MINUTES
TRANSYLVANIA COUNTY BOARD OF COMMISSIONERS
January 29, 2015 – SPECIAL MEETING

The Board of Commissioners of Transylvania County met in special session on Thursday, January 29, 2015 at 6:00 p.m. in Commissioners Chambers at the County Administration Building. The Board of Commissioners met jointly with the Board of Directors of the Transylvania Partnership for Economic Development (herein referred to as "TPED") for the purposes of updating the County's Economic Development Incentive Policy and discussing peer county measures for measuring economic success.

Commissioners present were Jason Chappell, Vice-Chairman Larry Chapman, Chairman Mike Hawkins, Page Lemel and Kelvin Phillips. Also present were County Manager Jaime Laughter and Clerk to the Board Trisha Hogan.

TPED Board of Directors members present were Linda Coye, Jake Dalton, Roger Frisbee, Ruth Harris, Jeremy Owen, Dee Dee Perkins, Vice-Chairman Mark Tooley, Chairman Andy VonCanon and David Watkins. Unable to attend were members Libby Freeman and Parker Platt. Also present was Interim TPED Executive Director Crystal Morphis. Ms. Morphis is acting as a consultant to help facilitate decision-making for the organization.

Media: *The Transylvania Times* – Jeremiah Reed

There were approximately 20 people in the audience.

CALL TO ORDER

Chairman Hawkins and Chairman VonCanon called their respective Board meetings to order at 6:05 p.m.

WELCOME

County Manager Jaime Laughter welcomed everyone to the meeting and explained the purpose of the joint meeting. The format for the meeting is that Crystal Morphis, the Interim Executive Director for TPED will make a presentation on local government incentives. Following the presentation, both Boards should discuss an appropriate economic incentive policy for Transylvania County and then the Board of Commissioners should provide general guidelines to direct staff on developing a draft policy.

INTRODUCTIONS

Before Ms. Morphis began her presentation, members of both Boards and staff introduced themselves. TPED members also noted which agency they represented or who appointed them to serve on the Board of Directors.

OVERVIEW OF LOCAL GOVERNMENT INCENTIVES

Ms. Morphis gave an overview of local government incentive policies via PowerPoint presentation. She noted that incentive packages are only a small part of the entire economic development process. Other factors include creating space for business in terms of sites and buildings, workforce development, technology, infrastructure, utility enhancement, etc. This is a summary of her presentation:

<u>Trends in Incentives</u>

- Wider range of eligible industry sectors (past focus was on manufacturing)

- Small business, retail, commercial incentives (nontraditional; based on what the community wants to incentivize)
- Creative incentive structuring (offering real estate as part of incentive, for example; businesses look for incentive packages that address their needs, not the ones with the largest dollar amount)
- Redevelopment incentives (Building Reuse Fund at State level, for example)
- Changes to state policy impacting local incentives (Rural Center defunded; places responsibility more on local government)

Note: It is important to find out the specific needs of a company so the County can determine the best way to assist them.

<u>Transylvania County Proposed Incentive Policy</u>

- Eligibility
    - $250,000 minimum investment threshold
    - Create more than 5 new jobs
- Considerations
    - Jobs
    - Investment
    - Quality of jobs
        - Healthcare coverage
        - Wage standard
    - Industry Cluster
        - Target clusters
        - Headquarters
        - Bonus for existing businesses
    - No grant amount specified

Note: This is just a starting point for discussion. Staff will take comments made during discussion to include in a proposed policy for the Board of Commissioners to consider at an upcoming meeting.

<u>Local Government Incentives (average across North Carolina)</u>

- Overwhelming majority of local governments offer incentives
- About half of municipalities match their county's incentive
- Most governments offer incentives for manufacturing, distribution, research and development, headquarters, and some for services
- Incentive policy includes:
    - Overview, purpose
    - Eligibility requirements
    - Eligible business types
    - Description of grant program
    - Application
    - Review process
    - Compliance (need to be upfront with businesses because there are costs associated with monitoring incentives to both the company and local government)

<u>Eligibility</u>

- Investment threshold, new vs. existing (gives preferential treatment to existing)
- Job creation threshold, new vs. existing (gives preferential treatment to existing)
- Wage standard (company meet or exceed average wage in the County; this is a State standard; it is advantageous to match State standard in figuring incentive packages)

- Health insurance (company must pay 50%; this is State standard)

Note: Also, the County could consider a company having no environmental or safety violations as part of the criteria.

Incentives (examples offered by communities)
- Grants
- Infrastructure (extension of water and sewer lines; road enhancement)
- Land
- Site preparation
- Street naming (this is a perk; could be meaningful to company)
- Free or reduced cost of building
- Concessionary lease terms
- Free start-up space (incubators, for example)
- Concessionary rates for electric service

Incentives (What should incentive grants be used for?)
- Not designated for a specific use
- Equipment
- Site preparation
- Land
- Infrastructure
- Building cost
- Training

Incentive Amounts (average from other counties)
- 75% of net new tax revenue over 4-5 years
  - 60%-90%, majority in the 70%-80%
  - 3-5 years with the majority in 4-5 years

Note: Some offer more, some offer less. The return comes in the form of tax revenue. Jobs are important and desired.

Performance Requirements
- Performance Agreement
  - Claw-backs necessary if grants upfront
  - Some include claw-backs if all years of performance are not met
- Reporting requirements (to mimic State)

Note: Incentives are paid as company meets performance measures.

Transylvania County Proposed Incentive Policy (recap)
- Eligibility
  - $250,000 minimum investment threshold (small business is growing here, not large manufacturers)
  - Create more than 5 new jobs
- Considerations
  - Jobs
  - Investment

- Quality of jobs
  - Healthcare coverage
  - Wage standard
- Industry Cluster
  - Target clusters
  - Headquarters
  - Bonus for existing businesses
- No grant amount specified (need to estimate range)

DISCUSSION TOPICS

- Complexity of incentive policy versus flexibility
  - Every project is different; if counties try to create a policy that will address all businesses/scenarios, it will not be a successful policy
  - Need general policy with guidelines
  - Needs to be flexible
- Priorities – existing business vs. new, jobs vs. investment, target sectors, etc.
  - Most communities will welcome any company that is a quality employer that provides good jobs
  - Incentivize certain sectors
- Wage requirement
- Specific return on investment goals
- Up-front incentives versus over time
  - Up-front investment creates potential risk for local government
- Total local grants versus matching State grants
  - State grants usually require a local match
  - Consider cap
- Shorter term/higher percentage grants versus longer term/lower percentage grants
  - Longer term increases reporting time and associated costs with reporting
  - Longer term increases risk for company should the business change
  - Difficult for most businesses to predict what their business may look like in 10-12 years
- Additional local requirements versus placing onerous reporting requirements on companies (for example, can award points on hiring local, enacting “green” standards, etc.; need to determine how important these factors are and how costly it will be to monitor and whether or not companies will think these areas are worthwhile for them to pursue)
- State model for consistency (the core pieces the State focused on are insurance, safety, environmental)

Ms. Morphis asked both Boards to discuss these areas. She wanted feedback and discussion from the group about their priorities for an incentive policy in order to help staff formulate a recommended policy for Commissioners’ consideration.

GROUP DISCUSSION

This is a summary of discussion:

1. Incentive policies exist to assist businesses. The incentive policy that the County will craft will also serve as a policy statement about what types of economic activity and businesses the County wants to encourage. How does the County then strike a balance between a complex policy while

providing flexibility to individual projects? It seems that Commissioners are being encouraged to draft a broader and less detailed incentive policy.

Ms. Morphis said the purpose statement should indicate what types of businesses/companies the County has an interest in incentivizing. The County can state what their target industries are and include a goal of incentivizing companies that intend to provide quality jobs better than the average County wage. The purpose statement can also include a goal to support existing businesses as well as new. Commissioners can essentially outline several areas that are important to the County in the purpose statement. The flexibility comes with offering a range of incentives depending on how many goals a project meets.

2. How does the Board of Commissioners educate citizens to show them that incentives are valuable tools for recruiting and growing businesses?

Ms. Morphis said it should be noted that if a business does not locate here they will not receive monies from the County. Should a business locate here, they are bringing in something that County did not have previously, i.e. additional jobs, more tax revenue, etc. It should be made known to existing businesses that if they invest in this community, the incentive is available to them as well. Often times, existing businesses receive preferential treatment over new businesses.

3. Some counties do not recruit competitors. Is this common to include in an incentive policy?

Ms. Morphis said it is not common to include this statement in an incentive policy. In her professional opinion, until the business signs an agreement that says they are locating to the community and making an investment in capital and jobs over a period of time, then nothing is confirmed. In addition, at any given time a company could go out of business or change its business type. Many communities prefer to have clusters of businesses because it is beneficial to the workforce. Should a business downsize or go out of business, employees will have a skill set they can take with them to another like business. Companies also prefer to have synergies with like businesses. They can share technology, research and development, etc. Business clusters also attract ancillary businesses. This is evident in the new businesses coming to Western North Carolina. Ms. Morphis advised against making this statement in the incentive policy.

4. How do we account for a sense of place or community when thinking about business clusters?

David Watkins responded. He believes it is difficult because sense of place is different to everyone. Being able to say no to economic development is very hard. We need to decide if changes that happen in the community are consistent with who we are (breweries, for example). Having a good sense of place is important in economic development. It is also helps us distinguish ourselves from other communities. When people care about their community, it will be impact every aspect of the community.

Ms. Morphis asked Commissioners to keep in mind that an incentive policy is to incentivize certain economic behaviors. There will be companies that come to the area that do not meet the purpose statement in the incentive policy. The County does not have to offer them incentives but can still welcome them into the community. For example, there may a company that comes to the community that offers very low wages, but there are unskilled people in this community who need unskilled jobs. The County should still welcome the business to the community and help them get established and/or navigate through the regulatory process.

5. How do we determine the value of an incentive offer?

Ms. Morphis said this is determined through a cost-benefit analysis (analyze cost of company and the benefit of the incentive and how those offset). There is cost associated with a new business moving into a community (impact to public safety, schools, etc.) It important to determine what value this new business brings to the community. This is another reason to consider value. When incentive packages are offered for a shorter term; that is more valuable to a company than a lower amount over a longer period of time. Outside of the incentive policy, there should be a way to quantify other ways to help the company, for example, streamlining the permitting process, waiving impact fees, etc. Some of these can be quantified in dollar amounts; others anecdotally.

It is imperative that the County determine what is important to the perspective company. If the company is going to be a heavy utility user, maybe there are ways to help offset the utility costs. If visibility is important to the company, maybe there are ways to offset the cost of one site versus a lower cost site that does not give them visibility. These are just examples of ways to offer flexibility. It was noted that State grants have certain standards that must be met by the company and the County.

Ms. Morphis said the draft policy presented here tonight is a very good start. It includes a minimum investment threshold at a low amount ($250,000) which she recommends because the majority of businesses coming here and growing here now are small businesses. (Some relative information: Wake County's minimum investment level is $100 million.) The draft policy indicates a business must create more than five new jobs. That means the County is still incentivizing very small businesses, not sole proprietors. (There are other resources for sole proprietors, such as small business loans.) Consideration is given to both jobs and investment. In terms of quality of jobs, health coverage is a State standard. The wage standard can mimic the State standard or Commissioners can choose to use another. This may be included in the purpose statement and not part of the actual requirements. She asked Commissioners to decide on the range of the grant because it is not specified in the draft policy. This is important for a company to know upfront before negotiations can begin on a grant proposal.

6. Is using scorecards common practice?

Scorecards are becoming more common. Ms. Morphis said 20-25% of the incentive policies she has reviewed use scorecards, but they are becoming more prevalent than before. Scorecards can, however, take away some of the flexibility, but the Board can decide to consider factors outside the scorecard guidelines.

7. By having a published scorecard do we risk knocking ourselves out of the running before the company ever gets an opportunity to find a sense of place?

Ms. Morphis stated that incentives only become important when a county is one of the last locations the company is deciding upon. The location has to make business sense for a company. When a company has narrowed down the list of locations that is when incentives work to offset some of the cost differential between communities. She said companies will consider a location because of the available real estate, but will sign a deal based on a community's workforce.

Ms. Morphis pointed out that the Community College System has funding available to them for workforce training. This can be included in a county's incentive package offer. Many communities are offering unique solutions to ensuring a qualified workforce that set them apart from others.

8. What data is used to determine if there is a ready and trained workforce?

There are a few components to this. First the labor shed must be identified. Next would be to analyze existing occupations to understand the workforce, as well as recent layoffs and the skills of those workers and recent expansions to determine what skills have been taken out of the workforce. What companies find most useful though are one-on-one conversations with existing companies. Companies want to know about drug use, turnover rates, and the number of applicants to job openings, etc. Ms. Morphis noted there is data available that indicates the number of people looking for work in specific occupations in certain regions.

9. There are many advantages to incentivizing existing businesses. There have been past situations when existing businesses have contemplated leaving Transylvania County for a neighboring county because of site capacity or some other incentive. If we can develop strategies to help existing businesses expand and remain here, that would be a really strong component of an incentive policy.

Ms. Morphis agreed and stated that Commissioners may want to consider awarding additional points to an existing business. It is sometimes hard for communities when existing businesses make investments in advanced technology that results in no new or fewer jobs; however, this helps the company remain competitive and allows them to remain in the community. Ms. Morphis pointed out that the State does not offer incentives to existing businesses solely for them to remain in a community. The company would have to move into a new location or invest in their current location to qualify for certain grants. She said it is important for Commissioners to realize the County has very limited real estate for companies and anytime a company considers expansion, it may very well be looking outside of the area. There is a cost to a company for moving anyway, so it would be just as easy to move across county lines.

10. What about noncash incentives? Sometimes businesses expand and they do not have any internal manpower to search for grants that might help them. Part of an incentive program might be that the County will provide expert time or local resources.

Ms. Morphis stated that Transylvania County has provided such assistance for many years under the leadership of Mark Burrows when economic development was a County department. He assisted with identifying grants and grant-writing and reached out to agencies such as the Land-of-Sky for assistance. The new TPED Director will be able to assist in this regard as well.

Ms. Morphis stated that in her short term working in this community, she has identified an obstacle that must be overcome, that being the perspective in which the County approaches a project. The County has been approaching projects from a dollars standpoint when the County should have been approaching projects by finding out what a company actually needs. The County should view the project from the company's point of view and assist the company with making good businesses decisions.

11. Do communities ever collaborate on a project? For instance, should a new company locate on Highway 280 across county lines, but many of its workers will come from Transylvania County, is there a way to negotiate with our neighbor on incentives so that Transylvania County will benefit as well?

Ms. Morphis stated that this is common practice across the State and the term used is "multijurisdictional park". Communities would share in both the cost and tax revenues. Beyond multijurisdictional parks, communities may also enter into interlocal agreements with each other. Because Transylvania County has limited capacity and other challenges because of the County's terrain and waterway boundary issues, working with neighboring communities is a good idea.

12. Should Transylvania County consider controlling product development?

Ms. Morphis said there is a benefit to controlling one's own destiny. She advised the County to complete a good market study first because many communities have built spec buildings that have sat empty. Because Transylvania County has such limited capacity, controlling its destiny either through ownership or public-private partnership is a really good idea. She noted however that this is usually not a money-making opportunity for communities. The County will benefit from the jobs created and tax revenue stream. The payback on a spec building alone is very long term and should only be used as an incentive.

13. If an existing business wishes to expand and seeks incentives from the County but does not score the necessary points on the scorecard to qualify, what is the liability for offering an incentive anyway?

Ms. Morphis said if a local government decides to offer more or less outside of what the general policy states, the local government then must explain its position and be accountable to the public. A local government must also realize the precedent it is setting. There is no legal exposure. Incentive policies in North Carolina are all discretionary and every project is considered on a case-by-case basis. This makes the case for how important it is to get the criteria right from the beginning.

14. What about assistance for startup companies?

This policy does not address that. There are other resources available in the economic development field that will be helpful to startup businesses.

Ms. Morphis next focused the conversation to the scorecard and asked for feedback. This is a summary of the comments and suggestions on the scorecard:

- Scorecard is nonpolitical, straightforward, easily understood, objective
- Health coverage and income level should be a basic requirement; remove from scorecard and add to purpose statement
- Reduce size of scorecard so it can be seen on one paper; makes it easier to follow
- More points for clusters and existing businesses
- LEED certification is expensive and the payback is very long term; however, companies that want LEED certification are going to do so because they value our sense of place; will remove from scorecard for now
- Comfortable with jobs scale and level of investment since small business is locating here
- Rework scorecard making investment level 50% of points; keep jobs percentage at 30%
- Agree with awarding points for clusters and headquarters, but define headquarters; since the County does not have a lot of clustering, prefer to use the term complementary or not conflicting
- Offer flexibility with a range of years and percentages

Other questions:

15. Are there stipulations in the policy if the economy takes a turn for the worse?

Ms. Morphis said typically communities do allow some leeway, usually around 90%. For example, if a company intended to create 30 jobs and only creates 28, as long as the level is not below 90% they would allow the company to move forward with the incentive. Sometimes this also occurs with investment when there is some change in the market place. The incentive is based on the tax revenue stream and if the investment is not there then the County is not going to get a return.

16. Are there other recommendations for the County's incentive policy?

The County should not offer upfront incentives because it is too risky. There needs to be good performance measure and an education component on the performance measures so the company understands the requirements of the incentive policy. The agreement between the County and company is a legal document and needs to be vetted thoroughly. Incentives are paid out only as performance requirements are met. The County should have infrastructure in place in advance of a company locating here because most companies are not willing to wait.

Ms. Morphis recapped the suggestions for the scorecard. She said she will work with the Manager to draft a few examples for Commissioners consideration. They will also provide some example projects to show how the incentive policy might be applied.

OTHER BUSINESS

Commissioner Chappell reported that Transylvania County is eligible to participate in a movement called ACT Work Ready Communities. In order to participate, the County must assemble a leadership team. He may be contacting individuals in this room tonight about serving. This program certifies that Transylvania County has a labor force that meets certain basic standards and it provides the County with another tool for attracting businesses and jobs. He noted that only six counties in the State have this recognition. Henderson County will be applying soon as well.

ADJOURNMENT

There being no further business to come before the Board, **Commissioner Lemel moved to adjourn the Board of Commissioners' meeting, seconded by Commissioner Phillips and unanimously carried.**

The meeting adjourned at 7:50 p.m.

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Mike Hawkins, Chair
Transylvania County Board of Commissioners

ATTEST:

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Trisha M. Hogan, Clerk to the Board