

COVER STORY

HOW STATE IS NOT MAKING THE GRADE

North Carolina drops in national business ranking. Is it a blip or a warning shot?

BY ALEX SANDS

With the lowest corporate income tax in the country at 3%, businesses looking to relocate, expand or start up gravitate toward North Carolina. But a respected business climate ranking released this summer warns the state could lose its competitive edge if it doesn't address the sacrifice made for those low taxes.

Last month, North Carolina dropped four spots on CNBC's Top States for Business 2018, from No. 5 in 2017 to No. 9. The reasoning? "A great workforce has businesses sticking with the Tar Heel State, but underfunded schools are infringing on success," the business news network wrote. It wasn't the first time the CNBC ranking knocked the state's education funding. In 2015, North Carolina was depicted as suffering because it "lags in education." The year before that, a terse admonishment – "must address education" – was prescribed for the state to sustain growth.

How we got here

A combination of the Great Recession hitting in 2007 and Republicans gaining control of the General Assembly several years later shifted the state's education budget dynamic. The legislature limited spending in the state budget to make way for tax cuts. School funding in North Carolina has yet to return to pre-recession levels – it's down 7.9% per student, after adjusting for inflation.

North Carolina's per-pupil funding is the country's sixth-lowest at \$9,217, according to a 24/7 Wall St. report based on U.S. Department of Labor data. The state ranks 46th in the nation for teacher pay, with a median salary of \$45,195.

These numbers made headlines in recent months with the March for Students and Rally for Respect on May 16. Thousands of educators dressed in red flooded the streets of downtown Raleigh that day. More than 1 million students had the day off as school

systems, including Charlotte-Mecklenburg Schools, designated it an optional teacher workday as personal leave requests piled up.

Recent state budgets have included pay raises for teachers and increases in education spending. The most recent added close to \$700 million for public education and provided an average 6.5% pay raise for teachers. But the argument remains: Is it rising fast enough?

"Some of it does have to do with tax policies. Where do you draw the line as a business?" said Matt Ellinwood, director of the Education and Law Project at the North Carolina Justice Center, a Raleigh-based, left-leaning think tank. "You don't hear [the business community] advocating as much for changes to our tax policy because North Carolina has lower taxes."

Earlier this year, Gov. Roy Cooper, a Democrat, challenged the state's business leaders: Use your political capital to advocate for public education.

"We need you," he said at the Emerging Issues Forum at N.C. State University in January. "We need the business community to say to the legislature, 'Education is No. 1. Our workforce is No. 1.'"

Schools in site selection

In the CNBC ranking, North Carolina did well in its workforce category, coming in ninth. Overall, the state remains in the top 10. But its education score dropped from 32nd to 37th.

"What they're doing is to say, 'Look, you're not going to stay here if you keep doing what you're doing,'" said Mac Holladay, founder and CEO of economic development consulting firm Market Street Services in Atlanta.

Cooper has said businesses looking to relocate ask most about the state's workforce. Those concerns are pertinent now, as Raleigh is among 20 U.S. cities in a recruiting battle for Amazon's HQ2, a \$5 billion project that could bring 50,000 jobs. Charlotte was also in the running, but didn't

make the short list due to a lack of technology workers.

Last year, Greensboro lost to Huntsville, Alabama, for a \$1.6 billion Toyota-Mazda manufacturing plant. Akio Toyoda, the company's president, referenced the "excellent Alabama workforce" as a key factor.

Trade publication *Area Development's* most recent annual survey of corporate executives reinforces Cooper's point. Availability of skilled labor ranked third among the most important site-selection factors for business leaders in 2017, behind highway accessibility and labor costs, according to the survey. In a companion survey, consultants, most of whom count manufacturers as their main clients, valued skilled labor above everything else.

"I can't think of a single time in the past decade where availability of skilled workers isn't somewhere in the top three criteria," said Chris Chung, CEO of the Economic Development Partnership of North Carolina.

Chung said businesses looking to relocate or expand into the state usually ask about colleges and universities, but often request information on K-12 education, too. They ask about class sizes, SAT and ACT scores and – you guessed it – funding.

"Everything from pre-K all the way up to universities, is it producing and how much is it producing of talent and workforce that I, as a company, need to be successful if I locate in that particular area," he added, explaining how education factors into site-selection searches.

Tomorrow's workforce

To keep the workforce strong, students need to be pushed not only to graduation but beyond. By 2020, some form of post-secondary education will be required for 67% of jobs in the U.S., according to the Georgetown Center on Education and the Workforce. Already, companies are finding that appli-

FORBES BEST STATES FOR BUSINESS

(November 2017)

- 1. North Carolina**
North Carolina ranks as the Best State for Business for the first time. It boasts one of the highest net migration rates in the U.S. and has the second-smallest union workforce in the nation in terms of percent of total employment. The result: labor costs that are 10% below the national average. *2016 rank: 2*
- 2. Texas.** *2016 rank: 4*
- 3. Utah.** *2016 rank: 1*
- 4. Nebraska.** *2016 rank: 3*
- 5. Virginia.** *2016 rank: 5*

CNBC TOP STATES FOR BUSINESS

(July 2018)

Overall:

- 1. Texas**
- 2. Washington**
- 3. Utah**
- 4. Virginia**
- 5. Colorado**
- 9. North Carolina**
- 30. South Carolina**

Education:

- 1. Massachusetts**
- 2. New Hampshire**
- 3. New York**
- 4. Nebraska**
- 5. Minnesota**
- 6. Virginia**
- 27. South Carolina**
- 38. North Carolina**

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Second-grade teacher Nicole Shaw gives instructions for a reading activity at Movement School, a charter school started by Movement Mortgage



1



2



3



4

- 1. With rising concerns in public education, many parents are opting for other options such as charter or private schools
- 2. Whitney Harrigan, seventh-grade teacher at McClintock Middle School, sets up her math classroom before the start of the school year
- 3. Kindergarten teacher Crystal Farrar goes through a lesson on the alphabet at Movement School
- 4. Traci Beiner, seventh-grade teacher at McClintock Middle School, decorates her social studies classroom with quotes by historical figures

PHOTOS BY MELISSA KEY

COVER STORY

TROUBLING PERSPECTIVE

CITY LEADERS HEAR HARSH ASSESSMENTS OF CHARLOTTE

National site-selection consultants are serving up harsh assessments of the Charlotte region, according to comments and anecdotes shared as part of a retreat led by the head of the economic development division of city government. Complacency, infighting and a lack of a clear message are among the weaknesses cited by industry executives and consultants when they compare Charlotte to other cities in the Southeast.

The city representative — Tracy Dodson, hired last spring to preside over economic development — made clear that recruiting concerns extend beyond the education investments dragging down North Carolina's rankings in recent national surveys. Last week, the mayor and most members of City Council participated in the retreat, a session aimed at analyzing weaknesses while strengthening Charlotte's pitch.

The meeting was for the five-member economic development committee, but several other council members sat in, including Tariq Bokhari, Julie Eiselt and Braxton Winston. At-large Democrat James Mitchell leads the committee.

Dodson, assistant city manager for economic development, told the council members and Mayor Vi Lyles about recent exchanges in New York between local recruiters Kati Hynes and Steve Pearce with national site-selection consultants, economic development prospects and others in the industry. Hynes is vice president of economic development at the Charlotte Chamber and Pearce is director of business development at the Charlotte Regional Partnership.

Dodson relayed a series of stinging observations and perceptions: Charlotte lacks an identity; site-selection experts remain confused by how the economic development groups divide up responsibilities; Charlotte lacks the academic and research pedigree in higher education of its peer cities; the N.C. General Assembly doesn't cooperate with Charlotte government; state incentives favor rural areas over cities, leadership is largely unknown; and, in the words of one site-selection representative, Charlotte is "a conservative, sleepy business community that shuts down after business hours."

Dodson went on to note consultants' belief that Charlotte lacks technology workers (a major factor in being left off Amazon's finalists for HQ2 this year) as well as tech and creative companies. The consultants also criticized regional recruiters and leaders for resting on past successes.

Hynes and Pearce, through spokespersons at the chamber and the partnership, declined interview requests to further discuss the negative reactions. Dianne Chase, spokesperson at the partnership, provided a prepared statement to CBJ on behalf of the partnership and the chamber.

The statement reads, "The Charlotte Chamber and the Charlotte Regional Partnership, as an economic development best practice, are committed to seeking input as to opportunities for growing the success of our work. We consistently benefit from gathering feedback on an ongoing basis from a variety of sources, including site selection consultants, economic development prospects and various other experts in the industry. Our relationships with these experts are invaluable in our work to continuously advance the economic vitality of our region."

— Erik Spanberg



Mentor Alan Alado, machinist at Siemens Energy Inc., shows apprentice Isaac Vess parts of a steam-turbine casing. The company has an apprenticeship program with CPCC that guarantees a job after completion

MELISSA KEY

CNBC 2018 RANKINGS

While the Carolinas performed well in several categories considered by the CNBC study, there were consistent themes in the poor grades for quality of life and education.

NORTH CAROLINA

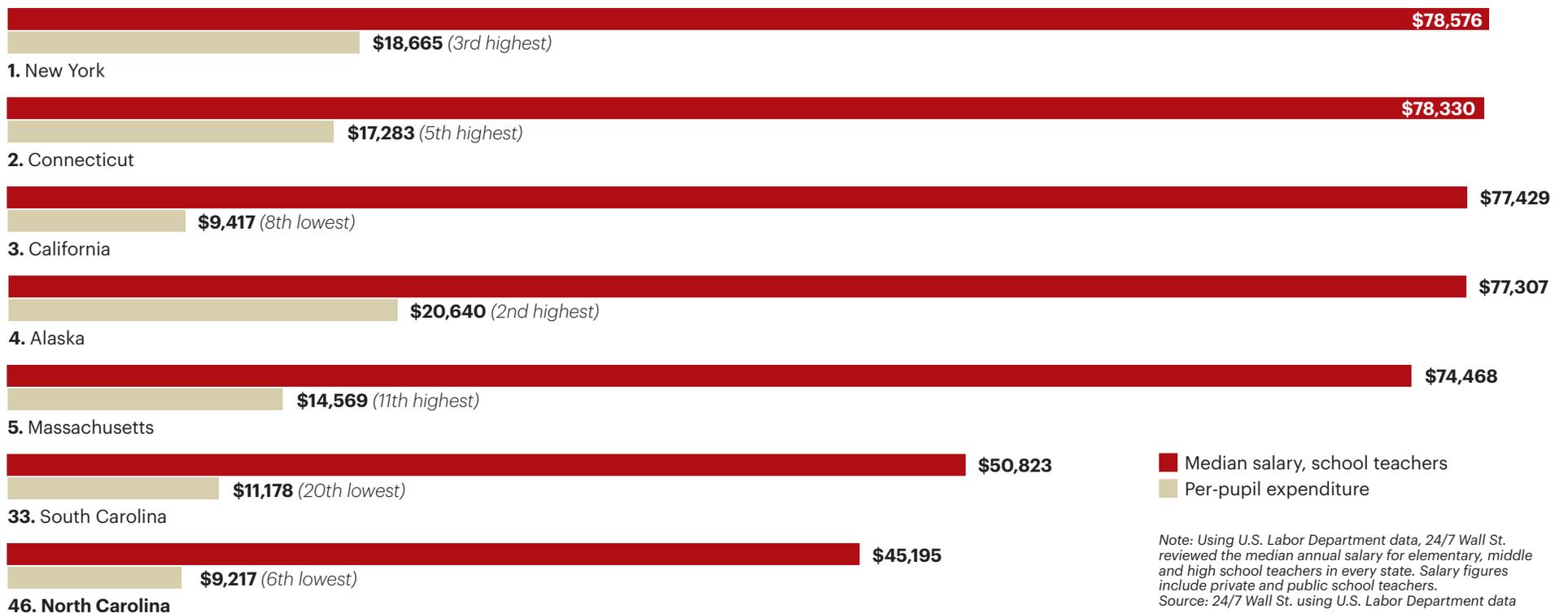
CATEGORY	SCORE	2018 RANK	2017 RANK	GRADE
Workforce	281	9	7 (tie)	A-
Infrastructure	206	21	20 (tie)	C+
Cost of doing business	222	16	9	A-
Economy	238	6	15 (tie)	A
Quality of life	145	28	28 (tie)	D+
Technology and innovation	153	11	6	B+
Education	80	37	32	D
Business friendliness	83	23	8 (tie)	C+
Access to capital	82	9	9 (tie)	A-
Cost of living	33	18	19	B
Overall	1,523	9	5	-

SOUTH CAROLINA

CATEGORY	SCORE	2018 RANK	2017 RANK	GRADE
Workforce	239	21	23	B
Infrastructure	189	35	30 (tie)	C
Cost of doing business	217	17	16	A-
Economy	182	17	15 (tie)	B-
Quality of life	111	42	36	F
Technology and innovation	104	31	35	C-
Education	101	26	40 (tie)	C
Business friendliness	72	28	29	C
Access to capital	43	28	28	C-
Cost of living	24	27	29	C
Overall	1,282	30	29	-

TEACHER PAY RANKING

North Carolina saw teacher pay stagnate over the past several years. The N.C. General Assembly took a step forward in the past session with a 6.5% average pay raise, but the state is still near the bottom.



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cants are not educated or trained enough for their job postings. It's a phenomenon called the skills gap, and 94% of CEOs in the U.S. report it as problematic for their company.

Even though the unemployment rate is at an all-time low, a record 6 million jobs remain unfilled. This mismatch has resulted in half of North Carolina employers reporting difficulty filling open positions, according to the NCWorks Commission survey of business hiring needs from late 2016 to early 2018.

"The whole spectrum – from post-high school to post-doctorate – we're seeing difficulty hiring," said Brenda Berg, president and CEO of BEST NC, a coalition of business leaders working to improve education in the state. "That's just going to get more difficult as our economy and our jobs in North Carolina continue to grow."

One member of BEST NC told Berg that he received thousands of applications for a job, but only five candidates possessed the minimum math requirements. In the next decade, 75% of jobs will be in STEM, according to Georgetown University Center on Education and the Workforce, yet nearly one-third of math courses are taught by teachers without a license in the discipline. (STEM is shorthand for science, technology, engineering and math.)

Like business employers, schools are struggling to fill vacancies as well. With the current tight labor market, teachers are leaving for higher-paying jobs in other fields.

Attracting talent

Rather than growing its workforce through education investments, Southern states and cities tend to put more emphasis on attracting skilled workers from other parts of the country, a recent report suggests. North Carolina is one of 13 regions that relies heavily on newcomers with college degrees to fill higher-paying jobs instead of home-grown talent, according to The State of the South 2018 report by MDC, a Durham-based public policy and research nonprofit.

The good news is, it's capable of attracting talent from elsewhere, the MDC report says.

During the site-selection process, executives must consider whether they'll be able to convince their employees to move with the company. Such decisions are based heavily on quality of life, including strong schools. CEOs need to look past moving their people and consider whether they'll be able to also recruit new workers from out of state, assuming shortages continue in North Carolina.

More people are moving into North Carolina than out. Despite its reputation for underfunding education, the state has appealing quality-of-life factors, such as a mild climate, low cost of living and proximity to beaches and mountains.

Still, CNBC gave North Carolina a grade of a D in quality of life.

"I think businesses see those trends," said Eric Houck, associate professor of educational leadership and policy at UNC Chapel Hill. "Even though they might appreciate the low tax environment that North Carolina provides, they have employees, those employees have families and they want their children to have excellent educations."

'It takes a village'

Education funding is a confusing debate, with widely divergent opinions on whether there's a correlation between academic excellence and education funding. Whether companies agree or disagree with Cooper's stance and CNBC's ranking, many are investing their own dollars into the school system through nonprofits that work closely with school systems, including CMS.

"The school system works very hard to accomplish its goal to educate all students, but it is a monumental task and they need as many resources as possible to help support their work," said Jay Everette, senior community relations manager at Wells Fargo & Co.

Wells Fargo recognizes CMS students will one day be potential hires for its 25,000-employee team in Charlotte. Because of that, the bank estimates it will donate over

\$3 million to education initiatives in the area this year to push students toward earning their diplomas and beyond, including technical and trade schools and community colleges and universities.

Since relocating its headquarters here from Baton Rouge, Louisiana, in 2016, Albemarle Corp. has jumped into the group of companies with major operations here that support local students. It plans to invest over \$10 million in the next five years into education in Charlotte. To support CMS, Sandra Holub, executive director of the Albemarle Foundation, said, "It takes a village."

Grooming talent

In addition to growing talent through the K-12 system, companies are also "grooming" it, a term Chung uses in his talks with business leaders.

Community colleges are conducting customized training for industries. Siemens Energy Inc. of Charlotte, for example, launched an apprenticeship program with Central Piedmont Community College that teaches machining and maintenance skills and guarantees a job after completion of the program.

Another source of talent: military veterans. North Carolina has the fourth-largest active-duty military population. Duke Energy Corp. formed a veteran recruitment team in recent years to address its need for more talent. The company predicts it will lose nearly 9% of its employees by 2021 due to retirement or other reasons, according to a Business Roundtable report.

Wake-up call

Overall, North Carolina still does well in rankings of business climate. Last year, the state was No. 1 on *Forbes'* Best States for Business.

"We're almost always top 10, if not top five," Chung said.

But experts see CNBC's list as a warning. "It's a bit of a wake-up call," Holladay said of CNBC's ranking. "I would pay attention to it and note that other people do, too."

STATES WITH THE LOWEST CORPORATE TAX RATES

1. North Carolina (3%)
2. North Dakota (4.31%)
3. Colorado (4.63%)
4. Arizona (4.9%)
5. (tie) Mississippi, South Carolina, Utah (5%)

Note: Corporate income taxes are levied in 44 states. Iowa levies the highest top statutory corporate tax rate at 12%. The rate in Virginia and Georgia is 6%; the rate in Tennessee is 6.5%. Source: Tax Foundation

STATES WITH THE MOST ROBUST WORKFORCE DEVELOPMENT IN THE ATLANTIC REGION

In January, *Site Selection* unveiled its 2018 "State of States" workforce development rankings. The magazine's methodology combined rankings in workforce education, labor supply, career readiness and statewide workforce development enactments to rate the states' workforce development environments. *Site Selection* notes that, "All states invest in workforce development, but those investments can be more productive in states where other factors are also at work – strong education systems, legislatures committed to education excellence, and others."

1. Virginia
2. Maryland
3. Georgia
4. North Carolina
5. Florida
6. Delaware
7. South Carolina
8. West Virginia

Source: *Site Selection*, 2018 Regional Workforce Development Rankings