Improving Chatham County's Economic Development Incentive Policy:
A Review of Best Practices in County Level Economic Development Incentives

Final Report

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Chatham County
&
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by

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This report was prepared by the University of North Carolina's Center for Competitive Economies with considerable assistance from Dr. Marguerite "Molly" Creel of Cherry Creek Consulting, LLC. This plan reflects our best effort to blend best practices in local economic development incentive policies with an objective assessment of which practices are most feasible for continued implementation of the County's economic development strategic plan. We retain the responsibility for errors of fact or interpretation this report may contain.

Executive Summary

This study makes recommendations on best practices Chatham County should utilize to revise its economic development incentive program. Three primary recommendations emerge from the study:

1. **Revise the County's current economic development incentive program** to include job creation/quality, capital investment, environmental protection, and industry cluster/business type criteria in a scoring system to determine incentive award amounts.

2. **Secure a Funding Base for EDC Operations and Microenterprise Business Assistance** by utilizing a dedicated one-half cent property tax to fund these activities with 75% being dedicated to EDC operations and 25% to microenterprise assistance.

3. **Explore utilizing synthetic tax increment financing (TIFs)** to support financing of projects that further the goals identified in the economic development strategic plan.

Introduction

In June 2008, the University of North Carolina's Center for Competitive Economies (C3E) concluded a 14-month economic development strategic planning effort in Chatham County. The strategic plan recommended three focus areas for the Chatham County Economic Development Corporation (EDC) to target its work: attraction, retention, and entrepreneurship. Complementary recommendations included steps for the County to preserve its "quality of place," improve its infrastructure, and reorganize its economic development efforts.

As a follow-up to the strategic plan, Chatham County and the Chatham County EDC asked C3E to make recommendations on improving the County's economic development incentive policy, taking into consideration findings and recommendations from the strategic planning efforts. The Chatham County EDC was principally interested in incentive policy best practices that would promote attraction and retention efforts around the previously identified industry clusters while promoting other identified goals, such as, increasing wage standards, improving the quality of available jobs, and employing existing residents to reduce out-commuting. We approached the study of best practices looking through this lens while considering other objectives important to the citizens and government of Chatham County, including increased tax base to fund needed services, conservation of the natural environment, and preservation of the County's historic, rural character.

Reconsidering Incentives[1]

Incentives present a challenging dilemma for local and state governments. Incentives became popular economic development tools during the 1990's, but they have subsequently come under intense scrutiny. One original purpose of incentives was to make a community more attractive to mobile capital in the form of potential employers and investors, but over time governments and academics have come to recognize that incentives should not be considered under these terms alone.

A great deal of academic work has been done on the topic and the general consensus is that, *in most instances, incentives do not substantially change business decisions about where to locate or expand operations*. These academic findings are corroborated by business-owners who list other concerns (i.e. workforce suitability, local taxes, infrastructure, and proximity to suppliers and markets) as more important factors driving their siting decisions. A C3E survey of incented and non-incented North Carolina companies found incentives ranked 12th and 13th respectively as priorities for business climate. Availability of skilled labor, state tax rates, local property tax rates, infrastructure, and availability of educational institutions were all considerably more important to business climate than incentives.

[1] UNC's Center for Competitive Economies is completing a study for the North Carolina General Assembly on the effectiveness of the state's economic development incentive programs. Many of these insights on incentives are drawn not only from academic literature, but from our own study of North Carolina's experience with economic incentives.

In light of findings that incentives are not alone effective tools for attracting new business, it may seem surprising that counties and states continue to offer them. In part this may be explained by the strategic pressure that localities feel to offer incentives because other counties or states are offering them. Economic developers rarely *know* whether a businesses' siting decision is contingent on receiving incentives, but they are still concerned that not offering an incentive could tip the balance in the wrong direction. In addition, it is generally assumed that not offering incentives sends a signal to the market that a locale is not business-friendly. Even if siting decisions are not primarily driven by incentives, businesses will still seek to extract the best incentive package they can from government. Once it became common practice for states and localities to offer them it is difficult for individual governments to oppose the trend. Instead, we suggest governments view incentives as an *opportunity* to attract desired industries, rather than an obligation to remain competitive.

When Are Incentives Most Persuasive?

Like all policy tools, incentives vary in their influence on business decisions and on their economic benefit to the government granting the incentive. Incentives are more *persuasive* in influencing a company's location decision under a certain set of conditions. First, incentives are more persuasive when other factors are equal and an incentive can sway a decision between two or more equally suitable locations. Second, incentives can be persuasive in influencing the location of highly mobile prospects. For example, incentive packages would have a larger impact on a location decision when a prospect was not tied to natural resources or other constraints in selecting a location decision. Third, tailoring an incentive to a company's specific priorities and needs rather than offering a cookie-cutter incentive tends to be more attractive to company decision-makers. Fourth, companies utilize a large discount rate in evaluating incentive packages; meaning, they value more cash or other front-loaded offerings rather than subsequent or lengthy incentive packages paid in later years. Fifth, bundled incentive packages tend to be more persuasive, which suggests local governments should work with community colleges, state government, and other agencies to combine financial incentives with other assistance such as worker training, infrastructure improvements, etc. Lastly, incentives can be persuasive when government takes an aggressive approach to identify and target companies for expansion or recruitment to their area before the company enters a formal site selection process. Developing relationships "before the auction starts" places governments in a better position to negotiate and tailor incentive packages for company recruitment.

When Do Incentives Have the Greatest Economic Benefit?

Incentives vary not only in their persuasiveness, but also in their economic benefit. An additional 500 new jobs in a rural, economically depressed region could have a transformative effect on a community. An additional 500 new jobs in a crowded metropolitan region could have a net negative effect if the increased public service costs outweigh the increased economic benefits. In areas like Chatham County with a high out-commuting rate, incentives logically have a greater economic benefit when they incent companies that employ existing residents rather than import new workers to county. Employing existing residents minimizes new public service costs. Economic benefit is also greatest when incentives are strategically targeted to those industries that fit a region's industry clusters, especially if the industry is expected to have a catalytic effect of relocating other companies in the supply chain or utilizing existing companies to source production inputs. Two other company characteristics also product a greater economic benefit. First, companies recruited in their growth phase are more likely to add additional jobs beyond those specified in an incentive agreement, while mature companies are more likely to have reached a plateau or even see a decline with respect to employment. Second, company headquarters also offer a greater economic benefit to a region. Company headquarters receive profits from associated branches and more of these profits are likely to be funneled back into the local economy in the form of corporate investment, high executive pay (and associated spending), and philanthropic endeavors if a company is headquartered in a community.

The general recommendation of this report is that Chatham County should *view incentives as opportunities for investments in the local community*. Instead of seeing incentives merely as a means of attracting new business, it is more helpful to view them also as tools for encouraging socially-beneficial economic activity to achieve the goals identified by the County and its citizens. Part of the utility of incentives is in their ability to stimulate business practices that further Chatham County's broader development objectives and, wherever possible, the revised incentive plan should reflect those goals. Moving to a more realistic and effective use of incentives requires expanding the criteria used in determining when incentives should be offered as discussed in the subsequent sections of this report.

Current Practice in North Carolina Counties

We utilized multiple methods to explore the current practices in North Carolina counties.[2] First, economic developers for all 100 counties in North Carolina were contacted by telephone for an initial telephone interview. Twenty-one (21) counties responded to the telephone interview. These interviews had three primary goals.

- Obtain a current copy of the county's economic incentive guidelines.
- Identify industries targeted by the county.
- Record the county's characterization of its use of development incentives.

Second, written incentive plans for North Carolina counties were compiled through Internet website searches and/or through follow-up correspondence with telephone interviewees. In total, 17 written incentive plans were gathered for review. In some cases, no formal written policies existed.

Third, 46 economic developers responded to a survey questionnaire. The goals of the e-mailed questionnaire were as follows:

- Identify criteria used to award incentives.
- Prioritize a list of county economic development tools.
- Gauge the formality and stability of existing county incentive guidelines.

[2] See appendix for methodology and specific details regarding interactions with NC Counties.

These three methods were utilized to describe the current state of incentive practices in North Carolina.

Goals of County Economic Development Programs

Figure 1: General Economic Development Goals

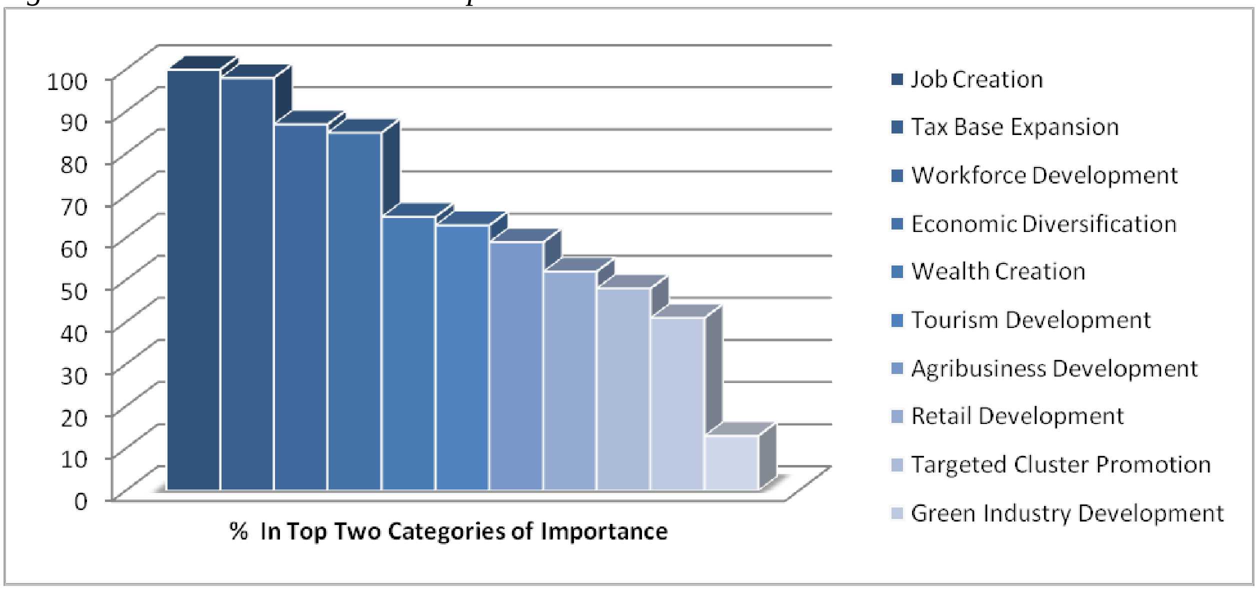
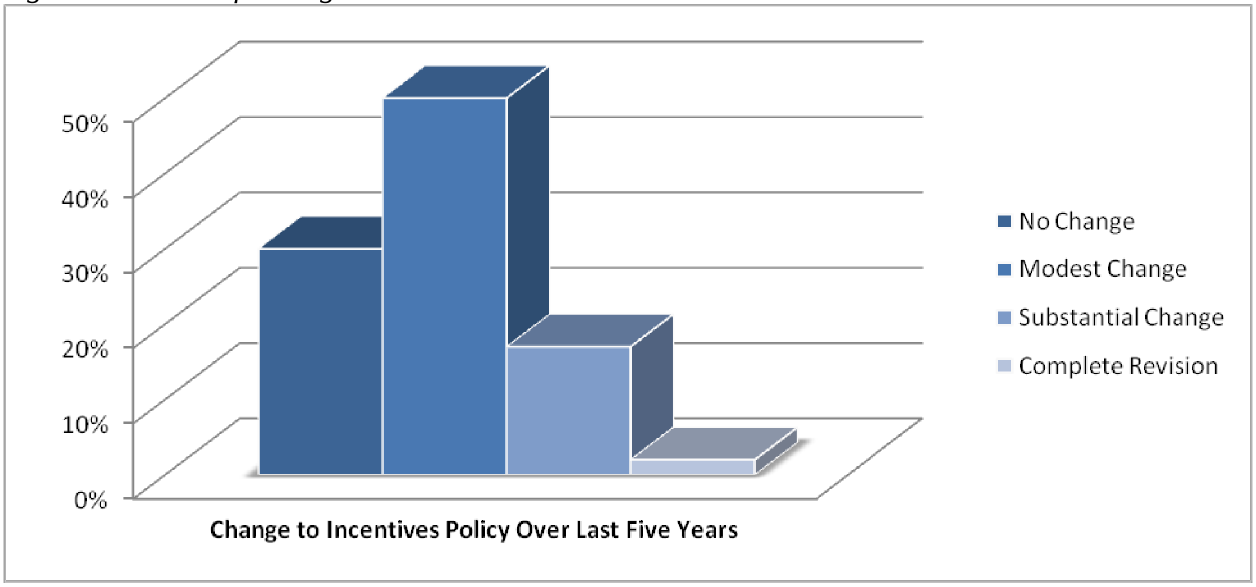


Figure 1 shows the results for our survey question that sought to capture the relative importance of several broad economic development goals. For each of the goals, respondents were asked to rank the objective on a 1-5 scale. Figure 1 shows the percentage of respondents that marked either four or five (the top two categories) for each respective economic development goal.

It is hardly a surprise that "job creation" and "tax base expansion" rank highly. Both objectives are central to economic development and are the most common explicit criteria used in existing county incentives plans.

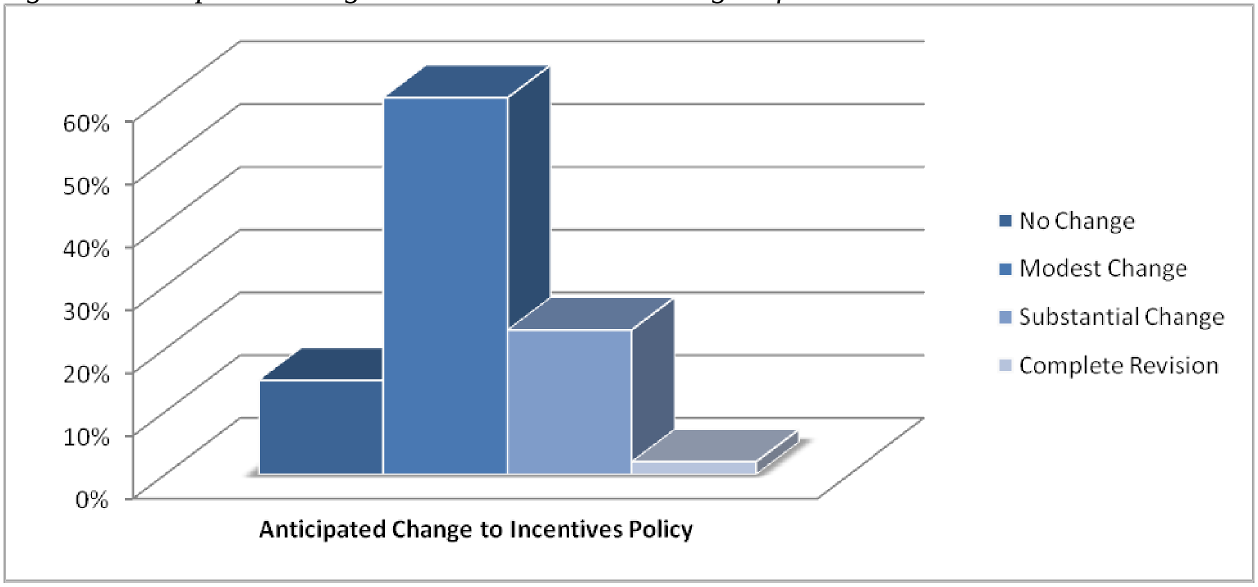
Other Counties Reconsidering How Incentives are Granted

Figure 2: Extent of Change to Incentive Policies Over the Last Five Years



Chatham County is not alone in taking another look at how it considers economic development incentives. A substantial majority of the counties surveyed indicated that their incentives policies have changed over the last five years. An even larger preponderance of surveyed counties anticipate that their incentive policies will be revised in the coming years. We suspect this trend toward reconsidering incentives is rooted, at least in part, in the failure of incentives to substantially influence where businesses locate. County economic developers understand that incentives have at best a marginal impact on where businesses locate and as a consequence are striving to formulate incentives policies that support other community objectives.

Figure 3:Anticipated Change to Incentive Policies in Light of Current Economic Environment



Counties Offer Incentives in Reactive and Ad-Hoc Manner

After interviewing and surveying county economic development officials, it is clear that most counties grant incentives in a reactive and ad-hoc manner. First, most counties do not solicit incentives applications from prospective businesses. Most counties lack the resources to be pro-active in marketing their incentive policies and, as a consequence, mostly react to applications by businesses.

In addition, most actual incentives decisions are made on an ad-hoc basis. As will be discussed below, most existing plans do not extensively articulate the standards used to determine the amount of incentives a business is likely to receive. County economic developers prefer to have more latitude so they can consider each incentive application on its unique merits. Many counties lack a formalized incentive plan, in which cases incentives decisions are entirely ad-hoc. Even when a county has a formalized plan, the existing plans are broad enough to permit a great deal of discretion in when to grant incentives and the amount to be awarded.

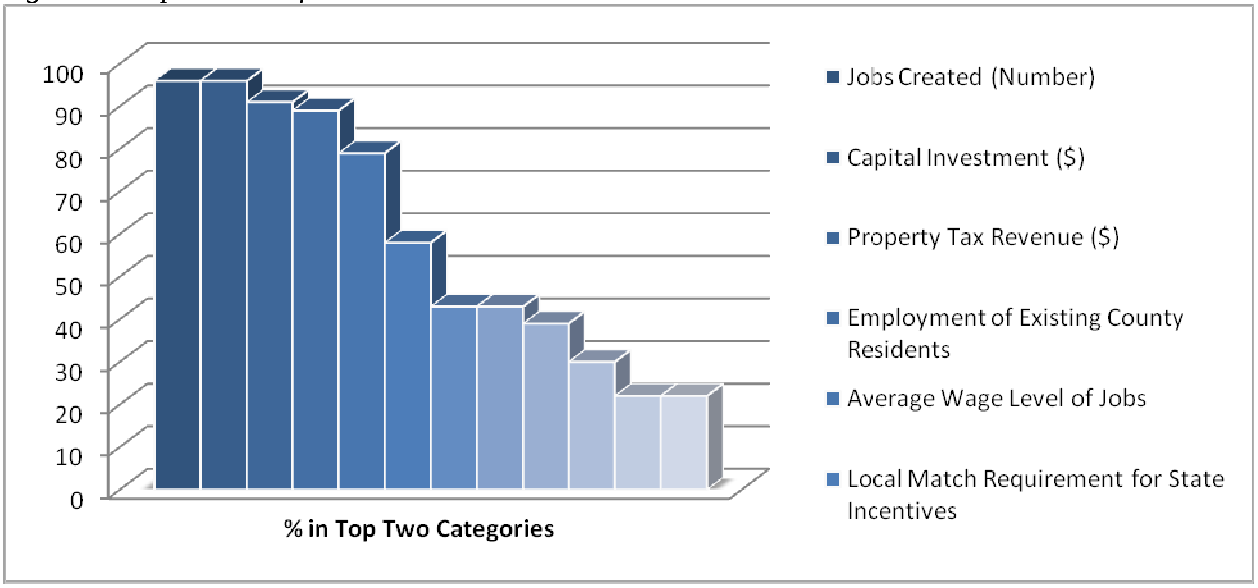
Existing Plans Contain Broad Guidelines and Some Rubrics

A majority of counties have some type of formalized guideline for awarding incentives. The formalized plans that do exist are generally brief (3 to 10 pages) and do not go into a great amount of detail about how incentives are granted. Existing plans usually outline the central economic development goals which inform how the county makes incentives decisions.

Several county economic developers we interviewed were concerned that any extensive rubric would create the impression of an entitlement should a business meet the written standards. In a few cases, these concerns were strong enough that the counties have chosen not to post their written plan and were reticent to share its contents. The desire to retain flexibility in incentive decisions partially explains why existing county plans are broad and inexact and may explain why many counties have chosen not to formalize an incentive policy.

Common Criteria Used in Awarding and Calculating Incentives

Figure 4: Importance of Various Criteria



As figure 4 indicates, job creation and capital investment/property tax revenue were the leading criteria for determining if an incentive should be awarded. This is not surprising given that counties rely heavily on property tax revenue as a funding stream and jobs are a prime measure for economic development success.

Existing Rubrics in County Plans

Below we review some incentives rubrics found in county-level plans in North Carolina. We briefly critique each plan as it relates to the goals and objectives identified in the *Chatham County Economic Development Strategic Plan*.

Gaston County

	Industrial 1	**Industrial 2**	**Industrial 3**	**Retail**
Min. Investment	$1 million	$15 million	$30 million	$40 million
Year 1	90%	90%	90%	90%
Year 2	80%	80%	85%	80%
Year 3	70%	70%	80%	70%
Year 4	60%	60%	75%	60%
Year 5	50%	50%	70%	50%
Year 6	-	40%	65%	-
Year 7	-	30%	60%	-
Year 8	-	20%	55%	-
Year 9	-	10%	50%	-
Year 10	-	-	45%	-

Gaston County's incentives plan identifies three central goals for economic development policy diversify tax base, improve employment opportunities, increase overall tax base. Gaston County's focus on county tax base is reflected in their model for granting tax rebates to growing businesses; investment amount is the only consideration that is explicitly included in the model with no provision given for job creation. While Gaston County's plan is tied to concrete investments that will, over the long run, will generate more tax revenue, their model is overly focused on this one aspect of economic development to satisfy Chatham County's more diverse goals.

Harnett County

New Investment	Expanded Investment	Property Tax Rebate	Term
$1.5 million +	$750,000 +	80%	3
$10 million +	$5 million +	80%	5
$20 million +	$10 million +	80%	7

Harnett County's plan contains a simple way of supporting both new and existing companies. If desired, lowering the threshold for qualification for expansions may be a useful way that Chatham County can use its revised incentive plan to help local, existing businesses expand more effectively. Lowering the threshold for qualification also serves to make the funds accessible for expanding small businesses which are essential to Chatham County's economic health and character. To make this policy successful for Chatham County, additional criteria would need to be included.

Buncombe County

Investment	Paid Over	Grant Maximum
$1.5 million-$3.9 million	3 years	1.5% of investment
$4 million-$5.9 million	4 years	1.75% of investment
$6 million-$9.9 million	4 years	2% of investment
$10 million +	Up to 5 years	2.5% of investment

Buncombe County's rubric uses investment size to calculate the amount of incentive grants a company is eligible to receive, but in their policy also makes wage standards part of the eligibility requirements. Buncombe County requires that any new jobs created as part of the expansion must pay 100% of the county average wage for the company to qualify for county incentive funds. This is a good example of how a core rubric can be augmented with other baseline requirements without making the formula used to calculate award amounts overly complicated. Buncombe also provided additional bonuses for meeting certain criteria such as:

- grant of $100 per employee to employers who hire WorkFirst Family Assistance recipients into new, not replacement, jobs. The grant will be extended for each year the employee remains employed with the company, up to a maximum of 3 years.
- up to 10 percent above the eligible incentive for "technology intensive firms" and firms paying more that 125 percent of the average County weekly wage

- headquarters, regional offices, and regional headquarters that create at least 40 administrative/professional level jobs are also eligible for a bonus of $500 per employee.

While we will recommend that a wage standard be included in Chatham County's rubric, setting minimum requirements could be used to make other objectives (i.e. hiring local workers) part of the process.

Haywood County

	New Jobs			
Investment	15-49	50-74	75-99	100 and above
$500,000 - $3 million	50%	55%	60%	65%
$3 million - $10 million	55%	65%	70%	75%
$10 million and up	60%	70%	75%	80%

Montgomery County

	Jobs Created				
Investment	2-24	25-49	50-74	75-99	100+
$250,000-$499,999	25%	-	-	-	-
$500,000-$3 million	-	50%	55%	60%	65%
$3 million-$10 million	-	55%	65%	70%	75%
$10 million +	-	60%	70%	75%	80%

Montgomery County and Haywood County both use a two-factor matrix to determine incentive awards. These two plans capture the investment and job growth elements of economic development that have been the focus on most incentives in the past. Combining different objectives into sliding scales of eligibility is a helpful model for what Chatham County intends to do-balancing related but distinct considerations when granting incentives-but if Chatham County chooses to include more factors into the model, contingent scales like these will quickly become very complex. Correctly balancing the different factors is challenging enough in a two-standard case, and would become extremely difficult to reasonably formalize when more factors are included.

Alexander County

Increase in Tax Value	**Points**	**Jobs Created**	**Points**	**Wages Paid**	**Points**
Under $500,000	1	1-10	1	Below County Avg	0
$500,000 - $4,999,999	2	11-20	2	100% of Co. Avg.	2
$5,000,000 - $9,999,999	3	21-30	3	110% of Co. Avg.	3
$10,000,000 - $19,999,999	4	31-40	4	120% of Co. Avg.	4
$20,000,000 and Above	5	41+	5	130% of Co. Avg.	5

Year	Level 1	Level 2	Level 3	Level 4
1	80%	90%	100%	100%
2	70%	80%	100%	100%
3	60%	70%	100%	100%
4	50%	60%	100%	100%
5	40%	50%	100%	100%
Minimum Score	5	7	9	11

*additional year added for each $10 million over $20 million

Alexander County's plan takes a similar approach, but one that may prove more workable for a plan that includes multiple standards for determining incentive awards. Alexander County's plan also does that more than any other plan reviewed to make wage standards a systematic part of incentive decisions. The first table lays out a point system wherein investment, job creation, and wage standards are each treated independently. The points are then added together and the sum is used to categorize potential projects; the second table lays out a schedule of tax rebate eligibility for each of the levels.

Alexander County's plan is appealing for a number for reasons. First, it is the best example of how wage standards have been incorporated into incentive decisions by a North Carolina county. Second, this plan is quite flexible in how it allocates incentives. Because the different objectives are treated independently in the first stage, a project can qualify for incentives by making large investments, creating many new jobs, creating high-paying positions, or a combination of the three. Finally, this points structure could be easily expanded to encompass more business practices that Chatham County wants to encourage (green building, hiring local workers, worker training, downtown revitalization, reuse of existing facilities, location in the Central Carolina Business Campus, etc).

Variable Alignment with State and Federal Programs

State and federal incentive programs are often bundled into the county's formalized grants and incentives policy. County policies often make reference to the county's designated economic development tier and state incentives organized around the tier structure. Counties often offer matching grants to companies that qualify for state programs. Cited incentive opportunities include Article 3J credits (State of North Carolina); Job Development Investment Grants (NC Department of Commerce); One NC Fund grants (NC Department of Commerce); Community Development Block Grants (federal with local matches); Water, Sewer and Road Infrastructure funding (Economic Development Administration); Rural County Project funding (NC Rural Economic Development Center); Golden Leaf Foundation funding (NC foundation); Community College Industrial Training Programs (NC community college system and technical institutes); Industrial Revenue Bonds (state); Department of Transportation Rail Industrial Access Program grants (state); Department of Transportation Site Access Fund (state); Incumbent Workforce Development Grant (state); and On-The-Job Training grants (OJT) (federal).

In actual practice, county incentives awards are not universally tied to state or federal programs. Seventy-four percent (74%) of the county e-mail responders indicated that their incentive policies either did not always coordinate or were not tied to the North Carolina State's incentive programs. It is not entirely clear why counties tie local incentives to state programs in their written policies more commonly than is actually done in practice; there are likely diverse reasons particular to different counties that explain this disparity. That said, the lack of systematic connection between local incentives and state programs reflects the general ad-hoc nature of county incentives decisions.

Recommendations

Recommendation 1: Revise the Existing Incentive Model

Balancing Specificity with Flexibility

A useful incentives policy must strike a balance between identifying important criteria and retaining the flexibility needed to craft agreements that work in the county's interest in each case. At some points, the need for flexibility will require leaving the specific calculus used to determine incentives awards and amount somewhat vague. The common wisdom among the economic developers we interviewed was that codifying a model with specific dollar amounts attached to each objective incentives are meant to achieve can put the county at a disadvantage when it comes to actually negotiating the deal. A number of county representatives pointed out that businesses usually treat the formal policy as the baseline from which they seek to improve. In addition, each application for incentives will have idiosyncratic advantages and disadvantages that cannot be fully anticipated by a written policy. For these reasons, we do not recommend that Chatham County craft an explicit model that incorporates every concern in specific dollar amounts. On the other hand, as the purpose of the whole revision process is to be more systematic and exhaustive in how Chatham County awards incentives; the resulting plan must contain enough specifics to usefully guide incentives decisions. There is no single solution to this dilemma, but it is important to keep these dual objectives in mind when drafting the final policy.

Important Criteria

The central purpose of the project has been to identify a more complete list of considerations that should inform incentive award decisions. The existing plan only makes explicit provision for a few criteria, and it is clear that a more extensive and nuanced list of considerations is needed. The general purpose has been to identify specific community interests that can be served by the County's revised incentive plan. As a general practice, incentives awards should be tied as closely as possible to specific goals so as to avoid investing in development that does not have genuinely beneficial effects on the community. Moreover, as outlined in the introduction, incentives are not always effective instruments for changing where businesses choose to set up shop, but they can be effective mechanisms of influencing what companies do when they invest in Chatham County. By identifying the types of business behavior that Chatham County wants to encourage, and making those objectives part of its incentive plan, the County can make this policy more consistent with enduring community interests and broader development goals.

Jobs Created

Chatham County's existing incentives policy makes incentives awards partially dependent on the number of new jobs to be created by the project. While part of the purpose of this report is to explore other criteria that should be included, the number of new jobs should clearly remain a consideration. In our survey, 96% of county representatives ranked "jobs created" as either 4 or 5 out of 5 in importance when considering incentives awards.

Wage Level of New Jobs

One of the salient problems with Chatham County's existing incentives policy is that it makes no formal distinction between well-paying and low-wage jobs. The treatment of all jobs created as equal, regardless of the pay-scale of the new jobs, is a common problem in older incentives plans and we recommend that Chatham County remedy this shortcoming. Alexander County's plan (reviewed above) provides one good example of how wage considerations can be included in incentive decisions under a revised plan. Alexander County devised a point system wherein three economic development goals-investment, job creation, and wages-are each given weight in the final eligibility decisions. This plan allows Alexander County to give preferential treatment to projects that will create high-paying jobs without making this an absolute requirement.

Quality of the New Jobs

Wage level is an important criterion for evaluating jobs, but certainly not the only criterion. The "quality" of a job can be used to offset lower wages, especially in industries where the average wage rates tend to be lower. Some of Chatham County's historic industries (food processing, wood processing, brick/construction products, etc.) typically are not high paying jobs, but the County does have an experienced workforce in these areas and these companies may be drawn to Chatham County. The County should consider the quality of jobs being created. Quality job metrics include company paid (or contributions toward) health insurance, company contributions toward retirement, profit sharing, and/or employee owned companies.

Hire Existing County Residents

A common and frustrating experience in incentives policy is a county or state using its resources to lure a company to the area in the hopes of creating jobs for local residents, only to find that many of the new jobs are filled by workers who had previously resided elsewhere. A formal provision that gives precedence to projects that will employ currently-existing county residents will encourage businesses to focus their search for new labor within Chatham County.

Capital Investment

The amount of capital investment made as part of proposed development projects is one of the most common standards counties use to determine incentives awards. Of the counties surveyed, 96% ranked capital investment as either 4 or 5 out of 5 in importance as a criterion driving incentives decisions. This is a standard in the existing plan, and we recommend that it remain (with some adjustments) in the new plan.

Property Tax Revenue

The amount of anticipated new property tax revenue is a common standard counties use in calculating the size of incentive awards. This concern essentially captures the county's interest in recouping its initial investment over the long-run. Basing incentives awards, in part, on the predicted increase in taxable property value serves as a check on awarding incentives that are too large to ever be fiscally rewarding to the county.

Environmental Impact

If incentives are to truly serve the long-term interests of the Chatham County community, it is essential that the environmental impact of proposed development be a consideration in determining awards. Making the environmental impact of development a formal consideration in incentive decisions is an example of how this policy mechanism can be used to encourage business practices that truly serve the interests of the community.

While counties and localities are increasingly attentive to the benefits of encouraging green industry and sustainable development, there is little formal consideration of these objectives in existing incentives plans. A growing number of municipalities have grant or tax rebate programs for individuals or families that make their homes more environmentally friendly (installing grey-water systems, solar panels, energy-efficient appliances, etc). Some local governments have also created programs to publicize the green businesses operating within their jurisdictions, both as a means of helping these businesses and as a way of advertizing local amenities. The growing focus on sustainability at the federal level is also causing many localities to explore ways of promoting green industries. When we interviewed county economic developers, many of them reported that they were considering ways of making their county more appealing to the green industries that are expected to grow in coming years. In light of these trends, and given Chatham County's position as a leader in sustainable commerce, we recommend that the revised incentives plan give preferential treatment to projects that qualify as sustainable development. Such consideration might include additional points in the criteria matrix for industries in the green economy, industries utilizing recycling to reduce landfill dumping, location in a LEED certified building, reuse of water, or other sustainable environmental practices.

Project Fits within Identified Industry Cluster

The Economic Development Strategic Plan identified seven industry clusters for which Chatham County has a competitive advantage: 1) Architectural and engineering services; 2) Technical and research services; 3) Basic health services; 4) Pharmaceuticals; 5) Information services; 6) Higher education and hospitals; 7) Renewable energy. Because these areas have already been identified as strategically advantageous, and because clusters are more effective the greater density of supply and buyer connections within a given area, we recommend that Chatham County give special consideration to incentive applications that fit within these industry clusters.

Support Social and Cultural Uniqueness

Chatham County's unique mix of cultural and social traditions is clearly one of its most endearing and valuable features. As Chatham County wrestles with how it can develop without losing what makes the county distinct, it should consider ways of using its incentive plan to strike this balance. Many communities that developed rapidly have failed to adequately protect what made them appealing and unique in the first place, a mistake that Chatham County is in a good position to avoid. While it may be difficult to devise categorical criteria for which projects are likely to support or undermine Chatham County's cultural and social uniqueness, we believe that the community interest in this matter is sufficiently strong as to merit some consideration.

Downtown Revitalization

A related community good that can be served by Chatham County's incentive policy is stimulating investment in downtown or underused areas of the county. Over the past decade, communities coping with rapid development have increasingly recognized the importance of maintaining vibrant downtown or local centers. Given the pace at which Chatham County is developing, and the prospect for future development, we recommend that the reformulated incentives give preference to projects that focus on existing community centers, reuse existing industrial land and building and minimize the sprawl effects of new development. This provision would serve the county's interest in reducing commuting to other communities or outlying areas. In addition, this provision may also help to breathe further life into downtown areas that are at the core of a sustainable development plan.

Economic Diversification

Economic diversification is a central principle of sustainable development. Chatham County is well aware of the dangers of being too heavily reliant on one or two economic sectors, and we recommend that economic diversification be a consideration when awarding incentives. In the email survey, 85% of respondents rated "economic diversification" as either a 4 or 5 out of 5 in importance as an economic development goal. Making economic diversity a formal consideration in its incentive policy is another way Chatham County can make a reformed incentive policy serve broader economic goals.

Include Claw-back Protections

One common tacit that local governments use to ensure that incentives have the desired effect is to include provisions in the agreement that allows the granting agency to recover its resources should the business fail to hit specified targets outlines in the agreement. Chatham County's existing policy makes references to binding conditions that attach to incentives contracts and we recommend that these protections be retained.

Worker Training Instead of Monetary Grants

One promising alternative to direct monetary grants or tax rebates is the county partnering with employers to cover the cost of worker training. A number of good reasons exist for Chatham County to pro-actively explore the potential for worker-training partnerships with prospective or existing businesses. First, trained workers are more likely to remain in the area than a company that receives monetary incentives. While companies that receive financial incentives need not stay in the area, it is far more likely that trained workers will continue to support the local economy by being part of the available labor-force. Second, the county's investment in worker training provides an obvious benefit to the individuals who receive training. This is an example of how Chatham County can spend its economic development resources in a way that has concrete benefits to members of the community. Third, a trained workforce is one of the best means of encouraging future economic growth. Given that monetary incentives do not determine most business siting decisions, but that the available talents in the local workforce are a prime concern, investing in worker training may be one of the best mechanisms by which Chatham County can stimulate future economic growth. Finally, the Economic Development Strategic Plan identified Chatham County's existing community college training programs and its proximity to three research universities as existing advantages that should be exploited.

Competing with Other Parts of the Research Triangle Area

The primary context in which incentives have been found to systematically change where businesses locate is when a business has already identified a general area to locate but is flexible as to where within this area to set up shop. For example, a business may have decided on a general metropolitan area but can be enticed by local incentives to site in one municipality rather than its neighbors. This exception is relevant to Chatham County's efforts to compete with other parts of the Research Triangle. Chatham County should give special consideration to applications where the company in question is likely to locate within the Research Triangle but is less settled on the specific location. This is a likely case in which county incentives should be seen as a way of attracting business that would otherwise locate elsewhere.

Front-Load Incentives Packages

There are two central reasons for designing incentives packages that focus the investment over the first few years of a project. First, businesses apply a high discount rate to offers of future financial aid compared to their concern for immediate assistance. Particularly in the current economic climate, companies are likely to value benefits in the short-term much more highly than promised assistances in the future. Chatham County is likely to get the same or better utility from offering a smaller total package that makes larger payments over a few years as it would a more lucrative package spread out over a longer time. Second, the county has an interest in keeping incentive deals short-term and discrete. Long-term agreements that require payment from the county over several years constrict the county's ability to change its economic development approach as circumstances change. For both reasons, we believe that Chatham County is better served to offer incentives that make larger payments over shorter time than to spread the aid out over a longer period.

Combine Incentives with other Forms of Business-Assistance

Incentives are only one part of a successful economic development program. In order to remain competitive with other counties, Chatham County should augment its incentives plan with tangible and intangible aid to businesses. Based on our survey, a number non-monetary forms of development assistance are commonly used in North Carolina counties. First, nearly all counties maintain an inventory of available sites for business expansion. Second, most counties attend trade shows or conferences to identify potential employers that may be a good fit for their county. Third, the specific needs of local businesses should be surveyed. Business owners often have more pressing needs than direct monetary incentives; surveying business needs can send the signal that Chatham is serious about helping its business community while also uncovering forms of non-monetary assistance that are worth exploring. Lastly, and most importantly, Chatham County's identified industry clusters and list of prospective targets provides the County with an opportunity to begin targeting emerging growth firms in the County's industry clusters in an aggressive recruitment effort.

A Prospective Model for Chatham County

We utilized the previously discussed criteria to create a prospective incentive model for Chatham County. Such a model would not represent a guaranteed or entitlement economic development incentive, but would represent a starting point for determining eligibility before weighing some of the qualitative elements not included in these calculations. This hypothetical model would assume a five year cap on any incentive grants, which could be payable at the end of each fiscal year starting after the first property tax revenues were collected.

Number of New Jobs	Points
10-20	2
21-50	5
51-75	7
76-100	9
101-150	12
150-200	15
200+	20
Total Possible Points	**20**

Wage Level of New Jobs	Points
Less than County Average	0
County Average	1
Greater than County Average, But Less than State Average	4
State Average	8
Above the State Average	10
Total Possible Points	**10**

Quality of New Jobs	Points
Partial Employer Paid Health Insurance	1
Entire Employer Paid Health Insurance	3
Retirement Benefits	2
Profit Sharing	2
Employer Paid Vacation	2
Employee-Owned Company	3
Total Possible Points	**10**

Number of Existing County Residents Hired	Points
10-20	1
21-50	3
51-75	5
76-100	7
101-200	9
200+	10
Total Possible Points	**10**

Level of Capital Investment	Points
Under $500,000	1
$500,000 - $4,999,999	5
$5,000,000 - $14,999,999	10
$15,000,000 - $24,999,999	15
$25,000,000 and Above	20
Total Possible Points	**20**

Environmental Impact	Points
Reuse of Existing Building	4
Location in Downtown Area	3
Location in Existing Industrial Area, not Central Carolina Business Campus	3
Location in Central Carolina Business Campus	5
Location in LEED Certified Building	4
Other sustainable features (recycling, water reuse, etc.)	4
Total Possible Points	**15**

Industry Cluster/Business Type	Points
Presence in Identified Attraction Industry Cluster	6
Presence in Identified Retention Industry Cluster	3
Company Headquarters	6
Verified Supply-Chain/Sourcing Relationship with Existing Chatham County	3
Total Possible Points	**15**

This prospective model approximates the following weights out of a 100 possible points:

1. Jobs (Number, Quality, Wages, Hiring Residents): 50 points
2. Capital Investment: 20 points
3. Environmental Impact: 15 points
4. Industry Cluster/Business Type: 15 points

We feel such an allocation in this prospective model represents the desire and need for quality jobs in Chatham County, while balancing the local governments' need for additional capital investment (and associated property tax revenue), desire to preserve/protect the natural environment by focusing development to certain designated areas, and interest in targeting identified industry clusters. Depending on their score, new companies and existing company expansions would be eligible to qualify for, but **not** guaranteed, a financial incentive grant based on the percentages of annual property taxes paid for each year for a five year period as outlined below. The County and Chatham County EDC would continue to utilize qualitative criteria outlined in this document and other policy documents to approve, reject, and/or modify the grant amount.

Year	Level 1	Level 2	Level 3	Level 4	Level 5
1	70%	75%	80%	90%	90%
2	60%	65%	70%	80%	80%
3	50%	55%	60%	70%	75%
4	40%	45%	50%	60%	75%
5	30%	35%	40%	50%	60%
Minimum Score	50	60	70	80	90

Recommendation 2: Secure a Funding Base for EDC Operations and Microenterprise Business Assistance

A frequent criticism of economic development incentive programs is that these programs target large businesses which create many jobs in one company and make large levels of capital investment at the exclusion of small businesses which may create as many or more jobs in the aggregate. Our survey and interviews found few incentive programs exist to help smaller businesses.

At the conclusion of the economic development strategic plan community input process, we heard several recommendations for including a dedicated funding source for the Chatham County Economic Development Corporation, which would remove the EDC from the traditional appropriations process. Such a structure would provide any EDC with an advantage in pursuing long-term, sustainable economic development goals rather than the potential reactionary, short-term annual budget justifications which may be counterproductive to long-term economic development planning and growth. Unfortunately, this recommendation from members of the community came too late in the process to be fully explored within the strategic planning process. We revisited this dedicated funding source issue in this study as we also considered potential funding mechanisms for the EDC and County to assist microenterprises and areas of non-traditional economic development assistance.

We suggest that Chatham County dedicate one-half (½) cent of the property tax to funding both Chatham County Economic Development Corporation (EDC) operations and fund a microenterprise assistance fund to be administered by the Chatham County EDC. This one-half cent of the property tax could be taken from the existing property taxes collected or added as a dedicated half-cent on top of the existing property tax rate. Such a dedication on top of the existing rate would not be a burden to existing residents. For example, a resident with home assessed at $100,000 would pay approximately $603.20 in taxes under the current fiscal year tax rate. If a dedicated half-cent tax rate was added to the tax rate, then the resident would pay $608.20, an additional $5.00 per year to fund this economic development effort. However, cost savings may be generated or this proposal may be revenue neutral as the EDC would be removed from the annual appropriations process.

According to budget documents on the Chatham County website, one penny on the property tax generates $826,264. Adding a dedicating half-cent property tax rate would generate $426,264 for economic development. We propose that 75 percent of these funds be used for EDC operations in lieu of an annual budget appropriation from the county. Such a funding structure would generate $319,698 for EDC operations, which is in line with the annual appropriation received from Chatham County.

We propose 25 percent of these funded amounting to $106,566 be set aside for microenterprise assistance to help new and emerging small businesses in the County and encourage entrepreneurial and quality of life efforts outlined in the *Chatham County Economic Development Strategic Plan.* These funds could be distributed as microenterprise loans, potentially forgivable if certain criteria are met by the business. We envision these funds being used in several ways.

- leveraged in small amounts to assist entrepreneurs in reaching equity positions in their companies to seek additional and/or more traditional financing
- making minor retrofits to existing building to ensure facilities are up-to-code for prospective tenants
- assisting locally-owned retail or other small businesses not eligible for more traditional incentive programs
- as matching funds for companies to seek private sector, state, and/or federal funding.

This structure is an innovative way for Chatham County to continue to support economic development and engage in microenterprise assistance.

<u>Recommendation 3: Explore the option of “Synthetic” Tax Increment Financing (TIFs) in Chatham County</u>

This study has been limited to reviewing and making recommendations on best practices in county level economic development incentive practices. This study did not extend to other economic development practices, such as economic development financing tools. However, through our research on economic development incentives, we learned that many counties in North Carolina are utilizing tax increment financing in the form of "synthetic" TIFs. While not technically an incentive, tax increment financing (TIFs) has been utilized by many localities to finance economic development projects.

Given this recent innovation in economic development financing, synthetic TIFs are worth exploration by Chatham County to determine if this innovative financing tool can be used to accomplish some of the economic development goals articulated in the economic development strategic plan. TIFs allow governments to earmark future property tax revenues from increases in assessed values within a district or designed geography to finance current improvements such as building rehabilitation or infrastructure improvement to support a TIF project or TIF district. North Carolina gained constitutional approval to utilize self financing or TIFs several years ago with the passage of Amendment One. In North Carolina, use of self financing requires approval of the Local Government Commission.

Several counties in the state have developed and utilized "synthetic" TIFs to mimic the self financing structure of traditional TIFs without requiring Local Government Commission or voter approval required with some bond issuance.

The Center for Real Estate at UNC-Charlotte and the UNC-Charlotte Urban Institute conducted a study "Applying Tax Increment Financing in the Charlotte-Mecklenburg Region" (June, 2006) which does an excellent job of describing several financing tools, including synthetic TIFs. The study defines synthetic TIFs as follows:

"Synthetic TIF is the term coined for an approach to public financing that has some similarities to TIF but that does not depend on the amendment to the state Constitution and the issuance of bonds backed by an anticipated increment in tax values. Synthetic TIFs can take a variety of forms. One example is where the developer agrees to finance and construct the public facilities or infrastructure, and the local government agrees, contingent upon sufficient increase in tax valuation over time, either to acquire the completed facilities or to make an economic development grant to the developer to cover the project costs. Thus, the risk that the tax increment will be sufficient to cover the project costs is borne by the developer rather than the local government. The local government may pay the developer out of general funds or issue debt, knowing that the incremental tax revenue is available to meet the payment obligation." (p.51)

A UNC School of Government publication on tax increment financing (http://www.sog.unc.edu/programs/tif/faq.html#q37) describes synthetic TIFs as follows:

"A synthetic project development financing occurs when a local government determines that the projected increment revenue from new development in the unit justifies issuing debt to fund a public investment project in the unit. The unit does not issue project development bonds,

however. It uses another form of financing, usually an installment-purchase financing—whereby the unit pledges the financed asset as security for the loan—to fund the public improvement."

A further examination of the pros and cons associated with synthetic TIFs is necessary before the County undertakes this approach to economic development financing. Experts at the UNC School of Government who specialize in government finance are available to assist the Chatham County Economic Development Corporation and Chatham County in exploring this option in more detail. It is also recommended that the EDC discuss the pros and cons of synthetic TIFs with other counties in North Carolina that are utilizing this tool. Exploring the application of traditional and/or synthetic TIFs in Chatham County were beyond the scope of this study, however, TIFs provide additional financing tools for the County to consider in achieving its economic development goals and this tool is worth additional exploration.

Appendix A: List of Surveyed Counties (64) and Written Policy Reviews

Alamance	(Questionnaire only)
Alexander	(Policy Review & Questionnaire)
Alleghany	(Interview only)
Anson	(Questionnaire only)
Ashe	(Interview only)
Avery	(Questionnaire only)
Beaufort	(Interview & Policy Review)
Bladen	(Questionnaire only)
Brunswick	(Interview, Policy Review & Questionnaire)
Buncombe	(Interview & Policy Review)
Burke	(Interview & Questionnaire)
Cabarrus	(Interview & Policy Review)
Caldwell	(Policy Review only)
Camden	(Questionnaire only)
Carteret	(Interview & Questionnaire)
Caswell	(Interview only)
Catawba	(Interview & Policy Review)
Chowan	(Questionnaire only)
Columbus	(Questionnaire only)
Currituck	(Interview, Policy Review & Questionnaire)
Davidson	(Questionnaire only)
Davie	(Questionnaire only)
Duplin	(Questionnaire only)
Durham	(Questionnaire only)
Edgecombe	(Questionnaire only)
Gaston	(Policy Review & Questionnaire)
Graham	(Questionnaire only)
Greene	(Questionnaire only)
Halifax	(Policy Review only)
Harnett	(Policy Review only)
Haywood	(Policy Review & Questionnaire)
Henderson	(Questionnaire only)
Hertford	(Policy Review & Questionnaire)
Iredell	(Questionnaire only)
Johnston	(Questionnaire only)
Jones	(Questionnaire only)
Lincoln	(Questionnaire only)
Macon	(Interview only)
Martin	(Questionnaire only)
Montgomery	(Policy Review & Questionnaire)
Moore	(Questionnaire only)
Nash	(Questionnaire only)
Northhampton	(Interview & Questionnaire)
Onslow	(Questionnaire only)
Orange	(Interview only)
Perquimans	(Interview & Questionnaire)
Polk	(Interview only)
Randolph	(Questionnaire only)
Robeson	(Questionnaire only)
Scotland	(Interview & Policy Review)
Stanly	(Questionnaire only)
Stokes	(Questionnaire only)
Transylvania	(Policy Review & Questionnaire)
Union	(Questionnaire only)
Wake	(Policy Review only)
Warren	(Interview only)
Washington	(Interview only)
Watauga	(Questionnaire only)
Wayne	(Questionnaire only)
Wilkes	(Questionnaire only)
Yadkin	(Questionnaire only)
Yancey	(Questionnaire only)

Rockingham	(Interview & Questionnaire)
Rutherford	(Interview & Questionnaire)