data Center	11.8
Electricity Used by Manufacturers	65.6
Piped Natural Gas Used by Manufacturers	81.1
Other Fuel Used by Manufacturers	18.0
Interior Design Services	1.0
Agricultural Fairs	1.4
Arts and Community Festivals	0.6
State Attraction	1.1
Service Charges on Meals and Beverages	1.2
Food for Home Consumption	650.7
Certain Artisan Bakery Items	1.8
Fuel and Electricity for Farming	23.7
Fertilizers, Seeds and Related Items Sold to a Farmer	39.1
Farm Machinery and Related Parts and Lubricants	15.2
Certain Containers Sold to a Farmer	0.8
Certain Storage Facilities Sold to a Farmer	2.6
Feeds, Litter and Medications for Farming	192.2
Certain Substances Used on Animals or Plants for Commercial Purposes	12.4
Manufactured Facilities, Building Materials, and Related Equipment for Commercial Housing of Animals	10.0
Tobacco Farming Items	0.2
Refund to Interstate Carrier	6.8
Partial Refund for Purchases of Railway Cars and Accessories by a Utility	Negligible
Refund for Businesses in Low-Tier Area	0.2
Refund of Aviation Fuel for Motorsports Events	0.2
Refund on Professional Motor Racing Vehicle Parts	3.0
Refund for Analytical Service Companies	4.5
Refund for Railroad Intermodal Facilities	0.0
Refund for Certain Industrial Facilities	2.2
Aircraft and Boats	12.2
Maximum Tax of \$1,000 for Class A or Class B Commercial Motor Vehicles	22.0
Trade-In Allowance on Sales of Motor Vehicles	84.6
Trade-In Allowance on Leases of Motor Vehicles	1.3
Vehicles Titled in Another State	7.0
Lower Rate for Large Tires	0.5



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Automobile Premiums for Additional Rate on Property Coverage Contracts	13.4
Farmers' Mutual Assessment Fire Insurance Companies and Fraternal Organizations	2.4
Temporary Cap	0.0
Sales to the State for its Use	0.0
Sales to Local Boards of Education	7.9
Sales to Charter Schools	0.1
Sales to Community Colleges	0.2
Sales to County or Municipal Corporation	25.0
Discount for Timely Payment -- Licensed Distributors and Importers	17.9
Discount for Collection Expense – Suppliers	1.0
Damage to Conveyance	Negligible
Accidentally Combining Fuels	Negligible
Hold Harmless Refunds for Distributors and Importers	0.1
Refund for Nonprofit Transportation Services	0.2
Refund for Volunteer Fire Department	0.2
Refund for Volunteer Rescue Squad	0.1
Refund for Sheltered Workshop	0.1
Refunds for Taxicabs & Local Transit	0.2
Partial Refund for Power Takeoff Vehicles	1.9