

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

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A presentation to the Joint Legislative Program Evaluation  
Oversight Committee

December 14, 2015


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# Handouts

## Full Report

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



**Final Report to the Joint Legislative Program Evaluation Oversight Committee**

**Report Number 2015-11**

**December 14, 2015**

## Slides

Joint Legislative Program Evaluation Oversight Committee  
December 14, 2015

**Our Charge**

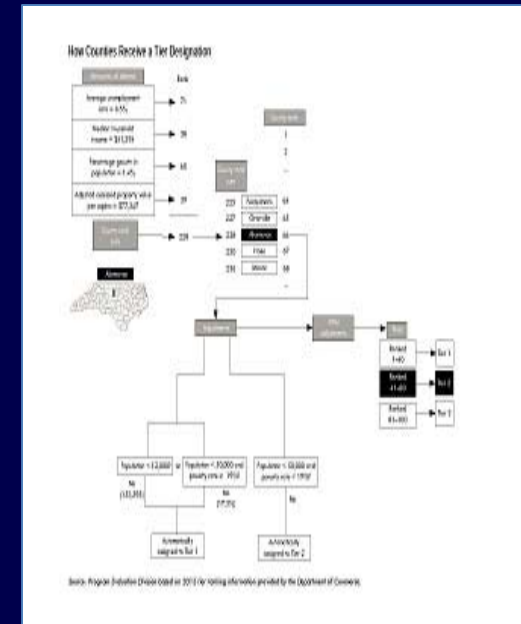
- Directive: 2015-17 Work Plan
- Objective: Review effectiveness of the economic development tiers system for identifying areas of the state experiencing economic distress
- Team
  - Sara Nienow, Evaluation Lead
  - Pam Taylor, Principal Program Evaluation

**Overview: 3 Findings**

1. Distributing state funding based on the economic development tiers system does not provide the greatest benefit to the most distressed counties
2. Components of the current tiers system distort identification of economic distress
3. It has been 30 years since the General Assembly undertook a comprehensive study of ways to assist communities with chronic economic distress

Economic Development Tiers System

## Today's Handout



# Our Charge

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# Overview: Findings

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# Overview: Recommendations

1. Eliminate the use of the economic development tiers system for all non-economic development programs by July 1, 2017
2. End the use of the tiers system for all economic development programs by July 1, 2018
3. Establish a commission to reexamine the State's strategy for identifying and assisting chronically distressed communities



# Background

- Publicly-financed economic development is characterized by government interventions to foster conditions for economic growth and improved quality of life
- The Department of Commerce is charged with
  - Expansion of existing and recruitment of new industry
  - Development of the labor force
  - Coordination of the State's economic development efforts

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# History of the Tiers System

- The 1985 Commission on Jobs and Economic Growth proposed a tax credit for companies creating jobs in the 20 most economically distressed counties
- William S. Lee Act expanded tiers system to all 100 counties in 1996
- Article 3J is the most recent program to use tiers to award tax incentives

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# Example of Tiers System Calculation

- All counties are ranked by four factors:
  1. Average unemployment rate for most recent 12 months
  2. Median household income for most recent 12 months
  3. Percentage growth in population for most recent 36 months
  4. Adjusted assessed property value per capita in most recent year available
- These ranks are added together and the sums are converted into county ranks 1-100

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# Population and Poverty Adjustments

- Automatic Tier 1 Status for counties with < 12,000 people and counties with < 50,000 people and a poverty rate  $\geq 19\%$
- Automatic Tier 2 status for counties with < 50,000 and a poverty rate < 19%
- Lowest 40 counties are Tier 1, next 40 are Tier 2, and 20 best-performing counties are Tier 3



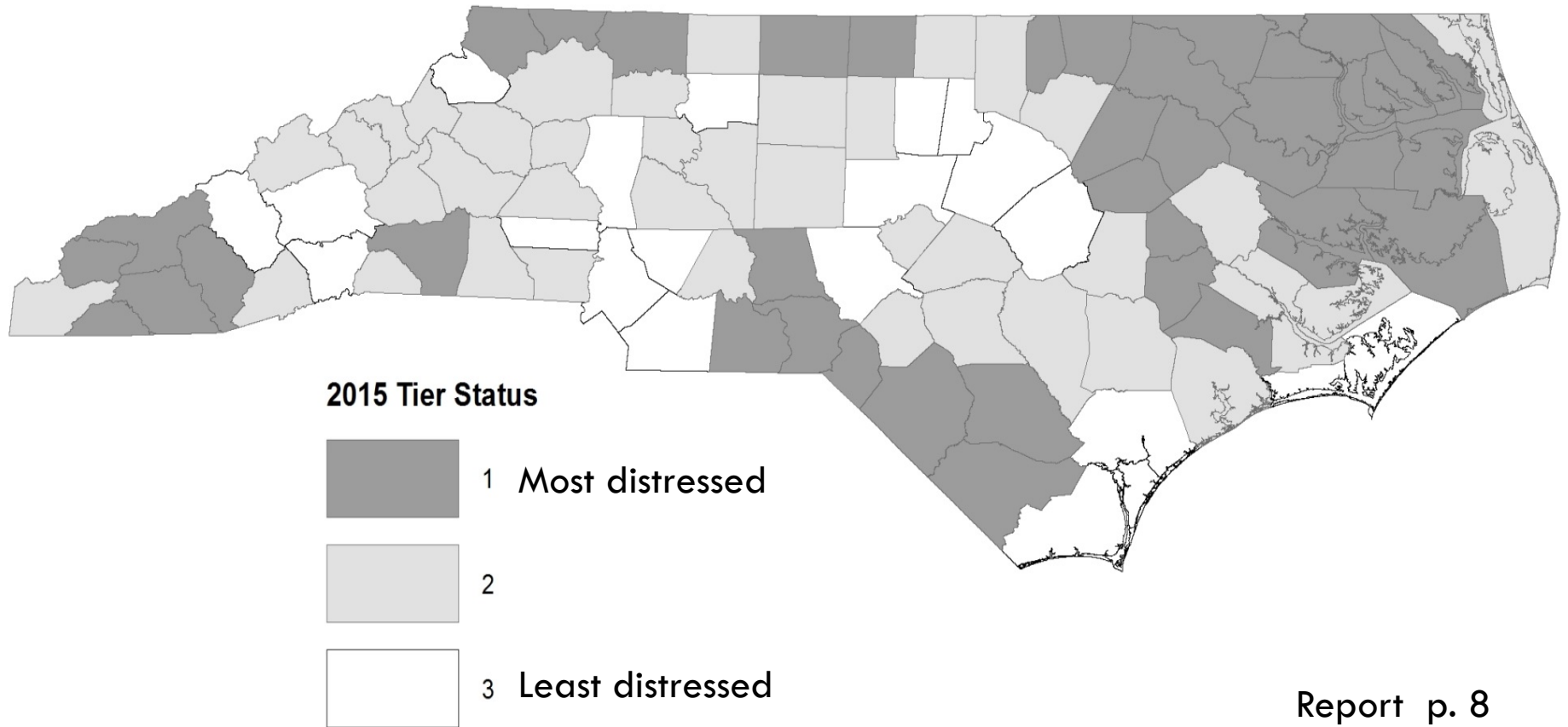
# Tax Incentives Associated with Tiers System Have Sunset

- Article 3J ended on January 1, 2014, calling into question the continued use of the tiers system
  - Statutory incentives have been eliminated, but the tiers system remains
  - State policy has moved toward discretionary incentives
  - Discretionary programs do not consider geographic distribution or economic distress

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# Findings



## Finding 1

Distributing state funding based on the economic development tiers system does not provide the greatest benefit to the most distressed counties



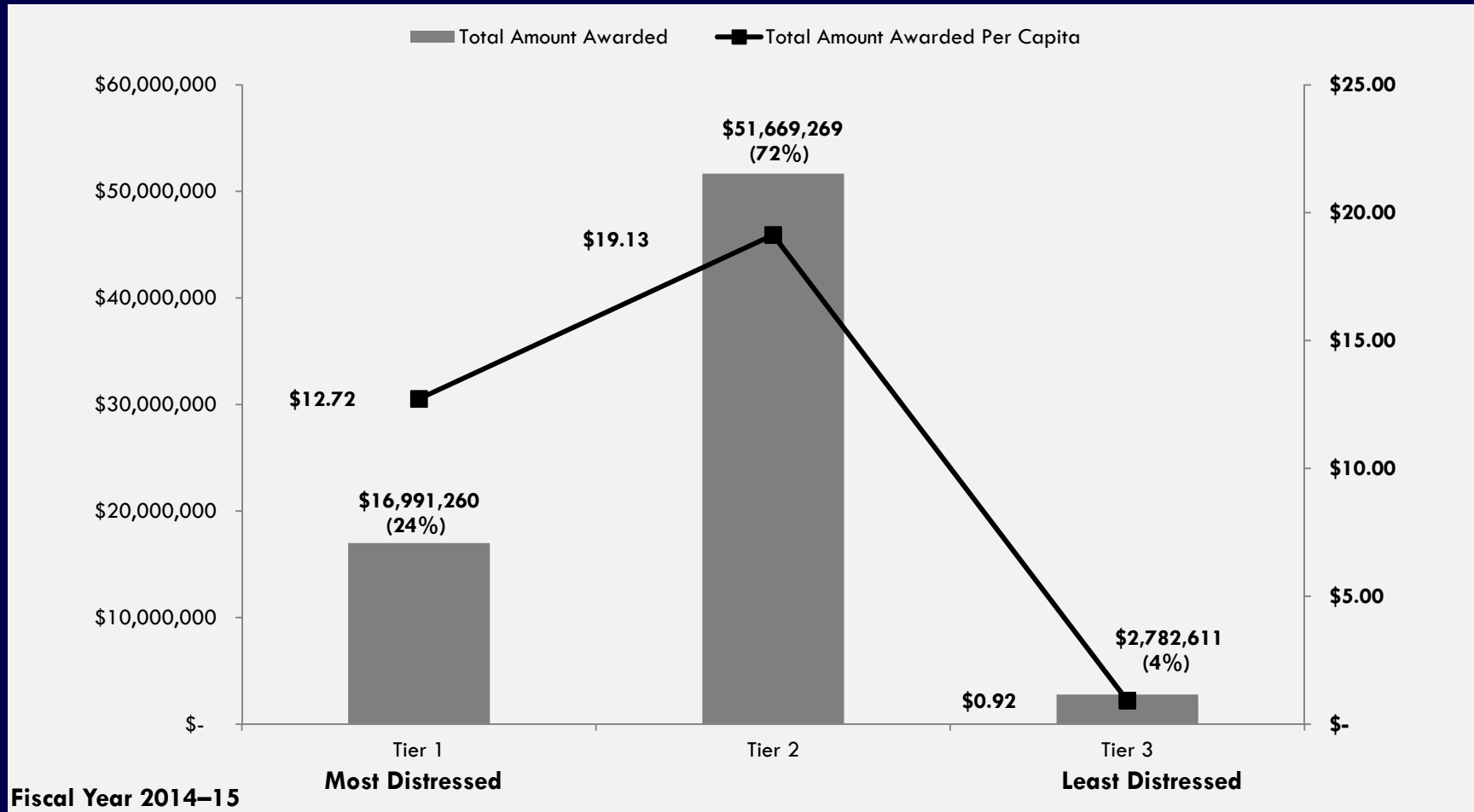
# Programs Using the Tiers System

- 15 programs used the tiers system in FY 2014–15 to distribute state resources
  - Six economic development programs
  - Nine non-economic development activities
- Ten programs are required by statute to use tiers system
- Five programs voluntarily use the tiers system

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# Middle-Tier Counties Benefit Most in Total Dollars and on a Per Capita Basis



## Use of Tiers in Other States

- Six other states—Arkansas, Georgia, Mississippi, South Carolina, Tennessee, and Wisconsin—use a tiers system to award tax credits to businesses
- Only South Carolina uses tiers system for a purpose other than tax incentives

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# Ability to Use Other Criteria

- Several Non-ED programs plan to move away from use of tiers system
  - Department of Health and Human Services Medication Assistance and Oral Health Preventive Services
  - Department of Transportation Strategic Prioritization Funding Plan
- Statutory changes are needed for 10 programs to use different award criteria

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## Finding 2

Components of the current tiers system distort identification of economic distress



# Population Adjustments in Tiers Formula

- Counties with fewer than 12,000 people are automatically Tier 1 despite actual economic measures
  - Camden County is the 81<sup>st</sup> least distressed county, but is assigned Tier 1 status by the population adjustment
  - Designating counties with low populations as distressed displaces counties with greater economic distress

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# Low Population Does Not Always Indicate Distress

Measure	Burke Tier 2 (27)	Camden Tier 1 (81)	State Median
Adjusted Assessed Property Tax Base Per Capita	\$114,592	\$119,511	\$87,751
Population Growth	-0.95%	1.91%	0.7%
Median Household Income	\$38,581	\$53,563	\$39,635
Unemployment	7.21%	6.73%	7.2%



# Requirement for 40-40-20 County Split

Placing certain counties in the same tier obscures large differences in economic well-being

Measure	Pender Tier 3	Wake Tier 3	State Median
Adjusted Assessed Property Tax Base Per Capita	\$114,592	\$119,511	\$87,751
Population Growth	6.2%	6.4%	0.7%
Median Household Income	\$43,318	\$64,107	\$39,635
Unemployment	7.5%	5.2%	7.2%



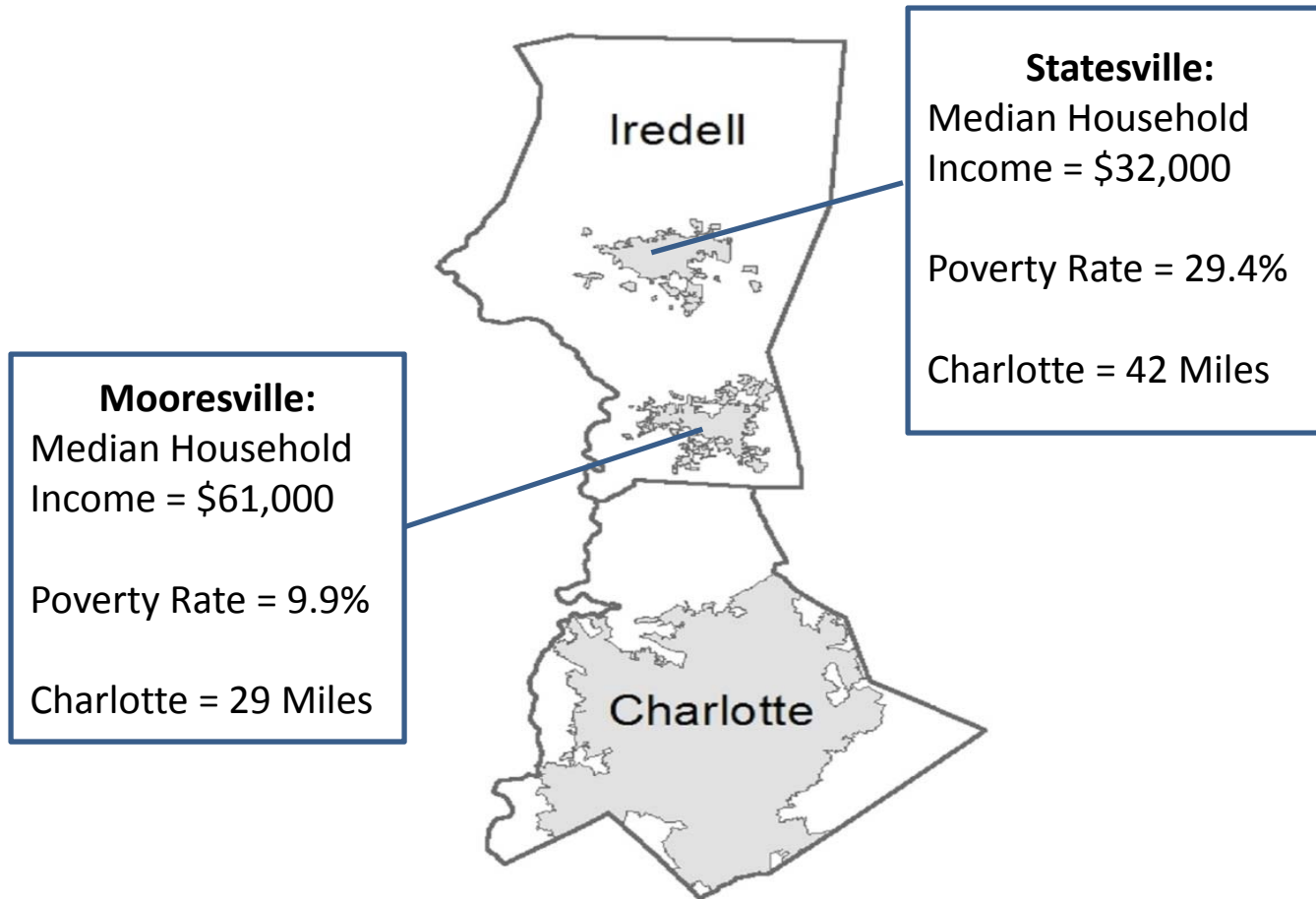
# Distressed Areas Within Tier 3 Counties are Hidden

- Using counties as the geographical unit of measurement masks economic distress
- Distress is hidden when a portion of a county borders metropolitan areas or a tourist area such as a beach
- Economic conditions can vary substantially within a county

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# Differences in Economic Conditions for Communities in Iredell County



# Commerce's Proposed Changes to Tiers System

- Reduce formula from four to three factors
- Remove population and poverty adjustments
- Transition to an index in which there would be no designated tier levels
- Calculate the index every two years

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# Proposed Changes May Not Lead to Better Identification of Distress

- May not capture complexity of distress
- Emphasizes job creation, not distress
- Does not include indicators of chronic distress
- Does not identify distressed areas within prosperous counties

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## Finding 3

It has been 30 years since the General Assembly undertook a comprehensive study of ways to assist communities with chronic economic distress



# North Carolina Commission on Jobs and Economic Growth

- Found economic growth was not reaching all places and people; a two-tiered economy was developing
- The three-year time period for measurement implies the Commission was seeking to identify areas experiencing chronic distress

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# Chronic Economic Distress

Time is an important element of distress; communities may recover from acute distress

Chronic distress is long-term persistence of factors such as:

- ✓ high unemployment
- ✓ high levels of poverty
- ✓ low per capita incomes
- ✓ low levels of physical, social, and human capital

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# Tiers System Has Been Altered

- Through time, the tiers system has changed
  - Shorter measurement periods (3 years  $\longrightarrow$  1 year)
  - Addition of population and poverty adjustments
  - Increased number of counties considered distressed
- These changes
  - Increased confusion about purpose of tiers
  - Reduced ability to effectively target efforts to the most distressed areas of the State

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# Little Progress in Chronically Distressed Areas

- No clear state goals or strategy to assist these areas
- Discretionary incentives not designed to target distressed areas
- Neither General Assembly nor executive branch has a committee for this issue

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# Capacity-Building Programs May Help

- Capacity building increases skills, infrastructure, and coordination of individuals, institutions, and communities to prepare for future development
- The Appalachian Regional Commission (ARC) is a leader in the use of capacity-building programs
- One well-known capacity-building program initially funded by ARC was the Handmade in America website to connect people with local artists and craftspeople

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# Recommendations



# Recommendation 1

The General Assembly should eliminate the use of the economic development tiers system for all non-economic development programs by July 1, 2017 and direct state agencies to develop other criteria to make funding decisions





# Non-Economic Development Programs to Cease Use of Tiers System by July 1, 2017

- NC Agricultural Development Farmland Preservation Trust Fund
- Spay and Neuter
- Abandoned Manufactured Home Cleanup Grants
- State Wastewater Reserve and State Drinking Water Reserve Programs
- Public Safety Assistance Points Grant Program
- Oral Health Preventive Services
- Medication Assistance
- Qualified Allocation Plan for Low Income Housing Tax Credit



## Recommendation 2

The General Assembly should end the use of the tiers system for all economic development programs by July 1, 2018 and direct the Department of Commerce to develop alternate funding criteria



# Economic Development Programs to Cease Use of Tiers System by July 1, 2018

- Industrial Development Fund Utility Account
- Job Maintenance and Capital Development Investment Fund
- NC Green Business Fund
- Main Street Solutions Fund
- Building Reuse and Economic Infrastructure Program
- Community Development Block Grant



## Recommendation 3

The General Assembly should establish a commission to reexamine the State's strategy for identifying and assisting chronically distressed communities



# Commission Responsibilities

- Determine factors to identify distressed communities
- Review the mission and resources of existing programs
- Consult with subject matter experts from within and outside state government



## 22 Commission Members

- Six members each from the House of Representatives and the Senate (12)
- Eight members of the general public representing local government and business from counties identified as distressed (8)
- The Secretary of Commerce and President of the Community College system as non-voting ex-officio members (2)



# Summary

- The tiers system is ineffective because it distorts which counties are identified as distressed and does not direct more resources to distressed counties
- The State's strategy to assist areas experiencing chronic distress has not been examined since the 1980's
- North Carolina should cease use of the tiers system by economic and non-economic programs and create a new commission to address chronic distress



# Legislative Options

- Refer report to any appropriate committees
- Instruct staff to draft legislation based on the report





Report available online at  
[www.ncleg.net/PED/Reports/reports.html](http://www.ncleg.net/PED/Reports/reports.html)

