

Q & A

on incentives

Q. I've heard a lot of debate recently about economic incentives. What, exactly, are they?

A. Incentives are investments made by communities to attract large companies that can significantly improve the local economy — usually by making large investments in buildings and equipment and by creating new jobs. Unfortunately, they're widely misunderstood, because they vary so much from place to place.

Q. If they vary from place to place, what kind of incentives do we offer here in Lee County?

A. Lee County's policy requires local officials to consider every project on a case-by-case basis, but here's a quick look at how it works

To be considered for incentives at all, a company new to Lee County must make a capital investment of at least \$5 million in the community — or, \$1 million for expanding companies already located here — *and* they must create or retain jobs that pay at least the average wage for similar jobs in the county.

If they do that, and meet several other requirements, they can be *considered* for an incentive package. In the past, packages have typically been valued at 50 percent of the additional property taxes actually paid for no more than five years.

No offer is automatic, though,

and no specific terms are guaranteed or required.

Q. Isn't this just gambling our money on the chance that some company will succeed?

A. Absolutely not. At least, not here in Lee County. Our policy requires that companies invest in the county what they promised — or more — before receiving any grant at all. And, even then, payments are made to companies only *after* additional taxes generated by the expansion are paid to the county.

Because incentives are designed this way locally, public money is never placed at risk.

Q. You call these payments "investments." Isn't that just a semantic game to sell the idea?

A. Actually, they really are investments, rather than costs. *Costs* are written off in the accounting process as money spent that's now gone. Incentives are *investments*, because they continue to give returns on the money.

Here's why. Even during the first few years when incentives are being paid, the county receives revenue from taxes that it almost certainly would not have received if the incentives had not been offered. (Large companies generally would not come here without incentives of some sort; the reasons are explained later, in another question.) So, even if the

company is receiving a grant that equals half of their additional taxes paid, the county still retains the other half from "Day One."

And after the incentive period ends, the county continues to receive the tax payments — and the benefit of any additional jobs and capital investments.

Over time, most companies have returned *far more* financially than they ever received in grants. And helping ease the burden faced by new and expanding companies creates a strong business climate that attracts even more investment and jobs.

Q. But what happens if a company fails? Haven't we just wasted our money?

A. If a company did happen to fail, it would not meet its requirements to receive incentive payments from that time forward, meaning no additional public money would be paid — or lost.

On the other hand, the county would have received additional tax payments while the company *was* operating, and there are other benefits, as well.

Any investment in the community remains, even if the company goes out of business. For example, some formerly-empty land might now have a functional industrial building that wouldn't have been there otherwise, and this developed location would be far more attractive to many businesses than if nothing had been done to it at all.

Q. You say companies have to invest millions or create a lot of jobs. Small businesses create jobs, too, why don't they qualify?

A. There's no doubt that small businesses are essential to our vitality and create good jobs. Under state law, though, a public benefit must be demonstrated for all public expenditures, and that requirement can be met by focusing on high-impact projects that make significant financial investments in the community.

On the other hand, small businesses do benefit from other public services. One example is the local Small Business Center, which offers free and heavily-discounted training seminars, workshops and advice on developing a viable business plan, and one-on-one guidance on how to find effective ways to fund the enterprise.

Q. Just because everyone else offers incentives, it doesn't mean we have to. Won't companies want to come here anyway?

A. Well, that's precisely the problem: Nearly all companies, particularly the large ones making huge investments and creating hundreds of jobs, would *not* come here without economic incentives. It's one of the first things companies ask

about when they're searching for a new location.

There's no doubt that Lee County has plenty going for it. A wonderful location. An exceptional workforce. Attractive sites. And more. But without incentives, companies would simply move on to consider other locales that have their own advantages. And, in the process, they might never learn about all of the great things Lee has to offer.

The analogy isn't perfect, but look at it this way

Imagine you're recruiting football players at one of the Big Four schools. Carolina, Duke, N.C. State or Wake Forest, any one will do. And you decide, alone, not to offer athletic scholarships any more. Is there any doubt what will happen? Top athletes will go elsewhere.

It doesn't matter that you have a wonderful location near the beach, mountains and metropolitan areas. Or, exceptional people as coaches, teachers and fellow students. Even beautiful facilities and grounds. Athletes will choose to go somewhere else that's nice, too, but that also offers some financial help to cover the high costs they face.

Whether we like it or not, this is how economic development works. Not just here, but across the United States and around the world. It's so common, in fact,

that some counties that operated for a long time without incentive policies, like our neighbors in Chatham and Wake, have been forced to adopt an incentives plan to compete.

Q. You say companies probably won't come without incentives. How do you know that?

A. Good question. Much of that knowledge comes from the personal experience of working with so many companies during the recruiting phase. But there's plenty of research that backs up that wealth of experience.

One example? *Area Development* magazine, which specializes in corporate facility planning, conducts an annual survey, asking executives how important various factors are in their decision on where to locate.

"State and local incentives" came in eighth on a long list in 2007 — just behind factors like "highway accessibility" and "availability of skilled labor," the kind of fundamental concerns that make it possible for a business even to consider a particular locale.

Site selection consultants, other specialists who evaluate different communities and recommend where businesses should locate, rank incentives even higher — in *sixth* place.