Learning Objectives

1. Understand the process of economic development (ED)
2. Examine ED strategies and tools
3. Identify the characteristics of a high performing ED program
4. Discuss what is required to implement an “effective” ED program

The Process of Economic Development
**Goals of Economic Development**

- More jobs; better jobs
- Tax base expansion
- Private investment
- Wealth creation
- Higher quality of life
- High standard of living

**The ED Process**

- Increased private investment → New jobs → Lower unemployment, reduced poverty, higher personal incomes → Increased demand for goods and services


**Growth vs. Development**

**Quantitative:**
- More
  - Jobs
  - People

**Qualitative:**
- Better
  - High-wage jobs
  - Quality of life
  - Diversification
  - Sustainability
How does ED affect local government budgets?

Revenues
- Expands the tax base
- A way to increase revenue without raising taxes
- Provide high quality public services at a reasonable cost
- Development and impact fees

How does ED affect local government budgets?

Expenditures
- Opportunity cost of incentives
- Costs of providing public services for different land uses
- Infrastructure and capital projects
- Debt management

Business Climate
- Forbes “Best States for Business”
- Rankings based on:
  - business costs (labor, energy, taxes)
  - labor supply
  - regulatory environment,
  - economic climate,
  - growth prospects
  - quality of life
## Business Costs and Econ Dev

- Are low costs good for economic development?
- Positive effects on job growth.
- No effects on income or broader indicators of development.
- Being a low-cost region is a **growth strategy** more so than a long-term approach to development (Gabe 2017)

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## What is the single most important role of local govt.?  

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Provide incentives to businesses when requested.</td>
<td>43.1%</td>
</tr>
<tr>
<td>B. Create a positive business climate.</td>
<td>29.2%</td>
</tr>
<tr>
<td>C. Provide strategic leadership and facilitation.</td>
<td>21.8%</td>
</tr>
<tr>
<td>D. Provide quality services and amenities.</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

n = 202

Source: Jonathan Q. Morgan, 2015 Survey of Local Govt. Economic Development Activities, UNC School of Government

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## Survey Says...

### MOST IMPORTANT ROLE OF LOCAL GOVERNMENT
- Provide quality services and amenities: 43.1%
- Create a positive business climate: 29.2%
- Provide strategic leadership/facilitation: 21.8%
- Offer incentives to companies: 5.9%

n = 202

Source: Jonathan Q. Morgan, 2015 Survey of Local Govt. Economic Development Activities, UNC School of Government
What Matters to Companies?

- Sites and Buildings
- Access to Suppliers and Markets
- Workforce/Labor
- Financial Capital
- Regulatory Environment
- Transportation and Utilities
- State and Local Incentives
- Taxes
- Quality of Life

Domestic Relocation Drivers

1. Size/cost of facility/outdated 36%
2. Infrastructure 32%
3. Tax concerns 27%
4. Labor availability 27%
5. Government regulations 23%
6. Logistics/supply chain 23%
7. New markets/market proximity 23%

Source: Area Development, 32nd Annual Corporate Survey, 2017

Top Site Selection Factors

1. Highway accessibility 91.3%
2. Labor costs 91.1
3. Availability of skilled labor 88.8
4. Quality of life 87.2
5. Tax exemptions 85.9
6. Occupancy or construction costs 85.9
7. Proximity to major markets 84.6
8. Corporate tax rate 83.2
9. State and local incentives 81.3
10. Available land 76.9

Source: Area Development, 32nd Annual Corporate Survey, 2017
**Economic Development Strategies & Tools**

**Evolution of Economic Dev.**

<table>
<thead>
<tr>
<th>Traditional Approach</th>
<th>New Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial recruitment</td>
<td>Existing industry</td>
</tr>
<tr>
<td>Cheap labor</td>
<td>Talent and creativity</td>
</tr>
<tr>
<td>Incentives</td>
<td>Targeted incentives</td>
</tr>
<tr>
<td>Individual firms and sectors</td>
<td>Industry clusters</td>
</tr>
<tr>
<td>Large branch plants</td>
<td>Entrepreneurship</td>
</tr>
<tr>
<td></td>
<td>Regional collaboration</td>
</tr>
<tr>
<td></td>
<td>Place-making</td>
</tr>
</tbody>
</table>

**Local Govt. Roles in Econ Dev**

- Setting the vision and strategy
- Investing in the core building blocks of competitiveness:
  - Smart infrastructure
  - People, talent, and human capital
  - Innovation assets
  - Quality of life amenities
"Product" Development

- Infrastructure
- Land and sites
- Business/industrial parks
- Speculative buildings
- Property rehabilitation and reuse

Revenue/Tax Base Sharing

- NC G.S. 158-7.4 authorizes local govts. to enter into interlocal agreements for joint ED projects
- Can place tax revenues in a common fund and distribute based on agreement

Partnering on Product Dev.

- Kerr-Tar Industrial Hub project, now called Triangle North
  - Network of specialized industrial parks in Franklin, Granville, Vance, and Warren counties
- North Mecklenburg Industrial Park, now called Commerce Station
  - Cornelius, Davidson, and Huntersville
Implementing the Strategy

- Branding and marketing
- Business recruitment
- Business retention/expansion
- Business creation and entrepreneurship
- Workforce and talent development
- Place-making

Incentives

Types of Incentives

- Tax
- Non-tax
- Statutory
- Discretionary
State ED Incentives in NC

- Corporate tax credits
- Discretionary grant programs
- Industrial revenue bonds (IRB)
- Low-interest financing
- Infrastructure assistance
- Industrial training

Local ED Incentives in NC

- Cash grants tied to performance
  - Based on projected tax revenues
- Land, infrastructure, site preparation
- Project Development or Tax Increment Financing (TIF)

Arguments for:

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

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

Are ED Incentives Effective?

- Effective at what?
  - Lowering business costs?
  - Influencing business investment decisions?
  - Inducing jobs and investment that would not otherwise occur?
  - Helping poor people and places

Are ED Incentives Effective?

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

- Are incentives connected to long-term strategic ED goals?
- Are they sufficiently targeted?
- Are project costs and benefits accurately estimated?
- Are there sufficient safeguards in place?

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Building an Effective ED Program

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High Performing ED Programs

- Build analytical capacity to use incentives wisely
- Measure results
- Promote ED that benefits the most people and places
- Know when to collaborate and when to compete
### High Performing ED Programs

- Strive to be “business-friendly”
- Balance transparency with client needs for confidentiality
- Invest in **local assets**
  - People
  - Infrastructure
  - Amenities


### High Performing ED Programs

- Operate with a sound strategic plan
- Are customer-driven
- Innovate and take risks
- Build strong alliances and networks

### Reality Check

- To what extent does your jurisdiction have a high-performing economic development program?
### Building an Economic Dev. Program

- Visioning/Planning/Strategy
- Leadership and Governance
- Organizational Structure
- Funding
- Performance Measurement and Evaluation

### Organizing the ED Program

**What type of structure?**
- Public
- Private
- Non-profit
- Public-private partnership

### Trends in ED Structure

- Public-private partnerships
- Formal collaboration across jurisdictions and sectors
- Specialization and "market" segmentation
- Greater role clarity
Reality Check

- Does your jurisdiction have the optimal structural arrangement for implementing economic development?

Funding the ED Program

- >90% of EDOs receive public funding from federal, state, or local govt.
- Less than 7% are purely privately funded.
- Local govt. continues to be a major funding source for ED


ED Funding by Type of Org.

Trends in ED Funding

- Decline in public funding streams
- Pressure to diversify funding sources
  - More private dollars
- Limit dependence on public dollars
- Fee-for-service models
- Non-traditional funding sources

Measuring Results in ED

- What does “success” look like?
- What does it mean to be “effective” in ED?

Performance Metrics

- Outputs/Activities
  - No. of business inquiries
  - No. of companies assisted
  - No. of existing industry calls and visits
- Outcomes
  - No. and quality of jobs
  - Amount of private investment
  - Increase in tax base
  - Increase in average wage levels
The Latest in Measuring ED Results

- New metrics that capture results and outcomes; not just effort.
- Metrics not fully within the control of ED program
- New economy and QOL metrics
- Capacity-building measures

Questions:

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