# Business Development Grant Policy Overview

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# Agenda

- **Legal Framework**
- **Incentives in Context**
- **Wake Policy Overview**
  - Objectives
  - Definitions
  - Living Wage Requirement
  - Grant Categories and Tiers
  - Targeted Growth Areas
  - Upward Mobility Bonus
  - Policy Guidelines
- **Future Policy Considerations**

# Defining "Incentive"

***Cash grant(s) paid by a local government to a private company in exchange for jobs created and capital investments that increase a local government's tax base***

*Incentives are not tax exemptions or exclusions.  Only the NC General Assembly has the authority to create tax exemptions or exclusions.*

# Legal Context in North Carolina

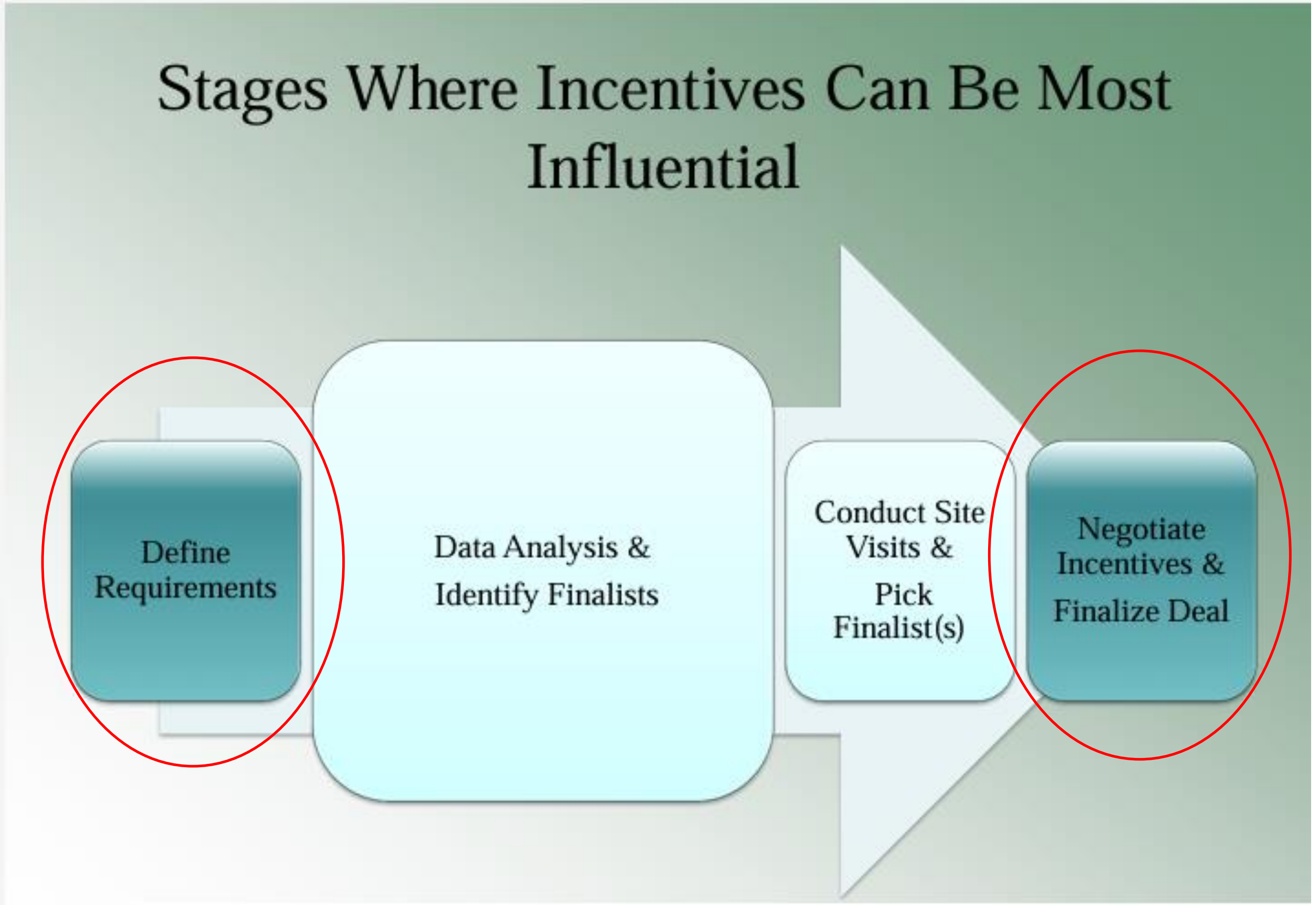
- **NC Statutes (NCGS 158-7.1)**
  - Authorizes local governments to make appropriations for economic development purposes. Must be found by governing body to increase:
    - *Population, taxable property, employment, industrial output, or business prospects*
- **NC Constitution**
  - Prohibit exclusive emoluments, require public purpose
  - For most of 20th century, local governments were not permitted to make incentive payments to private entities
- **Case Law**
  - *Maready v. Winston Salem (1997)* found incentives constitutional when they primarily benefit the public and not a private party

# Legal Context Continued

- Courts have upheld other incentives with characteristics "parallel" to those in *Maready*, setting the legal framework for incentives in North Carolina.  The critical elements include:
  - **Job Creation**
  - **Increased Tax Base**
  - **Strict Procedures**
    - A "but for" analysis finding the project will not go forward without the incentive
    - Written policy establishing maximum payments
    - Written agreements
    - Final approvals in public meetings, properly noticed
    - Public hearing
  - Other characteristics: Interstate competition, diversifying the economy

# Incentives in Context

- Incentives are **one** of many factors influencing business decisions. They can't make up for lack of core needs:
    - Talent/Workforce
    - Labor Costs
    - Infrastructure
    - State, National Tax Policy
    - Sites and Real Estate Needs
    - Transportation and Logistics
    - Access to Inputs
    - Regulatory Environment
    - Access to Customers/Markets
    - Research and Development
    - Quality of Life/Community Amenities




Dr. Patrick McHugh, NC Fiscal Research Division: 2013 presentation to the Joint Legislative Economic Development and Global Engagement Oversight Committee

# Wake County

## Business Development Grant Policy Overview

# Wake County's Policy

- Well documented, transparent, and easy to access
- Articulates clear goals and objectives
- Performance based

**Wake's policy goals:**

- Attract/encourage new investment
- Create new jobs
- Diversify the tax base
- Promote economic mobility and sustainable business practices

# Policy Definitions

**New Investment Threshold**

Defined as *"improvements to real estate, machinery, equipment, and other business personal property." New investment must exceed the minimum threshold in **assessed valuation**, as determined by the Wake County Tax Administrator.*

**New Jobs Threshold**

New jobs defined as *"new increase in the company's number of **full-time Wake County employees**. A full-time employee is defined as a person who is employed by the company **working at least 35 hours per week**…"*

# Living Wage Requirement

**Created by the Commissioners in 2023 to establish a floor for all jobs in a project.  Policy states:**

*“No company shall receive a Business Development Grant for a project that includes jobs with wage rates below the Wake County Living Wage Rate or equivalent”*

Current Rate = **$24.37/hour**, or **$50,690 annually**

# Policy Tiers and Categories

| Tier | Min. New Investment (1) | Min. Jobs | Min. Avg. Salary (2) | Incentive Percentage (3) | Max Term |
|---|---|---|---|---|---|
| Tier 1 ("Super Jobs") | $50 million | 250 | 200% | 50% | 8 |
| Tier 2 | $100 million | 50 | 110% | 50% | 8 |
| Tier 3 | $75 million | 50 | 110% | 42.5 | 5 |
| Tier 4 | $50 million | 50 | 110% | 35% | 5 |
| Tier 5 | $25 million | 50 | 110% | 30% | 5 |
| **State Match** | $5 million | 25 | 100% | 35% | 5 |
| **Headquarters** | $5 million | 35 | 120% | 35% | 5 |
| **Targeted Growth Area** | $2 million | 20 | Living Wage | 35% | 5 |

(1) The minimum incremental additional assessed tax valuation created by the project
(2) Average salaries for jobs in the project relative to the County's average annual wage
(3) Grants paid reflect this percentage of the net new property tax revenue generated by the project

# Policy Categories

## State Participation

Provides for required local participation for larger state incentives

- Mostly Job Development and Investment Grants (JDIG) in Wake County
- Relatively small local participation can unlock large state grants for companies

## Headquarters

New tier created by the Board in 2023 designed to attract headquarter projects. HQ defined in policy as:

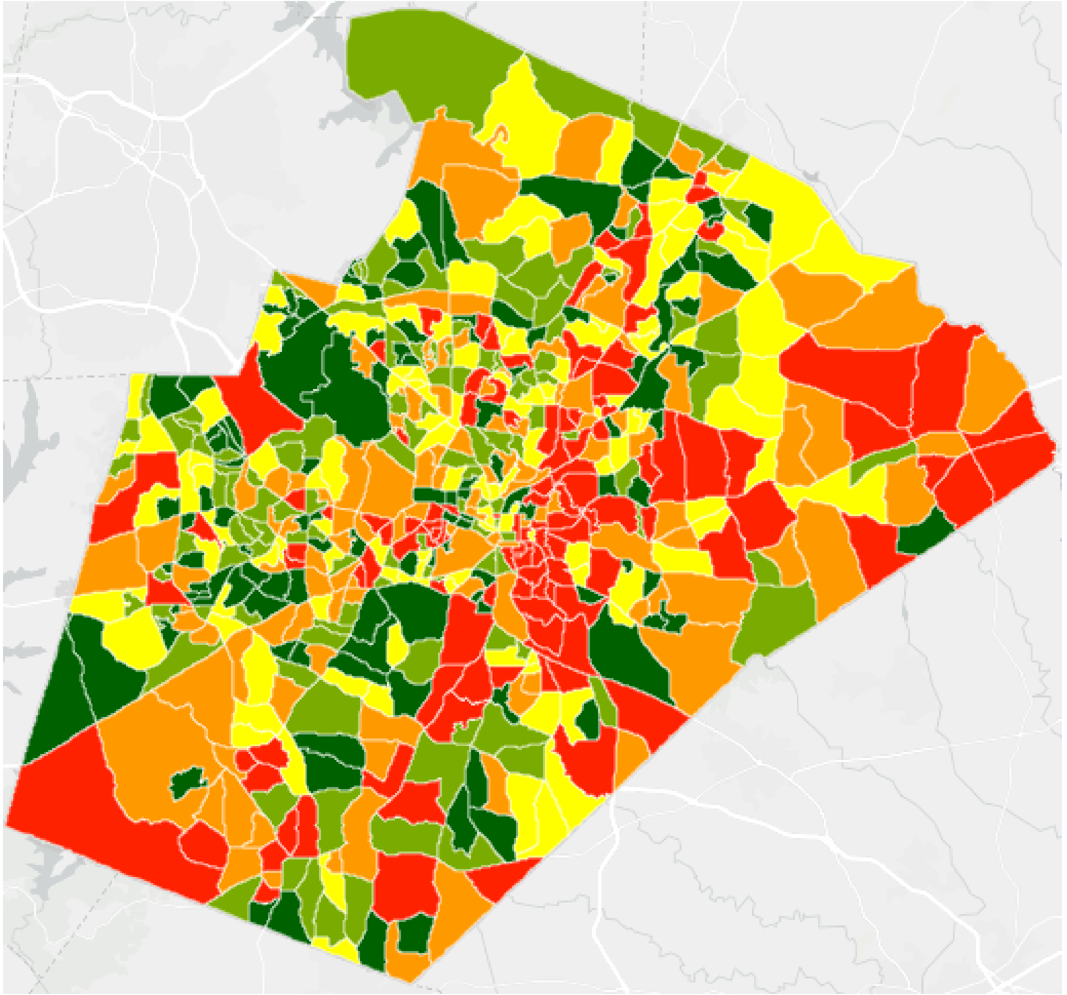
- *Corporate or National* HQ
- *Regional HQ* for a multi-national region (North America, for example)
- Lower investment threshold because these are typically office

## Targeted Growth

Created as a new tier in 2018 to encourage growth and investment in vulnerable communities

- Lowest threshold for investment and jobs of all the policy categories

# Targeted Growth Areas



Based on Wake County Community Vulnerabilities Index, which uses Census Block Groups and American Community Survey Data.  Uses the following variables:

- **Unemployment Rate**
- **Age Dependency Ratio***
- **Educational Attainment**
- **Housing Vacancy**
- **Poverty Rate**

**Red** (Most Vulnerable) and **Orange** (Vulnerable) have been used to qualify projects in this policy category

*Combined percentage of population under 18 or 65 and older

# Upward Mobility Bonus

- Additional 5% grant of new tax revenue generated available to companies after qualifying for standard grants
- Created by the Commissioners in 2019 to promote economic mobility and reduce barriers to employment.
- Minor updates made by Commissioners in 2023

**Qualification is a 3+2 Approach:**

**Must do all three:**

- Offer health insurance
- Prohibit discrimination
- Robust leave policies

**Must do at least two of the following:**

- Program(s) that offset childcare costs
- Program(s) that offset transportation costs
- Program(s) that offset expenses for education or tuition to support employee skill development and advancement
- Second Chance Hiring Practices

# Policy Guidelines

1. Commissioners not obligated to make any grants under the policy
2. Projects are evaluated on a case-by-base basis, using factors:
    - Type of business, relative to current tax base
    - Type of jobs
    - Reputation of company
    - Presence of competition
    - Business practices* (benefits offered, leave, community involvement, sustainability and energy efficiency goals)
3. Grant may not exceed amount of ad valorem taxes paid
4. Tax Administrator confirms assessed value of investments prior to grants
5. County participation in a grant is contingent on municipal participation
6. Grant terms are outlined performance-based agreements with companies



*Added by the commissioners in 2023

# Future Policy Considerations

- **Investment thresholds for transformative projects**
  - The commissioners have authorized grants above prescribed policy maximums for transformative projects (generally >$500 million investments)

- **Payment structure for high job/low investment projects**
  - Current payouts are based solely on new property tax revenue generated
  - HQ/Office type projects often come with low property investments, but high-paying, high-quality jobs. Is the current structure competitive enough? For example, under current policy the County payouts on 5-year grants at the current tax rate:
    - $5M = $45,000 paid over 5 years
    - $10M =$90,000 paid over 5 years
    - $15M =$135,000 paid over 5 years

# Future Policy Considerations

- **Affordable housing (Attorney’s Office)**
  - No legal authority to use the incentive policy as a tool to encourage financial contributions or other support for affordable housing

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