NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB-282 (First Edition) (HB-180)

SHORT TITLE: Expand Development Zones

SPONSOR: Senator Albertson

FISCAL IMPACT

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

	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
REVENUES: State General Fund		-$37,200	-$273,398	-$708,594	-$1,342,788*

PRINCIPAL DEPARTMENTS AFFECTED: The Department of Commerce handles Bill Lee Act tax credit applications and the determination of development zones. The Department of Revenue administers the tax credit. The enactment of the bill is should not affect either agency's budget requirements.

EFFECTIVE DATE: Tax years beginning on or after January 1, 2002.

*Revenue loss peaks at -$1,989,980 in 2006-07 before beginning to decline.

BILL SUMMARY: The Bill Lee Act is the package of state tax incentives first adopted in 1996 and modified in each subsequent year. The incentives are primarily in the form of tax credits for investment in machinery and equipment, job creation, worker training, and research/development. 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 the more favorable the incentive.

The 1998 modification of the Bill Lee Act provided for the designation as development zones economically distressed areas located within cities 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.

Lowers the minimum city population requirement for a development zone from 5,000 to 1,000.

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 106 cities would be added to the eligibility list. The Commerce methodology for each of the tax credits is discussed below. The Commerce results were converted by the Fiscal Research Division from a calendar year basis to the appropriate fiscal year.

Job Creation Credit

- Used historical announced job creation data provided by the Department of Commerce for 1996-2000. This data was averaged to create a typical year. The result was a total of 1,254 jobs per year.
- Used total zone population as the 1999 population for municipalities having at least one census tract or block group with 20% or more poverty. This assumption was based on information gathered from the approved Zones as of January 2001. The total 1990 population in zones of municipalities under 20,000 population was nearly equal to the total 1999 population in those communities.
- Credits must be taken in four equal installments, beginning in the year after the jobs are created. This means that the first fiscal year affected would be 2003-04. In general, Bill Lee Act credits sunset on January 1, 2006. Thus, the only credit impact beginning with the 2007-08 fiscal year would be the remaining installments for credits started prior to the sunset.
- The effect of the bill is to increase the jobs credit by $4,000 per job in approved and potential zones.
- The analysis followed the consensus assumption used in the original Bill Lee Act credits that 15% of eligible companies will take the credit in the first year, 30% in the second year, 45% in the third year, and 60% in the fourth year and subsequent years.

Worker Training Credit

- Used historical announced job creation data provided by the Department of Commerce for 1996-2000. This data was averaged to create a typical year. The result was an assumption of 497 workers trained each year.
- The effect of the bill is to increase the maximum worker training tax credit from $500 to $1,000 in Tiers 2-5.
- The analysis assumes that all of the additional $500 of maximum credit potential will be used.
- These credits may be taken in the year in which the worker training costs are incurred and all of the worker training tax credit can be taken in one year (no installments).
- The analysis followed the consensus assumption used in the original Bill Lee Act credits that 15% of eligible companies will take the credit in the first year, 30% in the second year, 45% in the third year, and 60% in the fourth year and subsequent years.

Investment Tax Credit

- Used tabulation of anticipated credit usage by tier for tax years 1997, 1998, and 1999 as tabulated by the Department of Commerce from credit applications.
- Used the total zone population as a percentage of the county population to apportion investment data.
- The effect of the bill is to remove the minimum investment threshold in machinery and equipment for zones in Tier 2-5 counties (Tier 1 has no threshold). This could increase the number of eligible investments and increase the portion of already eligible investments that receive the credit. From a practical point of view, the only calculation involved is to multiply the threshold amount by the 7% credit and then divide by the seven-year installment period. The "threshold elimination impact" used in this analysis was $7,265,300. This was based on the GIS system tabulation.
- The analysis followed the consensus assumption used in the original Bill Lee Act credits that 15% of eligible companies will take the credit in the first year, 30% in the second year, 45% in the third year, and 60% in the fourth year and subsequent years.
- The 7% credit must be taken in seven equal installments, beginning in the year after the jobs are created. This means that the first fiscal year affected would be 2003-04. In general, Bill Lee Act credits sunset on January 1, 2006. Thus, the only credit impact beginning with the 2007-08 fiscal year would be the remaining installments for credits started prior to the sunset.

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