NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 1061 (First Edition)

SHORT TITLE: Modify Bill Lee Tiers.

SPONSOR(S): Senator Hartsell

FISCAL IMPACT

	Yes ( )	**No ( )**	**No Estimate Available (x)**		
	FY 2004-05	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**
REVENUES:	**"See Assumptions and Methodology"**				

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, 2004 and becomes effective for jobs created and investments made during the 2005 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 current law and administrative practice, the tier designations are tied to the following factors: (1) unemployment rate for the most recent three years; (2) per capita income for the most recent three years; and (3) population growth from the last decennial census to the most recent year. The lower the tier of a county, the more favorable the incentive.

The proposed bill would measure all three factors on the basis of the most recent 12 months.

ASSUMPTIONS AND METHODOLOGY: The bill is effective for the tier determination due December 31, 2004. Thus, it would first apply to tax credits for economic activity taking place during the 2005 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 come into play during the 2006 tax year, which is equivalent to the 2006-07 state fiscal year for budget accounting purposes. The bulk of the tier-sensitive credits do fall into the investment and jobs creation categories.

The effect of the bill on state General Fund revenues depends on the unknown experience of individual counties for a 12-month period ending in late 2004 (see Technical Considerations). 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 movement of some counties to a lower tier will be offset at least partially by the shift of other counties to a higher tier.

2. The unemployment and per capita income experience for the most recent 12 months is already a part of the current three-year calculation.

3. For the per capita income measure, the impact of job losses will be partially offset by more unemployment benefits and welfare payments to the distressed household.

4. The current law "exceptions" to the general tier rules may offset the potential movement of some counties to a higher 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. In addition, the Bill Lee Act sunsets effective for activity taking place on or after January 1, 2006. This means that the legislation is effective only for activity taking place during the 2005 calendar year.

TECHNICAL CONSIDERATIONS: Under the current administrative practice, the 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) if a legislative change is enacted.

FISCAL RESEARCH DIVISION: (919) 733-4910
PREPARED BY: David Crotts

APPROVED BY: James D. Johnson, Director
Fiscal Research Division

Official
Fiscal Research Division
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