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## *Cabarrus Creates a Ripple in the Economic Development Pond With Its Incentive Grant Program*

**C**abarrus County is in a sense a border county, though it doesn't abut another state. Instead, this Piedmont textile manufacturing county rubs up against the mythic Great State of Mecklenburg—the Charlotte-dominated economic dynamo hemmed in by the South Carolina line.

For decades, Cabarrus maintained its own identity. Cannon Mills (now Fieldcrest Cannon) occupied the heart of the county, providing thousands of jobs for the twin towns of Concord and Kannapolis. But by the 1980s, the boundaries of neighboring Mecklenburg no longer could contain that county's bulging economic muscle. Spillover residential growth began to gobble up the farm fields of Cabarrus, and soon the county's growing public school population began to outpace its tax base.

Meanwhile, South Carolina was using aggressive incentives to lure industrial prospects who would just as soon be 20 miles to the south of Charlotte in Rock Hill, S.C., as 20 miles to the north in Cabarrus County. Cabarrus officials came to realize they were becoming over-balanced with residential growth while commercial and industrial growth went elsewhere—costing the county both sales and property tax revenue. That's when they hatched a plan to make Cabarrus more competitive in the hunt for new industrial and commercial projects—incentive grant programs.

The initial idea was to grant new or expanding industry who met minimum investment criteria a rebate of up to 85 percent of their local property tax payment over a five-year period.

The incentive program for commercial projects came later. "I don't know if I've ever met an elected official who is really enthusiastic about incentives, but they were one thing that was necessary if we were going to compete," says Jeff Barnhart, chairman of the Cabarrus County Board of Commissioners when the industrial policy was adopted in 1996.

Before the ink was dry on the new ordinance, Cabarrus landed a huge new industrial project in Corning—which settled on the crossroads community of Midlands for a \$300-600 million fiber optic manufacturing plant. The impact was like dropping a tractor in a farm pond for creating a ripple of innovation. Neighboring governmental units like Monroe, Mooresville, and Union County quickly adopted policies similar to that of Cabarrus.

While the new firms will no doubt bring some additional growth pressures on the already overcrowded Cabarrus County Public Schools, Barnhart believes that in the long term the program will pay off. That's because it's cheaper to provide services to industry than to private

residents, and industries generally pay more in property taxes because their property is so valuable. "The biggest problem we've got right now is the fact that our residential growth is so strong," says Barnhart. That growth will continue, he says, whether the county gets new industry or not. "They're coming here building houses, regardless."

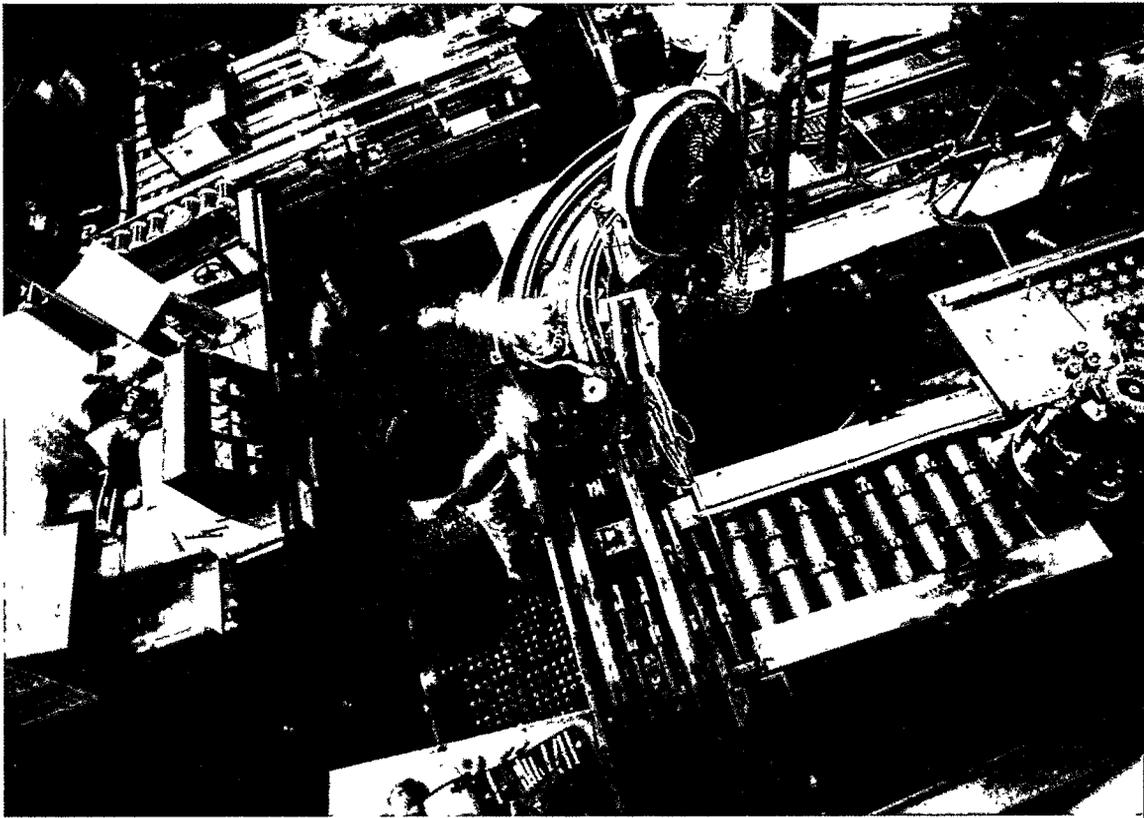
Cabarrus has been criticized for giving away its tax base, but most of that criticism has

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come from outside county borders. David Lawrence, a faculty member at the University of North Carolina at Chapel Hill's Institute of Government, says it is not clear whether the grant program is constitutional. The state constitution says property must be taxed in the same manner statewide unless the General Assembly grants an exception.<sup>1</sup> Lawrence says this constitutional provision prohibits tax abatements. "The question is, is the Cabarrus program a tax abatement in disguise or something a little different," notes Lawrence, "and nobody knows the answer to that." An attorney general's opinion suggests such programs may be legal.<sup>2</sup> If a court were to rule otherwise, however, it is uncertain what type of relief might be ordered.

Regardless of the constitutional question, Barnhart argues that the program really isn't a tax giveaway because the county ultimately winds up with a higher tax base and increased revenue for public utilities like water and sewer.

The firm pays its taxes and the county responds by awarding a grant equal to only a portion of the tax, says Barnhart, adding that the tax payment would not have been received in the first place if the industry hadn't made the investment. "We award the incentive grant after they pay their taxes, so obviously we're getting more dollars in than we're ever going to turn out," says Barnhart.

The grants, however, are significant: 75 percent of the tax payment for investments of \$5 million or more; 80 percent of tax payment for investments of \$25 million or more; and 85 percent of tax payment for investments of \$100 million or more. The maximum grant is worth \$2.4 million over five years.

Whether because of the incentive grants or other factors such as proximity to Charlotte, Cabarrus County enjoyed a "stellar year" in landing new and expanding industry in 1996-97, says Barnhart. The prizes included: Corning, Inc.; Dai-Nippon IMS (America) Corp.;

Bell/Sysco Food Services Inc.; and a major expansion at S&D Coffee, Inc. The initial success inspired the county to pursue a similar approach in attracting commercial development. This program grants a portion of the local share of the retail sales tax back to new or expanding commercial operations. Again, the policy grew out of the county's proximity to Mecklenburg.

Cabarrus officials were concerned by the fact that too many of their residents were spending their money in neighboring counties and leaving their sales tax pennies in somebody else's pocket. These pennies add up to a lot of dollars. A penny on the local sales tax in Cabarrus, in fact, amounts to about \$9 million per year—enough to build a new elementary school every year. "On the commercial side, on a per capita basis, we generate about 80 percent of what other surrounding counties generate," says state Sen. Fletcher Hartsell (R-Cabarrus). Hartsell, who as county attorney helped craft both incentive grant programs, says many newcomers to the county work and shop in Charlotte.

In addition, the University City shopping area around the University of North Carolina at Charlotte has developed near the Cabarrus border, drawing more county residents across the line to shop. The result is that Cabarrus has relatively little retail shopping for a county of more than 113,000 residents.

That could change with the county's new policy on commercial space. Soon after it was

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adopted, the county landed a 1.4 million square foot shopping and entertainment complex called Concord Mills, to be located at the Kings Grant interchange on Interstate Highway 85. The city of Concord also has adopted the commercial policy.

To qualify for the commercial program, a developer must build 250,000 square feet of leasable space and generate at least \$200 per square foot of sales annually. At that level, the commercial space would receive an incentive grant equal to 25 percent of the revenue generated by the 2 cent local option sales tax. A 500,000 square foot commercial space would be eligible for a 50 percent grant, and a 1 million square foot facility would be eligible for a 75 percent grant. Once the sales tax revenue is received from the state, the county writes a check to the business for the amount of the grant. "The grant is related to the local sales tax generated from that facility," says Hartsell. "It's good for five years."

Both the commercial and industrial incentive programs require a public hearing before a five-year grant can be awarded. After several hearings on the industrial policy, not a peep of opposition has been heard from local businesses, Hartsell says. It's too early to tell about the program for commercial grants, which will underwrite the competition for some local merchants. Still, the issue is balance. Cabarrus County officials believe they have too little commercial space, and they're willing to forego some future tax revenue to get more.

The beauty of both programs, county officials say, is that the tax revenue may not have come to the county in the first place without the incentive grant programs. "We're not giving up anything except what we don't have, and after five years we have it all," says Hartsell.

—Mike McLaughlin

#### FOOTNOTE

<sup>1</sup> Article V, Sec. 2 (1) of the North Carolina Constitution.

<sup>2</sup> Andrew J. Vanore, Jr., chief deputy attorney general, advisory opinion regarding constitutionality of City of Lexington's proposed Business Development Investment Grant Program, Aug. 29, 1997. p. 3.