



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

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North Carolina Should Discontinue the Economic Development Tiers System and Reexamine Strategies to Assist Communities with Chronic Economic Distress

Summary

The Joint Legislative Program Evaluation Oversight Committee's 2015–17 Work Plan directed the Program Evaluation Division to consider the effectiveness of the economic development tiers system. The tiers system ranks all 100 North Carolina counties according to an index of economic measures and low-population/high-poverty adjustments. The Department of Commerce assigns each county a designation of Tier 1, Tier 2, or Tier 3, with Tier 1 counties being the most economically distressed. The tiers system was created to distribute business tax incentives, but that program expired in 2014.

Distributing state funding based on the economic development tiers system does not provide the greatest benefit to the most distressed counties. Currently, 15 state programs use the tiers system to distribute resources. North Carolina is the only state that uses a tiers system for non-economic development programs such as the Department of Agriculture and Consumer Services' pet spay and neuter program and the Department of Health and Human Services' medication assistance program. Such programs do not direct more resources toward the most economically distressed areas.

Components of the current tiers system formula distort identification of county economic distress. The low-population/high-poverty adjustments in the tier formula alter rankings in ways that may obfuscate distress. Designating all low-population counties as Tier 1 areas regardless of their actual economic conditions displaces other counties with more-distressed circumstances to other tiers. In addition, the tiers system uses county-level data, which masks economically distressed areas within more prosperous counties.

It has been 30 years since the legislature undertook a comprehensive study of ways to assist communities with chronic economic distress. The tiers system has been altered incrementally and the economic development incentives awarded through its use have shifted from statutory tax credits to discretionary grants. Neither of these approaches has substantially benefited the areas of the state most in need of economic development.

Based on these findings, the General Assembly should

- discontinue the economic development tiers system for all non-economic development programs by July 1, 2017;
- sunset the tiers system for all economic development programs as of July 1, 2018; and
- form a legislative commission to reexamine the State's strategy for identifying and assisting economically distressed communities.