North Carolina Economic Development Incentives—

A Necessary Tool or Messing With the Market?

by John Manuel

Karen Tam

Summary

North Carolina has been a clear regional leader in attracting relocating and expanding industry. Until recently, the state saw no need to offer incentives beyond its network of community colleges, its extensive state highway network, its relatively low-wage work force, and a few additional perks like low-interest industrial revenue bonds. But all that began to change as neighboring states upped the ante to attract industry. South Carolina got the state's attention when it lured Bavarian Motor Works (BMW) to Spartanburg with a generous package of incentives. Then North Carolina joined the bidding war in earnest with an estimated $100 million offer to Mercedes-Benz, which was looking for a site to build luxury sport utility vehicles. The state's effort ended in disappointment when Alabama landed the automaker with a package valued at $250–$300 million, but North Carolina's offer to Mercedes did signal that the state was ready to join the game.

Then, just as the deal-making was beginning to sizzle, a Winston-Salem lawyer named William Maready filed a lawsuit challenging the public purpose of economic development incentives under the state constitution. Maready won at the Superior Court level, bringing dealmaking to a halt while the case worked its way up on appeal, creating a collective case of heartburn with economic development officials across the Tar Heel state. Ultimately, the state Supreme Court ruled against Maready, which spelled relief for the economic development community. The deal-making resumed with new fervor.

North Carolina has since proceeded to craft a multi-faceted policy governing incentives, and it has enacted a tax credit package in the William S. Lee Quality Jobs and Business Expansion Act—tailored to encourage investment in counties that need it the most. And local government is getting into the act in a big way. Some units of government—like Cabarrus County—have gone so far as to agree to rebate a portion of taxes paid by new and expanding businesses that meet certain investment targets. This article reviews the state's policy on incentives to new and expanding industry and presents two case studies: one an incentives success, the other a failure.

In the town of Sparta in the far northwest corner of North Carolina, Bristol Compressors is running full tilt, producing compressors for the air-conditioning industry in the U.S. and abroad. Attracted to the state in 1993 by a $17 million incentive package, Bristol has surpassed its hiring and investment goals, and its presence has spurred significant growth in retail investment in the area. Local government officials call it an excellent example of what economic development incentives can do for North Carolina's citizens. Meanwhile, 3C Alliance in Mebane, N.C., has announced it is closing its rechargeable battery plant after less than a year and a half of operation. Mebane and Alamance County could lose as much as $265,000 of $840,000 worth of incentives for the company and the state will lose $125,000 of the $575,000 it

John Manuel is a free-lance writer living in Durham, N.C.

spent. Though most of the money was to be repaid, critics cite this as evidence of the folly of incentive programs for private business.

Four years after the frenzied bidding for the famed Mercedes-Benz plant, which ultimately wound up in Alabama, North Carolina is still caught up in the controversy surrounding government incentives for business. But since those early days of the "economic war between the states," considerable time and brainpower has been spent reflecting on the value of incentives and how they should be used. The North Carolina General Assembly has heard and acted upon the recommendations of Governor Hunt's Incentives Task Force, passing and amending the William S. Lee Quality Jobs and Business Expansion Act. The N.C. Department of Commerce has revised its regulations for the *Industrial Recruitment Competitive Fund.* The N.C. Supreme Court has deliberated on the legality of local government incentive programs and decided in the affirmative. In short, state policymakers have had a period of several years in which to analyze this complex issue. But what exactly has been learned, and have the appropriate actions been taken?

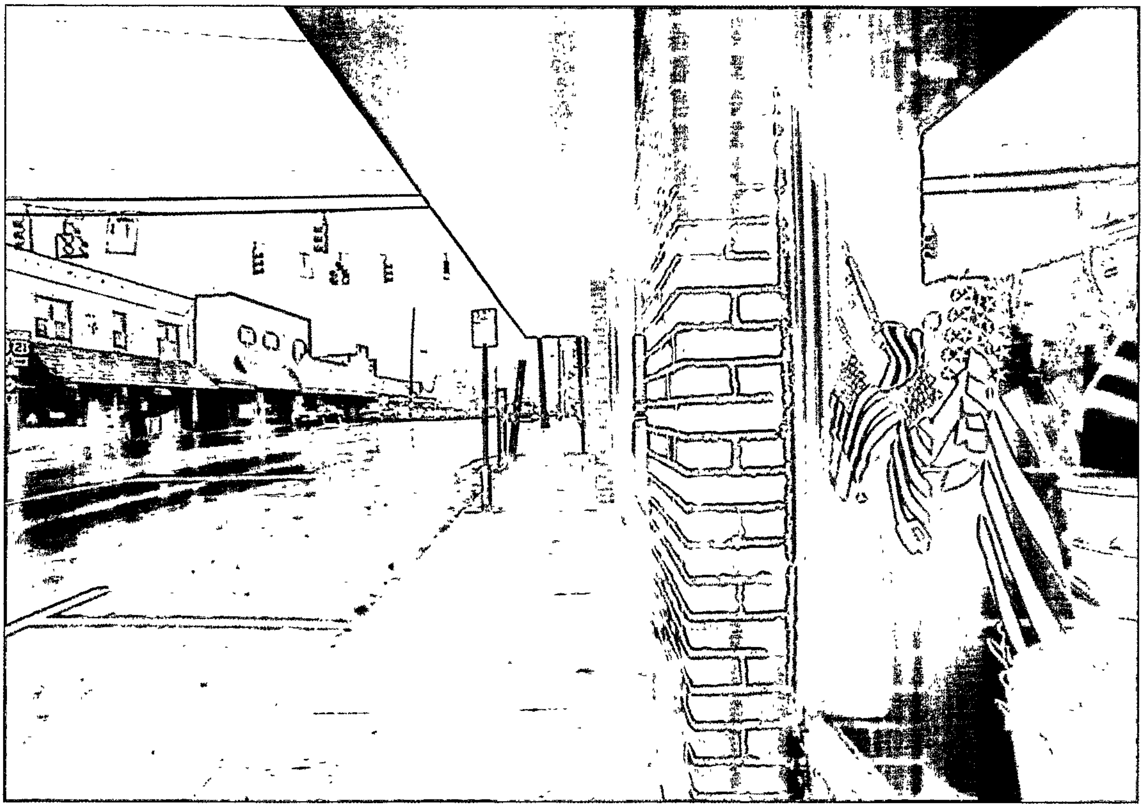
Creating a Business Climate

The question of whether North Carolina should provide economic development incentives for business has been traced back to the first half of the nineteenth century. In its 1995 research on the history of incentives, Governor James B. Hunt Jr.'s Incentives Task Force noted that in 1828, a certain Mr. Fisher appealed to the North Carolina House of Commons asking for some form of state-condoned industrial recruitment strategy to ensure that North Carolina fulfill its destiny as "a region of country well adapted to manufactories."[1]

In contemporary times, North Carolina focused on providing basic services such as good highways, assistance with water and sewer systems, and worker training through the community college system. Together with its central location along the East Coast and low-wage rates, North Carolina was successful enough in attracting new industry that it felt no need to offer special incentives.

In the 1980s and early '90s, competition heated up among the states as companies downsized and merged and traditional manufacturing plants dependent on low-skill workers shut down or

Main Street, Sparta—the kind of town the Department of Commerce was looking to help through economic development incentives.



Karen Tam

Karen Tam

moved overseas. Neighboring states, most notably South Carolina and Virginia, began to offer an increasing array of incentives, including free land and substantial tax abatements. *Site Selection and Industrial Development* magazine identified 57 different incentives in use by the states in 1992, 24 of which were in use by at least 80 percent of the states.[2]

There is some evidence that states would like to do less in providing incentives. A 1996 study by the Council of State Governments found 32 states plan to decrease their current level of incentives or maintain them at the same level, while only 18 plan to increase their incentives. However, giving up incentives may be like going on a diet or quitting smoking—easier to talk about than to carry out.

Hal Hovey, editor of *State Policy Reports*, is among the skeptics that states can cut back. In an April 1997 report, Hovey's publication noted that the CSG study reflects more what people *think* states should do than what actually will happen. "The best evidence of this is that a comparable CSG study in 1994 indicated that 24 states would discourage new economic development incentives. In fact, although no one has an exact count, at least that many states expanded incentives in some fashion in 1995 and 1996."[3]

Giving up incentives may be like going on a diet or quitting smoking—easier to talk about than to carry out.

Generally, economic development incentives can be grouped into three broad categories: tax incentives, financial aid, and employment assistance. *Tax incentives* range from tax credits for jobs created to exemptions from corporate taxes to property tax abatements. *Financial aid* includes everything from tax-exempt bonds to loan guarantees. *Employment assistance* typically involves training a company's workers or prospective workers at a nearby community or technical college.

North Carolina jumped whole-heartedly into the business of direct incentives in 1993. At that point, Mercedes-Benz was dangling the prospect of 1,500 jobs and a $300 million production plant in front of several southeastern states, including North Carolina. Governor Jim Hunt proposed and the General Assembly passed an economic incentive package aimed not just at bagging huge firms like

Mercedes-Benz, but at steadily adding to the base of mid-sized ($20–$100 million) manufacturing firms dispersed throughout the state. The package included the creation of:

1) the Industrial Recruitment Competitive Fund, which allocated $5 million in FY 1993–94 for the governor to spend as he saw fit to close deals;
2) a job creation tax credit of $2,800 for each new job created in any of the 50 most distressed counties (previously available in 33 counties);[4]
3) an expanded Industrial Development Fund to subsidize building renovation for new and expanding industries in the 50 most distressed counties;[5]
4) a $35 million Center for Advanced Automotive Technology to train thousands of workers (which was never built);[6]
5) Economic Development Financing Bonds to allow local governments to earmark additional property taxes generated by new companies to finance public facilities used by that company.[7]

Despite a generous offer, estimated at $100 million in newspaper accounts, Mercedes-Benz rejected North Carolina in favor of Alabama, which offered a package valued at $250–$300 million. The loss hurt because the competition for this "mega" economic development gem was so public. But the state also was beginning to lose smaller prospects to neighboring states—prospects North Carolina officials felt they would have landed in the pre-incentive era.

For these reasons, economic development professionals and officials in the N.C. Department of Commerce began to argue for expanding the state's toolbox of incentives to ensure that North Carolina remained competitive. Critics, including prominent legislators, business leaders, and policy analysts, opposed the use of targeted incentives, arguing that they subsidize businesses for activities they would have undertaken anyway, that they are unfair to existing companies, that they tend to favor large businesses over small, and that they rob state and local governments of revenues to pay for much-needed public services.

Do Incentives Work?

While no one doubts that industry is happy to accept any incentives passed its way, the question has been whether these incentives figure in any significant way into location or expansion decisions. Traditional wisdom held that the primary factors in industrial location decisions had to do with access to markets, labor supply, wage rates, and infrastructure. State and local taxes, being a small percentage of total business costs, were deduced not to be among the more important location factors for most firms. (See "The Business Tax Burden," pp. 50–81, for a thorough discussion of taxes and economic development.)

"The issue isn't whether economic development incentives can work; empirical evidence suggests they can. The issues are whether the benefits of incentives outweigh costs, and how benefits and costs are affected by local conditions and incentive design."

—Timothy Bartik, Economist

More recent research on state and local economic growth using better data and more sophisticated statistical analysis does show a significant correlation between tax levels and location decisions in some cases. In his 1991 book entitled *Who Benefits From State and Local Economic Development Policies?*, economist Timothy Bartik reviewed 57 studies conducted since 1979 that estimate the effects of an increase or decrease in state and local taxes on some measure of business activity in a state or metropolitan area. Bartik found that 70 percent of these studies showed that a decrease in taxes produced an increase in some kind of business activity and vice versa. His research also showed that manufacturing firms and companies in capital-intensive industries tended to be affected by tax considerations more than other types of businesses.[8]

"The issue isn't whether economic development incentives can work; empirical evidence suggests they can," Bartik says. "The issues are whether the benefits of incentives outweigh costs, and how benefits and costs are affected by local conditions and incentive design."[9]

In November 1996, the Federal Reserve Bank of Boston convened a symposium of experts to examine evidence concerning the effectiveness of state and local taxes and spending and regulatory policies as instruments of economic development. An overview of the proceedings of that symposium,

"People have to understand that the rules of recruiting have changed. The process of relocation has been passed on to professional consulting firms who get a cut of whatever package they are able to put together."

—JOHN CONNAUGHTON,
PROFESSOR OF ECONOMICS,
UNC-CHARLOTTE

published in the *New England Economic Review*, states:

> *The participants generally agreed that, contrary to the conventional wisdom of the 1960s and 1970s, policies pursued by subnational governments do affect the pace of economic development within their borders. However, they concluded that these effects are generally modest. Evidence is inconclusive about which policies exert the greatest effects under what circumstances. The conditions under which state policies can significantly influence business location and economic growth are largely beyond the control of state and local governments—for example, labor costs, the availability of appropriately skilled labor, energy costs, climate, and the availability of natural resources.*[10]

While academicians and other analysts may debate the effect of incentives by analyzing econometric models and long-term data, state officials who deal directly with prospective clients have no doubts that incentives can and do make a significant difference in closing deals. "Within the last three years, incentives have come to play an ever-increasing role in our discussions with firms looking at North Carolina," says Gary Carlton, Director of the Business/Industry Development Division in the North Carolina Department of Commerce. "You've got to have incentives to get your foot in the door. If South Carolina or Virginia really wants a company, they'll give free land and tax abatements, which can blow us out of the water. If we had no incentives at all, many companies may not have even looked at North Carolina."[11]

John Connaughton, professor of economics at UNC-Charlotte's Cameron School of Business, agrees that incentives can have a major impact for certain types of companies. "People have to understand that the rules of recruiting have changed," he says. "The process of relocation has been passed on to professional consulting firms who get a cut of whatever package they are able to put together."

Connaughton says that the importance of incentives can vary greatly from one type of company to another. Factors like the need for a specific geographic location or the need for a specialized labor force could outweigh incentives. "But someone like a car manufacturer will go through a pro forma analysis of the cost of doing business in each location under consideration. They may find that the cost of manufacturing an automobile can vary as much as $60–70 from one location to another. Over a period of time, that can add up to a lot of money."

Are Incentives Fair or Legal?

Regardless of whether government incentive programs are effective, the question also arises as to whether they are fair or even legal. The fairness question has been raised particularly with respect to tax incentives that target a particular company or type of company. David Brunori is the legal editor of *State Tax Notes* and a teacher of state and local tax law at George Washington University Law School. In a 1997 article entitled "Principles of Tax Policy and Targeted Tax Incentives," he lays out the fairness issue as follows:

> *In the end, targeted tax incentives create a much more regressive system of taxation by foisting the financing of government services on those least able to do so. The government provides general services to everyone in the state, including the recipient corporations that are substantially removed from the tax rolls. The costs of those services increase annually and may accelerate with the infrastructure costs that accompany targeted tax incentives. This will necessitate new sources of income, which will probably not derive from recipients of the incentives.*
>
> *Furthermore, targeted tax incentives inevitably fail the test of horizontal equity since they do not treat similarly situated taxpayers equally. If company X receives preferential tax treatment for establishing a business in a par-*

Karen Tam

ticular community, what of company Y already doing business in that community? For example, to obtain the jobs tax credit in Virginia, the recipient must create more than 100 new jobs (VA. Code S58.1-439). Moreover, the credits are available only for expansions announced after January 1, 1994. What becomes of a company that already employs a substantial number of people but is not in a position to expand by 100 employees? What of the company that announced plans for expansion in 1993?[12]

In 1995, the legal issue was raised when Winston-Salem attorney William Maready filed suit against Winston-Salem and Forsyth County for their use of cash incentives to recruit business. Maready's suit drew national attention for its challenge of the use of incentives to promote economic development. Maready argued that grants or subsidies to private corporations violate the North Carolina Constitution, which provides that "the power of taxation shall be exercised in a just and equitable manner, for public purposes only."[13] Maready said that grants and subsidies to private firms to spur economic development do not meet the test of a public purpose.

He argued that it is unfair in a free enterprise system to subsidize one competitor against another. The effect, Maready said, is to put one taxpayer in the position of having to finance the competition not only for products produced but in the labor market as well.

Maready contended that there is no evidence that such incentives necessarily result in the common good. "Certainly, the expenditure of money makes economic events occur, but that is not to say that it results in the betterment of our society in general or that it improves anything," Maready said in published reports.[14] "These people who are talking about how it promotes the common good do not take into account, don't even address, the added cost of government."

In August 1995, Superior Court Judge Julius Rousseau ruled in favor of Maready, declaring

[T]he power of taxation shall be exercised in a just and equitable manner, for public purposes only.

—North Carolina Constitution

incentives to industry, Randolph County—in the heavily industrialized Piedmont-Triad region—represents the opposite extreme. "We have a policy not to have a policy," says Walter Sprouse, president of the Randolph County Economic Development Corporation. Sprouse explains that an explicit policy would require the county to award the same benefits to every qualifying firm, even those that are less than desirable. "The reason why is that there may be a fine company we want to do more for, and there may be a fine company we don't want at all," Sprouse says.

> ***"There are benchmarks in our incentive agreement which the company has to meet in terms of the number of employees and the amount of money they invest. At this point, they are well ahead of schedule."***
>
> —PATRICK WOODIE, EXECUTIVE DIRECTOR, ALLEGHANY COUNTY CHAMBER OF COMMERCE

Rather than award incentives to any and all comers, Randolph focuses on attracting "high-investment, low-employment, environmentally friendly companies," Sprouse says. With an unemployment level hovering around 3 percent, Sprouse says Randolph simply doesn't need companies that require a huge work force. "We don't want a company to come in here and hire 900 people and take away workers from existing firms," Sprouse says. The county also focuses on keeping its existing firms happy, hoping to grow as much through expansion as relocation.

It's worth noting, though, that local policies tend to conform to perceived local needs. Randolph doesn't need more manufacturing. Thus, it offers few incentives. Cabarrus does, and it's willing to pay a price to get them.

Two N.C. Case Histories: Sparta and Mebane

The possible power of incentives to spur economic development where it might not otherwise occur, and the potential pitfalls of using incentives, can be observed by looking at two separate cases originating in the early 1990s. Bristol Compressors is a division of York International, headquartered in Bristol, Va. In the early 90s, company officials were looking for a place to build a new manufacturing plant which would ultimately provide 750 jobs and a $40 million investment. The company originally looked at a seven-state area, then focused on a 100-mile radius from Bristol, and finally narrowed it down to two sites—one in Wise Co., Va., and one in the northwest mountains of Alleghany County, N.C.

Wise County is in Virginia coal country and although a poor county, had $8 million from a coal severance tax that it was willing to use to lure Bristol Compressors. Alleghany County, North Carolina, with a population of 9,500 and a per capita income of $9,545[21] (well below the state average of $12,855), "didn't have $100,000 in the bank" according to Patrick Woodie, executive director of the Alleghany County Chamber of Commerce.

After losing Mercedes-Benz to Alabama in 1993, North Carolina economic development officials were looking for a win. Alleghany was a classic example of the type of county they wanted to help. So, together with local government, area utility companies, and private citizens, the state pieced together an incentive package that ultimately tipped the scales in Alleghany's favor. The incentive package included:

1) an $800,000 site development loan to the county from Blue Ridge Electric Membership Corporation (BREMCO) and Skyline Telephone Membership Corporation. The county will repay the loan using income from other buildings it rents and from a "wheel tax" of $10 levied on each license plate in the county.
2) $3 million in up-front cash incentives to Bristol Compressors to offset the cost of construction. This money included approximately $600,000 each from BREMCO, Skyline Telephone, the Industrial Recruitment Competitive Fund, the Town of Sparta, and citizen pledges.
3) $4 million given in installments ($400,000 a year over 10 years) to Bristol Compressors by the county as a cash incentive applied against the cost of the facility.

On top of these direct incentives to Bristol Compressors, the state Department of Transportation offered to upgrade U.S. Highway 21 to standard two-lane status and to build a thoroughfare around Sparta to divert truck traffic off Main Street. Altogether, the incentives package was valued at approximately $17 million.

Despite this generous offering, Bristol was still leaning toward Wise County. "It wasn't until Governor Hunt came in, met with company officials and offered them $600,000 from the Incentive Fund that they changed their mind," says Brian Crutchfield, economic development manager for BREMCO. "I have no doubt they would have chosen Wise County without that."

Bristol Compressors announced its selection of Alleghany County in 1993. The first phase of the plant was built and began operation in December 1994. As of 1997, the company had invested $20 million and was employing more than 500 people full-time and paying production workers an average wage of $6.30 per hour, plus a shift premium for second and third shifts—above the county average of $5.75 per hour. The company also offers a superior benefits package, Woodie says. Was the investment worth it?

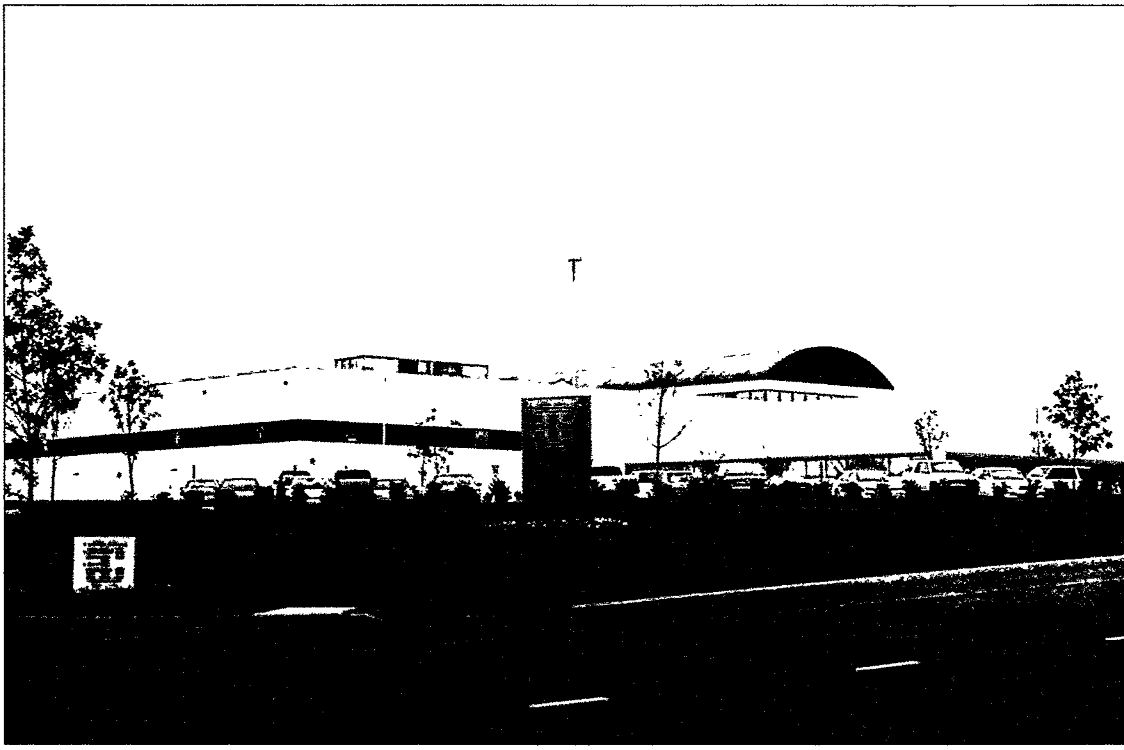
"There is every indication that this investment is paying off for us," Woodie says. "There are benchmarks in our incentive agreement which the company has to meet in terms of the number of employees and the amount of money they invest. At this point, they are well ahead of schedule."

Woodie says the company's water payments will enable the Town of Sparta to build a water treatment plant on the Little River. The town is currently on well water. He says numerous franchises and small businesses have opened up in Sparta since Bristol's arrival. These include a firm that manufactures packaging materials for the compressors and a small trucking firm that hauls the finished product between Sparta and Bristol, Va., plus a number of retail chains and restaurants such as a Subway, a Burger King, and an Advance Auto Parts store. Gross retail sales have gone up 25 percent since 1994. The tax base is up by $125 million, from about $500 million to $625 million, $20 million of which is directly attributable to Bristol Compressors.

How do other businesses in town feel about the incentives offered Bristol Compressors? "Some have benefitted directly in terms of increased business or the infrastructure improvements," Woodie

With the Bristol Compressors deal, Sparta reached critical mass to support franchise businesses.

Karen Tam



Karen Tam

The 3C Alliance plant in Mebane brought promise of new technology in battery manufacturing. . . .

says. "If there was a downside to the recruitment, it was unrealistically high expectations of the overflow effect. Some people thought they were going to get rich overnight."

Woodie says the county has been able to meet its public service requirements despite its incentive payments to Bristol. Aside from the $10 license plate fee, the county has not had to raise taxes yet, although it is currently going through a property revaluation.

"This was a once-in-a-lifetime opportunity," Woodie says. "Along with the jobs it provided, Bristol's recruitment spurred on a number of infrastructure improvements that will benefit all our citizens and help us attract new business. But we aren't looking for another $40 million company, and I don't think other communities should expect that."

* * *

At the time that Bristol Compressors was building its plant in Alleghany County, 3C Alliance (a partnership of Duracell International, Toshiba Battery, and VARTA Batterie AG) announced its selection of a 42-acre site in Alamance County in the Piedmont to construct a $100 million plant to manufacture a new generation of rechargeable batteries to be used in cellular telephones and computers. Company officials said the plant would eventually employ 575 people.

To cement the deal, state and local officials offered 3C an incentive package valued at $2.45 million. Mebane and Alamance County committed $1.88 million to be spread over four years. The money was to be provided on condition of meeting certain employment and investment benchmarks. The N.C. Department of Commerce provided an additional $575,000 from the Industrial Recruitment Competitive Fund. That money was paid in three installments with no strings attached.

In April 1996, 3C proceeded to construct a 250,000 square-foot facility worth $17 million and hired 152 people. Local officials spoke glowingly of the move, repeating the company's assertion that nickel metal hydride represented the future of rechargeable battery technology.

Then in July 1997, 15 months after it opened, 3C announced it would close the plant. Company officials say that nickel metal hydride technology now has been surpassed by a longer-lasting, lighter battery. Alamance County and Mebane have already given 3C Alliance $840,000 in incentives. Thanks to "clawback" provisions writ-

Karen Tam

. . . But the building is now on the market.

ten into the contract that require the company to meet certain objectives in exchange for the incentives, they hope to be able to recover at least half of that. The state, meanwhile, had no contract with 3C and no provisions for repayment if the deal went sour. Stewart Dickinson, director of the N.C. Department of Commerce Finance Center, says the state worked out a satisfactory agreement for repayment. Under the agreement, 3C Alliance got credit for creating 150 jobs and repaid the state $425,000 of $575,000, according to Commerce Department spokeswoman Georgia Dees.

Safeguards have since been adopted that should prevent such an event from happening again. Under these guidelines, dollars are only released from the governor's fund after jobs are created. Nonetheless, the episode has given new ammunition to those who oppose incentives.

"The failure of the plant . . . reminds us that paying out tax dollars to lure industry to town is a gamble at best, and ought to be avoided," said the *News & Record* of Greensboro in an editorial. "Industrial recruitment incentives are bad policy, sapping public money from more public-spirited enterprises like parks, schools, and roads. But until the corporate cycle of dependence on public money can be broken, when governments enter into one of these deals, they must make sure that the public gets what it pays for."[22]

"The failure of the [3C Alliance] plant . . . reminds us that paying out tax dollars to lure industry to town is a gamble at best, and ought to be avoided."

—*News & Record* of Greensboro

Incentives Task Force

With the incentives war escalating during the first half of the 1990s, Governor Hunt in 1995 asked his Economic Development Board to examine the recent growth of industrial incentives in competitor states and predict what effect those might have on North Carolina. He directed a task force to come up with findings and recommendations. Earlier, Hunt had appointed another task force to evaluate his Industrial Recruitment Competitive Fund. Anticipating the type of situation that was to materialize with 3C Alliance, he directed that task force to analyze how to provide accountability for the fund and how to maximize its use among many projects competing for funds.

Former Lieutenant Governor and then-Economic Development Board Chairman Bob Jordan appointed the Incentives Task Force, consisting primarily of members of local economic development boards from across the state and assorted industry representatives. The task force met five times, examining a wealth of background analysis on the North Carolina economy, historical patterns of investment and job creation, comparison of incentive programs in North Carolina and other states, and analysis of the effect of incentives on location decisions. The task force reviewed reports and position papers on the use of incentives, "both favorable and unfavorable."

Rick Carlisle, former economic policy advisor to the governor and now deputy secretary in the N.C. Department of Commerce, provided staff support for the incentives task force. "Our conclusion was that, like it or not, incentives had become a key part of economic development packages in all of our competitor states," Carlisle says. "The question then became how best to construct our incentives. We decided they had to be performance-driven, ought to give higher levels of support to more economically-distressed areas, and had to fit into the state's long-term goals in terms of increasing wages and productivity."

> ***"[L]ike it or not, incentives had become a key part of economic development packages in all of our competitor states. The question then became how best to construct our incentives."***
>
> —RICK CARLISLE, DEPUTY SECRETARY, N.C. DEPARTMENT OF COMMERCE

In its final report issued in April 1996, the Incentives Task Force made the following recommendations:

1) reduce the corporate tax rate to below seven percent;
2) identify a dedicated source of financing for an Infrastructure Trust Fund that will provide ongoing financing for economic development-related and other important water and wastewater needs, and;
3) encourage additional employer investment in employee training and retraining through increased resources for the New and Expanding Industry Program and the Focused Industrial Training Program, or through a worker tax credit.

The task force also recommended the following specific modifications to the state's incentives policy:

1) create an investment tax credit to stimulate investment in machinery and equipment by new and expanding industry;
2) create a worker training tax credit to stimulate greater investment in human resources;
3) create a research and development tax credit to stimulate continued innovation and product-related research and investment, and;
4) expand the Targeted Jobs Tax Credit statewide while providing greater credits in economically distressed areas and lesser credits in economically advantaged areas.

Meanwhile, the task force examining the Industrial Recruitment Competitive Fund made several recommendations aimed at improving the use of those funds. It came up with a formula to allocate funds among competing projects according to such factors as quality of jobs provided and the ability to create spin-offs. The task force urged the Department of Commerce to pay out money incrementally and only after the company provided the state with evidence of its progress in job creation. Companies were to be given three years to create the jobs and investment they promised. Those changes were agreed to by the Department of Commerce in June 1995, according to Dees, and should prevent occurrences such as the deal that went awry with 3C Alliance in Mebane.

The William S. Lee Act and Amendments

During the summer of 1996, all of the recommendations made by the Incentives Task Force were incorporated into legislation known as the William S. Lee Quality Jobs and Expansion Act[23] in honor of the late retired CEO of Duke Power Co. (now Duke Energy Corp.), who died in 1996. The act featured a phased reduction of the corporate income tax rate from 7.75 percent to 7.5 percent in 1997 and dropping to 6.9 percent after 1999.

A tiered system of tax credits for new and expanding businesses was created with higher credits going to more economically distressed counties. Counties are assigned to one of five enterprise tiers, based on their rate of unemployment, per capita income, and percentage growth in population. There is some debate about whether these are the best ways to measure distress. Other possibilities are wage-level, which would boost counties with wealthy retirees but low wages, and tax base, which would measure a county's relative ability to raise revenues to support government services. (See Table 1.)

Tier one counties are eligible for $12,500 in tax credits for each new full-time job; tier two, $4,000; tier three, $3,000; tier four, $1,000; and tier five, $500. Businesses that qualify for the credit include manufacturing or processing, warehousing or distribution, and data processing. To qualify for the credit, which may be taken against the income tax or the franchise tax, jobs generally must pay an average weekly wage that is at least 10 percent above the average weekly wage in that county, and the credit cannot amount to more than 50 percent of a firm's tax liability.

Businesses also are eligible for a tax credit for the purchase of machinery and equipment (equal to 7 percent of the cost of the equipment above a certain threshold, from $0 in the most distressed counties to $1 million in the most prosperous), for increased research and development activities, and for training of five or more eligible employees.

—continues on page 43

Table 1. 1997 Rankings of North Carolina Counties by Economic Distress Level (with tiers that determine job creation tax credit eligibility and wage standards that must be met to qualify for the tax credit)

County	Distress Rank	Lowest Eligible Wage**
Tier 1		
Swain	1	$14,474
Richmond	2	$17,601
Graham	3	$14,974
Northampton	4	$17,861
Halifax	5 (tie)	$17,660
Warren	5 (tie)	$14,808
Edgecombe	7	$19,146
Alleghany	8	$15,741
Anson	9 (tie)	$18,696
Hertford	9 (tie)	$16,580
Hyde	11	$11,538
Bertie	12	$15,349
Tyrrell	13	$12,002
Mitchell	14 (tie)	$17,960

— continues

Table 1, *continued*

County	Distress Rank	Lowest Eligible Wage**
Tier 2		
Washington	14 (tie)	$18,605
Robeson	16	$17,222
Montgomery	17	$17,837
Ashe	18	$16,629
Beaufort	19	$19,347
Vance	20	$18,468
Scotland	21	$19,003
Martin	22	$19,257
Onslow	23	$14,443
Bladen	24	$17,525
Yancey	25	$17,107
Columbus	26	$19,450
McDowell	27	$18,354
Cherokee	28	$15,800
Perquimans	29	$12,158
Tier 3		
Rutherford	30	$19,395
Clay	31	$14,699
Madison	32	$17,497
Pamlico	33 (tie)	$13,377
Stanly	33 (tie)	$19,639
Caswell	35 (tie)	$18,199
Wilson	35 (tie)	$21,414
Avery	37 (tie)	$16,068
Jackson	37 (tie)	$15,975
Chowan	39	$18,293
Lenoir	40 (tie)	$20,166
Wayne	40 (tie)	$18,299
Cleveland	42	$20,325
Hoke	43	$14,040
Pasquotank	44	$16,681

Table 1, *continued*

County	Distress Rank	Lowest Eligible Wage**
Brunswick	45	$18,248
Wilkes	46	$19,455
Gaston	47	$21,786
Rockingham	48	$20,916
Camden	49	$14,790
Haywood	50	$19,961
Person	51	$20,518
Jones	52	$15,548
Craven	53 (tie)	$19,821
Gates	53 (tie)	$15,332
Tier 4		
Granville	55	$18,769
Caldwell	56 (tie)	$19,330
Surry	56 (tie)	$18,267
Cumberland	58 (tie)	$19,740
Pender	58 (tie)	$14,826
Duplin	60 (tie)	$18,190
Sampson	60 (tie)	$18,289
Harnett	62	$17,766
Burke	63	$20,013
Greene	64	$15,243
Carteret	65	$14,556
Franklin	66	$18,155
Watauga	67	$16,706
Nash	68	$21,902
Macon	69	$17,192
Lincoln	70	$20,513
Transylvania	71	$21,194
Dare	72 (tie)	$15,120
Rowan	72 (tie)	$20,708
Pitt	74	$20,313

—continues

Table 1, *continued*

County	Distress Rank	Lowest Eligible Wage**
Alexander	75	$19,001
Catawba	76 (tie)	$22,484
Davie	76 (tie)	$19,932
Yadkin	78	$19,960
Alamance	79	$21,028
Tier 5		
Davidson	80	$20,946
Lee	81 (tie)	$21,469
Stokes	81 (tie)	$19,079
Currituck	83	$14,729
Randolph	84	$19,494
Forsyth	85	$23,118
Buncombe	86 (tie)	$21,506
Durham	86 (tie)	$23,118
New Hanover	88	$21,507
Guilford	89	$23,118
Iredell	90	$21,939
Moore	91	$19,874
Cabarrus	92 (tie)	$22,118
Henderson	92 (tie)	$22,267
Union	94	$21,112
Johnston	95 (tie)	$17,979
Polk	95 (tie)	$16,899
Chatham	97	$20,569
Mecklenburg	98	$23,118
Orange	99	$20,573
Wake	100	$23,118

* Counties are grouped into tiers based on their level of economic distress as determined by rank in unemployment and per capita income over the preceding three years as well as percent growth in population. Tier 1 counties are eligible for a job creation tax credit of $12,500 per job; Tier 2, $4,000; Tier 3, $3,000; Tier 4, $1,000; and Tier 5, $500. Credits may be taken on the corporate income tax bill or franchise tax bill and can be no more than 50 percent of the total tax levy.

** Firms claiming the tax credit must meet certain wage standards to claim the tax credit. These vary by county, based on a formula that takes into account the average wage paid in the county. In most cases, firms cannot claim a tax credit unless they meet or beat 110 percent of the county's average wage. In certain higher-paying urban counties, the statewide average wage is the standard.

Finally, the Act creates a utility account within the Industrial Development Fund under the Department of Commerce to provide funds to assist local governments in the most distressed counties to create jobs in manufacturing and processing industries. Funds can be used for construction of utilities; purchases of manufacturing or processing equipment; or structural repairs, improvements, or renovations of existing buildings.

The legislation was warmly received by the General Assembly, ultimately being passed 100–0 in the House and 42–0 in the Senate. Major sections of the bill went into effect January 1, 1997.

During the 1997 legislative session, the act was amended, adding to the definition of businesses eligible for the tax credit central administrative offices that create at least 40 new jobs. Leased machinery also was included in the credit for machinery and equipment. The amendments direct the Department of Commerce to conduct a study of the effectiveness of the act, including measuring direct costs and benefits, and to report those results to the 1999 General Assembly (the act has a sunset date of Jan. 1, 2002). As with the original bill, the amended version was passed by overwhelming margins: 104–8 in the House and 41–1 in the Senate.

Where To Now?

Having been in effect in its amended version for less than a year, the package of incentives contained in the William S. Lee Act has yet to be put to a significant test. But analysts of the state's economic development process are not shy about expressing their opinions.

John Hood is president of the John Locke Foundation, a Raleigh-based nonprofit organization that advocates for free enterprise and limited government. "I think the Bill Lee Act is a fiasco," Hood says. "The notion that these tax credits have had an impact on our economy has never been proven. It uses the tax code to reward some companies and punish others, depending upon what they do and where they are located. I think you would create more jobs if you took the money the act will cost us—$20 million for FY 1997–98—and put that into a direct reduction of the corporate tax rate."[24] (For a thorough discussion of the tax burden on North Carolina business, see pp. 50–81.)

James Smith, a professor of finance in the University of North Carolina at Chapel Hill's Kenan-Flagler School of Business, offers a similar assessment of the act. "Growth is going to take place wherever it is going to take place and these incentives don't make much difference one way or another. It's not enough to make a real difference. If you sit back and say, 'where does North Carolina rank on a national basis for the last 20 years in attracting industry?', we're number one most years and if we're not number one we're number two. So why would you have an incentive? You'd do better to have something that helps everybody, like reducing the corporate income tax."

"Growth is going to take place wherever it is going to take place and these incentives don't make much difference one way or another. It's not enough to make a real difference."

—James Smith, Professor of Finance, University of North Carolina at Chapel Hill

Smith favors economic development tools like a strong community college system over tax credits that may underwrite the competition for an existing North Carolina firm. These, he says, provide essential job training plus an avenue for more young people to attend college. "If you want more business today, all you have to do is hang out a sign that says, 'We've got more college graduates,'" says Smith.

But John Connaughton, the UNC-Charlotte economist, argues that the state's incentives program falls short of what is needed to be competitive for major projects. "The William S. Lee Act is a step in the right direction, but we're still not anywhere near the leaders of the pack in terms of the type of incentives and dollar values we offer," Connaughton says. He feels the Industrial Recruitment Competitive Fund, on whose task force he served in 1995–96, is grossly underfunded. "I'd like to see the fund get to the $10–20 million range," he says. "$1 million will get chewed up in two or three deals."

Whether to provide tax credits and incentives for job creation is one issue, yet another is what kind of jobs to create. One approach would be to target desirable industry, an approach the N.C.

Center for Public Policy Research first advocated in 1982 in a study published by Joseph J. Hughes. Hughes developed a desirable industry index, based on three factors: economic (high capital intensity and wages); environmental (low chemical use and hazardous waste generation); and worker health (low illness and injury rates).[25]

Economist Tim Bartik of the W.E. Upjohn Institute for Employment Research in Kalamazoo, Mich., advocates using incentives to target firms that provide greater social benefit, rather than those that might create a media splash by landing a large number of low-paying jobs. "Firms that provide greater social benefits, and therefore might be targeted for greater incentives, include firms paying higher wages and firms that hire the local unemployed or disadvantaged."[26] The William S. Lee Act includes an element of this kind of targeting by offering higher tax credits in distressed counties and by requiring that relocating or expanding firms in most counties pay above the local prevailing wage to qualify. By providing tax credits for investments in technology, the act also seeks to increase productivity and thus produce higher wages.

Are Incentives Here to Stay?

As revealed in the 1996 "Economic War Among the States" conference sponsored by Minnesota Public Radio and the "Symposium on the Effect of State and Local Public Policies on Economic Development" sponsored by the Federal Reserve Bank of Boston, the prevailing wisdom among experts in the field holds that incentive programs are a fact of life. The least states can do is to raise public awareness of the issues surrounding their use, limit those incentives to strategic uses, and provide some degree of accountability, said conferees.

To assure that these standards are met, state and local officials must stand ready to discuss the costs and benefits of various incentive packages. After all, they're dealing with public dollars and the public good. As the *News & Record,* of Greensboro, N.C., opines, ". . . [A]t the very least, citizens whose tax dollars were being flashed ought to know more about how the money is being used. After all, some fuzzy-cheeked recent college graduate working in city hall might be the one making judgments about what industry is best for the community. Just what is the rational process for such decisions?"[27]

Karen Tam

Many analysts argue that without public disclosure of cost and benefit, there can be no accurate evaluation of the worth of incentives dollars doled out on the public's behalf. "If I could redo the whole policy area, rather than say you couldn't do incentives, I would mandate a cost-benefit analysis in every case," says David S. Kraybill, regional economist at Ohio State University. "The most effective reform would be informing citizens what the costs and the benefits are."[28]

"Firms that provide greater social benefits, and therefore might be targeted for greater incentives, include firms paying higher wages and firms that hire the local unemployed or disadvantaged."

—ECONOMIST TIM BARTIK

Some communities do a cost-benefit analysis before offering incentives. However, weighing the cost of a new industry to the community is an inexact science involving more than just the dollar value of the package proffered. For instance, if the new employer hires predominantly from the existing labor force, will that cause dislocations from existing employers, who might in turn be forced to raise wages, close, or abandon expansion plans? If companies are bringing in large numbers of new employees, what impact will new workers have on schools and other public services? Will new employees build homes which will expand the local tax base? Will the additional residential development create demands on public water and wastewater systems which may require capital expansions of those systems? Will the property tax revenues and sales tax revenues of the new development offset the cost of new services? Will new workers be hired off the public assistance roles, thereby reducing costs to local government?

There may even be scenarios under which one unit of local government enjoys the benefit of a new industry while another incurs the cost. For example, a city may experience the benefits of expanded tax base with a new industry and with related development, but the county may suffer a net loss of revenues because of demands on public schools or social welfare programs. Whether the residential development will be in rural areas with wells and septic systems, as opposed to public utility systems which are typically administered by towns, is also relevant. In short, the cost and benefit issues are enormously complicated, and further clouded by the fact that a new industry may not succeed or hold up its end of the bargain.

North Carolina has strengthened its policy on disclosure in the wake of deals like the 3C Alliance in Alamance County. The Legislature, in the 1997 session of the General Assembly, beefed up the state's Open Meetings Law to require that public bodies granting incentives do so in open session.[29] The deals can still be discussed in private, as economic development officials argue that they must be. But an account of the meeting must be kept so the details can be scrutinized when the negotiations are complete and all parties are in agreement.

A New Framework for Assuring Incentives Success

"Bidding For Business: Are Cities and States Selling Themselves Short?" published by the Corporation for Enterprise Development in Washington, D.C., proposes several principles to make economic development programs more strategic and better suited to promoting sound development.[30] These principles are:

1) Tax and other development incentives for fostering economic development should be used judiciously, and only if appropriate accountability safeguards are in place;
2) Incentives should play only a limited and supportive role within an overall economic development policy;
3) Development incentives should be strategically designed and should be limited to two purposes—creating net new jobs and a larger economic pie, or fostering or retaining development in an economically distressed area;
4) Tax competitiveness considerations should not be the sole or overriding standard for evaluating or reforming an area's tax and fiscal structure;
5) Policymakers should seize upon and build on opportunities for states and substate regions to collaborate when they can achieve mutual benefits, rather than constantly competing against each other.

Rick Carlisle, deputy secretary in the Department of Commerce, says the state's current incen-

—continues on page 48

"Politicians don't understand the game corporations are playing. They don't understand that corporations are making them look very silly by playing one community against another."

—ATTORNEY WILLIAM MAREADY

N.C.G.S. 158-7.1—the statute which authorizes local governments to expend public funds for economic development incentive purposes—unconstitutional.[15] The ruling technically only applied to Forsyth County, but it sent state officials into a panic.

"I think that's a mistake, and I think it's bad public policy," Governor Hunt told *The Charlotte Observer*. "If we're prevented from any kind of help to business, it will have a very detrimental effect on our economic development efforts. This means people will not have jobs."

"That's malarkey," countered Maready. "Politicians don't understand the game corporations are playing. They don't understand that corporations are making them look very silly by playing one community against another."[16]

The city of Winston-Salem appealed the case, which went directly to the North Carolina Supreme Court. In March 1996, the Supreme Court reversed the trial court's ruling, declaring that N.C.G.S. 158-7.1 was constitutional and served the public interest. Writing for the majority, Justice Willis Whichard concluded:

> *New and expanded industries in communities within North Carolina provide work and economic opportunity for those who might not otherwise have it. This, in turn, creates a broader base tax from which the State and its local governments can draw funding for other programs that benefit the general health, safety, and welfare of their citizens. The potential impetus to economic development, which might otherwise be lost to other states, likewise serves the public interest.*[17]

The court did not consider whether in fact incentive programs are necessary or effective in attracting new industry, or whether the benefits of such incentives outweigh the costs. Justice Robert Orr registered a stinging dissent:

> *. . . [I]t appears to me that little remains of the constitutional restraint on governmental power to spend tax revenues collected from the public . . . The money expended was directly for the use of these private companies to pay for such activities as on-the-job training for employees, road construction, site improvements, financing of land purchases, upfitting of the facilities, and even spousal relocation assistance. . . . If it is an acceptable public purpose to spend tax dollars specifically for relocation expenses to benefit the spouses of corporate executives moving to the community in finding new jobs or for parking decks that benefit only the employees of the favored company, then what can a government not do if the end result will entice a company to produce new jobs and raise the tax base?*[18]

Given the green light from the courts, local officials quickly jumped back into the incentives game. In one of the more aggressive moves, Cabarrus County adopted a program of incentive grants that returns up to 85 percent of a new industry's property tax payment during the first five years of operation.[19] (See "Cabarrus Creates a Ripple . . . ," p. 31, for more on the Cabarrus County incentive program.) Other neighboring towns and counties quickly began to emulate the move, prompting concerns about eroding tax bases and damage to property tax-dependent institutions like the public schools.

Jeff Barnhart, chairman of the Cabarrus County Board of Commissioners when the policy was adopted, says such concerns are unfounded, at least in Cabarrus, because grants can total no more than 85 percent of taxes paid, and industries are eligible for only five years. After five years, the county would receive the full benefit of the addition to the tax base created by the new or expanded firm.

"We're awarding 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. Nonetheless, school crowding already is a crushing issue in Cabarrus, and an influx of major industrial projects could exacerbate the problem in the short term. County officials may seek voter approval of a local sales tax hike to serve the county's burgeoning school population, using broad citizen referendum power granted by the 1997 General Assembly.[20]

While Cabarrus leads the wave of local governments adopting explicit policies on granting

—continues on page 34

"We are not robbing the future with these incentives. What we've done is round out our toolkit. Like all tools, they are neither good nor bad. It depends on how you use them."

—Rick Carlisle,
Deputy Secretary,
N.C. Department of Commerce

tives program conforms well to these principles. He argues that North Carolina's tax incentives are used judiciously—the Lee Act is projected to cost $72 million annually by fiscal year 2000–01—compared to a General Fund budget in excess of $11 billion annually.[31]

Public funds are held accountable through the state revenue system. No money now is handed out up front—companies must show proof of employment and investment to obtain tax credits. Companies also must produce taxable income or the credits are worthless. Carlisle says incentives do, indeed, play only a supporting role in an overall economic development policy that features education, infrastructure, and a high-quality living environment.

In terms of the strategic use of incentives, Carlisle points out that the tax credit applies only to jobs created through new locations in the state or through expansion. He states that the credits are targeted to the poorer counties, and are applicable only to industries that offer wages above the county average.

As to the fifth principle urging policymakers to seize opportunities for states to collaborate rather than constantly competing against each other, Carlisle smiles. "Well, the Governor did support a National Governors Association resolution saying we shouldn't get into bidding wars," he says. "But they [the governors] realize it's part of their job to increase revenues and jobs in their states."

All in all, Carlisle considers the package a modest response to the aggressive incentive programs offered by competing states. "We are not robbing the future with these incentives," Carlisle says. "What we've done is round out our toolkit. Like all tools, they are neither good nor bad. It depends on how you use them."

Karen Tam

FOOTNOTES

[1] "Briefings: State Incentives In North Carolina" from *North Carolina and the Battle for Business—A Case Study in Public Policy*, published by the John F. Kennedy School of Government, Harvard University, Boston, Mass., 1996, p. 1.

[2] Charles J. Spindler, "Winners and Losers in Industrial Recruitment: Mercedes-Benz and Alabama," *State and Local Government Review*, Vol. 26, No. 3, p. 201.

[3] *State Policy Reports*, Columbus, Oh., Vol. 15, No. 8 (April 1997), p. 15.

[4] H.B. 654 (Chapter 45 of the 1993 Session Laws), now codified as N.C.G.S. 105-151(c).

[5] N.C.G.S. 143B-437A.

[6] S.B. 26, 1993–94 Capital Budget, Chapter 561 of the 1993 Session Laws.

[7] S.B. 1157 (Chapter 497 of the 1993 Session Laws). This bill required a vote of the people to amend the State Constitution. The amendment was overwhelmingly defeated at the polls in November 1993 and thus did not take effect.

[8] Timothy Bartik, *Who Benefits From State and Local Economic Development Policies*, W. E. Upjohn Institute for Employment Research, 1991, 354 pp.

[9] Timothy J. Bartik, "Eight issues for policy toward economic development initiatives," *The Region*, Federal Reserve Bank of Minneapolis, June 1996, p. 43.

[10] K. Bradbury, Y. Kodrzycki, and R. Tannenwald, "The Effects of State and Local Public Policies on Economic Development: An Overview," *New England Economic Review*, March/April 1997, p. 1.

[11] "A Conversation with Gary Carlton," from *North Carolina and the Battle for Business—A Case Study in Public Policy,* note 1 above.

[12] David Brunori, "Principles of Tax Policy and Targeted Tax Incentives," *State and Local Government Review*, Vol. 29, No. 1 (Winter 1997), p. 55.

[13] Article V, Section 2(1) of the North Carolina Constitution.

[14] "Maready on his attack on dragons," *Triad Business News*, August 18, 1995, pp. 1–2.

[15] *Maready v. City of Winston-Salem*, No. 422 PA95 (Super. Ct., Forsyth Co., N.C., Aug. 28, 1995).

[16] Taylor Batten, "Judge bars business incentives," *The Charlotte Observer*, Aug. 11, 1995, p. 1D.

[17] *Maready v. City of Winston-Salem*, 342 N.C. 708, 467 S.E. 2d 615 (1996).

[18] *Maready v. City of Winston-Salem*, 342 N.C. 708, 164, 467 S.E.2d 615, 764 (1996).

[19] David Harris, "Cabarrus gets creative with tax incentives," *The Business Journal*, Charlotte, N.C., July 1, 1996, p. 3.

[20] H.B. 786, enacted into law by the 1997 General Assembly as Chap. 452 of the 1997 Session Laws, gives Concord and Cabarrus County voters authority to vote on ballot initiatives and have the measures become law if 25 percent of them sign a petition asking that an issue be placed on the ballot. Sen. Fletcher Hartsell (R-Cabarrus), who guided the bill through the Senate, says that the intent was to give local voters the opportunity to vote for an additional penny on the sales tax for school construction. Hartsell also serves as Cabarrus County attorney. He says Cabarrus is facing growth pressures due to its proximity to Charlotte and Mecklenburg County, and the move to seek additional sales tax authority is unrelated to the industrial project grant program. The additional penny, if voted upon and approved, would provide about $9 million in annual revenue to Cabarrus, enough to build a new school every year. The constitutionality of the ballot initiative measure, however, is at question.

[21] Per capita income figures for Alleghany County and North Carolina are taken from the 1990 U.S. Census.

[22] "Here's What's Wrong With Cash Incentives/Even With Skeptical Local Governments, Mebane and Alamance Taxpayers Get Burned," editorial in the *News & Record*, Greensboro, N.C., July 31, 1997, p. 10A.

[23] Chapter 13 of the 1996 Second Extra Session Laws (H.B. 18).

[24] The 1996 General Assembly agreed to reduce the corporate income tax in stages from the current 7.75 percent to 6.9 percent by 1999 (N.C.G.S. 105-130.3), a reduction of about $146 million when fully implemented. An additional $20 million reduction would result in a further decrease in the rate of about .15 percent.

[25] Joseph T. Hughes Jr., "Targeting Desirable Industry," *North Carolina Insight*, Vol. 5, No. 1 (May 1982), pp. 27–35.

[26] Timothy J. Bartik, "Eight Issues for policy toward economic development incentives," paper published by the Federal Reserve Bank of Minneapolis, Minneapolis, Minn., for "The Economic War Among the States," a conference held in Washington, D.C., May 21–22, 1996, p. 2.

[27] Unsigned editorial, "The public finds out where the money goes," *News & Record*, Greensboro, N.C., July 8, 1997, p. 8A.

[28] As quoted in Chris Farrell, "The Economic War Among the States: an Overview," *The Region*, Federal Reserve Bank of Minneapolis, Minneapolis, Minn., June 1996, p. 5. Reprinted from "The Economic War Among the States," a conference held in Washington, D.C., on May 21–22, 1996.

[29] Chapter 290 of the 1997 Session Laws (S.B. 844).

[30] W. Schweke, C. Rist, and B. Dabson, *Bidding for Business: Are Cities and States Selling Themselves Short?* Corporation for Enterprise Development, 1994, Washington, D.C., pp. 49–54.

[31] *North Carolina Legislation 1996*, Institute of Government, University of North Carolina at Chapel Hill, Chapel Hill, N.C., 1997, p. 22–23.

The clash between rising population pressures and falling job opportunities will shape the geopolitics of the emerging high-tech global economy well into the next century.

—JEREMY RIFKIN, *THE END OF WORK*,
JEREMY P. TARCHER/PUTNAM BOOKS (NEW YORK, NY: 1995)