

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** HB 1397 (Committee Substitute Favorable 5/13/99)

**SHORT TITLE:** Expand Development Zones

**SPONSOR(S):** Rep. Cole

<b>FISCAL IMPACT (\$MILL.)</b>						
		Yes (X)	No ( )	No Estimate Available ( )		
		<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
<b>REVENUES*(State GF)</b>				-\$.15	-\$.4	-\$.9
<b>PRINCIPAL DEPARTMENT AFFECTED:</b> The designation of enterprise zones is made by the N.C. Department of Commerce. The tax credits are administered by the Department of Revenue.						
<b>EFFECTIVE DATE:</b> Tax years beginning on or after January 1, 2000.						
*The cost reaches a maximum of \$1.4 million in the 04-05 fiscal year.						

**BILL SUMMARY: Lowers the minimum population requirement for an enterprise zone from 5,000 to 1,000.**

The 1998 modification of the Bill Lee Act (state economic incentives) provided for the designation of economically distressed areas located within cities as State development zones and authorized enhanced tax incentives for businesses that locate in a zone, effective beginning with the 1999 tax year. A zone is defined as an area that meets all of the following conditions: (1) contains one or more contiguous census tracts, block groups, or both, (2) has a population of 1,000 or more, at least 20% of whom are below the poverty level, and (3) is located at least partly in a city with a population of over 5,000.

The enhanced incentives include a \$1,000 worker training credit (versus \$500), no threshold for the investment tax credit for machinery and equipment, an additional \$4,000 per job on the jobs tax credit, and the wage standard is the same as that for the most distressed county.

**ASSUMPTIONS AND METHODOLOGY:**

The impact estimates were calculated by the Community Assistance Division of the Department of Commerce using the Geographic Information System (GIS). The analysis indicates that 61 additional cities would be added to the eligibility list. The cost estimates were determined using job creation data for 1996-98 as tabulated by the Department. A key assumption was that the total zone population was used as the 1997 population for cities having at least one census tract or block group with 20% or more poverty. This assumption was based on a review of the 40

approved zones as of February 1, 1999. The total 1990 census population in zone of cities under 20,000 population was approximately equal to the total 1997 population in those communities.

As in the original Bill Lee Act estimates, the jobs credit assumes that 15% of eligible companies will take the credit the first year, 30% the second year, and 45% in Year 3.

Under the Bill Lee Act, tax credits are taken in the year after the economic activity (investments made, jobs created). For this reason, the bill has no impact until the 2001-02 fiscal year (2001 tax year).

**FISCAL RESEARCH DIVISION: 733-4910**

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**DATE:** Thursday, June 17, 1999



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