NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1318

SHORT TITLE: Amend Bill Lee Act Tier Designations

SPONSORS: Sen. Dalton; et.al.

FISCAL IMPACT

Yes (X) **No ( )** **No Estimate Available ( )**

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
REVENUES					
State General Fund	**-**	**-111,000**	**-233,000**	**-344,500**	**-456,000**

PRINCIPAL DEPARTMENTS AFFECTED: The tax credits are administered by the Department of Revenue. The Department of Commerce manages the credit application and verification process. The enactment of the bill will not affect the budget requirements of either department.

EFFECTIVE DATE: Applies to tier designations for the 2000 and later tax years.

ISSUE BACKGROUND: The Bill Lee Act is the package of state tax incentives that was first created in 1996 and has been modified in each subsequent year. Examples include a targeted investment tax credit for machinery and equipment, a jobs credit, a research and development credit, and a worker training tax credit. For many of the credits the counties of the State are divided into five economic distress tiers based on the unemployment rate, per capita income, and population growth. In general, **the lower the tier of a county, the more favorable the incentive**.

BILL SUMMARY: The 1997 General Assembly modified the tier determination language to guarantee that a Tier 1 county must remain a Tier 1 county for a minimum of two years. **SB 1318 specifies that a Tier 2 county must remain a Tier 2 county for at least 2 years before moving to a higher tier (with less favorable incentives).**

ASSUMPTIONS AND METHODOLOGY: A review of the 1999 and 2000 tier listings indicates that for 2000 only one county (Rutherford) would be affected by the legislation. Since the tier determination process each year uses the most recent available data for each of the three factors, it is impossible to know in advance how many counties will be affected in future years.

The first impact of the bill would be the investment tax credit. The calculation of this impact started with the industrial recruitment “announcements” data by county from the Department of Commerce for 1993-98. For each announcement, it was assumed that 70% of the investment would be in machinery and equipment. This assumption is based on discussions with the Department of Commerce about their experience and a review of U.S. Department of Commerce detailed data on business investment. The effect of the bill is to raise the minimum investment threshold for eligible investments from $100,000 to $200,000. The change eliminates a handful of investments and reduces the investment base for credit calculation purposes by $100,000 for the other investments.

The next step was to divide the 7% tax credit impact using Rutherford County data over the 7-year period as required under the Bill Lee Act. The impact of the bill on the investment tax credit is relatively minor because most investments exceed the threshold amounts by a substantial margin. Thus, the $100,000 increment is not a major factor.

The other impact has to do with the jobs credit. For this estimate the industrial recruitment announcement data on jobs created was used. The data indicated an average of 420 new jobs per year in Rutherford County during the test period. The impact of the bill on the jobs credit is to restore the $1,000 credit advantage of Tier 2 counties over Tier 3 ($4,000 credit per job versus $3,000). The credit change was then divided over a 4-year period as the Bill Lee Act requires.

The provisions have no impact on the 2000-01 fiscal year because the two credits are taken in the year after the investment and job creation activity take place.

FISCAL RESEARCH DIVISION 733-4910

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