



Article 26

Economic Development

by Jonathan Q. Morgan and C. Tyler Mulligan

Basic Approaches to Economic Development / 2

The Process of Economic Development / 3

Federal Programs / 4

State Programs / 4

Approval for Industrial Revenue Bonds / 5

Community Development Block Grant / 5

Job Development Investment Grants / 5

Tax Credits and Exemptions / 5

Industrial Development Fund / 6

One North Carolina Fund / 6

Workforce Training, Small Business Services,
Industrial Extension, and Transportation / 6

Programs Administered by State-Funded Nonprofits / 7

Regional Economic Development Programs / 7

**Traditional Local Government Authority
for Economic Development / 7**

Industrial Revenue Bond Financing / 7

Direct Incentives / 8

Tax Abatements and Cash Incentive Policies / 8

Open Meetings and Public Records / 9

Downtown Development Authority / 9

Other Authority to Assist in Economic Development / 10

Interlocal Cooperation on Economic Development / 10

Organization for Economic Development / 11

Conclusion: Challenges for Local Government / 12

Additional Resources / 14

Publications / 14

Organizations (listed in order of relevance) / 15

State-Level / 15

Federal/National / 15

About the Authors / 15

Economic development is the process whereby cities and counties attempt to support and influence private investment decisions in an effort to increase employment, expand the tax base, and raise the standard of living. As North Carolina confronts the challenges of globalization, industrial restructuring, and fiscal pressures, local officials have become more concerned about economic development. However, local governments are not the only, and often are not the primary, entities involved in economic development. Various agencies at the federal, state, regional, and local levels spanning the public, private, and nonprofit sectors work to promote economic development. Thus, it is helpful to understand how local government programs relate to the activities of this broader set of organizational players.

This article begins by describing four fundamental approaches to economic development and how their use in North Carolina has evolved over time in response to a changing economy. The following section highlights the key factors that businesses consider in deciding where to make new investments and identifies those factors for which local governments have some responsibility. The article then reviews relevant federal, state, and regional programs prior to discussing the specific legal authority allowing local governments to engage in various economic development activities and the organizational options available to them in doing so. The article concludes with a set of critical challenges that local governments face in the pursuit of economic development.

Basic Approaches to Economic Development

In order to understand the role of local government in the development process, it is useful to review four basic approaches to economic development and consider what cities and counties typically do with respect to other organizations. The four broad approaches to economic development are:

- business recruitment,
- business retention and expansion,
- business creation and entrepreneurship, and
- place-based development.

Historically, industrial recruitment has been the primary focus of economic development programs. For years North Carolina enjoyed a degree of success in luring large branch plant manufacturing facilities by marketing and promoting the state's relatively cheap labor, lower cost of living, and good quality of life. Over time, incentives became an important, albeit controversial, recruitment tool at both the state and local levels. The upside of the industrial recruitment approach is that it produced large numbers of low- to mid-skill jobs for people with limited education. The downside is that the jobs were mostly concentrated in labor-intensive industries that proved to be extremely vulnerable to global competition. The recruitment of branch plant manufacturing worked well for North Carolina until it became cheaper to produce certain types of goods—furniture, textiles, and apparel—in foreign countries, such as China, India, and Mexico. At the same time, manufacturing industries utilize automation and technology such that they can produce more with fewer workers. As a result the state has lost thousands of jobs in traditional manufacturing sectors.

The strategy of recruiting large manufacturing facilities has not benefited communities evenly across the state. Some communities and regions are better suited than others for traditional industrial recruitment because of their location, workforce, and other advantages. In addition, while the number of large industry recruitment projects has declined over time, the use of incentives to lure them has increased. It is estimated that, in a given year, on average, some 15,000 communities vie for roughly 1,500 major industrial development projects available nationally.¹ This creates an intensively competitive and often costly situation in which the odds of success are low. North Carolina now takes a more targeted approach to industrial recruitment by attempting to attract particular types of economic activity and providing inducements for investment to locate in certain areas within the state. Two examples of major recruitment projects are the location of Dell Computers to Winston-Salem in 2005 and Google's decision to build a data center in Caldwell County, which opened in 2008.²

Although industrial recruitment remains central to state and local economic development efforts, business retention and expansion and entrepreneurship are garnering more attention. This is not surprising given the limitations of the recruitment approach. In addition, some studies suggest that anywhere from 60 to 80 percent of new jobs come from existing industry expansions and small start-up firms.³ 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. A typical business retention and expansion program seeks to build relationships with local companies in order to identify critical needs and facilitate access to resources and assistance that will help firms become more competitive.

Similarly, 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 usually defer to

1. Timothy J. Bartik, "Economic Development," in *Management Policies in Local Government Finance*, 5th ed., ed. J. Richard Aronson and Eli Schwartz (Washington, D.C.: International City/County Management Association, 2004), 364; Ted Levine, "Six Revolutions in Economic Development Marketing," *Economic Development Journal* 1, no. 1 (2002): 5–12.

2. The Dell facility in Winston-Salem ceased operations and officially closed in November of 2010. This experience shows how important it is for local governments to include repayment provisions in their contractual agreements with companies receiving incentives in the event that a company fails to meet performance targets or shuts down. For a detailed discussion of the Dell and Google deals, see Jonathan Q. Morgan, "Using Economic Development Incentives: For Better or for Worse," *Popular Government* 74 (Winter 2009): 16–29.

3. See David Birch, *Job Creation in America* (New York: Free Press, 1987).

other entities, such as 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 help fund and facilitate certain development activities, including business incubators and revolving loan funds for small firms.

Many communities support place-based development strategies, such as downtown revitalization, promotion of tourism, and retiree attraction, often to complement their business recruitment, retention, and entrepreneurship efforts. These strategies focus on improving the physical environment and leveraging the natural attributes, cultural heritage, and distinctive character of a place in order to encourage investment and growth.⁴ (They are related to the activities discussed in Article 27, “Community Development and Affordable Housing”~~{X-ref}~~). Small towns and rural communities are finding that place-based strategies can be promising methods of utilizing local assets for economic development. The work of Handmade in America in western North Carolina demonstrates the potential of place-based development, in this case, building upon local crafts and the region’s cultural heritage.⁵

Some economic development projects represent a combination of approaches. The luring of the NASCAR Hall of Fame to Charlotte in 2006 is an example of how a major recruitment effort involving substantial state and local incentives can be tied to place-based development. Public officials who supported the incentives hoped that the hall of fame would become a major tourist attraction because it plays on the region’s historical connection to stock car racing and motor sports. Moreover, its location in downtown Charlotte was expected to provide a boost to downtown revitalization efforts. Many small towns pursue development in ways that link entrepreneurship and place-based strategies in order to generate greater economic activity from the creative talent represented in local arts and crafts traditions.⁶

The Process of Economic Development

A primary purpose of economic development is to affect private investment decisions about where to locate, expand, or start up a business enterprise. If new private investment is what triggers the job creation, tax base expansion, and income growth that local officials desire for their jurisdictions, then it is important to know what factors influence the investment decision. Most often private investment decisions are driven by issues related to the inputs in the production process: land, labor, and capital.

Recent surveys indicate that the following are among the most important factors that companies weigh when choosing a location for a new facility or an expansion of an existing facility:⁷

- labor costs,
- availability of skilled workers,
- highway accessibility,
- state and local incentives,
- energy availability and costs,
- corporate tax rates,
- high-speed Internet access,
- construction and occupancy costs,
- quality of life.

4. See William Lambe and C. Tyler Mulligan, introduction to “Local Innovation in Community and Economic Development: Stories from Asheville, Edenton, Kannapolis, Wilson and Winston-Salem,” *Carolina Planning* 34 (2009): 17–38.

5. Jay Fields for HandMade in America, *Crafting Large Successes in Small Towns: HandMade in America Small Town Program; The First Fifteen Years, 1996–2010* (Asheville, N.C.: HandMade in America, n.d.), s3.amazonaws.com/hia_user_files/files/32/original.pdf?1297952464.

6. See Jonathan Q. Morgan and William Lambe, “Find a Way or Make One: Lessons Learned from Case Studies of Small Town Development,” *IEDC Economic Development Journal* 8, no. 3 (2009): 5–13. Also available at www.nclm.org/SiteCollectionDocuments/Resource/IEDC_EDJ_Morgan%20Lambe.pdf.

7. See *Area Development Online’s* annual corporate survey at www.areadevelopment.com.

This list is not exhaustive and numerous other factors, including some that are beyond the control of individual counties and cities, can shape private investment decisions. Labor and workforce concerns are paramount to most any type of company. Firms in knowledge-based, technology industries, in particular, rely on highly educated and skilled employees in order to compete and grow. County governments play a crucial role in workforce development through their funding of public schools and support for community colleges. Another area that is increasingly important to knowledge-based technology companies is quality of life. Local governments are perhaps most directly responsible for ensuring that their communities are good places to live, work, and play. There is good reason to believe that quality of life issues will take on greater relevance in the new economy.

The level of local government involvement in economic development varies considerably from place to place, and there are differing viewpoints regarding the extent to which localities should intervene. Some argue that the most effective role for local government is to help create an overall business climate that is conducive to economic growth by maintaining competitive local tax and utility rates and streamlining regulations. From this perspective, counties and cities can best support economic development by operating efficiently, providing quality services, and making long-term public investments in infrastructure, education, and local amenities. Others argue that local government should more actively stimulate private investment by providing incentives and other types of direct assistance to businesses, such as those discussed later in this article. Counties and cities enjoy broad statutory and constitutional authority to engage in economic development activities and can organize these activities in a number of ways. Before describing local government authority and organizational choices, however, it is first useful to set the context by summarizing federal, state, and regional programs in economic development.

Federal Programs

The federal government does not get directly involved in state and local economic development efforts. However, it can be a source of funding for certain types of projects. While several federal agencies administer programs related to economic development, two are most relevant for counties and cities. The first is the Economic Development Administration (EDA), which is a part of the U.S. Department of Commerce. EDA provides funding for local governments to engage in economic development planning and to implement projects. EDA targets its funding to economically distressed communities and regions by making grants for projects focusing on (1) public works (infrastructure), (2) technical assistance, (3) economic and trade adjustment assistance, and (4) planning.

The second major federal program is the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG). As discussed in Article 27 ("Community Development and Affordable Housing" [X-ref](#)), CDBG is designed to assist low-income persons and distressed communities, and as part of that effort, it also funds economic development activities. The N.C. Department of Commerce administers the economic development component of CDBG through the Commerce Finance Center (discussed in the next section). In addition to these two programs, other federal agencies administer and fund various types of loan guarantees for private lenders and support revolving loan programs. These agencies include the Small Business Administration, the U.S. Department of Agriculture, and the U.S. Treasury Department.

State Programs

The state's economic development activities are centered in the Department of Commerce. As the lead agency for state-wide economic development efforts, the Department of Commerce is often the initial point of contact for prospective businesses. The department employs a number of professionals who work with companies interested in North Carolina to help them identify a suitable industrial or commercial site and to bring their executives together with local officials to discuss local incentives that might be offered to the companies. In recent years, the Department of Commerce has become more involved in assisting existing businesses with expansion projects and in supporting small businesses. The

department has existing industry specialists located within regional field offices across the state. In addition, the department administers a number of grant and loan programs to encourage the location and the expansion of companies in the state, including some of those discussed below. The department currently houses the Office of the Commissioner for Small Business and a small business ombudsman.

Approval for Industrial Revenue Bonds

Industrial Revenue Bonds (IRBs) are a potential source of financing that businesses can use for land, building, and equipment purchases as well as for facility construction. The interest paid to bondholders is exempt from federal and state income taxes, which makes it possible to offer loans to firms at below-market rates. Only manufacturing companies are eligible to receive IRB funds, and the maximum issuance for a single company in a jurisdiction is \$10 million. IRB issues must be backed by a letter of credit from a bank, so most IRB transactions are completed in partnership with a bank that issues the letter of credit and places the bonds. The county industrial facilities and pollution control financing authority in which the project will be located issues the bonds after approval has been obtained from the county, the secretary of the North Carolina Department of Commerce, and the Local Government Commission. Although government approvals are part of the process, no government guarantees the bonds. The bonds are secured only by the credit of the company. The approval process for IRBs entails additional transactional costs, so the N.C. Department of Commerce advises that in order to be cost-effective, issuances should be for at least \$1.5 million.⁸

Community Development Block Grant

The North Carolina Commerce Finance Center administers the economic development portion of the Community Development Block Grant (CDBG) program, which is a federal grant program managed by the U.S. Department of Housing and Urban Development (HUD). Units of local government (city or county, except HUD entitlement cities and designated urban counties) may apply for these funds on behalf of a business that will create or retain jobs. Eligible projects must benefit low- or moderate-income individuals as designated by CDBG policy guidelines. Grant funds can be used to pay for the public infrastructure required to meet business needs. The local government applicant must provide a 25 percent cash match unless it is located in one of the state's most distressed counties as designated by the N.C. Department of Commerce. In conjunction with a participating bank, the Department of Commerce can also provide funds to make loans to businesses to assist with machinery and equipment purchases or construction costs. Loans for the construction of publicly owned industrial shell buildings also are available, but the local government must provide a dollar-for-dollar match.

Job Development Investment Grants

The General Assembly created the Job Development Investment Grant (JDIG) in 2002. The JDIG program provides discretionary grants directly to new and expanding companies that increase employment in the state. The grant amount ranges from 10 to 75 percent of withholding taxes paid for each eligible position created over a period of time. Grant payments are disbursed annually for up to twelve years. The terms of the grant are specified in an agreement that requires the company to comply with certain standards regarding employee health insurance, workplace safety, and wages paid. The grant agreement must include a clawback provision to recapture funds in the event that the company relocates or closes before a specified period of time.

Tax Credits and Exemptions

The state's tax system has long been used to encourage development, and several different types of tax credits are available to companies meeting specified criteria. The current centerpiece of the state's corporate income tax credits for economic development was enacted in 2006. These credits, dubbed Article 3J credits because they are codified in Article 3J of Chapter 105 of the General Statutes (hereinafter G.S.), replaced a similar program known as William S.

8. North Carolina has an industrial revenue composite bond program for smaller projects.

Lee Act tax credits. Article 3J credits are offered to companies that create jobs or invest in machinery or equipment. Credit amounts are based on the “tier designation” of the county in which the business is located. The tier designation of each county is assigned annually, with the forty most distressed counties designated as Tier 1, the next forty as Tier 2, and the twenty least-distressed counties as Tier 3. The most generous credits are reserved for companies located in Tier 1 counties, with lower credit amounts offered in higher tiers. An additional credit may be claimed by a company that makes a substantial real estate investment and creates a large number of jobs in a Tier 1 county. Regardless of a county’s assigned tier, enhanced tax credits are offered for business activities that occur in two types of economically distressed geographic areas within a jurisdiction: urban progress zones and agrarian growth zones. Municipalities with a population of at least 10,000 can define certain high-poverty areas as urban progress zones. Counties containing no municipality with a population of at least 10,000 are able to define high-poverty areas as agrarian growth zones.

Industrial Development Fund

The Industrial Development Fund (IDF) helps local governments in the sixty-five most economically distressed counties provide incentives to new and expanding companies that create jobs. A county or city government may receive grants to make public infrastructure improvements or use funds to offer loans for building renovation and equipment purchases. IDF funds cannot be used to acquire land or buildings or for the construction of new facilities. The exact amount of funding is tied to the number of new, full-time jobs created or retained by the company up to a maximum of \$10,000 per job and \$500,000 per project. Eligible public infrastructure projects include construction or improvement of water, sewer, gas, telecommunications, high-speed broadband, electrical utility facilities, or transportation infrastructure. Loans must be made in participation with a North Carolina bank that provides at least half of the principal for the loan.

One North Carolina Fund

The governor awards a limited number of cash grants from the One North Carolina Fund annually. The General Assembly funds this grant program through nonrecurring appropriations, and the amount available each year varies. Each grant is awarded to a local government to secure a commitment from private companies to locate or expand within the local government’s jurisdiction. Companies must use the grants to install or purchase new equipment; make structural repairs, improvements, or renovations of existing buildings in order to expand operations; construct or improve existing water, sewer, gas or electric utility distribution lines; or equip buildings. Applications for the grants are submitted according to guidelines promulgated by the Department of Commerce, with grants being awarded on the basis of the strategic importance of the industry, the quality of jobs to be created, and the quality of the particular project. The local government must provide matching funds to assist the company.

Workforce Training, Small Business Services, Industrial Extension, and Transportation

Along with the programs administered by the Commerce Department, additional critical services are provided by other agencies. The N.C. Community College System participates in economic development by providing customized training for the employees of new and expanding industries.⁹ The community college system also coordinates a network of small business centers located on its campuses that assist new and existing small firms.¹⁰ The N.C. Commission on Workforce Development coordinates and guides implementation of the federal Workforce Investment Act of 1998, which includes the state’s network of local employment/career (JobLink) centers. North Carolina State University administers the state’s Industrial Extension Service through regional field offices, providing training and technical assistance to businesses and industries to help them stay competitive. Finally, the Department of Transportation makes road and highway improvements that encourage both industrial and commercial development.

9. See www.nccommunitycolleges.edu.

10. See the N.C. Small Business Center Network (SBCN) website at www.sbcn.nc.gov.

Programs Administered by State-Funded Nonprofits

The North Carolina General Assembly appropriates funds to support the work of a number of nonprofit economic development organizations that operate statewide. These include the N.C. Rural Economic Development Center (Rural Center) and the N.C. Institute of Minority Economic Development (NCIMED). The Rural Center provides competitive grants to the state's rural counties and communities for infrastructure planning, water and sewer construction and improvements, vacant building renovation and reuse, and business development. Local governments and nonprofit organizations are eligible to apply for Rural Center grants. NCIMED promotes economic development in low-wealth, underrepresented communities by providing financial and technical assistance to minority- and women-owned businesses.

North Carolina created the Golden Leaf Foundation in 1999 to receive half of the state's tobacco settlement funds to be used to assist tobacco-dependent and economically distressed counties. The foundation provides grants on a competitive basis to eligible applicants, including local units of government. Golden Leaf grants have funded infrastructure for economic development, workforce training, business incubators, and other economic development priorities.

Regional Economic Development Programs

Various organizations work to support and implement regional approaches to economic development within North Carolina. For our purposes here, three are pertinent. The first set of organizations is the Regional Economic Development Partnerships that market and promote seven multicounty regions and support local development efforts. The regional partnership organizations are structured as either public-private entities or public commissions, and all receive state appropriations.

The second set of regional organizations involved in economic development is the Councils of Government (COGs). In North Carolina, seventeen COGs or regional councils serve multicounty 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, with activities ranging from administering a revolving loan fund to operating a regional business incubator to staffing a nonprofit economic development commission.

A third set of regional entities related to economic development is the Workforce Development Boards. These boards coordinate with the state's Commission on Workforce Development and oversee and coordinate federal workforce programs at the local level. Some Workforce Development Boards serve single counties, but many serve multicounty regions and are based within COGs. Local elected officials appoint board members, most of whom must be business representatives.

Traditional Local Government Authority for Economic Development

Local governments engage in a number of traditional activities to encourage economic development and about which there is little philosophical dispute. These include employing agents to meet and negotiate with and assist companies interested in locating or expanding in the community, undertaking surveys to identify community strengths and weaknesses, developing strategic plans for economic development, and advertising the community in industrial development publications and elsewhere. Counties and cities also provide public services and facilities to attract new development and to stimulate economic growth, such as by extending (or assisting in the extension of) utility lines, expanding water supply and treatment facilities and sewage treatment facilities, and constructing road improvements.

Industrial Revenue Bond Financing

G.S. Chapter 159C permits counties (but not cities) to create special authorities that issue industrial revenue bonds, subject to approval by the Department of Commerce and the Local Government Commission, as discussed above under "State Programs." These bonds finance the construction of factories and other industrial facilities and are paid

for by the companies using the facilities. Use of an authority permits issuance of the bonds in tax-exempt form, thereby reducing the capital costs paid by the benefiting company. The bonds are secured only by the credit of the benefiting company. The local government acts merely as a conduit for the bond issuance and carries no obligation for payment.

Direct Incentives

For a number of years there were serious questions about the constitutionality of local governments providing direct incentives to specific industrial and commercial prospects, but those questions were resolved in favor of constitutionality in the 1996 case of *Maready v. City of Winston-Salem*.¹¹ The issue in that case was whether direct incentives benefited the public at large or only the companies receiving the incentives. The North Carolina Supreme Court decided it was the former: the predominant benefit from incentive programs is public, extending to the citizens, who, as a consequence of the programs, have greater employment opportunities, and to the governments through stronger revenue bases. In explaining its rationale, the court noted the importance of competing with other states' incentives, and it expressed confidence that the strict procedural requirements of the authorizing statute would prevent abuse by public officials. Direct incentives can therefore serve a public purpose under the right circumstances. The basic authorization to provide incentives is found in G.S. 158-7.1. Subsection (b) specifically permits a number of industrial and commercial assistance activities, including developing industrial parks, assembling other potential industrial sites, constructing and leasing or selling shell buildings, helping extend public and private utility lines to private facilities, and preparing sites for industrial facilities. Subsection (d2) permits a local government to convey real property to a private company that promises to create a substantial number of jobs, accepting as consideration for the conveyance the increased property and sales tax revenues that will accrue to the government over the succeeding ten years as a result of improvements by the company to the property. Finally, subsection (a), which has been in the statutes since 1925, grants broad authority to "make appropriations for the purposes of aiding and encouraging the location of manufacturing enterprises." Local governments have relied on this last provision as support for specific incentives not included in subsections (b) or (d2), especially the making of direct cash grants to companies that provide a public benefit as described in the *Maready* decision.

G.S. 158-7.1(c) requires any local government that intends to undertake activities specifically listed in subsection (b) to first hold a public hearing on the expenditure in question. Although the statute does not specifically require it, most local governments also hold a public hearing if the statutory authority for the incentive is subsection (a). In the *Maready* decision, the court clearly encouraged public hearings in that latter circumstance. If a local government intends to convey property to a private company, whether for monetary consideration or pursuant to subsection (d2), it must hold an additional public hearing on the conveyance. Finally, subsections (f) and (h) place limits on local government authority by imposing a cap on the total investment of a single local government in certain economic development programs and by requiring that incentive agreements contain provisions to recapture incentive grants from companies that fail to maintain promised levels of job creation, investment, and operations.¹²

Tax Abatements and Cash Incentive Policies

One form of industrial or commercial development and recruitment often used in other states is not directly available in North Carolina: offering special property tax breaks to new industries or businesses. Under Article V, Section 2, of the state constitution, property tax exemptions and classifications may be made only by the General Assembly and then only on a statewide basis. A local government may not constitutionally offer a special classification to a property owner if it is not available statewide. The legislature has not enacted any special classifications for new industrial or commercial development; therefore, none can be offered by local economic development officials.

In recent years, however, a number of counties (and the cities in those counties) have developed a cash grant incentive policy that very much resembles tax abatements. These policies follow a common pattern: the local government offers

11. 342 N.C. 708 (1996).

12. See C. Tyler Mulligan, "Cash Economic Development Incentives for Capital Investment Alone? Think Twice." In *Coates' Canons Local Government Law Blog Compilation, 2009–2010* (Chapel Hill: UNC School of Government, 2010).

to make annual cash grants over a number of years (typically five) to industrial companies that make investments of certain minimum amounts in the county or city. (The investment might be either a new facility or the expansion of an existing facility.) The amount of the cash grant is specifically tied to the amount of property taxes paid by the company. For example, a company that made an investment of at least \$5 million might be eligible for a cash grant in an amount up to 75 percent of the property taxes it paid on the resulting facility; larger investments would make the company eligible for a grant that represented a larger percentage of the property taxes paid. These policies closely approach tax abatements, with one important difference: the company receiving the cash incentives has paid its property taxes. No court has directly addressed whether this sort of policy is an unconstitutional attempt to grant a tax abatement or whether it is simply a constitutionally permitted cash incentive. There is no question, however, that an increasing number of local governments have adopted such policies.

Open Meetings and Public Records

Both the open meetings and the public records laws permit a good bit of confidentiality while a local government is negotiating incentives with a company. The open meetings law permits a public body—board of county commissioners, city council, economic development commission—to hold closed sessions to “discuss matters relating to the location or expansion of industries or other businesses in the area served by the public body, including agreement on a tentative list of economic development incentives that may be offered by the public body” (G.S. 143-318.11(a)(4)). The statute requires, however, that any action approving the signing of an incentives contract or authorizing paying an incentive be taken in open session. (In addition, as noted above, G.S. 158-7.1(c) requires a public hearing before certain incentives can be approved.)

G.S. 132-6(d) permits denying public access to otherwise public records “relating to the proposed expansion or location of specific business or industrial projects . . . so long as their inspection, examination or copying would frustrate the purpose for which such public records were created.” Once the company has committed to locate or expand in the community, however, or has decided not to locate or expand, the statute requires that the records be made public. Occasionally, a local government will rely upon elaborate economic modeling and impact analysis to assess the value of a company’s decision to locate in the jurisdiction. These analyses typically attempt to estimate the fiscal and economic impact in a community of promised capital investment, jobs, and operations. Whenever a public agency performs such analysis, G.S. 132-1.11 requires that the agency “describe in detail the assumptions and methodologies used in completing the analysis or assessment.” This description becomes a public record and must be included in the release of all public records pertaining to a company’s location decision.

Both the open meetings and the public records statutes are discussed at length in Article 8 (“Public Records”){X-ref}.

Downtown Development Authority

Much of the legal authority discussed above can be applied to projects within a city’s downtown as well as in other parts of the community. There are two statutes, however, that are particularly useful for economic development programs and projects in a downtown area.

Business improvement districts (BIDs) are a popular tool for downtown or commercial development throughout the United States. Such a district draws a line around some or all of a downtown area or other urban area, raises extra revenue from property owners or businesses in the enclosed area, and uses those revenues to undertake a potentially wide variety of activities intended to increase the economic vitality of the defined area. While North Carolina does not have a specific BID statute, cities can create such a district under the Municipal Service District Act (G.S. 160A-535 through -544). Specifically, a city can create a municipal service district for the purpose of downtown revitalization or urban area revitalization. Such a district is created by action of the city council after a public hearing, and it is funded by levy of an additional ad valorem property tax on all property within the district. Because the district is funded by property tax levies, the city council retains ultimate control over expenditures within the district. Many cities, however, establish advisory boards of property owners within the district and give strong weight to the program recommendations of the board.

The second statute is G.S. 160A-458.3, which provides special authority for a city to cooperate with one or more private parties in the construction and operation of new capital projects in the downtown area. The statute is intended to allow a city to participate with one or more private partners in projects that mix public facilities, such as parking decks or city offices, with private commercial facilities. The statute offers two specific advantages to cities entering into such projects. First, it permits the city to delegate construction of the entire project, including the city-owned portion, to the private participants, so long as no more than 50 percent of the total cost is paid for with city funds. Second, it permits the city to contract with a private party for operation of the entire project, including the city-owned portions.

Other Authority to Assist in Economic Development

A local government has considerable authority to attract business development by facilitating the location, preparation, and transfer of a suitable site in the community. In addition to the authority for industrial and commercial development activities under G.S. 158-7.1, a local government may acquire land with or without buildings for commercial or industrial development and for public facilities to serve a major private development under two sources of authority: the Urban Redevelopment Law (G.S. 160A-500 through -526; -512 contains authority to acquire land) and general redevelopment authority (G.S. 153A-377, for counties, and G.S. 160A-457, for cities). A local government may dispose of property acquired under each of the cited statutes to a private developer either directly or after clearing, refurbishing, or adding public improvements to make the site more attractive for development. If the property was acquired under the redevelopment law, any disposition must be done by competitive procedures. In addition, a county that acquires property pursuant to G.S. 153A-377 must also dispose of it by competitive procedures; but a city that acquires property under the parallel statute, G.S. 160A-457, has authority under that statute to convey the property by private sale as well as competitively. In addition to acquiring and developing property, authority is provided under redevelopment law for programs of assistance and financing, including the making of loans, for acquisition, rehabilitation, or construction of residential units and commercial facilities in a redevelopment area (G.S. 160A-503).

The redevelopment law allows a county or city to condemn property, if necessary, in order to acquire property for any of the purposes identified in the preceding paragraph (G.S. 160A-512(6), -515). There is no other general authority to condemn property for economic development projects.

Land acquisition and public improvements undertaken for economic development purposes may be financed by federal funds or by appropriation of local tax revenues without special voter approval. General obligation bonds may be used to finance any improvement authorized by G.S. 159-48 but generally only with voter approval before issuance. Revenue bonds may be used to finance such public service enterprise improvements as sewer or water facilities built in conjunction with an economic development project. No vote is required for such bonds, but the facility must yield adequate revenue from operations to retire the debt. Finally, in certain circumstances some capital projects that are useful for economic development may be financed by project development (or tax increment) bonds, for which the primary security is tax proceeds on new private development generated because of the public investment financed by the bonds. All these forms of debt financing are detailed in Article 17 (“Capital Planning, Budgeting, and Debt Financing”).{X-ref}

Interlocal Cooperation on Economic Development

Smaller, rural jurisdictions often find it difficult to develop large-scale projects like industrial parks alone. When cities and counties collaborate on such ventures, they can enjoy economies of scale and pursue projects that otherwise might not be feasible. The General Assembly enacted G.S. 158-7.4 to facilitate interlocal cooperation on economic development. The statute authorizes two or more units of local government to enter into a contract or agreement to share financing, expenditures, and revenues related to joint development projects. It specifically authorizes the sharing of property tax revenues generated from a joint industrial/commercial park or site.

An example illustrates how cities and counties might utilize this provision. The Triangle North network of business and industrial parks is a joint effort of Franklin, Granville, Vance, and Warren counties.¹³ Officials from each of the

13. See Crystal Morphis and Ernest Pearson, “Creating Economic Opportunity: Multi-Jurisdictional Parks as a Product Development Tool,” *IEDC Economic Development Journal* 10 (Spring 2011): 28–35.

participating counties signed an interlocal agreement to share the costs of developing four distinctive business and industrial parks—one in each county—that will benefit all four counties. The interlocal agreement provides for equal representation on the board of the Kerr-Tar Regional Economic Development Corporation, the nonprofit created to develop and manage the network of business parks. Additionally, the agreement stipulates how the counties will share costs and allocate revenues created by the industrial parks. The Kerr-Tar Regional Council of Government played a central role in facilitating this collaborative effort.

Organization for Economic Development

A local economic development program requires effective coordination and management. Conducting an effective program requires widespread community involvement on the one hand and concentrated executive control of a complex set of activities on the other. There is no single administrative structure in common use; rather counties and cities have turned to a variety of structures, either singly or collectively.

The starting point for organizing economic development activities is the unit's governing board, which has the authority either to undertake directly or to appoint one or more appropriate bodies to undertake on its behalf the various activities discussed earlier. Some larger cities have economic development units and staff within the manager's office. Although a local government can rely on the governing board and in-house staff for large-scale and long-term economic development efforts, most counties and many cities rely on an appointed commission to do the work on their behalf.

G.S. Chapter 158, Article 2, allows the governing board to appoint an economic development commission. Such a commission is a public agency, but once it is created and members are appointed, it may act with some independence from the government that created it. Advantages of such a commission include the opportunity to ensure that local business leaders have an active role on the commission through their membership and the possibility of setting such a commission up cooperatively with other jurisdictions to coordinate efforts in one body. One disadvantage is that an economic development commission does not enjoy any authority to own real property and therefore cannot directly undertake some of the incentive programs authorized to cities and counties by G.S. 158-7.1(b).

Some counties and cities delegate their economic development activities to chambers of commerce, committees of 100, or other private nonprofit corporations, limiting the direct role of the public body to one of providing funding in some measure (and, in some cases, appointing some of the members of the nonprofit's board of directors). For example, the Alamance County Area Chamber of Commerce is the lead agency responsible for economic development in that county. Similarly, Durham County contracts with the Greater Durham Chamber of Commerce to implement economic development for the county. The Greater Raleigh Chamber of Commerce administers the Wake County Economic Development program on behalf of twelve municipalities in the county. Onslow County, the City of Jacksonville, and the local Committee of 100 provide funding to the Jacksonville–Onslow Office of Economic Development to carry out development activities for both the city and county. The Carteret Economic Development Council is a nonprofit membership organization that receives most of its funds from Carteret County to engage in economic development activities. The Catawba County Economic Development Corporation is chartered as a nonprofit, 501(c)(3) organization that receives local government funding but also generates substantial revenue from private sources, including the local Committee of 100. A last example is the City of High Point, which relies on the nonprofit High Point Economic Development Corporation to run its economic development program.

These private groups share the benefits of an economic development commission in that they permit the involvement of the local business community and facilitate cooperation among several local governments. They also bear two advantages not characteristic of economic development commissions. First, there is no bar to their owning real property; thus, they can act directly as developers of industrial parks or shell buildings or can hold industrial sites for conveyance to newly locating companies. Second, because they are private organizations, they can raise private funds within the community and spend those funds without concern for the possible constitutional or statutory limitations placed on public funds. (Any public moneys appropriated to these organizations, however, retain their public character

Table 26.1. Characteristics of Organizational Structures for Economic Development

Characteristics	Line Development	Economic Commission	Dependent Nonprofit	Independent Nonprofit
Organizational Powers				
Own property	Yes	No	Yes	Yes
Develop industrial park	Yes	No	Yes	Yes
Construct shell building	Yes	No	Yes	Yes
Borrow money	Yes	No	Yes	Yes
Guarantee private loans	No	No	Probably no	Yes
Finance and Taxation				
Subject to Budget/ Fiscal Control Act	Yes	Yes	No	No
Income tax status	Exempt	Exempt	Exempt	Exempt
Contributions deductible	Yes	Yes	If 501(c)(3)	If 501(c)(3)
Property tax status	Exempt	Exempt	Taxable	Taxable
Procedural Issues				
Subject to open meetings/ public records laws	Yes	Yes	Yes	No
Follow G.S.158.7.1	Yes	N/A	No	No
Policy Coordination/Control				
Policy coordination	High	Medium	Medium	Low
Financial control	Appropriation	Appropriation	Contract	Contract
Employee Benefits	Public	Public	Private	Private
Private Sector Involvement	Low	Medium	Medium	High

Source: Adapted from David M. Lawrence, *Economic Development Law for North Carolina Local Governments* (Chapel Hill: UNC School of Government, 2000).

and remain subject to such limitations.) A possible disadvantage of using these private organizations, depending on how their governing boards are selected, is that they may have considerable independence from local government, and therefore might sometimes pursue goals and strategies inconsistent with the wishes of local government officials.

Over time, some counties and cities will adopt a different structural arrangement for implementing economic development activities in order to better coordinate resources and promote greater efficiency and effectiveness (see Table 26.1). For example, Wayne County decided in 2006 to replace its Economic Development Commission, which had been in existence since 1966, with a new, nonprofit, public–private organization to conduct economic development for the entire county. This new entity called the Wayne County Development Alliance represents a formal partnership between the Wayne County Board of Commissioners, the Goldsboro Committee of 100, and the Mount Olive Committee of 100. A second example is the Carolinas Gateway Partnership, which was formed in 1995 to merge the economic development activities of two counties, Edgecombe and Nash, into one nonprofit organization.

Conclusion: Challenges for Local Government

Economic development is a long-term process that involves numerous organizational players and a variety of tools and strategies. Much of what happens in the global, new economy appears beyond the control of individual local governments. Yet local officials will do what they can to help their communities adapt, respond, and prosper in the midst

of changing economic conditions and fiscal uncertainty. Counties and cities face several challenges as they seek to stimulate private investment, promote job creation, and expand the tax base in their jurisdictions:

1. *Strategic visioning, organization, and the role of local government.* 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 taking place across the state. These planning efforts help communities 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 action steps and delineates the role of local government in the process.
2. *Taking a long-term view.* There are no quick fixes or silver bullets in economic development. An effective approach includes a mix of strategies and tools that are consistent with a community's long-term vision and goals. Immediate results are more the exception than the norm. Counties and cities that make strategic public investments over time and implement a program that looks beyond the next election cycle are better positioned to withstand the ups and downs of the new economy.
3. *Using incentives as a public investment.* Though widely used, incentives are considered by most to be a necessary evil to compete for investment and jobs. Very few jurisdictions are willing to take the risk of losing a potential project on account of not offering an incentive package to match that of rival communities. The challenge for those counties and cities that choose to use incentives is how to do so as an investment of public dollars for the greater good rather than as a mere subsidy of private business activities. To achieve this, some communities target incentives at certain types of industries that are expected to produce higher rates of return on the public investment and tie incentives to specific job creation and investment levels. Other mechanisms to protect the public investment include pay-back guidelines, performance agreements, clawback provisions, and cost-benefit analysis of incentive projects.
4. *Balancing the tax base.* Several counties and cities in North Carolina have experienced rapid population growth and have seen an increase in residential development as a result. Indeed many "bedroom" communities are taking shape across the state. Local governments must figure out how to pay for the additional public services that growth requires. The problem is that residential development does not tend to generate sufficient tax revenue to fund expanded public services. By contrast, industrial and commercial development usually more than pays for itself in terms of the ratio of tax revenues to the cost of public services. Therefore, as communities grow, they should pay attention to diversification, or the lack thereof, in the tax base.
5. *Ensuring that the benefits of economic development are widely shared.* Using public funds for economic development assumes that doing so serves a larger public interest. Local governments face a challenge in ensuring that public economic development activities extend beyond narrow private interests to benefit the community in a broader sense. More specifically, local governments often intervene in the process to steer growth and development to disadvantaged areas and residents. Indeed, providing jobs for dislocated workers was specifically mentioned in the *Maready* decision as one of the public benefits that justified making direct incentives to private companies.
6. *Measuring and evaluating success.* So much is done in economic development without ever knowing what difference it has made in communities. A comprehensive approach to gauging success in economic development will focus on a broad set of performance measures. Systematic evaluation of economic development programs can shed light on what is working and where resources should be focused.
7. *Knowing when to collaborate and when to compete.* Although economic development is an inherently competitive process that often pits one jurisdiction against another, there is increasing recognition that regional collaboration makes sense in certain instances. Regional solutions to infrastructure,

workforce development, and incentives are difficult to initiate and implement. Yet, the reality is that economies tend to be regional in nature and cut across political boundaries. A major question that arises is how to reconcile the fact that taxation, land use, and infrastructure decisions are tied to local political jurisdictions but regional economies are not.

Additional Resources

Publications

- Ammons, David, and Jonathan Morgan. "State-of-the-Art Measures in Economic Development." *Public Management* 93 (June 2011): 6–10.
- Austrian, Ziona, and Jill Norton. *Strategies and Tools in Economic Development Practice*. Cleveland: Center for Economic Development, Cleveland State University, 2002. Available at <http://urban.csuohio.edu/economicdevelopment/knight/index.htm>.
- Blakely, Edward J., and Ted K. Bradshaw. *Planning Local Economic Development: Theory and Practice*, 3rd ed. Thousand Oaks, Calif.: Sage, 2002.
- Forman, Maury, and Jim Mooney. *Learning to Lead: A Primer on Economic Development Strategies*. Dubuque, Iowa: Kendall/Hunt, 1999.
- Koven, Steven G., and Thomas S. Lyons. *Economic Development: Strategies for State and Local Practice*, 2nd ed. Washington, D.C.: International City/County Management Association, 2010.
- Lambe, William. *Small Towns, Big Ideas: Case Studies in Small Town Community Economic Development*. Chapel Hill and Raleigh: Community and Economic Development Program, UNC School of Government, and N.C. Rural Economic Development Center, 2008. Also available at www.cednc.unc.edu/stbi.
- Lawrence, David M. *Economic Development Law for North Carolina Local Governments*. Chapel Hill: UNC Institute of Government, 2000.
- Malizia, Emil, and Edward Feser. *Understanding Local Economic Development*. New Brunswick, N.J.: Center for Urban Policy Research, 1999.
- Morgan, Jonathan Q. "Clusters and Competitive Advantage: Finding a Niche in the New Economy." *Popular Government* 69 (Fall 2004): 43–54.
- _____. *Economic Development Handbook*, 3rd ed. Raleigh and Chapel Hill: N.C. Economic Developers Association and UNC School of Government, 2009.
- _____. *The Role of Local Government in Economic Development: Survey Findings from North Carolina*. Chapel Hill: UNC School of Government, 2009.
- _____. "Using Economic Development Incentives: For Better or for Worse." *Popular Government* 74 (Winter 2009): 16–29.
- _____. "Analyzing the Benefits and Costs of Economic Development Projects." *Community and Economic Development Bulletin* No. 7 (Apr. 2010).
- Mulligan, C. Tyler. "Incentives for Infill Development on Main Street." In *Coates' Canons Local Government Law Blog Compilation, 2009–2010*. Chapel Hill: UNC School of Government, 2010.
- _____. "Public Hearings for Economic Development Incentives: An Unwritten Rule?" In *Coates' Canons Local Government Law Blog Compilation, 2009–2010*. Chapel Hill: UNC School of Government, 2010.
- _____. "Valid Cash Incentive or Illegal Tax Rebate?" In *Coates' Canons Local Government Law Blog Compilation, 2009–2010*. Chapel Hill: UNC School of Government, 2010.
- _____. "Is Interstate Competition Required for Economic Development Incentives?" In *Coates' Canons Local Government Law Blog Compilation, January–June 2011*. Chapel Hill: UNC School of Government, 2011.
- Rivenbark, William C., Shea Riggsbee Denning, and Kara A. Millonzi. "2007 Legislation Expands Scope of Project Development Financing in North Carolina." *Local Finance Bulletin* No. 36 (Nov. 2007).

Seidman, Karl F. *Economic Development Finance*. Thousand Oaks, Calif.: Sage, 2004.

Shively, Robert W. *Economic Development for Small Communities: A Handbook for Economic Development Practitioners and Community Leaders*. Washington, D.C.: National Center for Small Communities, 2004.

Organizations (listed in order of relevance)

State-Level

North Carolina Department of Commerce, Commerce Finance Center: www.nccommerce.com/finance

North Carolina Community College System: www.nccommunitycolleges.edu

North Carolina Commission on Workforce Development: www.nccommerce.com/workforce

N.C. Regional Councils (N.C.'s Association of Regional Councils of Government): www.ncregions.org

N.C. Economic Developers Association: www.nceda.org

N.C. Industrial Extension Service: www.ies.ncsu.edu

Federal/National

U.S. Economic Development Administration (U.S. Department of Commerce): www.eda.gov

U.S. Small Business Administration: www.sba.gov

International Economic Development Council: www.iedconline.org

About the Authors

Jonathan Q. Morgan is a School of Government faculty member who specializes in economic development. C. Tyler

Mulligan is a School of Government faculty member whose interests include economic development law and finance.