



ECONOMIC DEVELOPMENT HANDBOOK

FOURTH EDITION 2016



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Printed in the United States of America

20 19 18 17 16 1 2 3 4 5

ISBN 978-1-56011-871-8

∞ This publication is printed on permanent, acid-free paper in compliance with the North Carolina General Statutes.

♻️ Printed on recycled paper

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Preface

As the fourth edition of this handbook is being written, North Carolina continues to press toward a full and robust economic recovery after having reinvented its economic development approach in many respects. One of the major changes at the state level resulted in shifting responsibility for marketing, prospect management, tourism, and international trade to a newly created private entity called the Economic Development Partnership of North Carolina (EDPNC). Other significant changes in the last few years have included eliminating statutory tax credits, adopting a new regional model, and taking a different approach to rural development.

The reset of state-level economic development efforts coincides with the work of a new Reimagining Committee of the North Carolina Economic Development Association (NCEDA), which is taking a fresh look at NCEDA's structure, programming, and other services provided to its members. The goal is to assure that NCEDA will be as relevant as possible to its members and will return the highest value to them in support of economic development in North Carolina.

North Carolina's current marketing slogan—"Nothing Compares"—seeks to differentiate the state and draw attention to its many distinctive assets. This latest branding effort is consistent with previous campaigns that billed North Carolina as the "State of Minds" and "A Better Place to Be". The point is that North Carolina has a lot working in its favor.

An economic recovery marked by fits and starts can be unsettling. But even in this volatile environment, the state continues to be a top destination for businesses and residents alike. This is due to the state's committed leadership and support for economic development and its many assets, including a skilled and talented workforce; an extensive network of universities and community colleges; a high quality of life;

attractive natural, cultural, and recreational amenities; geographic location; and a mild climate. These assets make North Carolina well positioned for a renewed prosperity as the economy gains steam.

The work of economic development endures and the ultimate mission remains clear: to preserve and enhance the standard of living for North Carolina's residents amid a rapidly changing economy in which the state must compete globally for its share of domestic and foreign investment.

The work of keeping North Carolina competitive is implemented through a network of organizations and professionals who employ various policies, programs, and tools in a process that is not always well understood. NCEDA partnered with the School of Government at the University of North Carolina (UNC) to prepare this publication as a basic introduction to economic development. It is offered as an educational resource for legislators, policymakers, community leaders, and interested citizens across the state who desire to keep North Carolina competitive in its quest for new jobs and investment.

Ernie Pearson, President, NCEDA

Jonathan Q. Morgan, Ph.D.

June 2016

Acknowledgments

In 2001 several NCEDA members volunteered their time to create the original version of the *Economic Development Handbook* in order to educate North Carolinians about the constantly changing profession of economic development. Robin Hiott Spinks chaired the committee that developed the first edition; committee members included Ray Burrows, Doug Byrd, Brenda Daniels, Jim Fain, Oppie Jordan, Bob Leak Jr., Dianne Reid, Steve Yost, and Lawrence Bivins. In 2003 Leslie Scott led the effort to revise the first edition. Committee members who worked on the second edition of this handbook include Ronnie Goswick, Scott Millar, John Peterson, and Mac Williams.

The third edition of the handbook in 2009 was made possible through a partnership between NCEDA and the UNC School of Government under the direction of Professor Jonathan Q. Morgan. That edition updated and augmented much of the original content with information on new approaches, policies, programs, examples, and emerging trends within the field. NCEDA members who offered suggestions for revisions and reviewed drafts for the third edition included Len Kulik, Michael Smith, Joanna Helms, and Scott Hamilton. George Sherrill helped update the information on state financial programs that are available.

Professor Morgan led the effort to substantially update and revise previous content in order to produce this fourth edition of the handbook. This edition reflects the many significant changes that have occurred in North Carolina's approach to economic development in the last few years. The following NCEDA members helped identify sections that needed updating and reviewed drafts of the new handbook: Brenda Daniels, Loren Hill, Randall Johnson, Gary Lanier, Maureen Little, Crystal Morphis, Michael Smith, and Steve Yost.

Introduction to Economic Development

Economic development is both a process and a set of desired outcomes. The process is multifaceted and dynamic and results in new private investment, job creation, increased wealth, and a higher standard of living for residents. What drives economic development is private sector business activity; that is, businesses of all sizes starting up, relocating, or expanding in an area. They may be involved in manufacturing, distribution, agriculture, transportation, research and development (R&D), business services, or other sectors of the economy. The investment these businesses make in a community gives rise to a range of related commercial activities and services. Residential growth can also occur, bringing a wide variety of retail, consumer services, recreational, tourism, and other commercial enterprises.

The ripple effect of new jobs and investment can be significant. The analytical model used by the N.C. Department of Commerce to gauge economic impact shows, for example, that every 100 new jobs in semiconductor manufacturing generate an additional 134 jobs as a result of indirect and induced economic activity. The model estimates that every \$5 million in manufacturing facility construction investment spurs another \$2.6 million in statewide spending. New jobs and investment, in turn, generate income, sales, and property tax revenues for local and state governments to spend on crucial public services and amenities that help attract more firms and residents and enhance quality of life.

Economic development is conducted by a network of professionals using an array of tools designed to encourage private investment and job

creation which, in turn, help grow local, regional, and state economies. It can be defined as the specific activities, programs, and tools aimed at

- stimulating private investment to expand a tax base;
- increasing employment opportunities, wages, and personal incomes; and
- increasing wealth in a community.

Economic development can help expand and balance a tax base so that a jurisdiction will have the resources it needs to provide high-quality public services at a reasonable cost to its residents. Balancing the tax base among the various land uses—agricultural, residential, commercial, and industrial—is especially important for the many “bed-room” communities that exist in North Carolina. These communities rely on local tax bases comprised mostly of residential property. The problem is that residential development does not typically generate sufficient tax revenues to pay for the public services it requires. By contrast, commercial and industrial development projects usually pay for themselves and produce net tax revenues in excess of the costs for needed public services.

Economic development efforts produce other highly desirable outcomes. One example of this is the broadening of a community’s leadership base as new companies bring in executives and entrepreneurs who can participate in various local organizations and programs. Another example is that new companies can provide a community with support in the form of philanthropy and volunteerism.

Why North Carolina Is Involved

History

North Carolina has undergone considerable economic change since the arrival of its early settlers, when the state prospered in trading, fishing, and farming. After the industrial revolution, as new railroads and highways began crisscrossing the state, North Carolina's economy shifted toward other types of economic activity. The Piedmont Triad region built an economy on manufacturing; the Triangle region emerged as a center for government and higher education; and Charlotte established itself as a financial services and distribution hub.

During the late 1950s a milestone in North Carolina economic development occurred, as Governor Luther Hodges and a handful of government, university, and business leaders began to plan a project that would eventually transform the state's economy.¹ The idea was to attract companies to locate to assembled parcels of land located between Raleigh and Durham. By the late 1960s the resulting Research Triangle Park (RTP) had landed major anchor tenants that would lay the foundation for it to become a global model of a successful technology park that is affiliated with research universities. At the same time North Carolina experienced a rapid expansion in its traditional industries—textiles and furniture—as U.S. manufacturing jobs moved south. Tobacco farming and processing were also strong industries during this period.

North Carolina has benefited from visionary leadership, and government and private sector entities have worked well together to make the state attractive to new businesses. Some of the state's major public investments have included:

- the expansion of the North Carolina Community College System;

- customized workforce training for new, expanding, and existing companies;
- support for the campuses of the University of North Carolina System; and
- the construction of an extensive highway network.

Because of these strategic state investments, businesses in North Carolina can get workers trained, access talent and innovation, and move their product to market. These public investments, along with a business-friendly regulatory environment, have resulted in North Carolina being regularly ranked among the best locations in the United States for industry by *Site Selection*, a leading economic development trade publication.²

In recent decades the trend of declining employment in the state's traditional industries has caused significant economic disruption and transition. This trend has made the work of economic developers in North Carolina more challenging but also more essential to efforts to rebuild and sustain a vibrant economy in the state. Agriculture, long a leading economic engine, is suffering from a sectorwide decline that is impacting both large and small growers. Tobacco production and cigarette manufacturing have declined substantially since the 1997 national Master Settlement Agreement. Similarly, the erosion of manufacturing jobs—particularly in the textile, apparel, and furniture sectors—has adversely affected the state's urban and rural areas alike. (See Table 1A, below.)

Employment growth in the state is now primarily driven by non-manufacturing sectors of the economy such as educational services, health care, real estate, and arts/entertainment/recreation. (See Table 1B, below.) Only five manufacturing sectors experienced any notable job growth from 2004 to 2014, while many others saw sharp declines. Overall, the total number of manufacturing jobs declined by 20.8 percent during this period due to the continuing effects of globalization, automation, and industrial restructuring. Despite the job loss, some technology-intensive, advanced manufacturing sectors are emerging as vital parts of the state's economy.

Table 1A. North Carolina Employment Change in Selected Manufacturing Sectors between 2004 and 2014

Sector	Total Number of Jobs		
	2004	2014	% Change
Other transportation equipment manufacturing	7,116	8,152	14.6
Miscellaneous manufacturing	16,856	18,434	9.4
Primary metal manufacturing	7,568	8,082	6.8
Food manufacturing	51,671	55,092	6.6
Machinery manufacturing	32,062	32,801	2.3
Plastics and rubber products manufacturing	33,548	32,392	-3.4
Chemical manufacturing	46,562	43,889	-5.7
Fabricated metal product manufacturing	40,487	37,797	-6.6
Nonmetallic mineral product manufacturing	17,700	15,140	-14.5
Motor vehicles, bodies and trailers, and parts manufacturing	28,379	23,978	-15.5
Paper manufacturing	19,521	16,016	-18.0
Computer and electronic product manufacturing	39,757	32,564	-18.1
Printing and related support activities	16,814	13,596	-19.1
Electrical equipment, appliance, and component manufacturing	27,224	21,929	-19.4
Beverage and tobacco product manufacturing	15,673	11,327	-27.7
Wood product manufacturing	28,368	18,774	-33.8
Furniture and related product manufacturing	61,095	36,384	-40.4
Textile product mills manufacturing	14,394	6,610	-54.1
Textile mills manufacturing	63,032	28,505	-54.8
Apparel manufacturing	27,605	10,442	-62.2
Total Manufacturing	597,455	473,437	-20.8

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Interactive Data: Regional Data, GDP & Personal Income*, <http://1.usa.gov/1X96wDK>.

The Need for Economic Development Programs

Virtually every state in the country has an economic development program working to recruit and retain industry, and several thousand cities, towns, and counties across the United States are vying for new business investment. With an increasing number of communities participating and making greater use of economic development strategies, North Carolina must constantly assess its competitive position and retool as needed. This requires a commitment to enhancing the programs that

Table 1B. North Carolina Employment Growth in Selected Non-Manufacturing Sectors between 2004 and 2014

Sector	Total Number of Jobs		
	2004	2014	% Change
Oil and gas extraction	1,619	5,084	214.0
Other information services	1,050	2,957	181.6
Educational services	82,628	124,186	50.3
Transit and ground passenger transportation	8,101	11,897	46.9
Waste management and remediation services	7,637	10,980	43.8
Arts, entertainment, and recreation	82,583	117,528	42.3
Real estate	148,919	208,939	40.3
Support activities for agriculture and forestry	12,054	16,190	34.3
Professional, scientific, and technical services	246,028	322,546	31.1
Finance and insurance	188,783	247,011	30.8
Management of companies and enterprises	64,884	83,431	28.6
Health care and social assistance	436,269	550,161	26.1
Accommodation and food services	325,166	406,339	25.0
Warehousing and storage	19,987	24,679	23.5
General merchandise stores	87,053	104,590	20.1
Telecommunications	26,567	31,045	16.9

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Interactive Data: Regional Data, GDP & Personal Income*, <http://1.usa.gov/1X96wDK>.

led to past success and a renewed effort to remain innovative in the face of new economic realities.

Historically, North Carolina's geographic location, climate, quality of life, educational institutions, highway network, and positive business climate enabled the state to be competitive in economic development without necessarily providing much in the way of incentives. But as other states have become more intent on competing for jobs and investment, they have implemented aggressive programs for recruiting industry. A series of industrial project losses in the 1990s, including the loss of Mercedes-Benz to Alabama, BMW to South Carolina, and Motorola to Virginia, prompted North Carolina public officials to take a more assertive stance with respect to economic development incentives.

Localities throughout the U.S. are also developing programs to become more attractive as business destinations. These include financial incentives, public-private partnerships to develop business parks and buildings, workforce development initiatives, and other programs focused on the needs of business. The result is that there are many more communities seeking business locations than there are projects. The number of large industrial recruitment projects has declined over time while the use of incentives to lure them has increased. In a given year it is estimated that, on average, some 15,000 communities vie for roughly 1,500 major industrial development projects available nationally.³ This means that North Carolina's communities face increasingly aggressive competition for every major business location project.

North Carolina also continues to support economic development as a way to raise the standard of living and quality of life for all of its residents, particularly those in economically distressed urban and rural areas who are at risk of being left behind in the new economy. This policy goal of promoting "widely shared prosperity" has seen renewed emphasis lately amidst a growing concern about rising inequality and the deepening economic divide between the state's urban and rural areas.⁴

Helping Companies and Communities Compete

Companies know that they bring value to their host communities, a value that is easily measured by the new jobs, higher wages, and additional tax revenue they produce. Many companies also want to add value to their own products and services. In order to expand jobs in communities and increase the value of their enterprises, businesses must be profitable. A relentless focus on the bottom line is critical. American companies now operate in a global economy, competing with firms across the world. In many other countries the costs of doing business are sharply lower. The result is that most U.S. firms now must constantly seek new ways to add value and operate more efficiently in order to stay in business.

North Carolina can help companies add value by providing and facilitating:

- **A talented and productive workforce**—educated, skilled people who are the products of high-quality schools. These workers must understand how to be productive, quality-focused, and innovative and know how to use technology and teamwork for continuous improvement.
- **Access to innovation**—ideas, knowledge, and research and development (R&D) that generate new technologies, products, and processes that help firms establish new niches and boost productivity.
- **Access to markets**—good roads, rail, airports, seaports, and high-speed Internet connections that move products and services quickly and securely to a larger number of consumers.

North Carolina can help businesses operate more productively and efficiently by ensuring that the following are available:

- Cost-effective worker training programs
- Competitive state and local tax rates
- Streamlined, consistent, and predictable government regulations
- Expedited permitting processes that reduce the risks and costs associated with construction delays
- Adequate and affordable utility infrastructure (water, sewer, electricity, natural gas, and modern telecommunications, including broadband Internet and digital wireless networks)
- Access to inputs and raw materials
- Low construction costs for sites and buildings
- Financial incentives

Participants

Economic development professionals work in a diverse array of agencies and organizations across all levels of governance and represent a range of functional interests. They may be employed by:

- Municipalities
- Counties
- Regional organizations
- State agencies
- Federal agencies

They are employed by organizations of all types, including:

- Public
- Private
- Public-private
- Nonprofit

These organizations, along with the professional network itself, are constantly adjusting to meet new and changing demands. There is also an ongoing effort to minimize duplication and overlap among economic development organizations. What follows is a description of the various participants and the particular roles they play in the process of economic development.

Local Developers

Local economic developers may work for:

- County or city governments
- Semi-autonomous public economic development commissions
- Public-private entities, which may be chartered as nonprofit economic development corporations
- Chambers of commerce or other private organizations, such as Committees of 100

Each type of structural arrangement has its own advantages and disadvantages given the local business environment, the level of financial resources available to fund the program, and the overall nature of governance within the community. In some cases multiple counties and municipal governments have partnered to support joint programs.

Over time localities can modify how they organize and structure their economic development activities in order to clarify roles and responsibilities, improve services, streamline programs, and create cost savings. For example, in 2015 the Greensboro and High Point economic development groups—along with their respective municipal governments and Guilford County—formed a close working alliance in order to present a more cohesive presence to clients. In 2013 the City of Monroe and Union County merged their respective economic development groups to form Monroe–Union County Economic Development. This decision unified economic development efforts within the county for the first time in twenty years.

In 2006 Wayne County replaced its economic development commission, which had been in existence since 1966, with a new, nonprofit, public-private organization tasked to perform economic development countywide. The resulting entity, the Wayne County Development Alliance, Inc., is a formal partnership between the Wayne County Board of Commissioners, the Goldsboro Committee of 100, and the Mount Olive Committee of 100. Another example is the Carolinas Gateway Partnership, which was created in 1995 to merge the economic development activities of two counties, Edgecombe and Nash, into one nonprofit organization.

Local developers take the lead in the production of promotional and informational materials, making sure that the latest data about the community are available and easy to obtain. Often in the form of web-based community profiles, this information will typically highlight existing business and industry and include data on the local workforce, schools, wage/income levels, demographics, industry composition, taxes, housing, and quality of life. Local developers strive to keep local business leaders informed about their programs. It is also the developers' responsibility to ensure that available sites and buildings are listed in local, regional, and state databases.

Local development professionals stay current on all relevant state laws, regulations, and local ordinances. That means keeping in touch with city council members, county commissioners, state legislators, and other elected officials whose help will be needed at some point. Local developers interface closely with allies, as described later, on issues such as product development, infrastructure, workforce readiness, and project financing.

Local developers are a primary source of information and support for existing businesses seeking to expand their operations as well as prospective businesses seeking to locate in the area. The local developer is often the main point of contact for a client in determining what types of assistance are available with respect to grants, incentives, worker training, and permitting. The local developer must have an in-depth knowledge of what programs are available, who to call for help and support, and where to access information needed to address client needs and concerns.

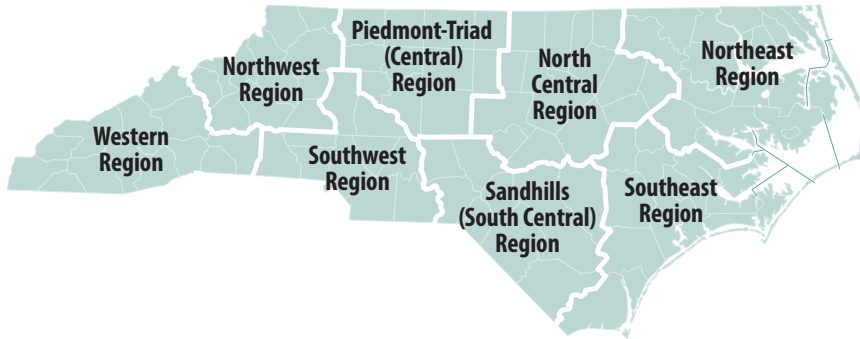
Local development professionals are at the center of the economic development process and facilitate new business locations, existing business expansions, and support for new business starts. They provide project leadership and ensure that stakeholders at all levels work as a team. Their facilitative role is particularly important in the current environment, as the timeline for industrial projects has decreased from eighteen to twenty-four months to as little as four to six months.

Regional Developers

In 2014 North Carolina revamped its regional approach and designated eight new geographic regions to serve as “prosperity zones” for economic development purposes. (See Figure 1, below.) The newly created Economic Development Partnership of North Carolina (EDPNC) has regionally-based economic developers who focus their efforts on one of the eight zones.

The other major regional players are the regional economic development partnership organizations. At present, four regional partnership

Figure 1. Prosperity Zones Map



groups exist to coordinate national and international marketing activities on behalf of the multi-county regions they serve:

- Charlotte Regional Partnership, based in Charlotte, supports twelve surrounding North Carolina counties and four counties in South Carolina. (See www.charlotteusa.com.)
- NC East Alliance, based in Greenville, supports twenty-four surrounding counties. (See www.nceast.org.)
- North Carolina's Southeast, based in Elizabethtown, supports sixteen surrounding counties. (See www.ncse.org.)
- Research Triangle Regional Partnership, based in Cary, supports sixteen surrounding counties. (See www.researchtriangle.org.)

The regional economic development partnership organizations market the unique assets of their respective regions and work closely with state and local developers to address regional economic issues; generate leads; manage prospect inquiries; promote product development; provide research assistance; and publicize improvements in transportation, infrastructure, and the labor force. These entities no longer receive any state appropriations and must rely on membership dues and private investors to sustain their operations.

Another regional group, the Piedmont Triad Partnership, based in Greensboro, is a private leadership organization that supports high-priority, transformational economic development projects in twelve surrounding counties. (See www.piedmonttriadnc.com.)

State Developers

In recent years North Carolina has moved toward a public-private partnership model for doing economic development at the state level. In doing so the state joins others, such as Arizona, Florida, Indiana, Michigan, Ohio, and Wisconsin, that have privatized certain economic development functions previously conducted directly by state government. In North Carolina the Department of Commerce now contracts with the Economic Development Partnership of North Carolina (EDPNC) to conduct the state's marketing, business recruitment, existing industry support, international trade, tourism, and sports promotion activities.

The EDPNC now leads national and global marketing and outreach efforts, and its programs and resources are designed to prompt business leaders to consider North Carolina for business locations and expansions. On large-scale projects in particular, EDPNC staff members are often the first point of contact with potential industrial clients who are considering a location in the state. They help match community assets (sites, buildings, workforce availability, skills, and so forth) with client site-selection criteria and provide information from communities to the client.

In addition to the state Commerce Department, other North Carolina agencies playing important roles in economic development include the following:

- Office of the Governor and the Economic Development Board
- General Assembly
- North Carolina Community College System
- Department of Revenue
- Department of Transportation
- Department of Environment and Natural Resources
- University of North Carolina System
- Board of Science and Technology
- N.C. Biotechnology Center
- Department of Public Instruction

Economic Development Allies

In addition to local, regional, and state developers, there are many private sector organizations and other institutions involved in economic development. They collaborate with and support on some level the development efforts described in this handbook. These allies include, among others, the following:

- Banks and financial institutions
- Site-selection consultants
- Electric utilities
- Community colleges
- Natural gas companies
- Universities
- Railroads
- K–12 school systems
- Councils of governments
- Real estate brokerage and development firms
- Environmental firms
- Construction contractors
- Chambers of commerce
- Architects and engineering firms
- Law firms
- Telecommunications companies
- Entrepreneurship councils
- Philanthropic foundations

The Role of Elected Officials

Elected officials at all levels of government are instrumental in the process of economic development. In North Carolina, state legislators, county commissioners, and city council members support professional organizations that handle economic development by providing resources and keeping the state and its communities attractive destinations for business. These efforts require public investment. Elected officials who provide support understand that economic development is a means for creating quality jobs and investment, generating tax revenue, and improving the standard of living of North Carolina residents.

Below are examples of some of the roles and responsibilities of elected officials in economic development.

1. Supporting professional economic development organizations. Elected bodies—city councils, boards of county commissioners, and the General Assembly—provide core financial resources necessary to support economic development at the local, regional, and state levels. Costs incurred by economic development organizations include expenditures for

- administration,
- staff,
- travel,
- technology,
- client recruitment,
- research,
- advertising/marketing, and
- office space.

2. Investing in infrastructure. When locating their new facilities, businesses need basic infrastructure—water, sewer, natural gas, electricity, telecommunications (including high-speed Internet and digital wireless), rail, industrial parks, and highways. Most types of infrastructure require elected bodies to authorize public financing. Infrastructure can be considered a public investment because it creates a tangible asset for a community and meets the operating requirements of industries.

According to the N.C. Department of Commerce, most companies begin their location searches by looking for available buildings in which to locate. Communities can respond to this reality by investing in shell buildings, which can be customized to fit companies' exact needs. This can save the companies time and money and reduce their project start-up risks. Local governments can provide funding to construct the facilities or partner with organizations such as Committees of 100, banks, and private developers to build them. Local governments can also work together to develop regional business parks and share the tax revenues.

3. Building a competitive business environment. Elected officials can support their states, counties, and communities in creating an appealing business climate. In addition to infrastructure, localities can invest in industrial parks and shell buildings and can offer financial incentives. Other activities that can make a community "business-friendly" include promoting workforce development, supporting quality education from pre-kindergarten through post-secondary levels, maintaining reasonable tax and utility rates, and instituting effective planning and permitting processes. A competitive business climate also entails having a regulatory environment that is not overly burdensome and assisting firms in complying with all necessary regulations.

4. Helping existing businesses. Existing firms create a majority of new jobs and contribute to the tax base of a jurisdiction. State and local elected officials can encourage their economic development organizations to work with existing businesses in order to promote retention and expansion. Establishing a formal program of activities for assisting existing firms can go a long way toward making those companies feel better connected to their jurisdictions.

5. Providing incentives. Performance-based state and local incentives are important tools for attracting new industries and helping to retain and grow existing ones. When used appropriately, incentives can be considered a public “investment”. Like any investment, they must offer a suitable rate of return for the public investors or taxpayers. With the guidance of economic development organizations, elected officials make these public investment decisions that influence a company’s location and expansion choices. (Incentives are discussed in greater detail beginning on page 33.)

6. Protecting the public investment. Elected officials who authorize the use of tax dollars to support economic development should ensure that public funds are spent prudently and that the investment in economic development provides a net benefit to their jurisdictions. This starts by making informed decisions about economic development that are based on sound planning and analysis, as discussed below. Organizations receiving public funds can be held accountable through representation on governing boards, reporting requirements, performance measurement, and program evaluation.

Several mechanisms exist to help state and local governments avoid paying too much in the form of incentives for too little in return. These include some safeguards already adopted in North Carolina, such as

- setting formal eligibility guidelines,
- requiring analysis of economic and fiscal impacts,
- tying incentives to company performance,
- requiring performance contracts,
- using clawback provisions (which mandate that a firm reimburse the government if the firm does not satisfy certain investment and jobs targets), and
- maintaining wage/job quality standards.

7. Investing in quality of life amenities. Elected officials are uniquely positioned to make public investments in various types of amenities that enhance the quality of life in a given place. States and communities known to be rich in such amenities tend to become

attractive places to live, work, and play. These amenities may include public parks, bike paths, walking trails, recreational activities, arts and cultural attractions, amateur and professional sports facilities, entertainment venues, good schools, and the like. Quality of life amenities are thought to be increasingly important in attracting the creative and talented people that many knowledge economy companies seek to hire.

Economic development should be a win-win proposition for companies and communities. A high level of government support for these activities demonstrates a commitment to existing and prospective industries. It shows that elected officials are serious about improving their communities and that they are partners, not adversaries, with businesses.

The Process

Economic development is the process of stimulating private investment through business attraction, creation, retention, and expansion (known as “A.C.R.E.”) activities. Private investment will lead to new jobs, higher incomes, increased tax revenues, greater wealth, and a higher standard of living. In this way, economic development is a means by which communities can rebuild, sustain, and transform themselves as needed in order to remain viable and thrive in a competitive environment.

Economic development is ultimately a long-term process that involves numerous organizational players and a variety of tools and strategies. Much of what happens in the global, knowledge-based economy appears beyond the control of individual jurisdictions. Yet public officials and economic developers will do whatever they can to help their communities adapt, respond, and prosper in the midst of changing economic conditions and fiscal uncertainty.

There are few quick fixes in economic development. An effective approach includes a mix of strategies and tools that is consistent with a community’s long-term vision and goals. Immediate results are more the exception than the rule. Jurisdictions that make strategic public investments over time and implement programs that look beyond the next election cycle are better positioned to withstand the ups and downs of the economy.

Strategic Visioning and Planning

Given this uncertain economic climate, more and more communities recognize the need to be proactive and deliberate in their economic development efforts. This is evident in the increase in strategic visioning and planning efforts across the state. These planning efforts help

communities to be more systematic in choosing the right mix of strategies and tools. They also connect a community's goals and objectives to what is actually done in economic development. A good strategic plan for economic development specifies which organizations will be responsible for different actions and delineates the role of local government in the process. Sound planning is key to successful economic development.⁵ The initial step in the planning process involves building an organizational team to cultivate the attitudes and develop the programs that are needed. Individuals with experience and expertise in the following areas are invaluable to any economic development team:

- Promotion/Marketing
- Taxes
- Labor/Workforce training
- Utilities and telecommunications
- Sites and available buildings
- Environmental regulations
- Transportation
- Construction and insurance
- Public services
- Innovation and technology
- Finance and incentives
- Land use planning and permitting
- Public relations

A shared vision for the future helps a community or region determine what it aspires to become and where it wants to end up with respect to economic development. A long-term vision provides a sense of what is possible in a place over time and gives broad direction to the specific goals set forth in the strategic economic development plan. Six questions highlight key points for consideration by community or regional leaders planning for economic development:

1. *Where has the community (region) been?* This requires a review of economic growth patterns and trends.

2. *Where is the community (region) now?* This requires taking account of the community's assets and liabilities, as well as identifying major challenges and opportunities.
3. *Where is the community (region) going?* This requires projecting a future economy based on present trends.
4. *Where does the community (region) want to go?* This is a goal-setting step that requires narrowing down the types of businesses the community wants to attract and foster.
5. *How does the community (region) get there?* This is where plans are made and actions taken. It requires an action plan that includes strategies for accomplishing the goals established previously.
6. *How does the community (region) measure progress?* This question is built on the assumption that a thorough and ongoing evaluation of progress is required.

Strategies

Communities and regions must appraise their assets and liabilities in order to be successful in promoting economic development. The following questions must be answered to give a realistic assessment of a location's likelihood of success at stimulating job creation and private investment:

1. *What types of firms find, or would find, a competitive advantage in the community?*
2. *Does the community have the workforce, infrastructure (e.g., highways, utilities), product (e.g., buildings, sites), and climate that businesses require?*
3. *What barriers exist that may hamper a community's ability to compete for new business location projects?*

Answering these questions can help a jurisdiction determine which of the five economic development strategies discussed below to pursue. Strategic priorities will vary depending on whether a community or region is urban or rural or is oriented toward manufacturing, agriculture, tourism, or another industry sector. *No one strategy alone is a panacea—there is no magic bullet for economic development.*

A community or region will need to determine the appropriate mix of strategies that makes the most sense to support given its assets and strategic opportunities. Each strategy involves leveraging resources and partnerships effectively, and each requires a certain level of energy, skill, and sustained commitment.

Retaining and Expanding Existing Firms

An important strategy for a community or region looking to spur economic development is to support existing businesses, that is, to keep them in the jurisdiction and encourage their growth. Expansions can occur as local businesses

- increase sales of their current products and services,
- discover and create innovative niche products and services,
- diversify and begin marketing new products and services,
- discover and move into new export markets,
- lower their cost of production through the adoption of innovative technologies or more efficient processes, or
- consolidate from other operations.

Retaining companies that already exist in a jurisdiction and helping them grow is considered a less risky and more cost-effective approach to economic development because it (1) builds the local economy from within and (2) strengthens a company's ties to the local community. Moreover, studies suggest that anywhere from 60 to 80 percent of new jobs come from existing businesses.⁶

Staff members with the Economic Development Partnership of North Carolina (EDPNC) who specialize in existing industry and international trade are key partners for business retention efforts. Also, the staff at the Industry Expansions Solutions group at North Carolina State University provide training and technical assistance to manufacturers in applying cutting-edge technologies and using processes to increase their profitability, both of which might help them stay and grow in North Carolina. Local community colleges are also an important source of training and assistance for existing industry.

Ensuring the success and satisfaction of existing business and industry is important in recruiting new firms to an area, as business leaders

considering a new location frequently seek the input of business leaders already there. If existing industries are not happy with their community, new firms are less likely to locate there.

The following list highlights recent announcements of major existing industry expansions in North Carolina.

- In 2016 Ralph Lauren Corporation completed its \$163 million, 900-job expansion in High Point with the opening of its fifth facility in the city.
- Minnesota-based Ann's House of Nuts announced in 2015 that it would invest \$7.5 million and add fifty jobs at its trail-mix production facility in Robersonville.
- Lidl (a German discount supermarket chain) committed in 2015 to invest \$125 million and add 200 new jobs at its distribution center Alamance County.
- Advance Auto Parts announced in 2014 that it would create 600 jobs and invest \$5 million to locate a corporate support facility in Wake County.
- GE Aviation in 2013 invested \$126 million and added fifty-two new jobs as part of an expansion of its aircraft engine parts facility in Buncombe County.

Improving Local Linkages

This economic development strategy seeks to strengthen linkages among firms in ways that add value to industries and communities. An important linkage to shore up is one between local sellers and buyers of raw materials and other inputs, finished goods, and services. The idea is to increase the opportunities for local firms within a group of related industries—an industry cluster—to trade with one another.

The more a dollar circulates in a local economy before moving out of it, the more wealth will be generated. A survey of spending patterns of institutional buyers in a community—hospitals, school districts, and governments (municipal, county, state, or federal), for example—could identify new market opportunities for local businesses.

Firms can also benefit from collaborating in ways that may not involve purchasing transactions that occur within an industry's supply chain. Networking among businesses within an industry cluster can help firms

identify new customers and suppliers, as well as result in partnerships and joint ventures for research and development (R&D) or workforce development. When businesses are connected in meaningful ways, they can exchange ideas and information that might boost innovation and add value within the cluster as a whole.

Several prominent industry clusters in the state feature strong and frequent linkages among firms that may be competitors in the marketplace. These companies find that, in some instances, they must collaborate in order to compete. Industry associations or economic development organizations often act as facilitators of industry networks. These networks can be either formal or informal and are more likely to form in communities or regions with high levels of social capital. An example of a regional effort to improve local linkages within an emerging target industry is the implementation of the Cleantech Cluster in the Research Triangle Region.

Creating New Firms and Promoting Entrepreneurship

Communities can actively help new businesses get started. New businesses can be created to sell products or services to replace those imported into the area or to provide products and services that were previously unavailable from a local source. New businesses are also started to produce new products.

The Small Business Centers (SBCs) at each community college in North Carolina offer training and counseling in business start-up. The Small Business and Technology Development Centers (SBTDCs) at each University of North Carolina (UNC) System campus help small business owners at various stages of their firms' growth. Colleges and universities often spin off new companies through technology transfer, as well as support entrepreneurs through research and training. Formal networks for entrepreneurs are now active in at least three regions of the state, including the

- Council for Entrepreneurial Development (CED) in the Research Triangle area,
- Greensboro Partnership Entrepreneur Connection in the Triad region, and
- Mountain BizWorks in the Asheville region.

Entrepreneurial development is a homegrown approach to job creation that is feasible in nearly all types of communities—rural and urban, large and small. Some examples of local efforts to support entrepreneurship in North Carolina include⁷

- using local retired business executives to provide assistance to existing small firms and start-ups in Brevard,
- helping local artisans convert their crafts skills into business enterprises in Elkin,
- partnering with the local community college to convert part of an abandoned textile mill into a small business incubator in Wadesboro, and
- using the methane gas from the county landfills to power the studios of fledgling artisans in incubator spaces in Yancey and Jackson counties.

Capturing New Dollars

Although it is advantageous for companies to buy local, communities create more wealth when firms sell their goods and services outside the local market area. Firms that export increase the flow of new money into a community or region. When thinking about developing new sources of outside dollars, many communities try to develop or recruit companies that serve national or global markets or those that are in “traded” clusters (businesses in traded sectors tend to export their products and services beyond the local economy). Firms that serve only local markets typically do not create as much of a multiplier effect as those that sell outside the area.

In addition to supporting traded sectors of the economy that export, there are other ways to capture a greater share of outside dollars and increase the flow of new money into a community. A few examples include

- an out-of-state investor purchasing local property and building an office park,
- a transplanted retiree spending monthly Social Security and pension benefits on local goods and services,
- a family of tourists renting a beach house for the week and dining at local restaurants,

- international visitors attending an annual musical festival in a mountain community,
- customers being drawn to a large regional shopping center, and
- out-of-town patients seeking health care services at a specialized regional medical facility.

Recruiting New Facilities

Although the number of major industrial recruitment projects available at any point in time has decreased in the last twenty years, most communities still want to be poised to attract the new industrial or corporate facilities of firms engaging in manufacturing, R&D, transportation, distribution, technology, and other activities. Announcements of such “wins” can create excitement and momentum for other initiatives both at the state level and in the local community. The following list highlights recent announcements of major new business locations in North Carolina.

- Novo Nordisk in 2015 selected Johnston County for a \$1.7 billion insulin manufacturing facility that will employ 700 workers.
- Sanderson Farms decided in 2015 to build a \$139 million poultry processing facility with 1,100 workers in Robeson County.
- Enviva decided in 2014 to invest \$107 million and create eighty jobs at a wood pellets production facility in Sampson County.
- DPx Holdings (Patheon) selected Pitt County in 2014 as the site for a \$159 million pharmaceutical manufacturing facility that will employ 488 workers.
- Gildan Yarns, LLC in 2013 selected Davie County as the location for a new manufacturing facility that will employ 292 workers.

Tools

Marketing and Recruitment Tools

Jurisdictions employ a number of marketing and promotional tools and activities in recruiting new businesses. These tools help prospective firms and industries learn about North Carolina's many advantages. Marketing messages should be unified, coordinated, and complementary across counties, regions, and the state. A jurisdiction can highlight and market its assets through a combination of tools that include the following:

- **Prospect visits.** Face-to-face communication is usually the most effective way to sell a place and the assets it has to offer.
- **Websites.** A high-quality web presence is absolutely essential. A website should display current information and be both concise and easy to navigate.
- **Engagement with site-selection consultants.** Building rapport with the technical experts who guide the site-selection process on many large projects can be beneficial.
- **National media relations.** Business executives read articles about various regional economies in business and trade publications, so North Carolina jurisdictions should actively seek out such coverage.
- **Social media.** Platforms such as LinkedIn and Facebook can be used strategically to reach certain audiences.
- **Community data books.** These should be customizable to fit the unique needs of a business considering locating in a jurisdiction in the state.
- **Brochures.** These should be attractive and describe in detail the benefits of locating in the area.
- **Print advertising.** There are numerous local, state, and national publications geared toward industrial location searches. North Carolina jurisdictions should consider advertising in such publications.
- **Trade shows.** Visibility is crucial in economic development, and having a presence at trade shows can go a long way in attracting business.

- **Local media.** Local public relations efforts keep the public informed about economic development and can help build and maintain needed community support.

Business Retention and Expansion Tools

A formal business retention and expansion program seeks to build relationships with local companies in order to identify critical needs and facilitate access to resources and other assistance that will help firms become more competitive. Such a program can also help identify local companies that may be at risk of experiencing a major decline that results in layoffs or plant closings. Business retention and expansion tools include the following:

- **Calls and visits**—reaching out to existing firms to learn about business needs, concerns, and plans.
- **Business surveys**—systematically collecting data on competitiveness issues and satisfaction within the community.
- **Business networking**—producing mutual gains by bringing firms together.
- **Technical assistance**—helping firms with financing, staffing, regulations and permitting, utilities, market development, operations, technology, and so forth.
- **Workforce training assistance**—ensuring that firms have access to the skilled labor and talent they need.
- **Recognition and appreciation**—celebrating the contributions of existing firms through symbolic gestures, such as award luncheons, news stories, and proclamations, that make them feel valued by the community.
- **Financial incentives**—using performance-based grants to support retention and expansion of existing industry.

Entrepreneurship Tools

Small business development and entrepreneurship programs provide support to smaller firms and encourage the start-up of new enterprises in order to stimulate economic development. Local governments most often defer to other entities like state agencies, community colleges, universities, chambers of commerce, and local nonprofits to take the

lead on small business development. However, several North Carolina counties and cities invest in and help facilitate certain small business development activities, including the following:

- **Business incubators.** Affordable physical space offers access to shared administrative and support services for fledgling start-ups until they can survive on their own.
- **Revolving loan funds.** A loan pool can relend to borrowers as funds are repaid.
- **Technical assistance.** Small start-ups need help with financing, accounting, management, marketing, technology, and staffing in order to grow to the next level.
- **Entrepreneur networks.** Entrepreneurs can learn from one another and explore opportunities for joint ventures when they participate in formal networks or informal interactions.
- **Equity or venture capital funds.** These specialized sources of financial capital rely on private investors willing to provide seed funding for early-stage firms with high growth potential. An example is the Inception Micro Angel Fund, which is building a network of investor funds statewide. (See www.imaf-rtp.com.)

The Need for Product

The “product” that a company seeks when selecting a business location is the particular buildings and sites that meet its operational requirements. In today’s quick-turnaround economy, North Carolina will be better positioned if it has a quality product to sell when an industry is looking. Therefore, it is advantageous to have existing industrial buildings and suitable sites available before prospects visit a community. A bare, unimproved parcel of land is not typically considered a viable industrial site. Most clients request an existing building rather than an undeveloped site because it saves them time and money and reduces their risk. In some cases the prospect will like an area but not the first building it is offered. Consequently, other “shovel-ready” sites should be

available with infrastructure in place, approvals and permits granted, due diligence completed, and site development ready to proceed.

In North Carolina, initiatives such as the Certified Sites program are designed to determine how “shovel ready” a particular site may be. A certified industrial site is one that has undergone an extensive review process to verify site readiness with respect to zoning, environmental surveys, grading, initial engineering work, infrastructure, and the like. Formalized site certification can benefit economic development professionals by providing them with an inventory of pre-qualified industrial sites for which accurate and detailed information is readily available to share with prospective businesses. This makes it easier to pitch certain industrial sites and match them to the specific needs and site requirements of a project. The reductions in costs and time made possible by an expedited site search are obvious advantages to a prospective business.

The North Carolina Certified Sites program, created by the state in 2001, is administered by the N.C. Department of Commerce. A search of the department’s ACCESSNC database will produce a current list of certified industrial sites throughout the state. (See accessnc.commerce.state.nc.us/EDIS/page1.html.) In addition to the Certified Sites program, two energy utilities have launched efforts to increase the number of shovel-ready industrial sites in the state. Duke Energy created its Site Readiness Program in 2005 (see <http://www.considerthecarolinas.com/site-readiness.asp>), and Electricities started the Smart Sites (S²) shovel-ready site qualification program in 2014. (See <http://www.electricities.com/adventure/blog/smart-sites/>.)

Many smaller, rural jurisdictions find it difficult to support certain types of “product development” on their own. When municipalities and counties collaborate on larger projects, such as industrial parks, they can enjoy economies of scale and cost savings and get suitable real estate properties and related infrastructure in place that otherwise might not be feasible.

The General Assembly has enacted legislation to encourage and facilitate interlocal cooperation on economic development. Chapter 158, Section 7.4 of the North Carolina General Statutes authorizes two or more units of local government to enter into a formal agreement to share financing, expenditures, and revenues related to joint develop-

ment projects. It specifically authorizes the sharing of property tax revenues generated from a joint industrial or commercial park or site.

Two examples illustrate how cities and counties might formally collaborate on product development in order to strengthen their competitive positions.⁸ The first is the Triangle North project (formerly Kerr-Tar Hub), involving Franklin, Granville, Vance, and Warren counties. In December 2005 county officials signed an interlocal agreement to collaboratively develop a network of four business parks, one located in each county. The interlocal agreement stipulates how the counties will share the costs of development and allocate the tax revenues created by the industrial park network. The Kerr-Tar Regional Council of Governments spearheaded and helped facilitate this process. The second example is the North Mecklenburg Industrial Park, which is now called Commerce Station. The towns of Cornelius, Davidson, and Huntersville are jointly developing this project in Mecklenburg County. In March 2005 the three towns signed an interlocal agreement that sets forth a process for joint ownership of the industrial park and a plan for revenue sharing.

Another important tool for product development involves the reuse of existing buildings. Many North Carolina communities, large and small, have no shortage of vacant, idle industrial and commercial properties, including former textile mills, furniture factories, and tobacco warehouses. It can be challenging to get the financing needed or find private investors who are willing to redevelop some of these properties so that they can be repurposed for active use. The Building Reuse Program, administered by the Rural Development Division of the N.C. Department of Commerce, makes grants to local governments for the renovation of buildings. The Development Finance Initiative (DFI) at the UNC School of Government is available to assist with certain redevelopment projects in distressed communities across the state. The DFI contracts with local governments to help them attract private developers interested in redeveloping a particular property. Many DFI revitalization projects are located in downtown areas and often involve vacant and/or underutilized buildings.

How a Business Location Project Happens

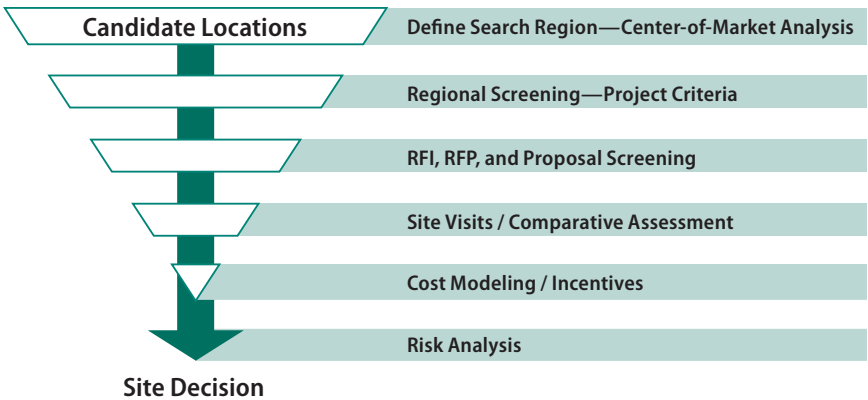
A business location project can originate from many sources and can work its way through the system from many starting places. For example, an inquiry may come about through word-of-mouth from a customer or supplier who is already located in North Carolina, from a trade show, or from a site-selection consultant. Prospects may call a local developer directly if they know exactly where they want to be, or a regional developer if they know their approximate target location. Often the inquirer will call a state developer at the EDPNC first. The following is an example of how a project works its way through the system, starting with a general inquiry about North Carolina. (See Figure 2, below.)

A Typical Project

An inquiry about a business location project may come from a representative of a company itself or from a site-selection consultant representing a company. Initial information is gathered and screened by reviewing websites. The prospect or site-selection consultant often issues a formal “Request for Information” (RFI) or “Request for Proposals” (RFP) that will prompt responses from state developers. A state developer will take the inquirer on as a client and will then contact local developers from communities that have assets that the company is seeking. The local developers will respond by submitting proposals to the state developer, who then will send all of the community packages to the client. If, after several contacts between parties to clarify and gather additional information, the client is still interested in one or more of the proposed locations, the state developer will schedule and coordinate visits by the client to those communities. It is important to recognize that the client will have eliminated many of the proposed communities based on the information it has received in the proposals.

At this point in the process, a client is usually “comparison shopping” among several states and many communities; consequently, the first visit is a critical point in the sales process. Generally a client will be visiting several communities in one day. Thus time is at a premium. Developers at all levels must be prepared with the precise information that a client might want to view in a short period of time. From a client’s point of view, the purpose of the visits is to eliminate most of the

Figure 2. The Site-Selection Process



Source: McCallum Sweeney Consulting, used with permission.

communities down to a short list of two or three with which it can further negotiate. Sometimes there is no visit at all until after the short list is developed, which puts more pressure on economic developers to have effective websites and other marketing tools to tell their stories when a company is screening out most communities.

Generally a state developer will be a client's primary contact until the client's company settles on a short list of possible locations. Once the site negotiations begin, a local developer will take the lead and become the primary contact and deal closer. During these negotiations, the local developer must call on all of his or her allies and resources for support and coordination. The terms and conditions that a company requests of a community during these negotiations may cover a broad spectrum of issues, including site locations, schools, permits, financing, utility enhancements, and research partnerships. As in any negotiation, the local developer and his or her support team must know what the value of the project is—and the limits of the local investment—to meet a targeted return. In this case the local investment is coordinated from all resources, including public dollars from all levels of government within the state, combined with money from private investors that might have an interest in the project.

The need for confidentiality is one issue in the site-selection process that is often misunderstood.⁹ Companies require confidentiality because they do not want their competitors to learn about their strategic decisions, particularly new locations or expansions. Participants in this process must strive to honor this need for confidentiality in order to keep their jurisdictions under consideration. Some communities have lost projects as a result of confidentiality breaches or premature press coverage.

The time frame for what has been described above can take years or weeks, depending on how fast a company is willing to make decisions and on the size of the project. In today's competitive economy, the amount of time is getting shorter and shorter.

Financial Incentives

Financial incentives are used mostly to support two particular economic development strategies: business recruitment and business retention/expansion. However, many jurisdictions are exploring the possibilities for creating effective financial incentives to aid small firms and start-ups.

Public officials use incentives as tools to affect a given project's success. However, their results can vary depending on how they are applied.¹⁰ Just as a business makes an investment to achieve a return, a state or locality can treat its expenditures on business incentives as public investments that require an appropriate rate of return.

The net return from incentive policies at all levels must be measurable. Quantifiable results should show that a community or the state has derived benefits that outweigh the cost of the incentives.¹¹ Claw-back provisions that require firms to reimburse incentive providers should the firms fail to meet agreed investment and jobs targets must be included in all project agreements.

Most costs associated with relocating a business occur early on in the relocation process, and many incentive policies are designed to help companies ramp-up new operations with minimal disruption and financial drain. The most successful transactions occur when a community and a company see the location choice as a win-win situation. Each party makes an investment, and both divide the risks and share the rewards.

In deciding upon a location, a firm takes incentives into account along with other key site-selection factors, such as access to skilled labor, adequate buildings and facilities, and high-quality infrastructure. The data in Table 2, below, show the top twelve factors, out of a possible twenty-eight, that corporate industrial firms in 2015 considered to be

most important in their business location and expansion decisions. Based on an annual survey of corporate executives, these numbers suggest that incentives are not likely to be the single most important site-selection factor, but they clearly matter. That incentives are ranked in the top ten is notable.

Thus it is important to understand how and when incentives matter in the site-selection process. Incentives are typically negotiated once a business has narrowed the list of possible locations to a few that meet all of its other requirements for a site or building, infrastructure, workforce, and so forth. At that point the incentives offered can tip the scale in favor of one location over another. From a competitiveness perspective, a jurisdiction has to decide whether to play to win or sit on the sidelines. In the current environment incentives are necessary to be in the game.

With firms seeking to maximize shareholder value, financial support from communities that bolsters the bottom line is a critical site-selection criterion. Because site-selection searches are largely a process of elimination, communities and states refusing to offer reasonable incentives may not be viewed as serious about economic development and may risk being eliminated quickly from consideration by companies and site-selection consultants.

State and local governments striving to capture their share of new jobs and investment offer long-term advantages to new and expanding firms, including a balanced menu of sensible incentives. Having a formal policy that specifies the types of industries eligible for incentives and the criteria for company performance can help ensure that incentives are used strategically to benefit the jurisdiction. In the end any financial support for new or expanding industry must be predicated upon a targeted return on investment.

States and localities should utilize economic and fiscal impact analysis tools to estimate the costs and benefits of a given project to a jurisdiction. Like any sound investment, incentives should more than pay for themselves in yielding economic and fiscal benefits over and above what the incentives cost and any expenditures required for new public services.

Table 2. 2015 Top Site-Selection Factors for Corporate Facilities

Factors	Percent (%) of Executives Ranking as Important
1. Availability of skilled labor	92.9
2. Highway accessibility	88.0
3. Quality of life	87.6
4. Occupancy or construction costs	85.4
5. Available buildings	83.7
6. Labor costs	80.8
7. Corporate tax rate	78.8
8. Proximity to major markets	76.3
9. State and local incentives	75.8
10. Energy availability and costs	75.3
11. Tax exemptions	74.7
12. Expedited or "fast-track" permitting	74.2

Source: "30th Annual Survey of Corporate Executives: Cautious Optimism Reflected," *Area Development* (Q1 2016), www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2016/corporate-executive-site-selection-facility-plans-441729.shtml.

Current Financial Assistance Programs

The state of North Carolina and its local governments offer performance-based incentives to companies meeting certain requirements. These incentive programs are designed to induce private investment and job creation by lowering the cost of doing business for firms locating and expanding in the state.

State Programs

State-level economic development incentives in North Carolina have shifted away from statutory tax credits in favor of discretionary grants. This policy shift reflects growing concern about the ability of tax credits to directly influence business decisions given the time lag that occurs in claiming the credits on tax returns. Some companies may not generate enough profit early on to incur sufficient tax liability against which to claim credits. Also, it can be difficult for the state to accurately estimate the amount of revenue it will forego due to tax credits in any given fiscal year. For these reasons discretionary grants now are the foundation of North Carolina's incentives.

State incentive programs use an economic development tier system in an effort to steer greater benefits to the counties most in need. The tier system assigns each county a ranking between 1 and 100 based on the sum of various economic distress indicators. The forty counties with the highest levels of distress receive a Tier 1 designation, the next forty are labeled Tier 2, and the twenty best performers are considered Tier 3. Companies receive a higher dollar amount of state incentives for locating or expanding in a Tier 1 county.

The following state programs are available as of June 2016. The amount of money available in each program may be limited.

Job Development Investment Grant (JDIG). JDIG is a discretionary incentive program that provides a limited number of cash grants directly to new and expanding businesses that will create economic benefits for the state but that need grants to carry out their projects in North Carolina. A five-member Economic Investment Committee (EIC) evaluates projects and makes decisions regarding JDIG awards, funding levels, grant periods, and other terms of the grants. The EIC is authorized to award grants to be disbursed annually for a period of up to twelve years. The amount of the JDIG grant is based on the percentage of income tax withholdings associated with eligible positions created by a company over a specified period of time. The share of the grant the company receives depends on the tier designation of the county in which the company's project is located. (See <http://edpnc.com/incentives/job-development-investment-grant/>.)

One North Carolina Fund. Companies may receive money from this discretionary grant fund for the installation or purchase of new equipment; structural repairs on, improvements to, or renovation of existing buildings to be used for expansion; construction of or improvements to new or existing water, sewer, gas, or electric utility distribution lines or equipment for existing buildings; and construction of or improvements to new or existing water, sewer, gas, or electric utility distribution lines or equipment for new or proposed buildings to be used for manufacturing and industrial operations. The grant awards are tied to certain criteria, such as the number of jobs the project will generate, the amount of investment, and the county tier designation. The company must agree to meet a wage standard, and its local unit of government

must agree to provide matching financial assistance to the company. (See <http://edpnc.com/incentives/one-north-carolina-fund/>.)

Building Reuse Program. Administered by the Rural Development Division of the N.C. Department of Commerce, the Building Reuse Program provides grants to local governments for (1) renovation of vacant buildings, (2) renovation of buildings occupied by existing businesses seeking to expand, and (3) renovation or construction of rural health facilities. (See <https://www.nccommerce.com/ruraldevelopment/rural-grants-programs/building-reuse/>.)

North Carolina Community Development Block Grant—Economic Development Program. This program offers grants to local governments (municipal and county) for infrastructure projects involving a specific business that will create new jobs. Project activities must predominantly benefit persons living for the preceding twelve months in a low or moderate family income status. (See <http://edpnc.com/incentives/community-development-block-grant-program-economic-development/>.)

Industrial Development Fund (IDF). IDF is available to assist the local governments of the most economically distressed counties in the state. An eligible county or city may apply for the funds on behalf of a private manufacturing business located or locating in its jurisdiction. The business may use IDF funds for the construction of water, sewer, gas, and electric lines to the project site or for the construction or repair of industrial buildings. Funds available for a single project are determined by multiplying the number of jobs committed to be created by \$5,000, up to a maximum of \$500,000 or the cost of the project, whichever is less. (See <https://www.nccommerce.com/research-publications/incentive-reports/industrial-development-fund/>.)

NCWorks Customized Training. The North Carolina Community College's Customized Training program is a national model for providing industry-specific workforce training. The program is designed to respond quickly to the needs of businesses and to respect the confidential nature of proprietary processes within an organization. The design and delivery of training is provided to new and existing businesses that are creating jobs, investing in new technologies, and/or enhancing the productivity of incumbent employees. Resources may include training assessment, instructional design and development, instructional

costs, and training delivery. (See <http://www.nccommunitycolleges.edu/ncworks-customized-training>.)

Rail Industrial Access Program. The N.C. Department of Transportation administers this program, which provides grant funding to aid in financing the cost of constructing or rehabilitating railroad tracks required by new or expanding industry. Funding is contingent upon the expectation that jobs will be created by or capital investment made in a given project. (See <http://edpnc.com/incentives/north-carolina-department-of-transportation-rail-industrial-access-program/>.)

Other programs. Certain business activities may also qualify for financial assistance and tax relief through the following state-level programs:

- Datacenter Sales and Use Tax Exemption
- Historic Preservation Tax Credit
- Inventory Tax Exemption
- Manufacturing Tax Exemption
- Pollution Abatement and Recycling Equipment Sales and Use Tax Exemption
- Foreign Trade Zones (customs duties deferral)
- Bioscience Industrial Development Grant

Regional Programs

Each of the state's regional economic development partnerships (see the discussion at page 9, above) maintains its own set of policies and procedures for providing financial support for industrial projects. Other regional organizations that support economic development to varying degrees are Councils of Government (COGs) and Workforce Development Boards.

In North Carolina seventeen COGs or regional councils serve multi-county regions by assisting local governments with planning and development issues. COGs provide technical assistance to local governments and help coordinate access to state and federal programs. Some COGs are more directly engaged in economic development activities than others. For example, the Upper Coastal Plain COG located in Rocky Mount administers a revolving loan fund and is developing a regional business incubator. (See <http://www.ucpcog.org/>.) The Centralina COG in the Charlotte region created and staffs

a nonprofit organization called the Centralina Economic Development Commission. (See <http://www.centralina.org/>.)

There are twenty-three Workforce Development Boards in the state that oversee and coordinate federal workforce programs at the local level. Some Workforce Development Boards serve single counties, but many serve multi-county regions and are based within COGs. Local elected officials appoint board members, a majority of whom must be business representatives.

Local Programs

One survey found that local governments in North Carolina rely primarily on infrastructure investments, zoning, and permitting as economic development incentives.¹² However, 42 percent of cities and counties responding to the survey stated that they also provide cash grants directly to firms in lieu of abating local property taxes, which is prohibited under North Carolina law. City and county incentive programs vary widely, but cash grants increasingly are offered along with other types of inducements. In another survey, 95 percent of North Carolina counties reported using incentive grants.¹³ Cash grants should be tied to the performance of the company undertaking the project in the jurisdiction and are usually calculated based on a formula of anticipated local tax revenue and job increases over a designated period of time.

Local Incentive Examples

Robeson County maintains a three-tiered industrial development incentive grant program, eligibility for which is based upon capital investment, job, and wage levels. Land grants and other types of assistance are negotiated on a case-by-case basis.

Another example is Forsyth County, which has established incentive guidelines based on new capital investment (building and equipment) and on the number and value of new jobs created by the given project. The county requires a minimum investment of \$3 million and the creation of at least twenty-five new jobs. Incentives must be approved by vote of the board of commissioners. Using a formula that calculates the annual tax return from the investment and the sales tax increase from the new jobs, the county will provide financial assistance to companies based on a three-to-five-year payback. The money can be used

for site, facility, and infrastructure improvements; land acquisition; site analysis; employee training; and lease reductions. Jobs must meet specified wage thresholds.

Scotland County, a third example, awards incentives that include free land, extension of water and sewer lines, relocation assistance, waiver of building permit fees, and cash grants equivalent to 50 to 85 percent of county property taxes. These inducements are extended based upon the amount of capital investment in the project and the number of jobs anticipated within a period of three years.

Industrial Revenue Bonds (IRBs)

Subject to approval by the N.C. Department of Commerce and the N.C. Local Government Commission, counties may establish authorities to issue IRBs, which provide tax-exempt financing for eligible new or expanded manufacturing facilities and certain solid waste disposal facilities in North Carolina. IRBs offer businesses a convenient, long-term, flexible financing vehicle.

IRBs can be used to finance an entire project, including the cost of land; construction of new or expanded facilities; acquisition and installation of depreciable property, such as equipment; and construction period interest. Typically IRBs are issued as floating-rate debt supported by a letter of credit issued by a bank and have an interest rate that is approximately 60 to 70 percent of the prevailing prime rate. Terms of the bond issue are negotiable, and the costs of issuing bonds can be spread out over the term of the bond issue.

The maximum bond amount is \$10 million. Qualifying projects must include

- a written commitment of local support (called an “inducement letter”),
- a commitment either to pay wages above the county manufacturing average or 10 percent above the state average or to locate in an area of severe unemployment,
- the procurement of required environmental permits,
- the creation of a sufficient number of jobs to impact the local economy (a minimum of six jobs per \$1 million in bonds), and

- an assurance that the new financing will not result in the company closing another facility in North Carolina.

Project Development Financing

North Carolina was one of the last states in the U.S. to adopt this type of financing mechanism. In November 2004 voters approved an amendment to the state constitution that authorizes local governments to issue “project development financing” bonds without voter approval to pay for certain public investments needed to attract private development. More commonly known as tax increment financing, or “TIF,” this type of bond relies on the incremental tax revenues that result from increases in assessed property values. The bonds are considered self-financing because, if successful, the public improvements they finance will stimulate new private investment and generate tax revenues that are used to pay off the bond debt.

The Future of Economic Development in North Carolina

The field of economic development is constantly evolving and is influenced by new ideas and innovative thinking about how best to promote private investment and job creation. This is evident in the recent changes in North Carolina's economic development delivery system at the state level. The latest trends in the field emphasize homegrown strategies that build on existing local assets as potential sources of growth. They also highlight the advantages of collaboration and partnerships (social capital) in implementing economic development. The following five strategies are showing promise as new ways of doing economic development.

1. Collaborating to compete by building connections among the firms within key industry clusters and between firms and supporting organizations, and also by facilitating cooperative arrangements between jurisdictions to address issues such as infrastructure, product development (e.g., multi-jurisdictional industrial parks), and innovation. An example is the “triple helix” approach to collaborative innovation that is occurring in the Research Triangle region.¹⁴

2. Cultivating innovation, creativity, and talent by fostering an environment that is conducive to creative ideas, new technologies, and innovative firms; increasing the pool of knowledge workers; equipping people with higher-order skills; and preparing people for community leadership.

3. Using “economic gardening” as a specific way to “grow your own” jobs from scratch by cultivating local entrepreneurs and small firms and creating a local ecosystem that supports their growth.

4. Place-making, that is, capitalizing on the distinctive and special characteristics of a particular place, such as its natural environment, cultural heritage, specialized infrastructure, and arts/crafts traditions. This strategy is often involved in some of the efforts to promote local foods and craft breweries in some parts of the state.

5. Promoting sustainable prosperity—taking a long-term view of economic development and seeking to balance the so-called “3 Es”: economic growth, environmental conservation, and equity. Some refer to this approach as “triple bottom line” development. Applying this model in North Carolina may be a way to align emerging interests in promoting the state’s green economy with a renewed emphasis on promoting prosperity that is widely shared among residents living in urban and rural communities alike.

Endnotes

1. See Scott Huler, “The Man and the Plan Behind Research Triangle Park,” *Our State* (Aug. 25, 2014), www.ourstate.com/research-triangle-park/.
2. See Mark Arend, “In It to Win It,” *Site Selection* (May 2015), <http://siteselection.com/issues/2015/may/top-competitive-states.cfm>.
3. Timothy J. Bartik, “Economic Development,” in *Management Policies in Local Government Finance*, eds. J. Richard Aronson and Eli Schwartz, 5th ed. (Washington, DC: International City/County Management Association, 2004), 355–90; Ted Levine, “Six Revolutions in Economic Development Marketing,” *Economic Development Journal* vol. 1, no. 1 (2002): 5–12.
4. Mark Binker, “NC Wealth Gaps Spurring Rebuild of Economic Development Efforts,” WRAL.com (Jan. 7, 2016), www.wral.com/nc-wealth-gaps-spurring-rebuild-of-economic-development-efforts/15219983/.
5. David R. Kolzow, *A Strategic Approach to Economic Development*, (Taimercia Management Co., 2010).
6. Henry M. Cothran, *Business Retention and Expansion (BRE) Programs: Why Existing Business are Important* (Gainesville, FL: University of Florida, IFAS Extension, 2009), <http://edis.ifas.ufl.edu/pdf/FE/FE65100.pdf>.
7. For a fuller description of these examples and additional ones, see Will Lambe, *Small Towns, Big Ideas: Case Studies in Small Town Community Economic Development* (UNC School of Government and N.C. Rural Economic Development Center, 2008), www.schoolofgovernment.unc.edu/programs/cednc/stbi/.

8. Crystal Morphis and Ernest Pearson, “Creating Economic Opportunity: Multi-Jurisdictional Parks as a Product Development Tool,” *Economic Development Journal* vol. 10, no. 2 (Spring 2011): 28–35.
9. Patricia Mitchell and Charles Abernathy, “Confidentiality and Complexity: Unlocking the Subplots of Economic Development,” *PM [Public Management]* vol. 95, no. 10 (Nov. 2013): 6–11.
10. Jonathan Q. Morgan, “Using Economic Development Incentives: For Better or for Worse,” *Popular Government* vol. 74, no. 2 (UNC School of Government, Winter 2009): 16–29, www.sog.unc.edu/sites/www.sog.unc.edu/files/articles/article3_13.pdf.
11. Jonathan Q. Morgan, “Analyzing the Benefits and Costs of Economic Development Projects,” *Community and Economic Development Bulletin* No. 7 (UNC School of Government, April 2010), www.sog.unc.edu/sites/www.sog.unc.edu/files/reports/cedb7.pdf.
12. Jonathan Q. Morgan, *The Role of Local Government in Economic Development: Survey Findings from North Carolina* (UNC School of Government, June 2009), www.sog.unc.edu/sites/www.sog.unc.edu/files/full_text_books/2009175%20The%20Role%20of%20Local%20Government.pdf.
13. Ernest Pearson and Crystal Morphis, *2011 North Carolina Local Incentives Survey* (Sanford Holshouser Economic Development Consulting, Aug. 2011), <ftp://ftp.ashevollenc.gov/OED/CommAndEconDevIncentives/other/ExternalStudiesReports/2011IncentivesSanfordHolshouserFinal%20Report.pdf>.
14. Jonathan Q. Morgan, “A Collaborative Approach to Innovation-Based Economic Development: The Triple Helix,” in *Problem Solving with the Private Sector: A Public Solutions Handbook*, ed. Daniel E. Bromberg (Abingdon, UK: Routledge, 2016), 103–26.

Resources

The following organizations offer information, education, and support on an array of economic development topics.

The NORTH CAROLINA ECONOMIC DEVELOPMENT ASSOCIATION (NCEDA) is the statewide association of professional economic developers and their allies. Members promote the state and their respective communities as places for new economic activity. Traditionally this work focused on recruitment of manufacturing industries, but it has recently expanded to include trade, services, tourism, downtown development, business retention, and entrepreneurship. Serving its members for fifty years, NCEDA's mission is to be (1) North Carolina's leading organization for economic development professionals and allies and (2) North Carolina's leading advocacy organization for economic development.

North Carolina Economic Development Association

1201 Edwards Mill Road, Fourth Floor

Raleigh, NC 27607

Contact: John Peterson, Executive Director

Phone (toll-free): 888-246-2332

Fax: 919-882-1902

www.nceda.org

The NORTH CAROLINA DEPARTMENT OF COMMERCE is North Carolina's lead public agency for economic, community, and workforce development. The department's mission is to improve the economic well-being and quality of life for all North Carolinians. The Commerce Department contracts with the Economic Development Partnership of North Carolina (EDPNC) to provide business development services

and to carry out international trade, tourism, and film activities. The department administers programs in employment security, labor and economic analysis, workforce development, science and technology, and rural development.

North Carolina Department of Commerce
301 N. Wilmington Street
Raleigh, NC 27601
Phone: 919-814-4600
www.nccommerce.com

The ECONOMIC DEVELOPMENT PARTNERSHIP OF NORTH CAROLINA (EDPNC) is a private nonprofit corporation that delivers a variety of state-level economic development functions, including marketing; new business recruitment; existing industry support; international trade and export assistance; small business counseling; and tourism, film, and sports promotion.

Economic Development Partnership of North Carolina
15000 Weston Parkway
Cary, NC 27513-2118
Phone: 919-447-7777
www.edpnc.com

The BASIC ECONOMIC DEVELOPMENT COURSE AT UNC-CHAPEL HILL provides intensive instruction on the fundamentals of economic development practice. It is an introductory training course designed for economic development professionals employed by public, nonprofit, or private development agencies. The course is accredited by the International Economic Development Council and counts toward the Certified Economic Developer (CEcD) certification for professional economic developers. It serves as the first step in a structured professional development program. The course provides economic development professionals with the foundational knowledge and skills necessary for organizing, planning, and operating economic development activities and programs.

Basic Economic Development Course
University of North Carolina at Chapel Hill
School of Government

Contact: Jonathan Q. Morgan, Ph.D.

Phone: 919-843-0972

www.sog.unc.edu/courses/basic-economic-development

The NORTH CAROLINA COMMUNITY COLLEGE SYSTEM strives to open doors to high-quality, accessible educational opportunities that minimize barriers to post-secondary education, maximize student success, develop a globally competent workforce, and improve the lives and well-being of individuals. With 150 locations, more than 14,000 faculty and staff, and 800,000+ students, the System's fifty-eight institutions offer the following:

- Education, training, and retraining for the workforce, including basic skills and literacy education, occupational and pre-baccalaureate programs.
- Support for economic development through NCWorks Customized Training (see the discussion at page 37, above) for new and existing businesses and through start-up assistance via the Small Business Center Network.
- Pathways to four-year degrees and beyond through collaborations with the University of North Carolina System and private colleges and universities.
- Services to communities and individuals that improve the quality of life across North Carolina.

North Carolina Community College System

5001 Mail Service Center

Raleigh, NC 27699-5001

Contact: Linda Weiner, Vice President of Engagement
and Strategic Innovation

Phone: 919-807-7146

www.nccommunitycolleges.edu

The GOLDEN LEAF FOUNDATION receives funds through the national tobacco settlement and provides grants to government entities, educational institutions, economic development organizations, and non-profits to create economic impact, particularly in places adversely affected by tobacco decline. The purpose of Golden LEAF is to fund projects that promise to bring significant economic improvement to

the tobacco-dependent, economically distressed, and/or rural communities of North Carolina. Golden LEAF's grant programs focus on three priorities: agriculture, job creation and retention, and workforce preparedness.

Golden LEAF Foundation
301 N. Winstead Avenue
Rocky Mount, NC 27804
Contact: Dan Gerlach, President
Phone: 252-442-7474
Toll-free: 888-684-8404
Fax: 252-442-7404
www.goldenleaf.org

The RURAL CENTER serves the state's eighty rural counties by developing, promoting, and implementing sound economic strategies to improve the quality of life of rural North Carolinians. The Rural Center places a special focus on individuals with low to moderate incomes and communities with limited resources. It focuses its activities in four areas: public policy, research and innovation, community capacity-building, and leadership development.

The Rural Center
4021 Carya Drive
Raleigh, NC 27610
Contact: Patrick Woodie, President
Phone: 919-250-4314
Fax: 919-250-4325
www.ncruralcenter.org

The SOUTHERN ECONOMIC DEVELOPMENT COUNCIL (SEDC) traces its roots to the fall of 1946, making it the oldest and largest regional economic development association in North America. SEDC is an Internal Revenue Code Section 501(c)(6) nonprofit membership organization serving more than 1,200 economic development professionals in seventeen states. Its membership is diverse, including leaders from across business and industry; chambers of commerce; utilities; transportation; finance; education; and local, regional, and state development agencies.

Southern Economic Development Council

311 Nelson Street

Atlanta, GA 30313

Phone: 404-523-3030

Fax: 404-523-0406

www.sedc.org

The INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL (IEDC) was created in 2001 through the merger of the Council for Urban Economic Development (CUED) and the American Economic Development Council (AEDC), both longstanding organizations. IEDC is a professional membership organization with nearly 4,000 members. Its services include conferences, professional development and certification, advisory services, legislative tracking, an information clearinghouse, and publications.

International Economic Development Council

734 15th Street NW, Suite 900

Washington, DC 20005

Phone: 202-223-7800

Fax: 202-223-4745

www.iedconline.org

CORENET GLOBAL is a worldwide professional development and networking association for corporate real estate and related professionals. Formerly known as IDRC, its 7,000 members are based in five global regions and manage \$1.2 trillion (U.S.) in owned and leased industrial, office, and other space. Among its services is the Open Standards Consortium for Real Estate.

CoreNet Global

133 Peachtree Street NE, Suite 3000

Atlanta, GA 30303

Phone: 404-589-3200

Toll-free: 800-726-8111

Fax: 404-589-3201

www.corenetglobal.org

The INDUSTRIAL ASSET MANAGEMENT COUNCIL (IAMC) is a leading association of industrial asset management and corporate real estate executives, their suppliers and service providers, and economic developers.

Industrial Asset Management Council
6625 The Corners Parkway, Suite 200
Peachtree Corners, GA 30092
Phone: 770-325-3461
Fax: 770-263-8825
www.iamc.org

The U.S. ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) is a bureau within the U.S. Department of Commerce. EDA is the only federal agency that has as its sole mission economic development. The agency provides grant funding for economic development on a competitive basis focused on job creation and private investment outcomes.

U.S. Economic Development Administration
EDA North Carolina Representative: Hillary Sherman
401 West Peachtree Street NW, Suite 1820
Atlanta, GA 30308-3510
Phone: 404-730-3013
Email: hsherman@eda.gov
www.eda.gov

The following resources in the state also have a focus on economic development.

- The DEVELOPMENT FINANCE INITIATIVE (DFI) at the UNC SCHOOL OF GOVERNMENT assists local governments in attracting private investment for transformative projects by providing specialized finance and development expertise. DFI partners with communities on projects involving building reuse, community development, downtown revitalization, and economic development. (See <https://www.sog.unc.edu/resources/microsites/development-finance-initiative>.)
- NCGROWTH AT THE UNC KENAN INSTITUTE OF PRIVATE ENTERPRISE assists communities, primarily in Eastern North Carolina, with economic development strategic planning

and research on important topics such as alternative energy, incentive policies, and local food systems. (See www.ncgrowth.unc.edu.)

- The INDUSTRY EXPANSION SOLUTIONS GROUP AT NORTH CAROLINA STATE UNIVERSITY focuses on helping existing industry be more productive and profitable. (See www.ies.ncsu.edu.)
- SMALL BUSINESS AND TECHNOLOGY DEVELOPMENT CENTERS, housed at sixteen UNC campuses, provide management counseling and market development services to growing small businesses statewide. (See www.sbtcd.org.)
- MCNC promotes technology-based economic development statewide through partnerships with universities, industries, and governments. (See www.mcnc.org.)
- The NORTH CAROLINA BIOTECHNOLOGY CENTER accelerates life science technology-based economic development through innovation, commercialization, education, and business growth, with six regional offices across the state. (See www.ncbiotech.org.)
- The NORTH CAROLINA MILITARY BUSINESS CENTER is a collaborative effort between North Carolina businesses and the North Carolina Community College System. Its mission is to leverage military and other federal business opportunities for economic development and quality of life in North Carolina. (See www.ncmbc.us.)
- The INSTITUTE OF ECONOMIC DEVELOPMENT assists historically underutilized businesses in accessing affordable capital, expanding market opportunities, and stabilizing internal management and control systems. (See www.theinstitutenc.org.)
- The INSTITUTE FOR EMERGING ISSUES AT NORTH CAROLINA STATE UNIVERSITY convenes leaders from businesses, nonprofit organizations, governments, and higher education institutions to tackle some of the biggest issues facing North Carolina's future growth and prosperity, including education, health, tax and finance, energy and the environment, and economic development. (See www.ncsu.edu/iei.)

About the Editor/Author

Jonathan Q. Morgan is an Associate Professor of Public Administration and Government in the School of Government at the University of North Carolina at Chapel Hill, where he teaches, advises, and conducts applied research on economic development. He directs the annual Basic Economic Development Course at UNC, which is accredited by the International Economic Development Council. Prior to joining the School of Government in 2003, he worked for Regional Technology Strategies, Inc., an economic and workforce development consulting firm located in Carrboro, NC. Dr. Morgan has also served as Director of Economic Policy and Research for the N.C. Department of Commerce, as well as Research and Policy Director for the N.C. Institute of Minority Economic Development. He holds a B.A. in economics from the University of Virginia, an M.P.A. from Clark Atlanta University, and a Ph.D. in public administration from North Carolina State University.

