NC Justice Center
Opportunity and Prosperity for All

BTC Brief

NC BUDGET & TAX CENTER

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Risky Business: NC Poised to Take a Giant Step in the Wrong Direction in Economic Development Policy

Timely, accessible, and credible analysis of state and local budget and tax issues

Currently sitting on Governor Mike Easley's desk awaiting his signature (or his veto stamp) is a bill that represents a major step in the wrong direction on state economic development policy. Dubbed the "Job Maintenance and Capital Development Fund," this legislation would provide up to $40 million to Goodyear Tire and Rubber Co. in exchange for the company maintaining employment of 2000 employees (currently there are 2750) and investing $200 million of its own funds into the company's plant in Fayetteville. This subsidy, if it becomes law, would represent the first time that North Carolina has awarded a substantial cash subsidy (as opposed to credits or exemptions against taxes) to a corporation to, ostensibly, keep jobs in North Carolina. Not only does this deal lack key elements of accountability, it also sets the dangerous precedent of subsidizing companies who threaten to move jobs out of North Carolina.

The anatomy of the deal

Under the new program, a company located in a Tier 1 county that maintains employment of at least 2000 workers, and invests at least $200 million of its own funds into capital improvements over five years would be eligible for a grant of up to $4 million per year for 10 years for a total of $40 million. The amount of the grant or subsidy is capped at the lesser of either $4 million or 50% of the income tax withholdings of the plant's employees.

At present, Goodyear is the only company in North Carolina that would be eligible for the grant, and not coincidentally, the bill's sponsors were all from the Fayetteville area. Cumberland County, which includes the city of Fayetteville, is one of 40 Tier 1 counties. These counties have the highest unemployment rate, and the lowest median household income, population growth and assessed property value per capita in the state. In addition to the $40 million state subsidy the deal includes $10 million in assistance with the plant's electrical bill, free training for the plant's workers at the local community college worth $2.6 million, and $4.4 million in cash from Cumberland County and the city of Fayetteville, for a total of $57 million.

Program lacks key accountability pieces

The Goodyear plant in Fayetteville is one of North Carolina's largest employers and is considered a responsible employer that pays livable wages and whose workers are represented by the United Steel Workers Union. Despite this good track record, there are a few specifics about the legislation that raise accountability concerns:

1. **The plant must maintain a workforce of only 2,000 workers, which means that the plant could lay off 750 workers and still receive the full subsidy.**

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2. The 2,000 jobs that it must maintain can either be permanent positions or contract employees. This could allow the company to convert permanent positions to more vulnerable contract positions yet still claim the full subsidy.
3. Because the plant is located in a Tier 1 county, there is no minimum wage requirement and the company could receive a subsidy for jobs that pay well below a living wage if it reduces wages or hires new workers at lower wages.
4. The agreement stipulates that the company must only provide health insurance to the full-time employees and does not require the same for full-time contract employees.
5. The agreement caps the cash subsidy amount at the lesser of either $4 million or 50% of the total income tax withholdings of the workers for the previous year. So there could be a year in which the company reduces its workforce substantially, but its subsidy is not reduced because the subsidy amount is based on the previous year's payroll.
6. The recapture/penalty provisions are also inadequate; the company would repay an "appropriate portion of the grant" if it failed to meet any of the criteria. For example, if the company only invests half of the required $200 million capital investment, its subsidy might only be reduced by one half rather than eliminated all together.

Dangerous precedent of subsidizing companies who threaten to leave NC

Perhaps more important than the specifics of this new Goodyear program is the potential chaos that will ensue in state economic development circles. There can be no doubt that other companies will begin pursuing similar deals immediately, and there will be very little justification for saying "no" because of the precedent set by the GoodYear subsidy. The Budget & Tax Center has criticized the state's growing propensity to subsidize corporations that relocate to or significantly expand their operations in North Carolina. The new program, however, poses an even greater long-term threat to the state's fiscal solvency. Not only are there not expected to be new jobs, and therefore additional personal income tax revenues generated, but the amount of the subsidy could exceed what GoodYear is paying in state corporate income taxes, particularly since its North American operations did not make a profit in 2006 (North Carolina law does not require disclosure of corporate income tax returns). Any additional property tax revenue is also likely to be negligible since there are not necessarily other buyers lined up waiting to buy a tire manufacturing plant, even an upgraded one. GoodYear and other manufacturing firms already benefit from a host of tax preferences, such as the state's double-weighted sales tax apportionment formula for corporate income tax as well as a new tax break on energy purchases by manufacturers (Senate Bill 3).

State should study incentives and defer to proven "high road" strategies

State government in North Carolina is well-managed, earning a good grade from Governing Magazine in 2006 for how well it handles its money. State officials are not, however, in the best position to evaluate whether corporate threats to leave the state are accurate or whether or not a particular industry is a worthwhile long-term investment of state resources. Moreover, programs like the Job Maintenance and Capital Development Fund leave state officials vulnerable to aggressive corporate arm-twisting techniques such as those employed in the Google negotiations (see Business Week Magazine's July 27 issue).

The best use of state resources are investments in proven economic development strategies like universal high-quality pre-kindergarten, workforce development, and infrastructure improvements such as roads and water and sewer systems. North Carolina's state and local governments would be wise to use these and other "high road" strategies and avoid the "risky business" of subsidizing specific industries or companies.

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