NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1569 (Second Edition)
SHORT TITLE: Economic Opportunity Act of 1998
SPONSOR: Sen. Hoyle (Comm. Sub.)

FISCAL IMPACT

Yes (X) **No ( )** **No Estimate Available ( )**

($Million)

	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
REVENUES:					
General Fund:					
Bill Lee Act Amend	**+ .06**	**+ .07**	**-2.15**	**-3.67**	**--5.41**
Air Courier Hubs*	**----**	**----**	**----**	**- .36**	**-.24**
Recycling Facil.*	**-2.28**	**-1.28**	**-4.66**	**-8.94**	**-10.68**
Total	**-2.22**	**-1.21**	**-6.81**	**-12.97**	**-16.33**
Local Govt.:					
Air Courier Hubs*	**----**	**----**	**----**	**- .59**	**- .61**
Recycling Facil.*	**- .80**	**- .05**	**- .09**	**- .09**	**- .09**
Total	**- .80**	**- .05**	**- .09**	**- .09**	**- .09**

*These losses are associated with economic activity that has not taken place and will not occur unless the expansion activity tied to the enactment of the incentive credits takes place.

PRINCIPAL DEPARTMENT(S) &
PROGRAM(S) AFFECTED: The credits will be administered by the Department of Revenue and the Department of Commerce.

BILL SUMMARY:

<u>Lee Act Modifications (Incentive Tax Credits)</u>: (1) Allows the credits to be taken against the insurance gross premiums tax; (2) clarifies that a central administrative office meets the requirement for creating new jobs if the jobs begin before the office property is in service but are located at a temporary facility that the business occupies while waiting for its office property to be completed; (3) for targeted investment tax credit, provides that for projects that span two tax years, the threshold applies only once to the investment; (4) expands targeted investment tax credit to include machinery and equipment the taxpayer uses under an operating lease, but only if the machinery and equipment are part of a project valued at $150 million or more; (5) modifies the research and development credit to also allow a credit equal to approximately ¼ of the federal alternative credit as it relates to North Carolina activities; (6) amends worker training tax credit by replacing the current credit measured by costs of training with a credit for wages paid to workers while they are being trained (not including on-the-job training); (7) levies a $75 application fee on taxpayers who seek to qualify for a Bill Lee Act credit; (8) extends the Bill Lee Act credit carryforward period to 20 years for investments over $150 million; (9) clarifies that Bill Lee Act credits are allowed only for new and expanding businesses, not for existing businesses that are sold to another taxpayer and (10) clarifies the definitions of the different types of businesses that are eligible for Bill Lee Act credits and clarifies the method of calculating the investment tax credit and the business tax credit for property acquired by a capital lease.

State Development Zones: Provides for the designation of economically distressed areas located within municipalities as State development zones, and authorizes enhanced incentives for businesses that locate in a development zone, effective beginning with the 1999 tax year. The bill defines a development zone as an area (1) consisting of one or more contiguous census tracts and block groups, (2) with a population of 1,000 or more, at least 20% of whom are below the poverty level, and (3) located at least partly in a municipality with a population over 5,000. If a business locates in a development zone, the wage standard it has to meet is the same as for Tier One counties. In addition, its maximum worker training is $1,000 rather than $500, it receives an additional $4,000 per job on its jobs tax credit, and there is no threshold for the credit for investing in machinery and equipment.

Infrastructure Funds: (1) States the intent of the General Assembly to appropriate funds to the Industrial Development Fund and the Utility Account of the Industrial Development Fund. (2) Under current law, money in the Utility Account can be used in Tier One counties for construction or improvements to new or existing water, sewer, gas, or electrical utility distribution lines or for existing, new, or proposed industrial buildings to be used in manufacturing and processing, warehousing and distribution, or data processing. The bill would expand the scope of the Utility Account to include Tier Two counties. (3) Under current law, the Industrial Development Fund provides funding for manufacturing projects in Tier One, Two, and Three counties as well as in areas experiencing major economic dislocations. The funds may be used for equipment, capital improvements, and utility distribution lines, projects in Tier Two and Three Counties are required to match the State funds on a $1/$3 basis. The funding is capped at $4,000 per job to be created and $400,000 per project. The bill would raise the per-job cap to $5,000 and the per-project cap to $500,000. (4) Expands the industries covered by both the Industrial Development Fund and the utility Account to include all of the following; manufacturing, central administrative office, air courier services, data processing, and warehousing and wholesale trade. (5) Clarifies that a local unit receiving aid from either fund, may use up to 2% of the funds to verify that the funds are used as required by law and otherwise to administer the grant or loan.

Air Courier Hubs: (1) Provides that sales to an interstate air courier of equipment for handling and storing materials at its hub will be subject to a reduced sales tax of 1% capped at $80 per item. (2) Provides a sales tax exemption for sales to interstate an air courier of aircraft lubricants, aircraft repair parts, and aircraft accessories for use at the air courier's hub in this State. (3) Provides a property tax exemption for aircraft owned by an air courier and apportioned for property tax purposes to the courier's hub in this State. (4) Grants a bidding law exemption for the Piedmont Triad International Airport Authority as it applies to design and construction of an air freight distribution facility on airport property, and related supplies, equipment, and services.

Recycling Facilities: "Large recycling facility" is one that will involve at least $150 million in new investment and 155 new jobs within a two-year period. A "major recycling facility" is one that will involve at least $300 million in new investment and 250 new jobs within a four-year period. In order to qualify for the applicable tax incentives, the owner of the facility must obtain certification from the Department of Commerce that it will meet the minimum investment and new job requirements. If the facility fails to meet either requirement within the applicable time period, it forfeits any tax benefit it received as a result of being certified. (1) The Bill Lee Act credit is equal to 7% of the cost of machinery and equipment, while the large recycling facility credit is equal to 20% of the cost and the major recycling facility credit is equal to 50% of the cost. (2) The credit is allowed at the time the owner of the recycling facility accrues expenses to purchase or lease the machinery and equipment, rather than at the time the machinery and equipment are placed in service, as under the Bill Lee Act. If the recycling facility fails to put the machinery and equipment in service within 30 months after taking the credit, the credit is forfeited and must be repaid. (3) The credit is allowed against both the corporate franchise tax and the corporate income tax. Under the Bill Lee Act, the credit is allowed against either but not both of those taxes. (4) The credit may equal 100% of the tax due from the owner of the facility. Under the Bill Lee Act, the credit is limited to 50% of tax due, so that the taxpayer will be paying some tax in every case. (5) The excess credit may be carried forward for 25 years. Under the Bill Lee Act, as revised by this bill, the relevant carryforward period would be 20 years. (6) Provides to major recycling facilities locating in Tier One counties a refundable corporate income tax "credit for reinvestment," effective beginning with the 1998 tax year. The credit applies if the major recycling facility is not accessible by ocean barge or ship and incurs additional expenses due to transporting its materials and products by alternative modes of transportation. The reinvestment credit is equal to the amount of these additional expenses, which must be documented annually to the Secretary of Commerce. The credit is subject to a dollar cap each year, in increasing amounts. In 1999, the cap is $640,000. In 2004, the cap levels off at $10.4 million a year. The bill sunsets this reinvestment credit effective with the 2008 tax year. The reinvestment credit is refundable. (7) Provides that a reduced sales tax rate of 1%, capped at $80 per item, will apply to cranes, foundations, transportation equipment, and materials handling equipment used at the major recycling facility. (8) Exempts from sales tax lubricants and other additives for vehicles and machinery used at the plant and other materials and supplies (not including machinery and equipment) that are used or consumed directly in the manufacturing process at a major recycling facility. (9) Exempts from sales tax electricity purchased for use at the major recycling facility. (10) Provides an annual sales tax refund for taxes a major recycling facility pays directly or indirectly on building materials, building supplies, fixtures, and equipment that become a part of the real property of the recycling facility located in a Tier One county. (11) Modifies the existing property tax exemption for property used for recycling, effective beginning with the 1999-20 property tax year. Under current law, to qualify for exemption, the property must be used exclusively for recycling and have recycling as its primary purpose. The bill would provide instead that the property must be used predominantly for recycling and have recycling as a purpose.

ASSUMPTIONS AND METHODOLOGY: Annual calendar year impacts were supplied by N.C. Department of Commerce, based on discussions with companies contemplating a North Carolina expansion (air hubs, recycling facilities). The conversion to fiscal year and other technical adjustments were made by FRD.

FISCAL RESEARCH DIVISION (733-4910)
PREPARED BY: Dave Crotts
APPROVED BY: Tom Covington
DATE: June 22, 1998

Official
Fiscal Research Division
Publication

Signed Copy Located in the NCGA Principal Clerk's Offices