GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Fiscal Note

BILL NUMBER: Senate Bill 898 (Second Edition)

SHORT TITLE: Development Tier Exception Modification.

SPONSOR(S): Senator Soles

FISCAL IMPACT

	Yes ( )	No ( )	No Estimate Available (x)		
	FY 2009-10	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**
REVENUES:					
General Fund			*** See Assumptions and Methodology ***		

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Commerce; Department of Revenue; Columbus County; Brunswick County

EFFECTIVE DATE: Becomes effective when law.

BACKGROUND:
The Department of Commerce annually ranks the State's 100 counties based on economic well-being and assigns a tier designation to each county. A development tier designation is effective only for the calendar year following the designation. The 40 most distressed counties are designated as Tier 1, the next 40 are designated Tier 2, and the remaining 20 counties are designated Tier 3. This tier system is incorporated into various State incentive programs to encourage economic activity in the less prosperous areas of the State.

The ranking system is based upon a county's development factor[1] and statutorily mandated adjustments. One of the statutorily mandated adjustments[2] is for a two-county industrial park. An eligible two-county industrial park has the lower development tier designation of the two counties in which it is located. An eligible two-county industrial park is one that meets all of the following conditions:

- It is located in two contiguous counties.
- *At least 1/3 of the park is located in the county with the lower tier designation.*

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[1] A county's development factor is the sum of the county's rank in the following areas: average rate of unemployment for the most recent 12 month period, median household income for the most recent 12 month period, percentage growth in population for the most recent 36 months, and adjusted assessed property value per capita for the most recent taxable year.
[2] Other statutorily mandated adjustments include those for small counties, development tier 1 areas, and multijurisdictional industrial parks.

- It is owned by the two counties or a joint agency of the counties, is under contractual control of designated agencies working on behalf of both counties, or is subject to a development agreement between both counties and third-party owners.
- The county with the lower tier designation contributed at least the lesser of one-half of the cost of developing the park or a proportion of the cost of developing the park equal to the proportion of land in the park located in the county with the lower tier designation.

BILL ANALYSIS:
Senate Bill 898 would amend the second condition by requiring that 1/5 of the property, rather than 1/3 of the property, be located in the lower tier county. The second edition adds a sunset after three years.

ASSUMPTIONS AND METHODOLOGY:
Columbus and Brunswick Counties are building a two-county industrial park and desire to take advantage of the lower tier designation of Columbus County. Columbus County is a development tier 1 county and Brunswick County is a development tier 3 county.

For the credit for creating jobs, the minimum number of jobs that must be created in a tier one county is five and the credit amount per job is $12,500; for a tier 2 county, the minimum number of jobs is 10 and the credit amount per job is $5,000; for a tier 3 county, the minimum is 15 and the credit amount is $500. Thus, the tier 1 designation would allow for a credit amount per job of $12,000 more for each job created in the proposed industrial park than would be allowed in a tier 3 county.

For the credit for investing in business property, there is no threshold for a tier one county and the credit percentage is 7% of the cost of capitalized tangible personal property; for a tier 2 county, the threshold is $1 million and the credit percentage is 5%; for a tier 3 county, the threshold is $2 million and the credit percentage is 3.5%. Thus, the tier 1 designation allows for an additional credit of 3.5% compared to the tier 3 credit.

Because the Article 3J credits sunset January 1, 2011, it is not known whether any jobs or investment will take place in time for credits to be taken under the proposed bill. According to the Department of Commerce and the Columbus County Economic Development Commission, the process of purchasing the land, developing infrastructure and recruiting businesses for the proposed industrial park will take several years.

If jobs or investment take place before the sunset, the credits must be taken in installments over a four-year period and may not exceed 50% of tax liability in any year. Any unused credits may be carried forward for five years. As a result, any impact resulting from the bill would be spread over a five to nine-year period, however, the full value of the credits generated may not be taken if the taxpayers have insufficient tax liability.

SOURCES OF DATA: Department of Commerce; Columbus County Economic Development Commission

TECHNICAL CONSIDERATIONS: None

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