HOUSE BILL 795:
Economic Development Incentives Modifications.

2017-2018 General Assembly

Committee:	House Commerce and Job Development. If favorable, re-refer to Finance. If favorable, re-refer to Appropriations	**Date:**	June 15, 2017
Introduced by:	Reps. S. Martin, Szoka, Ross, Fraley	**Prepared by:**	Greg Roney
Analysis of:	PCS to First Edition H795-CSTMf-18		Committee Counsel

OVERVIEW: The Proposed Committee Substitute (PCS) for House Bill 795 would:

- ***Reduce the number of jobs to qualify as a high-yield project.***
- ***Reduce the filing fee for a JDIG award in tier 1 and 2 areas, and reduce the annual report fee by eliminating the $2,500 minimum fee.***
- ***Extend the sunset for JDIG program to January 1, 2025.***
- ***Eliminate all adjustment factors that change county's tier designations.***
- ***Delete growth in population as a development factor, modify the employment development factor to use the ratio of employment to population for the civilian population aged 25-64, and modify the income development factor to use the average annual wage.***
- ***Require State agencies using tier designations for non-economic development purposes to elect whether to discontinue reliance on tiers for targeted programs and propose a law change to use alternative criteria.***
- ***Require the EDGE Committee to study and propose legislation that separates the economic development tiers and non-economic county designations for targeted programs.***

BILL ANALYSIS:

Part I: Discretionary Economic Development Fund Modifications

Under current law, G.S. 143B-437.51(6a) defines high-yield project as a project where a business invests at least $500 million and creates at least 1,750 jobs. Part I modifies the number of jobs required for a high-yield project by tier as follows:

- 1,750 jobs for projects in a high-growth area (defined below).
- 1,600 jobs for projects in a tier 3 area.
- 1,200 jobs for projects in a tier 2 area.
- 800 jobs for projects in a tier 1 area.

High-growth areas are counties that exceed the Statewide value for the economic indicators used to determine tiers. As discussed in Part II below, the PCS deletes 1 of the current 4 development factors and modifies 2 of the remaining 3 development factors.

Under current law, certain conditions act as prerequisites for entering into a JDIG agreement including that the project has been determined to be consistent with State and local economic development goals. Part I modifies G.S. 143B-437.52(a)(3) to clarify that the consideration must account for anticipated effects with respect to each of the development factors used for calculating county tier rankings.

Under current law, JDIG commitment availability is generally capped at $20 million for a year without a high-yield project and $35 million for a year with a high-yield project. Part I modifies G.S. 143B-437.52(c) by deleting the larger cap for years with a high-yield project and eliminating the dollar limitation for high-yield projects and tier 1 projects. The tier 1 project must be located wholly within a tier 1 area.

Under current law, G.S. 143B-437.55(b) imposes a $10,000 filing fee for each JDIG award application. Part I modifies the filing fee as follows:

- $10,000 for projects in a tier 3 area and all high-yield projects.
- $5,000 for projects in a tier 2 area.
- $1,000 for projects in a tier 1 area.

If a project spans tier areas, the project pays the fee for the highest tier.

Under G.S. 143B-437.56(d), JDIG awards earned by businesses are generally decreased by 10% for tier 2 area and 25% for tier 3 area. This percentage is diverted to the Utility Account. Part I would reduce the diversion percentage to 5% for a high-yield project and apply the diversion to all high-yield awards.

Under current law, G.S. 143B-437.58(a) imposes a filing fee on the annual payroll report required by JDIG awards. The fee equals the greater of $2,500 or .03% of the payment. Part I eliminates the $2,500 minimum fee and sets the fee equal to the percentage.

Under current law, G.S. 143B-437.62 sunsets the JDIG program for new awards on January 1, 2019. Section 2.1(e) moves the sunset date to January 1, 2025.

Under current law, the Utility Account generally provides funds for infrastructure improvements to local governments of tier 1 and 2 areas for projects reasonably anticipated to create jobs. Part I would additionally allow access to Utility Account funds for projects that are reasonably anticipated to retain existing jobs.

Part II: Development Tier Modifications

Under current law, the Department annually ranks all counties for economic distress based on 4 development factors (unemployment, median household income, growth in population, and assessed property value) for purposes of classifying counties into development tiers. Statutory adjustment factors modify the tier ranking of a county based, among other things, on the population, regional cooperation, and poverty rate.

Part II would eliminate all adjustment factors, delete 1 of the 4 development factors (growth in population), and modify 2 of the remaining 3 development factors. The 3 development factors would be:

- Ratio of employment to population for the civilian population aged 25 to 64 (current law: unemployment).
- Average annual wage (current law: median household income).
- Adjusted assessed property value per capita (no change).

Part II would require the Department to determine each county's performance against Statewide values for the 3 development factors. Based on these values, a county that outperforms all 3 Statewide values is designated as a high-growth area.

Part II would also authorize economic development grants and loans by the Rural Infrastructure Authority to all development tier 1 and 2 areas and rural census tracts in a development tier 3 areas that are not a high-growth area.

Part III: Improve Project Impact

Part III would require the Department to report annually the performance of each county on the economic factors used to determine the tiers, provide the report to each county, and offer assistance to each county, upon request, regarding improving performance relative to the Statewide values.

Part IV: Rural Assistance

Part IV would require the Department to study and report on methods to support data-driven analysis and assistance for each Collaboration for Prosperity Zone and each labor market area within a Prosperity Zone including publication of available facilities for commercial development and potential uses of the facilities.

Part V: Use of Economic Development Tiers and Rankings

Part V of the bill would require all State agencies that use the tiers for non-economic development purposes to elect whether to discontinue the use of the tiers. If an agency elects to discontinue using the tiers, the agency must develop criteria designed to achieve each program's objectives to replace the tiers and report by October 1, 2017, on the alternative criteria. The agencies will continue to use the tiers until the replacement criteria are enacted into law. If an agency elects to continue using the tiers, the agency must analyze and report how targeted programs match the use of the tier designations.

Part V directs the Joint Legislative Economic Development and Global Engagement Oversight Committee to study and make legislative recommendations in the following matters:

- Study the purpose of the economic development tier system including the appropriate factors to designate the level of economic development in counties and multicounty areas.
- Study the use of the tier system for non-economic development purposes including the appropriate factors to identify counties for targeted programs.
- Propose legislation that renames and redefines the "Commerce Tiers" to more accurately identify counties based on economic indicators and that defines an alternative tier system for non-economic development for targeted programs.
- Study methods to promote regional economic development activities.
- Solicit and study any recommendations from the EDPNC Economic Development Advisory Council.
- Study the NCWorks Apprenticeship program.

EFFECTIVE DATE: Except as otherwise provided, the PCS is effective when it becomes law.

Cindy Avrette with the Legislative Analysis Division substantially contributed to this summary.