

Recommendations

Recommendation 1. The General Assembly should eliminate the use of the economic development tiers system for all non-economic development programs by July 1, 2017 and direct state agencies to develop other criteria.

In Fiscal Year 2014–15, 15 programs used the economic development tiers system as part of their criteria to award or distribute funding; nine of these programs focused on non-economic development issues. Although the tiers system is perceived as a convenient way to identify distressed areas, Program Evaluation Division analysis demonstrated that the most-distressed counties did not receive the greatest benefit from these programs. As discussed in Finding 1, the Department of Transportation no longer uses the tiers system for its program because of the perceived subjectivity of the system. Other non-economic development programs should use different criteria to make funding decisions that would be more relevant to the purposes of their programs.

Because the most distressed counties have not received the greatest benefit from programs using the tiers system, the General Assembly should repeal all state laws requiring the following five non-economic development programs to incorporate the economic development tiers system in their funding decisions:

- NC Agricultural Development Farmland Preservation Trust Fund, Agriculture & Consumer Services;
- Spay and Neuter, Agriculture & Consumer Services;
- Abandoned Manufactured Home Cleanup Grants, Environmental Quality;
- State Wastewater Reserve and State Drinking Water Reserve Programs, Environmental Quality; and
- Public Safety Assistance Points Grant Program, NC 911 Board.

In addition, the General Assembly should require the following four programs that voluntarily use the tiers system to cease its use by July 1, 2017:

- Oral Health Preventive Services, Health & Human Services;
- Medication Assistance, Health & Human Services;
- Qualified Allocation Plan for Low Income Housing Tax Credit, NC Housing Finance Agency; and
- Strategic Prioritization Funding Plan for Regional Impact Transportation Investment Projects, Transportation.²¹

Lastly, the General Assembly should require these programs to develop criteria that are consistent with program objectives and report the new criteria to the Fiscal Research Division and their respective legislative oversight committees by October 1, 2016.²²

²¹ The Department of Transportation has switched to using the actual county distress rankings in an effort to provide a more direct relationship of giving projects in more distressed counties greater points.

²² The Departments of Agriculture & Consumer Services and Environmental Quality report to the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources. The Department of Health and Human Services reports to the Joint Legislative Oversight Committee on Health and Human Resources. The Department of Transportation reports to the Joint Legislative Transportation Oversight Committee. The NC 911 Board is administratively housed in the Department of Information Technology, which reports to the

Recommendation 2: The General Assembly should end the use of the tiers system for all economic development programs by July 1, 2018 and direct the Department of Commerce to develop alternate funding criteria.

From its origin, the economic development tiers system was tied to North Carolina's strategy of awarding tax credits to companies for job creation and investment. State law ended the incentive programs associated with the tiers system on January 1, 2014, and thus the tiers system has outlived its original purpose. As discussed in Finding 2, the adjustments for population and poverty may obscure economic distress experienced by counties. In addition, the current tiers system formula does not consider economic distress at the sub-county level. As a result, the General Assembly should amend state law to phase out the use of the tiers system by economic development programs to make grant determinations, calculate award amounts, or require grant matching, effective July 1, 2018. This directive should allow sufficient time for the Department of Commerce to consider alternative ways to award these funds and determine matching fund levels and other administrative issues.

The General Assembly should direct the Department of Commerce to develop a plan to transition the following economic development programs currently relying on the tiers system to alternate funding criteria for awards and matching requirements:

- Industrial Development Fund Utility Account,
- Job Maintenance and Capital Development Investment Fund,
- NC Green Business Fund,
- Main Street Solutions Fund,
- Building Reuse and Economic Infrastructure Programs, and
- Community Development Block Grant.

In addition, the General Assembly should require the department to engage stakeholders in the process by allowing local and regional economic development professionals to review and submit comments on the plan and by seeking formal approval of the plan from the Rural Infrastructure Authority.

Lastly, the General Assembly should require the Department of Commerce to present its plan detailing how these programs will replace the tiers system with alternate funding criteria to the Joint Legislative Economic Development and Global Engagement Oversight Committee and the Fiscal Research Division by July 1, 2018.

Recommendation 3: The General Assembly should establish a commission to reexamine the State's strategy for identifying and assisting chronically distressed communities in the state.

Thirty years ago the North Carolina Commission on Jobs and Economic Growth was created by the General Assembly amid growing recognition

that the state economy had come to a critical crossroads. The Commission's purpose was to identify the major economic challenges facing the State and to develop practical proposals for meeting these challenges to be submitted to the executive and legislative branches of state government.

One portion of the commission's recommendations focused on identifying areas of the state experiencing chronic economic distress and providing tax incentives for companies creating jobs in these areas. Although the State has experienced rapid economic advancement in the last 30 years, North Carolina still has counties and individual communities experiencing chronic economic distress. Existing business recruitment programs cannot address the complex challenges faced by communities experiencing chronic economic distress.

Reexamination of North Carolina's strategy for identifying and assisting economically distressed communities is an opportunity to develop a comprehensive state strategy to address chronic distress and target state aid to these communities. There is strategic value in knowing which parts of the state are experiencing the most difficult economic conditions. Economic development stakeholders agreed that the State should continue identifying distressed areas and suggested limiting efforts to areas with extreme distress and assisting these counties in becoming more attractive to business. However, any efforts to address chronic economic distress in North Carolina communities should be done in context and in coordination with the overarching state plan for economic development.

To assist these communities, the General Assembly should establish a commission, the North Carolina Commission on Economic Development for Distressed Communities, focused on the development of a comprehensive strategy for meeting the needs of North Carolina communities with the greatest levels of economic distress. The North Carolina Commission on Economic Development for Distressed Communities should be directed to

- determine how and at what geographic levels economic distress should be measured;
- decide which measurements, data sources, and time periods should be utilized to determine which areas of the State are experiencing economic distress;
- review the mission and resources of existing development programs and tools provided to assist distressed communities;
- identify how state resources can be directed to alleviate distress within communities;
- consider the Appalachian Regional Commission's approach for identifying distressed areas and offering capacity-building strategies for use in North Carolina; and
- recommend strategies for new economic development programs and for improving access to existing economic development tools for businesses and individuals in distressed communities.

The Program Evaluation Division recommends the Commission identify counties as economically distressed based on the sum of the county rankings

of the four distress measures in the current tier formula before adjustments for low population and high poverty are made. Distressed counties must have been ranked among the 20 most distressed counties for six years or more, from 2007-2016.²³ This provision will identify areas of the state that are dealing with long-term, persistent economic distress as opposed to areas that are experiencing short-term challenges.

The commission should be comprised of 22 members appointed by the Speaker of the House of Representatives and the President Pro Tempore of the Senate. The Commission would be led by two co-chairs, one from the North Carolina House of Representatives and one from the North Carolina Senate.

The Speaker of the House of Representatives would appoint 10 members as follows:

- six members of the House of Representatives with one member designated as a co-chair and
- four members of the general public representing local government and businesses from the counties identified as the most economically distressed using the methodology proposed above.

The President Pro Tempore of the Senate would appoint 10 members as follows:

- six members of the Senate with one member designated as the co-chair appointed by the President Pro Tempore of the Senate and
- four members of the general public representing local government and businesses from the counties identified as the most economically distressed using the methodology proposed above.

The Secretary of Commerce and the President of the North Carolina Community College System shall serve on the commission as nonvoting ex-officio members.

To accomplish the stated objectives, the Commission should consult with subject matter experts from within state government such as the State demographer, the Assistant Secretary for Rural Economic Development, and the Assistant Secretary for Workforce Solutions among others. The Commission should also solicit input from economic development agencies, university faculty specializing in community and economic development issues, and representatives from federal development agencies.

The Commission should be directed to present a comprehensive strategy for meeting the needs of North Carolina communities with chronic economic distress to the General Assembly no later than March 1, 2018.

Appendices

Appendix A: 2015 Economic Development Tier Designations by County

Appendix B: Programs that Use the Economic Development Tiers

²³ As of 2015, 18 counties meet these criteria: Anson, Bertie, Bladen, Caswell, Columbus, Edgecombe, Halifax, Hertford, Lenoir, Martin, Northampton, Richmond, Robeson, Rockingham, Scotland, Vance, Warren, and Washington.