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Legislative staff recommends end to economic tier program

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The General Assembly should let a 30-year-old economic tiers system expire, according to legislative staff citing an overall ineffectiveness in assisting the state's least prosperous counties.

Staff members made their recommendations, which specifically affects six economic and nine noneconomic programs, during Monday's meeting of the Joint Legislative Program Evaluation oversight committee.

The recommendations would end the system for noneconomic programs July 1 and for economic-development programs July 1, 2018. The staff also recommends establishing a state commission focused on the economic needs of distressed counties.

The staff said the program has "outlived its original purpose."

Economic-development stakeholders agreed that the state "should continue identifying distressed areas, and suggested limiting (economic-development) efforts to areas with extreme distress and assisting those counties in becoming more attractive to business.

The recommendation comes a week after the N.C. Commerce Department released the 2016 tiers for all 100 counties.

Commerce Secretary John Skvarla III provided a 1.5-page response to the recommendation in which he said the department "strongly endorses the adoption of one common set of criteria and a shared ranking of county distress for all state agencies."

"The department believes there is a benefit to having a single, statewide model for evaluating economic distress, and that Commerce is best suited to continue to calculate and disseminate its results."

In 1985, the legislature introduced a tax credit for companies creating jobs in the state's 20 most economically distressed counties. In 2006, state law required the Commerce Department to annually rank the economic health of all 100 counties.

Tier programs

> Although the state's economic tiers are known mostly for their connection to economic incentives, they are involved in several non-economic grants for counties that include:
>
> * An agricultural preservation trust fund;
> * An agricultural pet spay and neuter fund;
> * Cleaning up abandoned manufactured homes;
> * Wastewater and drinking water;
> * Oral health preventive and medication assistance;
> * Qualified allocation plans for low-income house tax credit;
> * Strategic prioritization funding plan for regional transportation projects; and
> * 911 public safety answering points in rural and high-cost counties.
>
> *Source: N.C. Program Evaluation Division staff*

Tier rankings are based primarily on an assessment of each county's unemployment rate, median household income, population growth and assessed property valuation per capita.

The law calls for ranking the 40 most distressed counties as Tier 1, the next 40 counties as Tier 2 and the 20 most prosperous counties as Tier 3.

Forsyth has been a Tier 3 county each year of the rankings and is No. 18 for 2016.

The state's top economic-recruitment tool — the Job Development Investment Grant — was adjusted during the 2015 legislative session with the tiers in mind. For Tier 1 counties, the state provides $3 for every $1 in local economic financing, Tier 2 counties receive $2 for every $1 provided locally, and Tier 3 counties continue to get a $1 for $1 match.

Other tier-dependent programs include an industrial development fund utility account, the Job Maintenance and Capital Development Investment Fund, Main Street Solutions Fund, N.C. Green Business Fund, Building Reuse and Economic Infrastructure, and Community Development Block Grants.

Davidson and Davie counties have in particular benefited from the building reuse and community development block grants as part of attracting companies to open operations.

In recent years, the tiers have been adjusted by legislative mandate. The main adjustment was that any county with a population of fewer than 12,000, or a county with a population of fewer than 50,000 residents with 19 percent or more of them living below the federal poverty level, is automatically designated as one of the 40 most distressed. Tier 1 counties are not ranked in order.

Why that matters is that several coastal counties have significantly higher assessed property valuation per capita because of beachfront houses, thus skewing the overall tier ranking system. The same holds true for several counties in Northwest N.C. — such as Alleghany, Ashe and Avery — with mountain housing properties.

Legislative staff said the adjustment "masks economically distressed areas within more prosperous counties."

"The tier system has been altered incrementally, and the economic-development incentives awarded through its use, have shifted from statutory tax credits to discretionary grants," the staff said. "Neither of these approaches has substantially benefited the areas of the state most in need of economic development."

Michael Walden, an economics professor at N.C. State University, suggests that rural counties would be best to pursue a three-pronged approach: expanding agribusiness opportunities, especially for increased meat exports to developing countries; attracting retired households moving from other states to the high quality of life in rural settings; and, for rural counties adjacent to urban centers, luring manufacturing firms that can take advantage of lower costs in rural areas.

John H. Boyd, principal with site-selection firm The Boyd Co. Inc. of Princeton, N.J., said phasing out the tier system "as proposed is a smart move."

"The use of county-level data to determine economic distress and dole out state aid has always been dicey, as communities within county lines can be as different as night and day in terms of their economic health and vitality.'

"It is surely time for a new approach that can tailor aid quickly to individual community circumstances — a rifle approach — that will replace the current broad-brush tier system now in place."