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Economic Development

by Jonathan Q. Morgan and David M. Lawrence

Local governments can play an important role in supporting private investment and job creation. *Economic development* is the process by which cities and counties attempt to influence private investment decisions in order 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 that span 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.

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This article begins by describing the three fundamental approaches to economic development and how their use in North Carolina has evolved over time in response to a changing economy. The next section highlights the key factors that businesses consider in deciding where to make new investment and identifies those for which local governments have some responsibility. The article then reviews relevant federal, state, and regional programs prior to discussing the specific legal authority for 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 the three basic approaches to economic development and consider what cities and counties typically do with respect to other organizations. The three broad approaches to economic development are:

- business recruitment
- business retention and expansion
- business creation and entrepreneurship

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.

Recruiting large manufacturing facilities is not a strategy that has benefited communities evenly across the state. Some communities and regions are better suited for traditional industrial recruitment than are others because of their location, workforce, and other advantages. The number of large industry recruitment projects has declined over time and the use of incentives to lure them has increased. In a given year it is estimated that, on average, some 15,000 communities vie for roughly 1,500 major industrial development projects available nationally.[1] This creates an intensively competitive and often costly situation in which the odds of success are low for many communities. 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 recent examples are the location of Dell Computers to Winston-Salem in 2004 and the announcement in 2006 that Charlotte would be the home of the NASCAR Hall of Fame.

Although industrial recruitment remains central to state and local economic development efforts, business retention/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.[2] 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/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.

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

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. As discussed below, local governments most often defer to other entities like state agencies, community colleges, universities, chambers of commerce, and local nonprofits to take the lead on both business retention and small business development. However, several North Carolina counties and cities help fund and facilitate certain activities including business incubators and revolving loan funds for small firms.

Many communities support related strategies such as downtown revitalization, tourism development, and retiree attraction to complement the three core approaches of business: recruitment, retention, and entrepreneurship. 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. Some economic development projects represent a combination of approaches. For example, the luring of the NASCAR Hall of Fame to Charlotte involved a significant recruitment effort including state and local incentives.[3] However, when the Hall of Fame opens in 2010, it will be a major tourist attraction that plays on the region's historical connection to stock car racing and motor sports. Moreover, its location in downtown Charlotte will provide a boost to downtown revitalization efforts.

The Process of Economic Development

The three core economic development approaches share the common purpose of affecting 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:[4]

- 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

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 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.

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3. Local incentives include $102.5 million in Certificate of Participation (COP) financing supported by a 2 percent increase in Mecklenburg County's hotel/motel room occupancy tax dedicated to support the NASCAR Hall of Fame; $2.5 million in COP financing funded from the existing hotel/motel room occupancy tax dedicated to convention center facilities; and $6 million from the City of Charlotte to reconfigure the South Caldwell Street/I-277 interchange. State incentives include a $20 million loan backed by the sale of state-owned land and $5 million for road improvements.

4. See *Area Development Magazine*'s Annual Corporate Survey at http://www.area-development.com.

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 communities and regions that are economically distressed by making grants in four areas: (1) public works (infrastructure), (2) technical assistance, (3) economic adjustment assistance, and (4) strategic planning. EDA has recently funded a number of multicounty strategic economic development planning efforts around the state.[5]

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 on community development, CDBG is primarily geared to affordable housing, but it also funds economic development activities. The N.C. Department of Commerce administers the economic development component of CDBG through the Commerce Finance Center, which is 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 statewide economic development efforts, Department of Commerce officials are often the initial point of contact for prospective businesses. The department employs a number of persons who work with companies interested in North Carolina to help them locate an industrial or commercial site and to bring their executives together with local officials to discuss local incentives that might be offered to the companies. The Department of Commerce recently established the Office of Business and Entrepreneurial Services to assist existing businesses with expansion projects and to coordinate with small business service providers. 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.

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

5. These EDA-funded planning efforts have provided a catalyst for regional collaboration on economic development. Visit www.future-forward.net, www.northwestnc.com, or www.4noboundaries.org for examples.

companies are eligible to receive IRB funds. IRB issues must be backed by a letter of credit from a bank and, according the N.C. Department of Commerce, generally should be for at least $1.5 million to be cost effective.[6] As discussed below, counties issue the bonds after receiving approval from the state.

Community Development Block Grant

The North Carolina Commerce Finance Center administers the economic development portion of the CDBG program. 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 policy guidelines. Grant funds can be used to pay for public facilities that are required to meet business needs up to 75 percent of the proposed facility costs. The local government applicant must provide a 25 percent cash match, unless it is located in a county designated as Enterprise Tier One (see tier discussion below). In conjunction with a participating bank, funds can also be used to make loans to businesses to assist with machinery and equipment purchases or construction costs. Loans for shell building projects require a local match of 100 percent.

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 amount of the grant ranges from 10 to 75 percent of taxes withheld 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 is used to encourage development. Until 2006, the centerpiece of state efforts has been a series of corporate income tax credits (codified in G.S. Ch. 105, Art. 3A), offered to companies that create jobs, invest in machinery or equipment, invest in research and development, place a central administrative facility in the state, or provide worker training. Originally enacted in 1996, the William S. Lee Act legislation divides the state's counties into five "enterprise tiers" based on a formula that measures a county's unemployment rate, per capita income, and population growth, with the counties in the first tier being rated as the most in need of economic development. The amount of each tax credit depends on the tier designation of the county in which the company's expenditures or investments are made, with the amount of each credit decreasing from the lower- to the upper-number tiers.

Tax credit enhancements are available for companies that locate in certain geographic areas that meet the criteria for designation as a state development zone. A development zone must be a high poverty area within a municipality that has a population of at least 5,000. In addition to the income tax credits, a variety of property tax classifications and exclusions, such as the exclusion for manufacturers' and wholesalers' inventories, are also intended to encourage economic development, as are a number of sales tax exemptions.

In 2006, the General Assembly enacted legislation (S.L. 2006-252) will replace the Lee Act tax credits with a new set of tax credits effective January 1, 2007. The legislation creates "tax credits for growing businesses" (codified in G.S. Ch. 105, Art. 3J) and modifies the types of businesses that are eligible to receive them. Article 3J provides income and franchise tax credits for (1) creating jobs, (2) investing in business property, and (3) investing in real property (only in tier one counties). Similar to the Lee Act credits, the maximum amount of Article 3J tax credits that a business can claim is determined by the tier designation of the county in which the job creation or investment occurs. However, the new statute reduces the number of county tier designations from five to three and revises the formula used to rank counties to include unemployment, median household income, population growth, and assessed property value per capita. Under the new tier system, the 40 most distressed counties are designated as tier one, the next 40 are tier two, and the 20 least distressed are tier 3.

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

The new statute provides enhanced tax credits 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. (Urban progress zones will replace the development zone designation that existed under the Lee Act.) Counties without a municipality that have 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 most economically distressed counties (enterprise tiers 1–3) 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 new facility construction. The exact of amount of funding is tied to the number of new, full-time jobs created by the company up to a maximum of $5,000 per job and $500,000 per project. Eligible public infrastructure projects include construction or improvement of water, sewer, gas, or electrical utility systems, distribution lines, or rail spurs. Infrastructure projects require a local government match of at least 25 percent except in tier one counties. Projects involving private building renovations and equipment purchases must be in the form of participation loans with a North Carolina bank sharing at least equally with the unit of local government.

One North Carolina Fund

Formerly known as the Governor's Industrial Recruitment Competitiveness Fund, the One North Carolina Fund provides a limited number of cash grants annually. The General Assembly funds this grant program through nonrecurring appropriations and the amount available each year varies. The governor awards grants from the fund on an "as-needed" basis. 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 new or improve existing water, sewer, gas or electric utility distribution lines; or equip buildings. Eligible companies must pay an average wage in accordance with the William S. Lee Act. A local unit of government (city or county) 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. The Community College System also coordinates a network of 58 Small Business Centers on its campuses that assists new and existing small firms. 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, which provides training and technical assistance to businesses and industries to help them stay competitive. The Industrial Extension Service has thirteen field offices across the state. Finally, the Department of Transportation makes road and highway improvements that encourage both industrial and commercial development.

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 "Economic Catalyst" grants on a competitive basis to eligible applicants including local units of government. For example, the Town of Burnsville in Yancey County received a Golden Leaf grant to expand water and sewer services to meet the requirements of a new manufacturing facility. The foundation awarded a grant to Ashe County to support the development of a shared-used commercial kitchen for use by catering and specialty foods enterprises in a local business incubator.

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 that gets 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. For example, the Upper Coastal Plain COG located in Rocky Mount administers a revolving loan fund and is developing a regional business incubator. The Centralina COG in the Charlotte region created and staffs a new nonprofit organization called the Centralina Economic Development Commission.

A third set of regional entities related to economic development is the Workforce Development Boards. There are twenty four boards in the state that oversee and coordinate federal workforce programs at the local level. Some Workforce Development Boards serve single counties but many serve 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) water and sewer 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. 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.

Direct Incentives

For some 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*.[7] The issue in that case was whether direct incentives benefited the public at large or only the companies receiving the incentives. The supreme court decided it was the

7. 342 N.C. 708, 467 S.E.2d 615 (1996).

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 who have stronger revenue bases. Direct incentives therefore serve a public purpose.

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 properties or facilities. Subsection (d2) permits a local government to convey real property to a private company, 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 statute 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.

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, G.S. 158-7.1(f) places a limit on the total investment of a single local government in certain economic development programs, prohibiting them from exceeding 0.5 percent of the government's tax base.[8]

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 to make annual cash grants over a number of years (most often five years) 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. It is currently impossible to know whether a court would hold that 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." The statute requires,

8. Most of the incentives currently offered by local governments, however, are not subject to the cap established by G.S. 158-7.1 (f).

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 agreed upon.)

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.

Both the open meetings and the public records statutes are discussed at length in Article 8.

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 city’s downtown.

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, 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 160A-544). This statute permits creation of municipal services districts for a number of purposes, by far the most commonly used of which is for downtown 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 downtown property owners and give strong weight to the program recommendations of the board.

The second statute is G.S. 160A-458.1, 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. Besides 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 redevelopment law (G.S. 160A-512), if the redevelopment procedures are followed, and otherwise, under community development law (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.

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], but the two community development statutes do not include condemnation power. Nor is there any 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 public service enterprise improvements like 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.

Interlocal Cooperation on Economic Development

Many smaller, rural jurisdictions find it difficult to develop large-scale projects like industrial parks alone. When municipalities and counties collaborate on such ventures they can enjoy economies of scale and cost savings and pursue projects that otherwise might not be feasible. The General Assembly has enacted legislation to encourage and facilitate interlocal cooperation on economic development. G.S. 158-7.4 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.

Two recent examples illustrate how cities and counties might utilize this provision. The first is the Kerr-Tar Hub Project involving Franklin, Granville, Vance, and Warren counties. In December 2005, county officials signed an interlocal agreement to share the costs of developing a specialized industrial park on one site that will benefit all four counties. The interlocal agreement stipulates how the counties will share costs and allocate revenues created by the industrial park. According to the agreement, the four counties will be equally represented on the board of the newly created Kerr-Tar Regional Economic Development Corporation, a nonprofit charged with developing and managing the first of four planned hub sites. The Kerr-Tar Regional Council of Government spearheaded and helped facilitate this process. The second example is the North Mecklenburg Industrial Park being jointly developed by the mostly residential towns of Cornelius, Davidson, and Huntersville in Mecklenburg County. In March 2005, the three towns signed an interlocal agreement that sets forth a process for joint ownership of the industrial park and a plan for revenue sharing.

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 like Asheville, Charlotte, Greensboro, Wilmington, and Winston-Salem 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). Counties with economic development commissions include: Davidson, Gaston, Harnett, Orange, Robeson, Sampson, Stanly, Vance, Watauga, and Warren.

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, 501c(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 found with 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 that accompany public funds. (Any public moneys appropriated to these organizations, however, retain their public character 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 modify how they organize and structure their economic development activities in order to clarify roles and responsibilities, improve services, streamline programs, and create cost savings (see Table 26-1). For example, Wayne County recently announced that its Economic Development Commission, in existence since 1966, will be replaced by a new, nonprofit, public/private organization to perform economic development countywide effective July 2006. This new entity will represent 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 created 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 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 the 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 payback guidelines, performance agreements, clawback provisions, and cost-benefit analysis of incentive projects.

Table 26-1. *Characteristics of Organizational Structures for Economic Development*

Characteristic	Line Department	Economic Development 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
Examples	Anson County; Washington County; Charlotte, Wilmington	Bladen County EDC; Sampson County EDC; Stanly County EDC	Carteret County EDC; Catawba County EDC; High Point EDC	Alamance County Chamber; Henderson County ED Partnership; Greater Raleigh Chamber

Source: Adapted from David Lawrence, *Economic Development Law for North Carolina Local Governments.* Chapel Hill, N.C.: Institute of Government, The University of North Carolina at Chapel Hill, 2000.

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.
6. *Measuring and evaluating success.* So much is done in economic development without ever knowing what difference it has made in communities. 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.* Though 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

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Organizations (listed in order of relevance)

State-Level

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

North Carolina Community College System http://www.ncccs.cc.nc.us

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

N.C. Association of Regional Councils of Government http://www.ncregions.org

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

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

Federal/National

U.S. Department of Commerce, Economic Development Administration http://www.eda.gov

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

International Economic Development Council http://www.iedconline.org

Jonathan Q. Morgan is a School of Government faculty member who specializes in economic development. **David M. Lawrence** is a School of Government faculty member whose interests include legal aspects of economic development.