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Mark Trogdon
Director

MEMORANDUM

To: Senator Dan Bishop

From: Barry Boardman, Ph.D.
Fiscal Research Division

Date: January 23, 2019

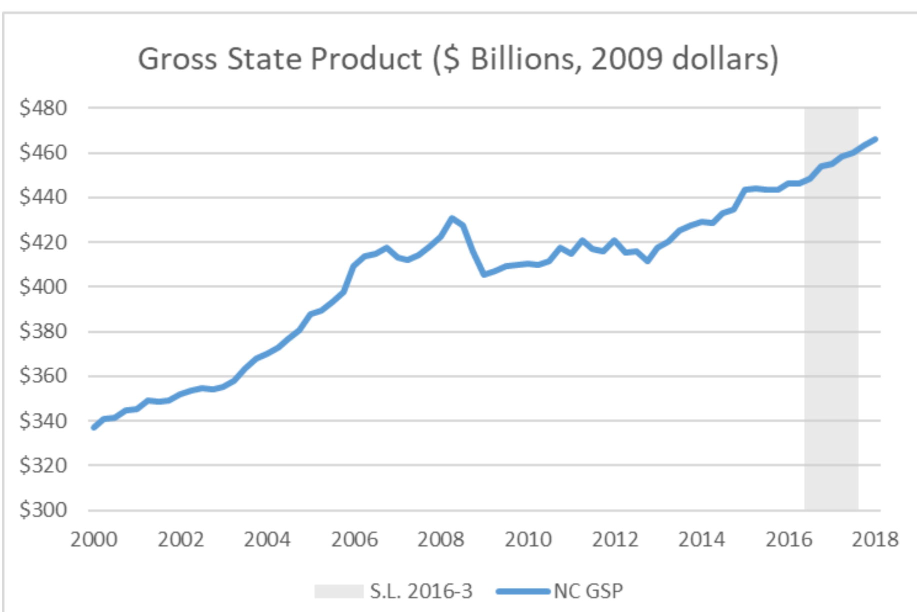
Subject: Economic Impact of S.L. 2016-3

Per your request, we examined economic and tourism data from March 2016 to March 2017; this is the time period during which Session Law 2016-3 (i.e., House Bill 2, Public Facilities Privacy & Security Act) was in effect. Our review of the data is in the context of the State's overall economy and does not consider economic activity in any individual county or municipality.

We examined two indicators of economic progress and one indicator of the State's attractiveness to tourists.[1] The economic indicators were Gross State Product, which is a broad measure of a state's economy, and industry employment. The tourism indicator was Direct Visitor Spending as reported by Visit North Carolina (VisitNC.com).

Gross State Product

The US Bureau of Economic Analysis determines each state's Gross State Product (GSP). The GSP measures a state's output; it is the sum of value added from all industries in the state. The measure is reported in constant, inflation-adjusted dollars. The chart below shows change in North Carolina's GSP since the year 2000. By the end of 2012, the State had recovered from the Great Recession. Since then, the economy has grown steadily. The highlighted area represents the period when HB2 was in effect.



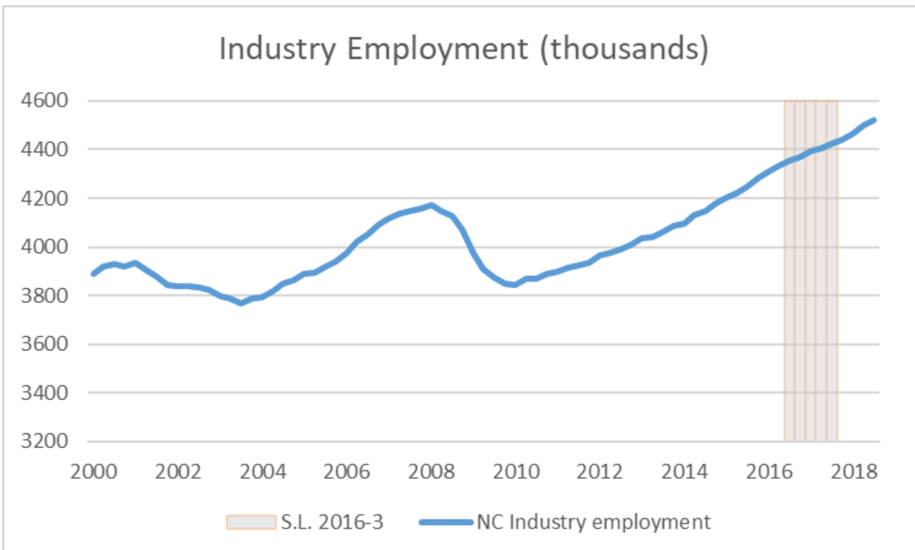
AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

The available data for the time period when HB2 was in effect do not reveal any discernable positive or negative economic trend in North Carolina's Gross State Product. These results are not surprising given that the legislation was only in effect for twelve months, which is too short a timeframe to observe and validate any economic variances with proven analytical methods and the available data.

Industry Employment

Industry employment includes employment in goods-producing, construction, and service companies. It does not include farm workers, private household employees, or non-profit organization employees. Industry employment is determined by the US Bureau of Labor Statistics (BLS).

The chart below shows the number of industry jobs in North Carolina since the year 2000. The highlighted area represents the period when HB2 was in effect.



As with the GSP data, you cannot detect any employment impact arising from the enactment of HB2. Since the end of the Great Recession in 2008, employment growth has been on a very steady upward path and there are now over 4.5 million industry jobs in the State. In FY 2017-18 alone, the State added 96,000 jobs.

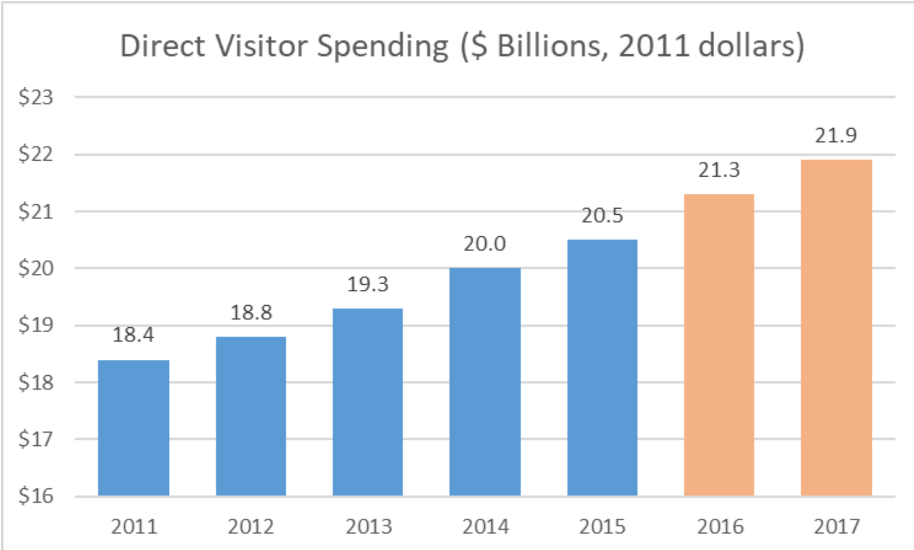
In addition to the short time period that the law was in place, there is also a measurement challenge based on the actions of a specific enterprise on the overall state economy; e.g., for every $100 million that a corporation generates in additional annual economic output, the effect on the State's Gross State Product is only two-tenths of one percent (.02%). This means that anecdotal evidence such as PayPal's decision not to locate in North Carolina, which you mentioned as an example in your request, would have represented a very tiny percentage of the overall number of jobs and the amount of new jobs added in the context of the State's overall economic activity.

Tourism – Direct Visitor Spending

Direct Visitor Spending is an estimate of the total dollars spent by tourists while visiting or passing through the State. The figures come from research commissioned by Visit North Carolina, a unit of the Economic Development Partnership of North Carolina, and conducted by the U.S. Travel Association.

The following chart shows that spending from tourism has grown annually, beginning with calendar year 2011. To make year-over-year comparisons, the spending data was adjusted for inflation using the

Consumer Price Index from BLS. The data is only available by calendar year, and the data for 2016 and 2017 do not indicate that tourism was noticeably impacted.



Conclusion

If HB2 had any positive or negative impact on the State's economy and specifically direct visitor spending for tourism, the impact was too small to be detected by the available data. Any analysis is constrained by the short time horizon the law was in effect and the difficulty that creates in modelling what would have occurred in the absence of the law.

It is also not possible to ascertain the decision-making process of all the various firms and tourism event planners that may have been considering the State as a business site and whether HB2 influenced their location choice decisions in either a positive, neutral, or negative manner. Historically, with most business location decisions there are many powerful economic factors such as qualified workforce, low energy cost, geographic location, and transportation infrastructures that play a far greater role than social or tax policy.[2]

Furthermore, if the law had been in place over a long time horizon the limited economic scope of the law would have made it very difficult to determine if there were any significant, long-term impacts directly related to the enactment of HB2. For example, the state has undertaken extensive tax reform measures, which came into effect in 2014. These changes impacted every taxpayer and business in the State, and yet, examining the current data does not allow us to know the extent those changes have had on the economy. That is not to say the tax changes had no impact, it is to say that there are many important national and international influences on a State's economy making it difficult to dissect the role played by any one policy change.[3]

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[1] We also examined other economic indicators including wage and salary income and total personal income. These variables also did not indicate any impacts.

[2] For example, "Economic Development Incentives: Research Approaches and Current Views," Federal Reserve Board, 2008; and, Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," Journal of the American Planning Association, Winter 2004, Vol. 70 No. 1.

[3] Recent research does not find conclusively that current levels of state taxation impact a state's economy. For example, Zulal S. Denaux, "Endogenous Growth, Taxes and Government Spending: Theory and Evidence," Review of Development Economics, 2007, and J. William Harden and William H. Hoyt, "Do States Choose Their Mix of Taxes to Minimize Employment Losses?" National Tax Journal, 2003.