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**Subject:** Full Clawback of NCInnovation Endowment Due to Statutory Noncompliance, and Erosion of Legislative and Public Trust

## Memorandum

To: Chairs, House and Senate Appropriations Committees

From: Donald Bryson, CEO, John Locke Foundation

Date: August 11, 2025

Subject: Full Clawback of NCInnovation Endowment Due to Statutory Noncompliance, and Erosion of Legislative and Public Trust

## Purpose

This memorandum recommends that the General Assembly fully reclaim the \$500 million endowment granted to NCInnovation (NCI) in 2023. The basis for this recommendation is straightforward: NCI has violated the statutory compliance requirements in its enabling legislation and has compounded that breach with a pattern of inconsistent financial claims and contradictory public statements by its CEO, Bennett Waters—delivered both in testimony to legislators in 2024 and in media interviews in 2025.

## Breach of Compliance

The 2023 enabling legislation ([S.L. 2023-134](#)) for the NCInnovation endowment, mandates that in order to receive and retain the endowment:

*“NCInnovation shall comply with the limitations on lobbying set forth in section 501(c)(3) of the Internal Revenue Code.”* (p. 337)

This is a **strict condition** of retaining the endowment—not a suggestion. The General Assembly tied taxpayer funding to strict adherence to federal lobbying rules applicable to charitable nonprofits. The [January 2025 State Auditor’s report](#) (p. 19) specifically warned

NCInnovation about its lobbying expenditures, recommending stronger controls to ensure compliance with both IRS rules and the enabling legislation. NCInnovation nevertheless issued a [press release](#) claiming the audit found it in “full compliance”—a characterization that omits the auditor’s explicit caution about lobbying practices and the auditor’s own statement that lobbying expenses were outside the purview of this audit.

As reported by [Carolina Journal](#) in May, NCI exceeded IRS limits on lobbying in FY 2023, likely triggering an excise tax penalty. NCI’s noncompliance with 501(c)(3) lobbying limits is supported by its own tax documents.

While the IRS may allow NCI to retain its nonprofit status after paying the fine, the General Assembly is under no such obligation. The organization violated the very condition that justified receiving and retaining \$500 million in taxpayer funds. **The clawback provision exists for exactly this scenario.**

#### Shifting Financial Justifications and Contradictory Public Statements

Public trust in NCI’s stewardship of taxpayer funds has been eroded by its CEO’s own words—both before lawmakers and in high-profile press interviews. These statements reveal shifting justifications for the size of the endowment, the need for the endowment, contradictory descriptions of financial needs, and repeated analogies that misrepresent NCI’s nature.

In July 2023, as the endowment concept was being debated at the General Assembly, Waters told [WRAL](#):

*“\$1.425 billion is the minimally acceptable amount because it will create an estimated \$106 million a year to spend on grants. With a smaller investment, the program would go bankrupt in about a decade.”*

Yet in his August 4, 2025, [News & Observer interview](#), when asked about the Senate plan to appropriate \$25 million annually for four years, he replied:

*“For the first four years, absolutely nothing. When you look at the interest and income that comes off of the endowment..”*

Under the current Senate plan, the endowment disappears entirely—with \$100 million recalled to the state’s NCInnovation Reserve Fund, drawn down in \$25 million installments over four years. That is a fixed, declining balance, not an investment corpus. How can such a structure yield “absolutely no operational impact” when \$1.425 billion was supposedly the bare minimum for sustainability? The numbers—and time horizons—do not reconcile.

#### Patterned Use of the RTP Analogy

On the topic of time horizons, Waters has repeatedly likened NCI to a statewide version of Research Triangle Park:

- Under oath in July 2024 ([WRAL coverage](#)), he testified:

*“An innovation arms race has broken out... so that our best and brightest ideas don’t have to flee to our population centers, or worse, leave the state altogether. What we’re trying to do is, in effect, scale RTP’s success across North Carolina.”*

- In August 2025, according to the *News & Observer*:

*“Bennet Waters emphasized that Research Triangle Park wasn’t a success after 24 months. If state lawmakers had pulled the plug on the economic project in 1961, they would have pivoted away from a bunch of fallow farmland between Raleigh and Durham.”*

But the analogy distorts reality. Research Triangle Park (RTP) was a decades-long infrastructure and land-development initiative supported by broad public-private planning—not a half-billion-dollar nonprofit endowment with a grantmaking mission. Equating the two projects risks misleading both the public and policymakers. RTP had measurable milestones—land acquired, buildings constructed, tenants recruited—against which progress could be assessed.

NCInnovation, as a grantmaking entity with no physical footprint beyond an office at RTP, no direct economic anchor beyond universities (**which are already taxpayer-funded**), and no binding metrics, has no equivalent trajectory. Using RTP as a defense for NCI implies a level of inevitability and proven economic return that NCI’s structure simply does not support. In short, RTP’s model was about building enduring capacity from the ground up; NCI’s is about dispersing funds and hoping capacity emerges.

#### Avoidance of Measurable Outcomes

And hope is all NCI appears willing to be held accountable for. In the August 4 interview, when asked by the *News & Observer* what sort of success rate would define NCInnovation’s success, Waters replied:

*“So we don’t attach ourselves to future outcome measures over which we would have no control... We’re typically looking at no more than a two-year funding horizon for our piece of that valley of death. And so our percentages are higher.”*

This statement makes clear that NCInnovation is deliberately limiting its performance horizon to two years, even though the \$500 million endowment was justified to lawmakers as a decades-long investment in the state’s economic future. A two-year funding horizon might make sense for individual research projects, but it does not satisfy the need for long-

term accountability to taxpayers. Waters also frames this short-term focus when he compares NCI to Research Triangle Park, suggesting that its eventual success should be judged decades from now, despite refusing to commit to measurable long-term benchmarks in the present.

For a program of this magnitude, refusal to commit to measurable benchmarks is alarming. Every taxpayer-funded initiative faces uncertainty—economic conditions shift, technology evolves, and markets fluctuate—yet outcome measures remain essential for transparency, accountability, and maintaining public trust.

The scale of this appropriation makes the absence of metrics even more indefensible. According to the U.S. Census Bureau, the median household income in North Carolina is \$70,804. The \$500 million state-funded endowment is equivalent to the combined annual incomes of more than **7,000 typical North Carolina households**—about the population of towns like Havelock, Hendersonville, or Southern Pines.

An investment of that size—drawn from the hard work of our citizens—cannot be defended based on aspirations and goodwill alone.

Taxpayers deserve to know, in quantifiable terms, what they are getting in return for such a commitment. That means hard benchmarks: number of startups launched, private dollars leveraged, patents filed, or jobs created—not vague assurances that something good will happen eventually. Without these measures, the General Assembly cannot meaningfully evaluate whether NCI is succeeding or failing, making the program effectively immune to oversight.

In the *News & Observer* interview, when asked when taxpayers would see the first concrete wins, Waters replied, “I would argue that they already are.” No evidence—such as jobs created, startups launched, or private capital attracted—was offered. For a \$500 million taxpayer-funded endowment, vague assertions are no substitute for measurable results. Without verifiable metrics, such claims amount to little more than public relations soundbites, leaving lawmakers and taxpayers unable to determine whether the promised economic returns are materializing. Absent benchmarks, the General Assembly has no objective way to evaluate NCI’s performance or justify continuing the endowment.

#### Pattern of Confrontation with Oversight

Unfortunately, NCI appears uninterested in any scrutiny or oversight for its metrics or governance. In December 2024, NCInnovation’s board [voted to form](#) a “Special Litigation Committee” to pursue legal action against individual directors and outside third parties, including state House Oversight Committee staff director Joe Coletti, in connection with an

investigation into the organization’s compliance. The move prompted a sharp rebuke from then-Speaker Tim Moore, who called it “*petty sniping*” and “*a troubling pattern of behavior.*”

[Moore’s letter](#) emphasized that even the possibility of taxpayer dollars being used to threaten legislative staff is unacceptable, particularly in light of the statutory conditions attached to NCI’s \$500 million endowment. He wrote:

*“The engagement of NCInnovation staff and directors in these political games is a stark departure from NCInnovation’s mission... particularly at a time when NCInnovation’s sizable appropriation could be utilized elsewhere.”*

Taken together with NCI’s breach of IRS lobbying limits, this incident reveals a consistent disregard for the legal and oversight boundaries set by the General Assembly. The lobbying violation shows a failure to comply with the law; the Special Litigation Committee episode shows an adversarial posture toward those tasked with ensuring that compliance, both public staff and legally appointed board members.

An entity that both breaches compliance and attempts to intimidate legislative staff is incompatible with continued taxpayer funding.

#### Current Budget Landscape

There are multiple clear policy paths forward for the state to sever its ties with NCInnovation.

- **House Proposal** – Fully reclaims the \$500 million endowment.
- **Senate Proposal** – Reclaims \$400 million for the Duke-UNC children’s hospital, in Apex, and returns \$100 million to the General Fund – to be given to NCInnovation in \$25 million installments over four years.

Both chambers agree a clawback is warranted. The lobbying violation, combined with Waters’ shifting and contradictory public statements, supports the House’s full recall approach. This memorandum is not debating the Senate’s proposed use of the funds, however, it is arguing that continuing to fund NCInnovation will only prolong public funding that should simply end.

#### John Locke Foundation Recommendation

1. **Fully reclaim the \$500 million endowment** due to the lobbying compliance violation and erosion of trust through shifting narratives and lack of transparency.
2. **Reallocate funds** to urgent statewide needs—including Hurricane Helene recovery, critical infrastructure repairs, strengthening the State Highway Trust Fund or State

Health Plan, or supporting health services such as the proposed UNC–Duke Children’s Hospital.

NCI’s breach of its lobbying compliance obligation is not disputable—it can be calculated directly from NCI’s own tax returns. But the problem runs deeper: its CEO’s legislative testimony and public interviews reveal shifting financial justifications, repeated use of misleading analogies, and a refusal to be bound by measurable performance standards. Funding a venture capital nonprofit that fights oversight and moves its own goalposts is **not** what taxpayers envision when they file their taxes every April or pay sales tax on their children’s clothes. They expect good roads, a well-equipped Highway Patrol, functioning schools, and well-maintained state parks—not a half-billion-dollar experiment with no fixed targets and no guarantee of return.

The legislature’s own enforcement mechanism now must be applied: reclaim the entire \$500 million and direct it to *appropriate* statewide needs.

The General Assembly set a condition for keeping the endowment. **NCI broke it.** Upholding legislative integrity and protecting taxpayer dollars now requires full enforcement: claw back the entire \$500 million.

To leave the funds in NCI’s hands after this breach would set a precedent that statutory conditions can be ignored without consequence.

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