NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1292 (First Edition)

SHORT TITLE: Target Incentives For Truly Distressed Areas

SPONSOR(S): Representatives Holliman and Luebke

FISCAL IMPACT

Yes ( ) **No ( )** **No Estimate Available (x)**

PRINCIPAL DEPARTMENTS AFFECTED: Department of Revenue and Department of Commerce. The enactment of the bill is not expected to affect the budget requirements of either department.

EFFECTIVE DATE: Applies to the next designation, due December 31, 2003, and effective for jobs created and investments made during the 2004 calendar year.

BILL SUMMARY: The Bill Lee Act is the package of state tax incentives that was first adopted in 1996 and has been modified in each subsequent year. The incentives are primarily in the form of tax credits for investment in machinery and equipment, job creation, worker training, and research/development. The credits apply to activities undertaken by specifically named industrial classifications. For many of the credits, the counties of the State are divided into five economic distress tiers based on the unemployment rate, per capita income, and population growth. The lower the tier of a county, the more favorable the incentive.

The current tier ranking system uses the unemployment rate for the most recent three years as one of the three distress factors to rank counties. The bill would measure the unemployment rate on the basis of the most recent 12 months.

ASSUMPTIONS AND METHODOLOGY: The bill is effective for the tier determination due December 31, 2003. Thus, it would first apply to tax credits for economic activity taking place during the 2004 calendar year. For the machinery/equipment credit and the jobs credit, the taxpayer cannot claim the credit until the year following the activity year. This means that the change will first be taken during the 2005 tax year, which is equivalent to the 2005-06 state fiscal year for budget accounting purposes. The bulk of the tier-sensitive credits fall into the investment and jobs creation categories.

Under the current administrative practice, the three-year average unemployment rate calculation ends with June of the year in which the determination is made. Discussions with the Department of Commerce indicate that the Department might consider advancing the end of the calculation period to a date closer to the determination month (December), especially if HB 1292 is enacted.

In any case, the effect of the bill on the state General Fund depends on the unknown unemployment experience of individual counties for May and June of this year and possibly later months (if a more timely calculation period is used).

The impact also depends on how individual counties fare in upcoming designations under the other two measures: per capita personal income and population growth. Under the tier designation formula, a ranking is developed for each factor and the rankings are added across the three factors. The counties are then grouped into tiers based on the statutory guidelines (the lowest 10 counties will be in Tier 1, the next 15 counties will be Tier 2, etc.). Finally, there are exceptions to the general rule for certain situations such as small counties with high poverty rates.

The overall impact of the proposal will be limited by the following factors:

1. The unemployment rate is one of three equally weighted factors.

2. The unemployment experience for the most recent 12 months is part of the current 3-year calculation.

3. The movement of some counties to a higher tier will be offset at least partially by the shift of other counties to a lower tier.

4. The current law “exceptions” to the general tier rules may offset the potential movement of some counties to a lower tier.

5. Some of the tiers are so wide (25 counties) that a county may change ranking but remain in the existing tier.

For these reasons, it is not possible at this time to determine the impact to the State General Fund or the shift between counties. However, the factors listed above will limit the changes between tiers and the impact on the General Fund. Finally, the Bill Lee Act sunsets effective for activity taking place on or after January 1, 2006.

SOURCES OF DATA:

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