JOINT SELECT COMMITTEE ON ECONOMIC GROWTH AND DEVELOPMENT

REPORT TO THE 2003 GENERAL ASSEMBLY OF NORTH CAROLINA 2004 SESSION

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JOINT SELECT COMMITTEE ON
ECONOMIC GROWTH AND DEVELOPMENT
State Legislative Building
Raleigh, North Carolina 27603

Senator Fletcher Hartsell	***Representative William Daughtridge, Jr.***
Senator John H. Kerr, III	***Representative William Wainwright***

May 1, 2004

TO THE MEMBERS OF THE 2003 GENERAL ASSEMBLY (2004 Regular Session):

Attached for your consideration is the report of the Joint Select Committee on Economic Growth and Development, established as an interim committee pursuant to G.S. 120-19.6(a1) by the President Pro Tempore of the Senate and the Speakers of the House of Representatives.

Respectfully Submitted,

Sen. Fletcher Hartsell, Co-Chair	Rep. William Daughtridge, Jr., Co-Chair
Sen. John Kerr, III, Co-Chair	Rep. William Wainwright, Co-Chair

JOINT SELECT COMMITTEE ON
ECONOMIC GROWTH AND DEVELOPMENT
2003/2004

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PREFACE

The President Pro Tempore of the Senate and the Speakers of the House of Representatives established the Joint Select Committee on Economic Growth and Development as an interim study committee pursuant to G.S. 120-19.6. A copy of the document establishing the Committee is contained in Appendix A. The Committee initially consisted of twenty members, ten appointed by the President Pro Tempore of the Senate and ten appointed by the Speakers of the House of Representatives. The President Pro Tempore and the Speakers later increased the membership of the Committee by eight members: four appointed by the President Pro Tempore of the Senate and four appointed by the Speakers of the House of Representatives. A copy of the addendum may be found in Appendix B. The appointing authorities designated the following members to serve as co-chairs: Senator John Kerr, III and Senator Fletcher Hartsell and Representative William Daughtridge, Jr. and Representative William Wainwright.

The appointing authorities charged the Joint Select Committee on Economic Growth and Development to undertake a comprehensive review of the current State and local resources devoted to economic growth and development to determine how the State, working together with local communities, can best achieve economic stability, growth, and development in North Carolina.

COMMITTEE PROCEEDINGS

The Joint Select Committee on Economic Growth and Development met 14 times after the 2003 legislative session ended. The Committee spent a considerable amount of time learning about the current economy of the State and its future economic outlook, the current delivery system for economic development in North Carolina, and the State's ability to respond to large industrial displacements. Through the Committee's work, it has identified the resources of the State that can be used more effectively to foster economic growth and development, the factors that promote economic growth and affect business location, and the types of industries the State is best positioned to attract that will lead to sustainable economic growth and development in the future.

The Committee listened to leaders from across the State to ascertain different perspectives concerning the current economic situation in North Carolina and the prospects for its future. It heard from Dan Gerlach, the Governor's Senior Policy Advisor for Fiscal Affairs, Harry Payne, Chairman of the Employment Security Commission, and Jim Fain, Secretary of the Department of Commerce. The Committee invited experts in the field of economics to come: Dr. Jim Johnson from UNC-CH, Ed Feser, Director of the Community Policy Division of the Department of Commerce, Mark Vitnar, Senior Economist with Wachovia Securities, and Ferrel Guillory with the State of the South report. The Committee sought the opinions of other government and business leaders who discussed the issues as participants in the Carolina Seminar on Economic Development. The Committee also sought the advice of leading industry executives, such as Bob Ingram with Glaxo-Smith-Kline and Ruth Shaw, the President of Duke Power, as well as many small business leaders.

The Committee devoted time to assessing the State's response to recent industrial displacements, such as the closing of Pillowtex. It learned about the State's current method of delivering help to employees who suffer from job loss through the Rapid Response Team. It heard about the State's Workforce Development delivery system through the Department of Commerce, the North Carolina Community College System, and the Employment Security Commission. It also invited Jim Cook, the Director of the Cabarrus County Social Services, and Louise Mack, the Executive Director of the Cabarrus County CDC, to inform the Committee about the impact of an industrial displacement on a community and the local delivery of services to employees affected by job loss. It also heard testimony from Robert Neal, Vice-President, Local 1501 of Unite, and one of the former Pillowtex employees, about the plight of the many employees left jobless by the Pillowtex closing. As a result of these discussions, the Committee directed a group of business people to advise the Committee on actions it could take to help people who have lost their jobs and now face losing their homes through mortgage foreclosures.[1]

The Committee studied the delivery of economic development services. It began with the Department of Commerce and continued with the regional partnerships, and the local chambers of commerce. It listened to the suggestions of the State Economic Development Board, the Institute for Minority Economic Development, and the Rural Center. The Metropolitan Coalition, the NC Association of County Commissioners, and the Business Resource Alliance also presented their recommendations for creating and sustaining economic growth and development. The Committee calculated the amount of General Fund dollars invested through State agencies for economic development and the expenditures made to various nonprofit agencies in this area. It listened to the different economic missions of the various constituent institutions of the University of North Carolina, the NC Community Colleges, and the Small Business Centers as well as the Small Business Technology and Development Centers. It devoted a meeting to a panel review of the State's current financial incentives. It invited the opinions

[1] At its April 15, 2004, meeting, Al Ripley presented a proposal establishing a North Carolina Home Protection Fund that would provide mortgage assistance loans to qualified homeowners in danger of foreclosure. It also recommended expanding and strengthening the capacity of the state's housing related counseling programs. The plan needed further development; the Committee may continue to study this proposal during the next interim.

of economists, local economic developers, both rural and urban, State economic developers, and scholars.

The Committee studied the impact of military bases on North Carolina's economy when it participated in the Military Summit in Fayetteville, NC. The Summit not only emphasized the importance of the bases to the State's economy but also the large potential for growth through the procurement of military contract spending. It studied the impact of biotechnology on the State's economy when it visited NCSU's Centennial Campus and heard the leaders in the biotechnology industry, such as Dr. Leslie Alexandre, who delivered the NC Biotechnology Center's strategic plan '*New Jobs Across North Carolina: A Strategic Plan for Growing the Economy Statewide Through Biotechnology.*' The Committee learned about the increasing significance of small businesses on the State's economy when it attended the 2003 Rural Partners Forum on '*Homegrown Jobs Initiative.*' It also received a different perspective on the growth and development of the agricultural industry when it visited Greenville, NC and heard the importance of agricultural research and development from Charles Davenport, a local farmer, and from the Department of Agriculture and Consumer Services and the NC Agri-Business Council. It also received a glimpse of the economic impact medicine can have when it toured the Cardio-Vascular Disease Institute at Pitt Memorial Hospital and saw not only the health benefits but also the economic benefits of medical research, development, and delivery.

The Committee sought the advice of businesses, government leaders, local entrepreneurs, and large companies throughout its endeavors. The Committee attended the Emerging Issues Forum where it had the opportunity to hear from national, state, and local government leaders as well as business leaders from across the nation on economic strategies and ideas. The Committee heard a report from Dr. Charles Hamner on the Life Sciences Revenue Bond Authority. The Committee heard testimony from many small local business operators at the 2003 Rural Partners Forum and at its meeting in Kannapolis, NC. These entrepreneurs shared with the Committee the factors that helped them grow and the ones that hindered their growth. The Committee sought the ideas of the North Caroline Citizens for Business and Industry, the NC Electronics and Information Technologies

Association, MCNC, the State Board of Economic Development, the NC Economic Developers Association, the constituent institutions of The University of North Carolina, and the NC Community Colleges. It also received suggestions from locally organized groups, such as the Research Triangle Regional Partnership Report, the Eastern Region Support Paper on Critical Issues, the Robeson County Jobs for the Future Project, and Connect*inc*.

See Appendix C for a complete summation of the Committee's agenda topics and speakers.

COMMITTEE FINDINGS AND RECOMMENDATIONS

From its Committee proceedings, the Joint Select Committee on Economic Growth and Development concluded that North Carolina is a good place to do business, but there is a need to enhance its competitiveness. The State must continue to support the factors that lead businesses to consider locating here: an educated workforce, a favorable business climate, and a strong infrastructure. At the same time, the Committee received ample testimony that financial incentives and the ability to act quickly and decisively matter a great deal as a business considers its final site selection decision. The formidable task of the Committee is to balance the need to adequately provide for the education and training of the State's workforce and continued formation and improvement of the State's infrastructure and the necessity to be able to attract new business development and retain current business growth.

The Committee found that the industries most likely to produce jobs in the future are those that require an educated workforce and those that are dependent upon being close to their market or their workforce. The Committee identified several growing industries for which North Carolina is well positioned to compete. These industries include medicine, biopharmaceuticals, tourism, military procurement, defense spending and research, motor sports, film, and financial services.

During the next interim, the Committee plans to devote time studying the delivery system of economic development services, determining ways to meet the State's infrastructure needs, reviewing the corporate tax structure and the State's current investment incentives and tax credits related to economic development, and reviewing the state of North Carolina's current incubator or business accelerator programs.

Although much work lies ahead for the Committee, it believes that some steps need to be taken during the 2004 Legislative Session to maintain and strengthen the State's economic outlook in the immediate future.

GOAL: To encourage the growth and development of the healthcare industry in North Carolina.

North Carolina is in a period of structural transition. The economies that sustained the State in the past suffer from global competition – manufacturing, textiles, furniture, and agriculture. The future economy of North Carolina must be based upon those types of industries that are not as susceptible to being moved 'off-shore' – industries that are dependent upon being close to their market or their workforce. Some of the industries North Carolina is best positioned to foster for future sustainable economic growth are those that can capitalize upon the State's research and technology capabilities. Those types of industries include medical research, biopharmaceuticals, and biotechnology. Healthcare is also a business that can offer a myriad of job opportunities at all points in the educational spectrum: from maintenance to medicine, dietician to doctor. Two opportunities the General Assembly has considered over the past two years in this area are the modernization and expansion of the Cancer Center at UNC-Chapel Hill and the Cardio-Vascular Disease Institute at East Carolina University. These two projects offer not only health benefits to the citizens of this State and beyond, but also an economic stimulus for job growth and medical research advancement.

The Committee also learned about two other university capital projects being considered in the healthcare arena that could benefit the western part of the State: a Bioinfomatics Center at UNC-Charlotte and a Center of Wellness and Aging, proposed as a collaborative effort between UNC-Asheville and Western Carolina University. The Committee recognizes not only the contribution these facilities would bring to the healthcare industry, but also the economic benefits they could bring to the western part of the State.

Recommendation: Encourage the General Assembly to give strong consideration to the construction and equipping of the Cancer Center at UNC-Chapel Hill and the Cardio-Vascular Disease Institute at East Carolina University.

Recommendation: Request the Board of Governors of the University of North Carolina to evaluate and prioritize other proposed capital projects, including a Bioinfomatics Center at UNC-Charlotte and a Center of Wellness and Aging at UNC-Asheville and Western Carolina University, to determine if such projects would produce economic benefits to the State, and report the results of its evaluation to the General Assembly.

GOAL: To provide the NCCCS with the resources it needs to provide the training that is critical for an educated workforce.

The North Carolina Community College System plays an integral role in equipping the State's workforce. It is a partner in the Rapid Response Team that is called to action when a community suffers job losses because of industrial displacements. The NCCCS's role in the Rapid Response Team is to provide basic educational courses and to help retrain employees for new jobs. Economic developers and businesses recognize the NCCCS's New and Expanding Industry Training Program (NEIT) and Focused Industry Training Program (FIT) as one of the cornerstones in North Carolina's favorable business climate. The Committee received many recommendations pertaining to the funding needed for the NCCCS. Some of the issues appeared to be outside the purview of this Committee's charge – issues pertaining to faculty salaries and budget flexibility. However, the Committee felt that some issues were critical to the State's immediate economic future.

Legislative Proposal 1a: *Direct the State Board of Community Colleges to undertake a study of the realignment of the funding formula to provide more equitable funding for high cost programs. The State Board should report the results of its study to the Education Oversight Committee by October 2006.*

Legislative Proposal 1b: *Appropriate $1.6 million to the FIT. In the past, the Worker Training Trust Fund provided ½ of the necessary funding for this program. With the loss of this funding, the NCCCS will have to terminate ½ of its FIT programs unless this funding is restored. Such a loss will be detrimental to the State's workforce and its immediate economic prospects. The FIT program provides customized training for approximately 6,000 incumbent workers.*

Recommendation: *The NCCCS is woefully behind in the financing of its equipment needs. The NCCCS had identified $225 million worth of equipment needs. The Committee urges the General Assembly to address this equipment need.*

LEGISLATIVE PROPOSAL 1:
Study Comm. College Funding Formula; Fund FIT

Legislative Proposal 1 does two things:

- *It directs the State Board of Community Colleges to undertake a study of the realignment of the funding formula to provide more equitable funding for high cost programs. The State Board should report the results of its study to the Education Oversight Committee by October 2006.*
- *It appropriates $1.6 million to the FIT. In the past, the Worker Training Trust Fund provided ½ of the necessary funding for this program. With the loss of this funding, the NCCCS will have to terminate ½ of its FIT programs unless this funding is restored. Such a loss will be detrimental to the State's workforce and its immediate economic prospects. The FIT program provides customized training for approximately 6,000 incumbent workers.*

A copy of the proposed legislation and bill analysis begin on the next page

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2003

U **D**

BILL DRAFT 2003-ROz-7 [v.1] (4/23)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/23/2004 2:46:48 PM

Short Title: Study Comm. College Funding Formula; Fund FIT. (Public)

Sponsors: .

Referred to:

A BILL TO BE ENTITLED

AN ACT TO DIRECT THE STATE BOARD OF COMMUNITY COLLEGES TO STUDY A REALIGNMENT OF THE FUNDING FORMULA TO REFLECT THE RELATIVE COST OF PROGRAMS AND TO APPROPRIATE MONEY TO THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM TO PROVIDE FUNDING FOR THE FOCUSED INDUSTRIAL TRAINING PROGRAM.

The General Assembly of North Carolina enacts:

SECTION 1. The State Board of Community Colleges is directed to undertake a study of the realignment of the funding formula to develop a formula that more accurately reflects the relative cost of operating the different programs within the Community College System. The State Board shall report its findings and recommendations to the Joint Legislative Education Oversight Committee on or before October 1, 2006.

SECTION 2. There is appropriated from the General Fund to the State Board of Community Colleges the sum of one million six hundred thousand dollars ($1,600,000) for the 2004-2005 fiscal year to provide funding for the Focused Industrial Training Program.

SECTION 3. This act becomes effective July 1, 2004.

BILL ANALYSIS OF LEGISLATIVE PROPOSAL 1: STUDY COMM. COLLEGE FUNDING FORMULA; FUND FIT

BY: KAREN COCHRANE-BROWN, RESEARCH DIVISION

***SUMMARY:** This bill would direct the State Board of Community Colleges to study a realignment of the funding formula to develop a formula that more accurately reflects the relative cost of operating different programs within the Community College System. The bill also would appropriate 1.6 million dollars to the Community College System to provide funding for the Focused Industrial Training Program.*

ANALYSIS: This bill addresses two issues raised by the Community College System to the Joint Select Committee on Economic Growth and Development. The first issue relates to the funding formula. The Community Colleges are funded based on the number of students using the full-time equivalents (FTE). This does not reflect the different costs associated with some programs such as nursing and computer training versus other programs such as English. This bill directs the State Board of Community Colleges to study the realignment of the funding formula to more accurately reflect the relative costs of programs. The State Board is directed to report the results of its study to the Education Oversight Committee by October 2006.

The bill also appropriates 1.6 million dollars to the Focused Industrial Training Program (FIT). The FIT program provides customized training for approximately 6,000 incumbent workers. In the past the Worker Training Trust Fund provided half of the necessary funding for this program. With the loss of this funding, the Community College System will have to terminate half of its FIT programs unless the funding is restored.

This bill would become effective July 1, 2004.

GOAL: To provide the Governor and the Department of Commerce with the financial incentives needed to entice businesses that have narrowed their search to a few locations to choose North Carolina.

North Carolina is a good place to do business. The State has a strong workforce, a well-known university system with strong research and development initiatives, an educated workforce, a favorable business climate, and a sound infrastructure. However, in today's global competition for industry, there are times when more is needed. The Committee received ample testimony that financial incentives and the ability to act quickly and decisively matter a great deal as a business considers its final site selection decision. The General Assembly did not appropriate any money to the One NC Fund for the 2003-04 fiscal year. Local and State developers across the State testified to the difference the Jobs Development Incentive Grant program has made during its first year of existence. The JDIG program will sunset January 1, 2005.

Legislative Proposal 2: *Appropriate $10 million annually into a non-reverting account, known as the One NC Fund, and codify the existing procedural safeguards that ensure that the funds are dispersed for performance based results and the State has the authority to retrieve funds dispersed if the recipient does not adhere to its contractual obligations.*

Legislative Proposal 3: *Extend the sunset for the JDIG program from 2005 to 2009. Increase the number of annual projects from 15 to 25 and increase the annual cap accordingly from $10 million to $18 million.*

Legislative Proposal 4: *Modify the tier structure in the Bill Lee Act to be more responsive to unanticipated changes in a county's economic outlook by ranking a county's unemployment rate and per capita income annually as opposed to using a 3-year average.*

Legislative Proposal 5: *Remove the wage standard from the Industrial Revenue Bonds.*

Legislative Proposal 6: *Revamp the State's research and development tax credit to make it more responsive to research and development conducted in North Carolina, especially research and development conducted in conjunction with the State's universities, and remove it from the Bill Lee Act.*

Legislative Proposal 7: *Appropriate $5,000,000 to the Film Industry Development Account.*

LEGISLATIVE PROPOSAL 2:
One NC Fund Appropriations/Codification

Legislative Proposal 2 appropriates $10 million annually into a non-reverting account, known as the One NC Fund, and codifies the existing procedural safeguards that ensure that the funds are dispersed for performance based results and the State has the authority to retrieve funds dispersed if the recipient does not adhere to its contractual obligations.

A copy of the proposed legislation and bill analysis begin on the next page

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2003

U D

BILL DRAFT 2003-LYz-162A [v.5] (4/15)

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4/29/2004 3:19:05 PM

Short Title:	One NC Fund Appropriations/Codification.	(Public)
Sponsors:	.	
Referred to:		

A BILL TO BE ENTITLED

AN ACT TO APPROPRIATE FUNDS TO THE ONE NORTH CAROLINA FUND AND TO CODIFY PROVISIONS RELATING TO THE ONE NORTH CAROLINA FUND

The General Assembly of North Carolina enacts:

SECTION 1. There is appropriated from the General Fund to the One North Carolina Fund, established pursuant to G.S. 143B-437.71, the sum of ten million dollars ($10,000,000) for the 2004-2005 fiscal year. It is the intent of the General Assembly that this become a recurring appropriation.

SECTION 2. Article 10 of Chapter 143B of the General Statutes is amended by adding a new Part to read:

"<u>Part 2H.</u>

"<u>One North Carolina Fund.</u>

"**<u>§ 143B-437.70. Legislative findings and purpose.</u>**

<u>The General Assembly finds that:</u>

<u>(1) It is the policy of the State of North Carolina to stimulate economic activity and to create new jobs for the citizens of the State by encouraging and promoting the retention and expansion of existing business and industry within the State and by recruiting and attracting new business and industry to the State.</u>

<u>(2) Both short-term and long-term economic trends at the State, national, and international levels have made the successful implementation of the State's economic development policy and programs both more critical and more challenging; and the decline</u>

in the State's traditional industries, and the resulting adverse impact upon the State and its citizens, have been exacerbated in recent years by adverse national and State economic trends that contribute to the reduction in the State's industrial base and that inhibit the State's ability to sustain or attract new and expanding businesses.

(3) The purpose of this Part is to stimulate economic activity and to create new jobs within the State.

(4) The enactment of this Part will maintain consistency and accountability in a key economic development program and will ensure that the program benefits the State and its citizens.

(5) Nothing in this Part shall be construed to constitute a guarantee or assumption by the State of any debt of any business or to authorize the taxing power or the full faith and credit of the State to be pledged.

"**§ 143B-437.71. One North Carolina Fund established as a nonreverting account.**

(a) Establishment. – The One North Carolina Fund is established as a special revenue fund in the Department of Commerce.

(b) Purposes. – Moneys in the One North Carolina Fund may be allocated only to local governments for use in connection with securing commitments for the recruitment, expansion, or retention of new and existing businesses. Moneys in the One North Carolina Fund shall be used for the following purposes only:

(1) Installation or purchase of equipment.

(2) Structural repairs, improvements, or renovations to existing buildings to be used for expansion.

(3) Construction of or improvements to new or existing water, sewer, gas or electric utility distribution lines or equipment for existing buildings.

(4) Construction of or improvements to new or existing water, sewer, gas or electric utility distribution lines or equipment for new or proposed buildings to be used for manufacturing and industrial operations.

(5) Any other purposes specifically provided by an act of the General Assembly.

"**§ 143B-437.72. Agreements required; disbursement of funds.**

(a) Agreements required. – Funds may be disbursed from the One North Carolina Fund only in accordance with agreements entered into between the State and one or more local governments and between the local government and a grantee business.

(b) Company Performance Agreements. – An agreement between a local government and a grantee business must contain the following provisions:

(1) A commitment to create or retain a specified number of jobs within a specified salary range at a specific location and commitments regarding the time period in which the jobs will be created or retained and the minimum time period for which the jobs must be maintained.

(2) A commitment to provide proof satisfactory to the local government and the State of new jobs created or existing jobs retained and the salary level of those jobs.

(3) A provision that funds received under the agreement may be used only for a purpose specified in G.S. 143B-437.71(b).

(4) A provision allowing the State or the local government to inspect all records of the business that may be used to confirm compliance with the agreement or with the requirements of this Part.

(5) A provision establishing the method for determining compliance with the agreement.

(6) A provision establishing a schedule for disbursement of funds under the agreement that allows disbursement of funds only in proportion to the amount of performance completed under the agreement.

(7) A provision allowing recapture of grant funds if a business subsequently fails to comply with the terms of the agreement.

(8) Any other provision the State or the local government finds necessary to ensure the proper use of State or local funds.

(c) Local Government Grant Agreement. – An agreement between the State and one or more local governments shall contain the following provisions:

(1) A commitment on the part of the local government to match the funds allocated by the State. A local match may include cash, fee waivers, in-kind services, the donation of assets, the provision of infrastructure, or a combination of these.

(2) A provision requiring the local government to recapture any funds to which the local government is entitled under the company performance agreement.

(3) A provision requiring the local government to reimburse the State for any funds improperly disbursed by the local government.

(4) A provision allowing the State access to all records possessed by the local government necessary to ensure compliance with the company performance agreement and with the requirements of this Part.

(5) A provision establishing a schedule for the disbursement of funds from the One North Carolina Fund to the local government that reflects the disbursement schedule established in the company performance agreement.

(5) Any other provision the State finds necessary to ensure the proper use of State funds.

(d) Disbursement of Funds. – Funds may be disbursed from the One North Carolina Fund to the local government only after the local government has demonstrated that the business has complied with the terms of the company performance agreement. The State shall disburse funds allocated under the One North Carolina Fund to a local government in accordance with the disbursement schedule established in the local government grant agreement.

"**§ 143B-437.73. Program guidelines.**

The Department of Commerce, in conjunction with the Governor's Office, shall develop guidelines related to the administration of the One North Carolina Fund and to the selection of projects to receive allocations from the Fund. At least 20 days before the effective date of any guidelines or nontechnical amendments to guidelines, the Department of Commerce must publish the proposed guidelines on the Department's web site and provide notice to persons who have requested notice of proposed guidelines. In addition, the Department must accept oral and written comments on the proposed guidelines during the 15 business days beginning on the first day that the Department has completed these notifications. For the purpose of this subsection, a technical amendment is either of the following:

(1) An amendment that corrects a spelling or grammatical error.

(2) An amendment that makes a clarification based on public comment and could have been anticipated by the public notice that immediately preceded the public comment.

"**§ 143B-437.74. Reports.**

The Department of Commerce shall publish a report on the use of funds in the One North Carolina Fund at the end of each fiscal quarter. The report shall contain information on the commitment, disbursement, and use of funds allocated under the One North Carolina. The report is due no later than one month after the end of the fiscal quarter and must be submitted to the following:

1. The Joint Legislative Commission on Governmental Operations.
2. The chairs of the House and Senate Finance Committees.
3. The chairs of the House and Senate Appropriations Committees.
4. The Fiscal Research Division of the General Assembly."

SECTION 3. G.S. 150B-1(d) reads as rewritten:

"(d) Exemptions from Rule Making. – Article 2A of this Chapter does not apply to the following:

…

(13) The Department of Commerce and the Governor's Office in developing guidelines for the One North Carolina Fund under Part 2H of Article 10 of Chapter 143B of the General Statutes."

SECTION 4. This act becomes effective July 1, 2004.

BILL ANALYSIS OF LEGISLATIVE PROPOSAL 2: ONE NC FUND APPROPRIATIONS/CODIFICATION

BY: Y. CANAAN HUIE, BILL DRAFTING DIVISION

***SUMMARY:* This bill establishes the One North Carolina Fund as a special revenue fund, codifies provisions related to the Fund, and makes an appropriation to the Fund. This bill would become effective July 1, 2004.**

ANALYSIS: The One North Carolina Fund was first created in 1993 and was originally know as the Industrial Recruitment Competitive Fund. The Fund was established in order to provide a source of funding to be used by the Governor and the Department of Commerce in recruiting or retaining new and expanding businesses. Moneys in the Fund may be used only for the following purposes:

1. Installation or purchase of equipment.
2. Structural repairs, improvements, or renovations to existing buildings to be used for expansion.
3. Construction of or improvements to new or existing water, sewer, gas, or electric utility distribution lines or equipment for existing buildings.
4. Construction of or improvements to new or existing water, sewer, gas, or electric utility distribution lines or equipment for new or proposed buildings to be used for manufacturing and industrial operations.
5. Any other purpose specifically provided for by an act of the General Assembly.

Appropriations to the Fund have been sporadic since its inception in 1993. The fund received a $5 million appropriation in 1993-1994 and a $7 million appropriation in 1994-1995. Over the next 6 fiscal years, the Fund received an appropriation of either $1 million or $2 million each year. For the 2001-02 fiscal year, the General Assembly appropriated $15 million to the Fund. No appropriations to the Fund were made in the 2002-2003 or 2003-2004 fiscal yeas. Although the Fund was never set up as a non-reverting account, each year the General Assembly allowed the moneys remaining in the Fund to be carried over to the next fiscal year. This bill would appropriate $10 million to the Fund for the 2004-2005 fiscal year and expresses the intent of the General Assembly that this become a recurring appropriation.

Moneys from the funds are allocated to local governments to make grants to new or expanding businesses. Over the years, the Department of Commerce has developed a set of guidelines relating to disbursements from the Fund. These guidelines include the following:

- Any disbursement of State funds must be matched by a local contribution. The local contribution can take the form of cash, fee waivers, in-kind services, donation of assets, provision of infrastructure, or a combination of these.
- Grants are made from the Fund only as certain performance goals are met, generally in four installments.
- Funds are disbursed only in accordance with two separate agreements: a company performance agreement entered into by the grantee business and the local government, and a local government grant agreement entered into by the Department of Commerce and the local government.
- Receipt of a grant under the Fund generally requires job creation, but may be based on retention of existing jobs.
- Generally, jobs that are to be created or retained must meet the Bill Lee Act wage standard and provide health insurance.

This bill would establish the One North Carolina Fund as a special revenue funds. Special reserve funds are non-reverting funds that are tracked differently for budgetary purposes. The bill further codifies some of the major guidelines associated with the Fund, including the following:

- A requirement of a local match.
- A requirement of complementary agreements between the State and the local government and between the local government and grantee business.
- A requirement that funds be disbursed only in proportion to the amount of performance completed under the agreements.
- Limitations on the use of funds allocated under the Fund.

This bill also provides that the Department of Commerce and the Governor's Office will develop guidelines for the Fund, as is done under current law, and provides an exemption from rulemaking procedures.

LEGISLATIVE PROPOSAL 3:
Extend and Expand JDIG

Legislative Proposal 3 extends the sunset for the JDIG program from 2005 to 2009. Increase the number of annual projects from 15 to 25 and increase the annual cap accordingly from $10 million to $18 million.

A copy of the proposed legislation and bill analysis begin on the next page

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2003

U **D**

BILL DRAFT 2003-LYz-149 [v.6] (4/2)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/29/2004 3:19:53 PM

Short Title: Extend and Expand JDIG. (Public)

Sponsors: .

Referred to:

A BILL TO BE ENTITLED

AN ACT TO EXTEND THE SUNSET ON THE JOB DEVELOPMENT INVESTMENT GRANT PROGRAM AND TO ALLOW THE ECONOMIC INVESTMENT COMMITTEE TO ENTER INTO MORE AGREEMENTS UNDER THE PROGRAM AND TO COMMIT MORE FUNDS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S 143B-437.62 reads as rewritten:

"**§ 143B-437.62. ~~Authority.~~<u>Sunset</u>**

The authority of the Committee to enter into new agreements ~~begins January 1, 2003, and~~ expires January 1, ~~2005.~~<u>2009.</u>"

SECTION 2. G.S. 143B-437.52 reads as rewritten:

"**§ 143B-437.52. Job Development Investment Grant Program.**

(a) Program. – There is established the Job Development Investment Grant Program to be administered by the Economic Investment Committee. In order to foster job creation and investment in the economy of this State, the Committee may enter into negotiated agreements with businesses to provide grants in accordance with the provisions of this Part. The Committee, in consultation with the Attorney General, shall develop criteria to be used in determining whether the conditions of this section are satisfied and whether the project described in the application is otherwise consistent with the purposes of this Part. Before entering into an agreement, the Committee must find that all the following conditions are met:

(1) The project proposed by the business will create, during the term of the agreement, a net increase in employment in this State by the business.

(2) The project will benefit the people of this State by increasing opportunities for employment and by strengthening this State's economy by, for example, providing worker training opportunities, constructing and enhancing critical infrastructure, increasing development in strategically important industries, or increasing the State and local tax base.

(3) The project is consistent with economic development goals for the State and for the area where it will be located.

(4) A grant under this Part is necessary for the completion of the project in this State.

(5) The total benefits of the project to the State outweigh its costs and render the grant appropriate for the project.

(b) Cap. – The maximum number of agreements the Committee may enter into each calendar year is ~~15.~~25.

(c) Ceiling. – The maximum amount of total annual liability for grants for agreements entered into in any single calendar year may not exceed ~~ten~~ eighteen million dollars ~~($10,000,000).~~($18,000,000). No agreement may be entered into that, when considered together with other existing agreements entered into during that calendar year, could cause the State's potential total annual liability for grants entered into in that calendar year to exceed this amount.

(d) Measuring Employment. – For the purposes of subdivision (a)(1) of this section and G.S. 143B-437.57(a)(11), the Committee may designate that the increase or maintenance of employment is measured at the level of a division or another operating unit of a business, rather than at the business level, if both of the following conditions are met:

(1) The Committee makes an explicit finding that the designation is necessary to secure the project in this State.

(2) The designation contains terms to ensure that the business does not create eligible positions by transferring or shifting to the project existing positions from another project of the business or a related entity of the business."

SECTION 3. This act becomes effective January 1, 2004, and applies to agreements entered into after that date.

Bill Analysis of Legislative Proposal 3: Extend and Expand JDIG

By: Y. Canaan Huie, Bill Drafting Division

SUMMARY: This bill would extend the sunset on the Job Development Investment Grant (JDIG) Program and would allow the Economic Investment Committee to enter into more agreements and commit more funds under the program. This bill would become effective when it becomes law.

ANALYSIS: The Job Development Investment Grant (JDIG) Program is an economic development incentive program that was created by the General Assembly in 2002. Under the program, grantee businesses are given an annual grant for a period of up to 12 years. The grant is based on a percentage of personal income tax withholdings from new positions created by the grantee business. When the JDIG Program was created in 2002, the General Assembly put some significant limitations on the program in order to give the General Assembly time to evaluate the program before a significant amount of funds had been committed under the program. First, the General Assembly put a sunset on the ability of the Economic Investment Committee (EIC) to enter into new agreements under the program. The authority of the EIC to enter into new agreements would not begin until January 1, 2003, and would expire January 1, 2005. Second, the EIC could enter into no more than 15 new agreements each year. Third, the maximum annual liability for agreements entered into during any calendar year could not exceed $10 million.

This bill would ease each of the restrictions mentioned above. First, Section 1 of the bill extends the authority of the EIC to enter into new agreements until January 1, 2009. Second, beginning with the 2004 calendar year, the EIC would be allowed to enter into a maximum of 25 new agreements each year, instead of 15. Third, beginning with the 2004 calendar year, the cap on the maximum annual liability for agreements entered into during any calendar year increase from $10 million to $18 million. Due to the fact that the agreements span a number of years, these changes could result in significant increases in the cost of the program.

LEGISLATIVE PROPOSAL 4:
Modify Bill Lee Tiers

Legislative Proposal 4 modifies the tier structure in the Bill Lee Act to be more responsive to unanticipated changes in a county's economic outlook by ranking a county's unemployment rate and per capita income annually as opposed to using a 3-year average.

A copy of the proposed legislation, bill analysis, and fiscal analysis begin on the next page

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2003

U **D**

BILL DRAFT 2003-LYxz-151 [v.4] (4/2)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/25/2004 1:20:05 PM

Short Title: Modify Bill Lee Tiers. (Public)

Sponsors: .

Referred to:

A BILL TO BE ENTITLED

AN ACT TO MODIFY THE FORMULA USED TO DETERMINE THE ENTERPRISE TIER DESIGNATION OF A COUNTY.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 105-129.3(b) reads as rewritten:

"(b) Annual Designation. – Each year, on or before December 31, the Secretary of Commerce shall assign to each county in the State an enterprise factor that is the sum of the following:

(1) The county's rank in a ranking of counties by average rate of unemployment from lowest to highest, for the preceding ~~three years.~~12 months.

(2) The county's rank in a ranking of counties by average per capita income from highest to lowest, for the preceding ~~three years.~~12 months.

(3) The county's rank in a ranking of counties by percentage growth in population from highest to ~~lowest.~~lowest, for the preceding 12 months.

The Secretary of Commerce shall then rank all the counties within the State according to their enterprise factor from highest to lowest, identify all the areas of the State by enterprise tier, and publish this information. An enterprise tier designation is effective only for the calendar year following the designation."

SECTION 2. This act is effective when it becomes law and applies to designations made on or after that date.

BILL ANALYSIS OF LEGISLATIVE PROPOSAL 4: MODIFY BILL LEE TIERS

BY: Y. CANAAN HUIE, BILL DRAFTING DIVISION

SUMMARY: This bill would change the formula used to determine Bill Lee tiers. This bill would be effective when it becomes law and would affect tier designation beginning with the 2005 taxable year.

ANALYSIS: By December 31 of each year, the Department of Commerce is required to assign a tier designation to each of the 100 counties in the State. In order to make these assignments, the Department of Commerce must rank all 100 counties based on the following three factors: the rank of the county in a ranking of counties by average rate of unemployment over the preceding three years from lowest to highest, the rank of the county in a ranking of counties by average per capita income over the proceeding three years from highest to lowest, and the rank of the county in a ranking of counties by percentage growth in population from highest to lowest. Each of these factors is given equal weight. The Secretary of Commerce is required to use the latest data available in making these calculations. Counties with one of the 10 highest rankings are designated enterprise tier one, the next 15 counties are enterprise tier two, the next 25 counties are enterprise tier 3, the next 25 counties are enterprise tier 4, and the remaining counties are enterprise tier 5. There are numerous exceptions to this formula. A county designated as enterprise tier one or two may not be designated a higher tier until it has been at its current tier for at least two consecutive years. There are also exceptions for certain lower-population counties that could result in those counties receiving a lower designation.

This bill would change the time frames for measuring each of the three factors. Under this bill, in ranking counties on the basis of unemployment and per capita income, the Department would use the average figure over the last 12 months rather than over the part 3 years. In ranking the counties on the basis of population growth under this bill, the Department would use the population growth percentage over the past twelve months. In the past, in ranking counties on the percentage of population growth, the Department has compared the most recent estimate of population to the last decennial census figure. Thus, the period of time over which population growth is measured has varied each year. No time frame was specified by the statutes for measuring population growth.

It is believed that these changes will make the Bill Lee tier designation more sensitive to changes in economic conditions in the counties. Because of various exceptions to the ranking formula, the distribution of counties will still be skewed toward the lower tiers.

Bill Lee tier designation affects a number of different State programs, including the following: Jobs Development Investment Grant (JDIG) Program, One North Carolina Fund, Industrial Development Fund, Community Development Block Grant funds, certain sales tax refunds, low-income housing tax credits, purchase of agricultural conservation easements, and distributions from the Spay/Neuter Account.

FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. <u>This is not an official fiscal note</u>. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: May 3, 2004

TO: Joint Select Committee on Economic Development

FROM: Dave Crotts
Fiscal Research Division

RE: Modify Bill Lee Tiers

FISCAL IMPACT

Yes ( ) **No ( )** **No Estimate Available (x)**

PRINCIPAL DEPARTMENTS AFFECTED: Department of Revenue and Department of Commerce. The enactment of the bill is not expected to affect the budget requirements of either department.

EFFECTIVE DATE: Applies to the next designation, due December 31, 2004 and effective for jobs created and investments made during the 2005 calendar year.

BILL SUMMARY: The Bill Lee Act is the package of state tax incentives that was first adopted in 1996 and has been 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. The credits apply to activities undertaken by specifically named industrial classifications. For many of the credits, the counties of the State are divided into five economic distress tiers based on the unemployment rate for the most recent three years, per capita income for the most recent three years, and population growth from the last decennial census to the most recent year. The lower the tier of a county, the more favorable the incentive.

The proposed bill would measure the unemployment rate, per capita income, and population change on the basis of the most recent 12 months.

ASSUMPTIONS AND METHODOLOGY: The bill is effective for the tier determination due December 31, 2004. Thus, it would first apply to tax credits for economic activity taking place during the 2005 calendar year. For the machinery/equipment credit and the jobs credit, the taxpayer cannot claim the credit until the year following the activity year. This means that the change will first be taken during the 2006 tax year, which is equivalent to the 2006-07 state fiscal year for budget accounting purposes. The bulk of the tier-sensitive credits fall into the investment and jobs creation categories.

Under the current administrative practice, the unemployment rate calculation ends with June of the year in which the determination is made. Discussions with the Department of Commerce indicate that the Department might consider advancing the end of the calculation period to a date closer to the determination month (December), if a legislative change is enacted.

The effect of the bill on state General Fund revenues depends on the unknown experience of individual counties for a 12-month period ending sometime in late 2004. Under the tier designation formula, a ranking is developed for each factor and the rankings are added across the three factors. The counties are then grouped into tiers based on the statutory guidelines (the lowest 10 counties will be in Tier 1, the next 15 counties will be Tier 2, etc.). Finally, there are exceptions to the general rule for certain situations small counties with high poverty rates.

The overall impact of the proposal will be limited by the following factors:

(1) The movement of some counties to a higher tier will be offset at least partially by the shift of other counties to a lower tier.

(2) The unemployment and per capital income experience for the most recent 12 months is part of the current 3-year calculation.

(3) The current law "exceptions" to the general tier rules may offset the potential movement of some counties to a lower tier.

(4) Some of the tiers are so wide (25 counties) that a county may change ranking but remain in the existing tier.

For these reasons, it is not possible at this time to determine the impact to the State General Fund or the shift between counties. However, the factors listed above will limit the changes between tiers and the impact on the General Fund. Finally, the Bill Lee Act sunsets effective for activity taking place on or after January 1, 2006. This means that the legislation is effective only for the 2005 calendar year.

LEGISLATIVE PROPOSAL 5:
Eliminate IRB Wage Standard

Legislative Proposal 5 removes the wage standard from the Industrial Revenue Bonds.

A copy of the proposed legislation and bill analysis begin on the next page

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2003

U **D**

BILL DRAFT 2003-LYz-150 [v.3] (4/2)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/25/2004 1:05:19 PM

Short Title: Eliminate IRB Wage Standard. (Public)

Sponsors: .

Referred to:

A BILL TO BE ENTITLED

AN ACT TO ELIMINATE THE WAGE STANDARD FOR INDUSTRIAL REVENUE BONDS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 159C-7(b) reads as rewritten:

"(b) Findings. – The Secretary shall not approve any proposed industrial project or pollution control project unless the Secretary makes all of the following, applicable findings:

(1) In the case of a proposed industrial project,

~~a.~~ ~~That the operator of the proposed project pays, or has agreed to pay thereafter, an average weekly manufacturing wage that (i) is above the average weekly manufacturing wage paid in the county, or (ii) is not less than ten percent (10%) above the average weekly manufacturing wage paid in the State, and~~

~~b.~~ ~~That~~that the proposed project will not have a materially adverse effect on the environment.

(2) In the case of a proposed pollution control project, that the project will have a materially favorable impact on the environment or will prevent or diminish materially the impact of pollution which would otherwise occur.

(2a) In the case of a hazardous waste facility or low-level radioactive waste facility that is used as a reduction, recovery or recycling facility, that such project will further the waste management goals of North Carolina and will not have an adverse effect upon public health or a significant adverse effect on the environment.

(3) In the case of an industrial project or a pollution control project, except a pollution control project for a public utility,

a. That the jobs to be generated or saved, directly or indirectly, by the proposed project will be large enough in number to have a measurable impact on the area immediately surrounding the proposed project and will be commensurate with the size and cost of the proposed project,

b. That the proposed operator of the proposed project has demonstrated or can demonstrate the capability to operate the project, and

c. That the financing of the project by the authority will not cause or result in the abandonment of an existing industrial or manufacturing facility of the proposed operator or an affiliate elsewhere within the State unless the facility is to be abandoned because of obsolescence, lack of available labor in the area, or site limitations."

SECTION 2. G.S. 159D-7(b) reads as rewritten:

"(b) Findings. – The Secretary shall not approve any proposed project unless the Secretary makes all of the following, applicable findings:

(1) In the case of a proposed industrial project,

~~a.~~ ~~That the operator of the proposed project pays, or has agreed to pay thereafter, an average weekly manufacturing wage that (i) is above the average weekly manufacturing wage paid in the county in which the project is to be located or (ii) is not less than ten percent (10%) above the average weekly manufacturing wage paid in the State; and~~

~~b.~~ ~~That~~that the proposed project will not have a materially adverse effect on the environment.

(2) In the case of a proposed pollution control project, that such project will have a materially favorable impact on the environment or will prevent or diminish materially the impact of pollution which would otherwise occur.

(2a) In the case of a hazardous waste facility or low-level radioactive waste facility that is used as a reduction, recovery or recycling facility, that such project will further the waste management goals of North Carolina and will not have an adverse effect upon public health or a significant adverse effect on the environment.

(3) In any case (whether the proposed project is an industrial or a pollution control project),

a. That the jobs to be generated or saved, directly or indirectly, by the proposed project will be large enough in number to have a measurable impact on the area immediately surrounding the proposed project and will be commensurate with the size and cost of the proposed project,

b. That the proposed operator of the proposed project has demonstrated or can demonstrate the capability to operate such project, and

c. That the financing of such project by the agency will not cause or result in the abandonment of an existing industrial or manufacturing facility of the proposed operator or an affiliate elsewhere within the State unless the facility is to be abandoned because of obsolescence, lack of available labor in the area, or site limitations."

SECTION 3. This act is effective when it becomes law.

BILL ANALYSIS OF LEGISLATIVE PROPOSAL 5: ELIMINATE IRB WAGE STANDARD

BY: Y. CANAAN HUIE, BILL DRAFTING DIVISION

SUMMARY: This bill would eliminate the wage standard for industrial revenue bonds.

ANALYSIS: Industrial Revenue Bonds offer manufacturing companies long-term debt financing at interest rates substantially below the current prime rate. Under the program, a local Financing Authority may enter into a financing agreement with a company to provide revenue bond proceeds to the company to be used to finance capital expenditures, such as fixed assets, land, buildings, new equipment, existing equipment, etc. The amounts payable by the company to the authority under the financing agreement must be sufficient to pay all of the principal and interest on the bonds.

Under current North Carolina law, the manufacturing company for whom the bonds are to be issued must pay an average weekly manufacturing wage that is either above the average weekly manufacturing wage in the county or is at least 10% above the average weekly manufacturing wage in the State. Manufacturers and economic developers have reported that it is often difficult to meet this wage standard because the companies that can most benefit from this type of financing are often those in manufacturing sectors that pay lower wages than manufacturers as a whole. This bill would remove this wage standard.

LEGISLATIVE PROPOSAL 6:
Alternative R&D Tax Credit

Legislative Proposal 6 revamps the State's research and development income tax credit to make it more responsive to research and development conducted in North Carolina, especially to research and development conducted in conjunction with The University of North Carolina constituent institutions, and removes the credit from the Bill Lee act.

A copy of the proposed legislation, bill analysis, and fiscal analysis begin on the next page

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2003

U D

BILL DRAFT 2003-LYz-164 [v.4] (4/23)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/29/2004 3:21:22 PM

Short Title:	Alternative R&D Tax Credit.	(Public)
Sponsors:	.	
Referred to:		

A BILL TO BE ENTITLED

AN ACT TO CREATE AN ALTERNATIVE RESEARCH AND DEVELOPMENT TAX CREDIT.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 105-129.10 is amended by adding a new subsection to read:

"(d) The credits allowed in this section and the credit allowed in Article 3F of this Chapter are exclusive. A taxpayer may elect to take only one of the three credits with respect to its research activities in a taxable year."

SECTION 2. Chapter 105 of the General Statutes is amended by adding a new Article to read:

"Article 3F.

"Research and Development.

"**§ 105-129.50. Definitions.**

The definitions in section 41 of the Code apply in this Article. In addition, the following definitions apply in this Article:

(1) through (4) Reserved.

(5) North Carolina research university. – An institution of higher education that meets one or both of the following conditions:

a. It is located in North Carolina and is classified as one of the following in the most recent edition of 'A Classification of Institutions of Higher Education', the official report of The Carnegie Foundation for the Advancement of Teaching:

1. Doctoral/Research Universities, Extensive or Intensive.
2. Masters Colleges and Universities, I or II.
3. Baccalaureate Colleges, Liberal Arts or General.

b. It is a constituent institution of The University of North Carolina.

(6) North Carolina university research expenses. – Any amount paid or incurred to a North Carolina research university for qualified research performed in this State or basic research performed in this State.

(7) Period of measurement. – Defined in the Small Business Size Regulations of the federal Small Business Administration.

(8) Qualified North Carolina research expenses. – Qualified research expenses for research performed in this State.

(9) Receipts. – Defined in the Small Business Size Regulations of the federal Small Business Administration.

(10) Related person. – Defined in G.S. 105-163.010.

(11) Small business. – A business whose annual receipts, combined with the annual receipts of all related persons, for the applicable period of measurement did not exceed one million dollars ($1,000,000).

"**§ 105-129.51. Administration; sunset.**

(a) A taxpayer is eligible for the credit allowed in this Article if it satisfies the requirements of G.S. 105-129.4(b), (b2), (b3), and (b4) relating to wage standard, health insurance, environmental impact, and safety and health programs, respectively.

(b) This Article is repealed for taxable years beginning on or after January 1, 2009.

(c) The credit allowed in this Article and the credits allowed in G.S. 105-129.10 are exclusive. A taxpayer may elect to take only one of the three credits with respect to its research activities in a taxable year. It may elect a different credit for different expenses in a subsequent taxable year.

"**§ 105-129.52. Tax election; cap.**

(a) Tax Election. – The credit allowed in this Article is allowed against the franchise tax levied in Article 3 of this Chapter or the income taxes levied in Article 4 of this Chapter. The taxpayer must elect the tax against which a credit will be claimed when filing the return on which the first installment of the credit is claimed. This election is binding. Any carryforwards of a credit must be claimed against the same tax.

(b) Cap. – A credit allowed in this Article may not exceed fifty percent (50%) of the amount of tax against which it is claimed for the taxable year, reduced by the sum of all other credits allowed against that tax, except tax payments made by or on behalf of the taxpayer. This limitation applies to the cumulative amount of credit, including carryforwards, claimed by the taxpayer under this Article against each tax for the taxable year. Any unused portion of a credit allowed in this Article may be carried forward for the succeeding 15 years.

"**§ 105-129.53. Substantiation.**

To claim a credit allowed by this Article, the taxpayer must provide any information required by the Secretary. Every taxpayer claiming a credit under this Article must maintain and make available for inspection by the Secretary any records the Secretary considers necessary to determine and verify the amount of the credit to which the taxpayer is entitled. The burden of proving eligibility for a credit and the amount of the credit rests upon the taxpayer, and no credit may be allowed to a taxpayer that fails to maintain adequate records or to make them available for inspection.

"**§ 105-129.54. Reports.**

The Department of Revenue must report to the Revenue Laws Study Committee and to the Fiscal Research Division of the General Assembly by May 1 of each year the following information for the 12-month period ending the preceding December 31:

(1) The number of taxpayers that claimed each credit allowed in this Article.

(2) The amount of each credit claimed.

(3) The total cost to the General Fund of the credits claimed.

"**§ 105-129.55. Credit for North Carolina research and development.**

(a) Qualified North Carolina Research Expenses. – A taxpayer that has qualified North Carolina research expenses for the taxable year is allowed a credit equal to a percentage of the expenses, determined as provided in this subsection. If part of the taxpayer's qualified North Carolina research expenses qualifies under subdivision (2) of this subsection and the remainder qualifies under subdivision (3) of this subsection, the applicable percentages apply separately to each part of the expenses.

(1) Small business. – If the taxpayer was a small business as of the last day of the taxable year, the applicable percentage is three percent (3%).

(2) Low-tier research. – For expenses with respect to research performed in an enterprise tier one, two, or three area, the applicable percentage is three percent (3%).

(3) Other research. – For expenses not covered under subdivision (1) or (2) of this subsection, the percentages provided in the table below apply to the taxpayer's qualified North Carolina research expenses during the taxable year at the following levels:

Expenses Over	**Up To**	**Rate**

-0-	$50 million	1%
$50 million	$200 million	2%
$200 million	--	3%

(b) North Carolina University Research Expenses. – A taxpayer that has North Carolina university research expenses for the taxable year is allowed a credit equal to fifteen percent (15%) of the expenses."

SECTION 3. G.S. 105-129.10 and G.S. 105-129.51(c) are repealed.

SECTION 4. Section 3 of this act becomes effective for taxable years beginning on or after January 1, 2006. The remainder of this act becomes effective for taxable years beginning on or after January 1, 2005.

BILL ANALYSIS OF LEGISLATIVE PROPOSAL 6: ALTERNATIVE R&D TAX CREDIT

BY: Y. CANAAN HUIE, BILL DRAFTING DIVISION

***SUMMARY:* This bill would create an alternative tax credit for research and development expenditures. This bill would become effective with the 2005 tax year.**

ANALYSIS: Under the Bill Lee Act, a taxpayer is allowed a credit for increases in research and development expenditures. The research and development tax credit uses the federal credit for research and development as its starting point. The credit is equal to 5% of the State's apportioned share of the taxpayer's expenditures for increasing research and development. The credit is based on the federal credit as of January 1, 1999. In the past, the federal credit had expired and then been renewed retroactively, creating uncertainty for taxpayers. Expiration of the federal credit will not affect the State credit. If the federal credit is later modified, the General Assembly can consider whether to update its cross-reference to adopt the federal modifications. This credit has a carryforward period of 15 years rather than the standard 5-year period.

In order to be eligible for the research and development credit under the Bill Lee Act, a taxpayer must meet all of the general eligibility requirements of that Act. These include satisfying requirements related to employee wages, the principal activity of the establishment, the provision of health insurance, the taxpayer's Occupational Safety and Health Act record, the taxpayer's environmental record, and the absence of overdue tax debts. Under the Bill Lee, the R&D credit may be applied against either the income tax, the franchise tax, or the gross premiums tax. The amount of credit taken in a particular may not exceed 50% of the liability for the tax against which it is claimed.

The alternative credit created in this bill differs from the R&D credit allowed under the Bill Lee Act in the following ways:

- Bill Lee limitations on the principal activity of the establishment at which the R&D is conducted do not apply. This will allow more taxpayers to claim a credit for R&D expenditures than under current law.
- The taxpayer is not required to have no overdue tax debts. The taxpayer must still satisfy Bill Lee Act requirements related to employee wages, the principal activity of the establishment, the provision of health insurance, the taxpayer's Occupational Safety and Health Act record, and the taxpayer's environmental record.
- The new credit is based on North Carolina research and development expenditures rather than on an apportioned share of nationwide increases in expenditures. The rate is determined as follows:
  - For small businesses, the credit is 3%.

    - For research and development conducted in enterprise tiers one, two, or three, the credit is 3%.
    - For other research and development expenditures, the rate ranges from 1% to 3% as the amount of those expenditures increases.
- An additional credit of 15% of research and development expenses is allowed for research and development conducted at a North Carolina research university.

The bill further requires the Department of Revenue to make annual reports regarding the credit to the Revenue Laws Study Committee and the Fiscal Research Division.

FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: April 15, 2004

TO:

FROM: Dave Crotts
Fiscal Research Division

RE: R and D Tax Credit

FISCAL IMPACT ($Mil.)

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

	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
REVENUES					
General Fund	**-**	**-**	**-$15.8**	**-$9.4**	**-**

PRINCIPAL DEPARTMENT AFFECTED: Department of Commerce and Department of Revenue. The enactment of the bill should not affect the budget requirements of either department.

EFFECTIVE DATE: The new alternative research and development credit will be effective for research expenses incurred on or after July 1, 2005 and is repealed after December 31, 2006.

ISSUE BACKGROUND: Under the current Bill Lee Act (tax incentives for industry recruitment) there is a credit for research and development expenditures. There are two alternative credits available to taxpayers: (1) a credit of 5% of the increase in research and development expenses that are apportioned to North Carolina (2) a credit of 25% of the State's apportioned share of the federal alternative incremental credit (start-up companies).

BILL SUMMARY: Moves the State research and development credit out of the Bill Lee Act and allows taxpayers the option of using the existing credit system (incremental credit or alternative credit) or a new restructured credit. The new credit makes contains the following features:

- The credit is no longer limited to just certain types of businesses.
- The taxpayer must still satisfy requirements relating to wage standard, health insurance, environmental impact, and safety and health programs.
- The credit may not exceed 50% of tax, with a 15-year carryforward.
- The new credit is a flat rate for qualified North Carolina research expenses, based on federal definitions of this term.

The structure for the new credit is as follows:

- Small business (annual gross receipts below $1 million): 3%.
- Research conducted in Tier 1, 2, or 3 (distress tiers under Bill Lee Act): 3%.
- Other research costs: 1% for expenses up to $50 million, 2% for expenses between $50 million and $200 million, and 3% for expenses above $200 million
- Research payments to N.C. research university payments: additional credit of 15%.

ASSUMPTIONS AND METHODOLOGY: Data compiled by the Department of Revenue from a review of the tax returns of taxpayers taking the existing credit indicates usage of $7.0 million per year. There were 216 applications for the credit in 2000 and 141 in 2001. These numbers may differ from the number of taxpayers taking the credit due to the fact that the credit can be taken against either the franchise or the income tax.

The Department of Commerce staff, in conjunction with the Department of Revenue, has reviewed the tax returns for the largest 25 taxpayers taking the current R & D credit. These companies generated 77% of the R & D credit for 1999-

2001. From the tax return detail supplied by these companies Commerce was able to simulate the impact of the new credit.

For other potential users the starting point in developing a simulation was a National Science Foundation survey of R & D spending for 1988. The data is compiled by state but is not broken down in enough detail to allow an industry-specific calculation of the impact of the credit. . To achieve this end, Commerce "sensitized" the NSF data by using information from the 1997 Economic Census of the Census Bureau (U.S. Department of Commerce) and wage data from the N. C. Employment Security Commission. This enabled the creation of industry average of research and development spending. In addition, Commerce discussed research activity with the universities across the state.

The Department of Commerce, in cooperation with the Department of Revenue, determined from a review of tax returns that companies applying for the R & D credit are able to use 32% of the credit. This usage rate was applied to the categories of the new credit.

After the potential credits were calculated under the new system, it was determined that the additional annual revenue loss would be $12.2 million if all taxpayers were to use the new credit. However, the ability of a taxpayer to choose between the existing credit system and the new credit adds $3.0 million to the cost of the bill. The $16.2 million increase in the cost of the R & D credit is conservative in light of the fact that the analysis was based on a structure that allowed larger credits for increased increments of expenditures in the "other research costs" portion of the credit schedule.

The new credit is effective for eligible research expenditures made on or after July 1, 2005. Thus, the first impact will be for the 2005-06 fiscal year, based on 2005 tax returns (the credit is taken in the year of the activity). For the purpose of this analysis we have assumed that 50% of the annualized amount of the 2005 credit of $16.2 million will be taken during 2005-06 as well as 45% of the annualized amount of $17.0 million for the 2006 tax due to estimated tax payments in April and June of 2006. For 2006-07, the cost would be equal to the remaining 55% of the 2006 tax year credit. The credit sunsets after December 31, 2006 so the 2006-07 fiscal year is the last year affected.

LEGISLATIVE PROPOSAL 7:
Film Industry Development Account

Legislative Proposal 7 appropriates $5 million to the Film Industry Development Account.

A copy of the proposed legislation and bill analysis begin on the next page

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2003

U **D**

BILL DRAFT 2003-RBz-20 [v.1] (4/28)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/28/2004 3:44:25 PM

Short Title:	Film Industry Development Account.	(Public)
Sponsors:	.	
Referred to:		

A BILL TO BE ENTITLED

AN ACT TO MODIFY THE FILM INDUSTRY DEVELOPMENT ACCOUNT AND TO APPROPRIATE FIVE MILLION DOLLARS TO THAT ACCOUNT.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 143B-434.4(b) reads as rewritten:

"(b) Creation of Account. – There is created in the Department of Commerce, Division of Tourism, Film, and Sports Development, the Film Industry Development Account to provide annual grants as incentives to production companies that engage in production activities in this State. The Division of Tourism, Film, and Sports Development shall administer this program in accordance with the following provisions:

(1) To be eligible for a grant, a production company must engage in production activities in this State with expenditures in this State of at least one million dollars ($1,000,000). A grant may not be used for political or issue advertising.

(2) A grant may not exceed fifteen percent (15%) of the amount the production company ~~spends~~ has spent for goods and services in this State during the calendar year.

(3) A grant may not exceed two hundred thousand dollars ($200,000) per production.

(4) Grants shall be awarded to productions that substantially utilize North Carolina's film industry infrastructure and workforce, that stimulate economic activity within the State, and that create employment opportunities within the State.

(5) A grant may not be made unless there is a local government match of the funds allocated by the State. A local match may include cash, fee waivers, in-kind services, the donation of assets, the provision of infrastructure, or a combination of these."

SECTION 2. There is appropriated from the General Fund to the Department of Commerce for the Film Industry Development Account the sum of $5,000,000 for the 2004-2005 fiscal year.

SECTION 3. This act becomes effective July 1, 2004.

BILL ANALYSIS OF LEGISLATIVE PROPOSAL 7: FILM INDUSTRY DEVELOPMENT ACCOUNT

BY: CINDY AVRETTE, RESEARCH DIVISION

***SUMMARY:* This draft proposal appropriates $5 million to the Film Industry Development Account. The draft clarifies that a grant may not exceed 15% of the amount the production company <u>has spent</u> for goods and services in North Carolina; this clarification emphasizes that the grant is given for investments already made in the State. It also adds a requirement for a local match of funds.**

CURRENT LAW: The General Assembly rewrote the Film Industry Account legislation last session.[1] The purpose of the Account is to provide annual grants as incentive to production companies that engage in production activities in NC. The Division of Tourism, Film and Sports Development in the Department of Commerce administers the program.

To be eligible for a grant, a production company must engage in production activities in this State with expenditures in this State of at least $1 million dollars. A grant may not be used for political or issue advertising; nor may a grant be used by a company that produces productions containing material that is considered obscene.[2] Grants may be awarded for productions that substantially utilize North Carolina's film industry infrastructure and workforce, that stimulate economic activity within the State, and that create employment opportunities within the State.

The amount of a grant may not exceed 15% of the amount the company spends for goods and services in North Carolina during the calendar year. In addition to this limitation, a grant may not exceed $200,000 per production.

The Department of Commerce must report annually to the General Assembly concerning the applications made to the Account, the payments made from the Account, and the effect of the payments on job creation in the State. The Department must also report quarterly to the Joint Legislative Committee on Governmental Operations on the use of the money in the Account, including information in regarding to whom payments were made and in what amounts.

[1] S.L. 2003-284, Section 12.6A.
[2] G.S. 14-190.1 defines 'obscene material.'

No funds were appropriated to this Account last year. The $500,000 that had previously been in the Account prior to its revision was reallocated from the Account to the Wilmington Regional Film Commission, Inc. in the 2003 budget for the purpose of enticing the WB Network television series *One Tree Hill* to locate its production in North Carolina.

BILL ANALYSIS: The bill draft appropriates $5 million to the Film Industry Development Account. It also makes two changes to the grant provisions:

- It clarifies that grants are awarded for production expenditures made to the State, as opposed to expenditures that are *promised* to be made in this State. It emphasizes this requirement by stipulating that the amount of a grant may not exceed 15% of the amount the production company <u>has spent</u> for goods and services in North Carolina during the previous calendar year.
- It adds a local match requirement to the grant provisions. A local match may include cash, fee waivers, in-kind services, the donation of assets, the provision of infrastructure, or a combination of these. This local match requirement is identical to the local match required for a grant from the One NC Fund.

BACKGROUND: In the mid-1990's, the direct expenditures in North Carolina from the production industry were in the $400 to $500 million dollar range. North Carolina had been the third leading state in the production industry. Over the last 20 years, North Carolina has developed the necessary infrastructure, equipment, and trained crew to produce a project. The State has one of the top film schools in the country at the North Carolina School of the Arts in Winston-Salem; it also has several studio complexes, numerous vendors of specialized equipment, and more than 1,000 technicians, craftsmen, and artisan who claim the production industry as their full time career. Outside of California and New York, there is no other state that has the ability to completely staff and equip a production with indigenous resources.

Since the mid-1990's, the production industry expenditures in North Carolina have been in a steady decline. In 1993, production spending statewide peaked at $504 million. By 2002, production spending statewide had declined to $230.8 million. In the mid-1990's, 20 to 25 television movies were produced annually in this State; in the last five years, only four television movies were produced in this State and North Carolina has not hosted a major studio feature film in two years. The production of a television movie typically employs 125 people. A crew consists of drivers, carpenters, painters, camera technicians, electricians, costumers, make-up artists, hair stylists, accountants, caterers, producers, and actors. These jobs pay approximately $1,600 per week plus benefits.[3]

Many people involved in the production industry believe the reason for this sharp decline is attributable to the financial incentives being offered by other states, such as Louisiana, Georgia, and South Carolina and by neighboring countries, such as Canada. In some instances, the production industry recruits much of its production talent from North Carolina. For example, Disney Studios produced a film in Louisiana last year; approximately 25% of its crew was North Carolinians.[4] The skilled production workforce in North Carolina is a valuable infrastructure resource that many in the industry fear the State will lose if the production industry continues to decline.

[3] Information received from the North Carolina Production Alliance, a nonprofit organization representing production craftspeople.
[4] Ibid.

GOAL: To encourage economic development across the State's rural counties by providing a means through which to develop the necessary sites and improvements, such as shell buildings and internal infrastructure.

The Committee recognizes that large corporations are responsible for only a small portion of economic development. Small business entrepreneurs must be an integral part of the State's future economic development plans. To encourage the growth of all types of businesses throughout the State, North Carolina needs to concentrate on equipping the rural counties with the needed resources to support and attract business development. The North Carolina Rural Economic Development Center, Inc. currently serves as a conduit to meet many of the rural counties infrastructure funding needs.

Legislative Proposal 8: *To appropriate fifteen million dollars ($15,000,000) to the Rural Economic Development Center, Inc. to establish and implement the North Carolina Economic Infrastructure Program. The Program shall consist of the following four areas of investment:*

1. *To provide grants to local governments to construct critical water and wastewater facilities to sites where these facilities will generate private job-creating investment.*
2. *To create a new lending program tailored specifically to the needs of small- and medium-size businesses that have the capacity to grow and create jobs.*
3. *To provide matching grants to local governments in distressed areas and equity investments in public-private ventures that will productively reuse vacant buildings, with priority given to towns with a population of less than 5,000.*
4. *To promote the diversification of North Carolina small farm businesses into value-added production and marketing and to increase opportunities in food and beverage manufacturing and distribution for small farm entrepreneurs.*

LEGISLATIVE PROPOSAL 8: Economic Infrastructure Program at Rural Center

Legislative Proposal 8 appropriates fifteen million dollars ($15,000,000) to the Rural Economic Development Center, Inc. to establish and implement the North Carolina Economic Infrastructure Program. The Program shall consist of the following four areas of investment:

1. *To provide grants to local governments to construct critical water and wastewater facilities to sites where these facilities will generate private job-creating investment.*
2. *To create a new lending program tailored specifically to the needs of small- and medium-size businesses that have the capacity to grow and create jobs.*
3. *To provide matching grants to local governments in distressed areas and equity investments in public-private ventures that will productively reuse vacant buildings, with priority given to towns with a population of less than 5,000.*
4. *To promote the diversification of North Carolina small farm businesses into value-added production and marketing and to increase opportunities in food and beverage manufacturing and distribution for small farm entrepreneurs.*

A copy of the proposed legislation and bill analysis begin on the next page

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2003

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BILL DRAFT 2003-RBz-19 [v.2] (4/28)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/28/2004 12:47:36 PM

Short Title:	Econ. Infrastructure Program at Rural Center.	(Public)
Sponsors:	.	
Referred to:		

A BILL TO BE ENTITLED

AN ACT TO APPROPRIATE FIFTEEN MILLION DOLLARS TO THE RURAL ECONOMIC DEVELOPMENT CENTER TO BE USED TO CREATE A NORTH CAROLINA ECONOMIC INFRASTRUCTURE PROGRAM.

The General Assembly of North Carolina enacts:

SECTION 1. There is appropriated from the General Fund to the Rural Economic Development Center, Inc., the sum of fifteen million dollars ($15,000,000) for the 2004-05 fiscal year. The funds shall be used to establish and implement the North Carolina Economic Infrastructure Program. The Program shall consist of the following four areas of investment:

1. To provide grants to local governments to construct critical water and wastewater facilities to sites where these facilities will generate private job-creating investment.
2. To create a new lending program tailored specifically to the needs of small- and medium-size businesses that have the capacity to grow and create jobs.
3. To provide matching grants to local governments in distressed areas and equity investments in public-private ventures that will productively reuse vacant buildings, with priority given to towns with a population of less than 5,000.
4. To promote the diversification of North Carolina small farm businesses into value-added production and marketing and to increase opportunities in food and beverage manufacturing and distribution for small farm entrepreneurs.

SECTION 2. The Rural Economic Development Center, Inc. may contract with other State agencies and constituent institutions of The University of North Carolina for certain aspects of the program, including design of program guidelines and evaluation of program results.

SECTION 3. The Rural Economic Development Center, Inc. may use up to two percent (2%) of the funds appropriated by this act to cover its expenses in administering the North Carolina Economic Infrastructure Program.

SECTION 4. The Rural Economic Development Center, Inc. shall report to the Joint Legislative Committee on Governmental Operations on a quarterly basis concerning the progress of the North Carolina Economic Infrastructure Program. It must make its initial report on the program no later than January 15, 2005.

SECTION 5. This act becomes effective July 1, 2004.

BILL ANALYSIS OF LEGISLATIVE PROPOSAL 8: ECONOMIC INFRASTRUCTURE PROGRAM AT RURAL CENTER

BY CINDY AVRETTE, RESEARCH DIVISION

Legislative Proposal 8 would appropriate $15 million dollars to the North Carolina Rural Economic Development Center, Inc., to create the North Carolina Economic Infrastructure Program. The Program would consist of the following four areas of investment:

Job-creation Infrastructure. This part of the program would provide grants to eligible local governments to construct critical water and wastewater facilities to sites where these facilities will generate private job-creating investment.

- The program would fund water and sewer projects in distressed rural counties. Preference would be given to counties with unemployment rates 150% of the State rate for three consecutive months.
- Eligible units of local government would be required to match grants. Funds from all other sources must be committed to the project before a local government may receive a grant.
- Project construction must be completed within two years of funding. Job commitments must be met within three years of funding. Job creations and retentions must be verified via a payroll report due at project close-out.

Small Business Enterprise Loans. The Rural Center would establish a new lending program tailored specifically to the needs of small- and medium-size businesses that have the capacity to grow and create jobs. The program would offer two methods of financing – equity lending and debt lending.

(a) <u>Equity lending:</u> individuals starting a business in a rural area may receive *deferred loans* as an equity investment to cover operating expenses during the first year. Loan recipients must complete an entrepreneurial training program and other requirements in the loan agreement.
(b) <u>Debt lending:</u> At the end of the first year, after all equity loan requirements have been met, the initial deferred loan is forgiven and the business owner is eligible for a *low-interest loan,* in the form of traditional debt financing, for up to four years.

- The Small Business Enterprise loan program would be available in all rural counties, with a special focus on low-wealth communities and counties that have experienced severe job losses.

- Participating business owners would receive deferred loans of up to $7,500 and low interest loans not to exceed $100,000.

Small Town Development. This part of the program would provide matching grants to local governments in distressed areas and equity investments in public-private ventures that will productively reuse vacant buildings, with priority given to towns with a population of less than 5,000. The program would assist eligible local governments and their private or nonprofit partners to support economic development projects, according to the following provisions:

- Priority would be given to those communities within counties hardest hit by the economic downturn as reflected in numbers of layoffs and unemployment rate.
- To be eligible, projects must be identified in community-based strategic planning efforts and coordinated with other economic development and community-building initiatives.
- Priority would be given to projects that reuse abandoned industrial plants, brownfields and deteriorated buildings in designated Main Street communities and other downtown areas, where grantees demonstrate direct and indirect job creation potential.
- Eligible local governments may qualify for matching grants of up to $150,000, based of strong commitments of federal, state and private funds.
- Public-private partnerships may qualify for equity investments of up to $250,000, with terms subject to firm commitments of private and other public funds.

Value-added Agricultural Products. This part of the program would promote the diversification of North Carolina small farm businesses into value-added production and marketing, and increase opportunities in food and beverage manufacturing and distribution for small farm entrepreneurs. The program would provide two types of grants:

(a) Grants to eligible local governments in rural counties for joint ventures with non-profit organizations to plan and construct shared-use processing facilities. Such facilities will provide space and assistance to farm-based entrepreneurs including use of processing equipment and production lines; access to storage, drying and cooking facilities; and assistance with product development and marketing.

- Farm product businesses will contribute towards annual operating costs of the facility by a fee for use of space and equipment.
- A local match of 20 percent will be required as part of the award.

(b) Grants and deferred ‘equity-like’ loans to innovative, value-added agriculture ventures. These grants will assist new and existing agricultural businesses in rural counties in their efforts to access markets for value-added products. Funds would provide for product development, production planning, and market development.

- Competitive grants will place a priority on applicants from distressed counties.
- Priority will go to applicants seeking to commercialize an innovative value-added agricultural product.
- Equity loans may be made to applicants with strong job-creation potential.

The legislative proposal would allow the Rural Economic Development Center to use a portion of the appropriated funds to cover its expenses of administering the North Carolina Economic Infrastructure Program. However, the amount used for administrative expenses could not exceed two percent (2%) of the amount appropriated.

The legislative proposal also allows the Rural Economic Development Center to contract with other State agencies and constituent institutions of The University of North Carolina for certain aspects of the program, such as design of program guidelines and evaluation of program results.

Lastly, the legislative proposal provides that the Rural Economic Development Center must report to the Joint Legislative Committee on Governmental Operations on a quarterly basis concerning the progress of the program, with the initial report by January 15, 2005.

GOAL: To encourage the growth and development of small businesses in this State.

The Committee heard a great deal of testimony about the importance of small businesses as engines of economic growth and development in the State's economy. In fact, small businesses are responsible for up to 87% of job growth in the State. However, the Committee also heard that small businesses are often ineligible for or otherwise unable to take advantage of major economic development incentive programs. The Committee felt it was important to provide an incentive for small business economic development and felt that reform of the corporate income tax was an appropriate means of achieving this goal.

Recommendation: Encourage the General Assembly to provide an exemption from the corporate income tax for a portion of income earned by a corporation. Such a change would benefit all corporations, but would have a particularly pronounced impact on small corporations who could have their income tax liability eliminated or greatly reduced.

APPENDIX A

AUTHORIZING DOCUMENTATION

JOINT SELECT COMMITTEE ON ECONOMIC GROWTH AND DEVELOPMENT

Section 1. The **Joint Select Committee on Economic Growth and Development** (hereinafter "Committee") is established by the President Pro Tempore of the Senate and the Speakers of the House of Representatives pursuant to G.S. 120-19.6, Rule 31 of the Rules of the Senate of the 2003 General Assembly, and Rule 26(a) of the Rules of the House of Representatives of the 2003 General Assembly.

Section 2. The Committee consists of the twenty members listed below, ten of whom are appointed by the President Pro Tempore of the Senate and ten of whom are appointed by the Speakers of the House of Representatives. Members serve at the pleasure of the appointing officer.

Sen. Fletcher Hartsell, Co-Chair	Rep. William Daughtridge, Jr., Co-Chair
Sen. John Kerr, Co-Chair	Rep. William Wainwright, Co-Chair
Sen. Walter Dalton	Rep. Gordon Allen
Sen. Charlie Dannelly	Rep. Margaret Dickson
Sen. Linda Garrou	Rep. Linda Johnson
Sen. Clark Jenkins	Rep. Stephen A. LaRoque
Sen. Joe Sam Queen	Rep. Paul Luebke
Sen. Riley Sloan, Jr.	Rep. Daniel McComas
Sen. Richard Stevens	Rep. Bill Owens
Sen. David Weinstein	Rep. Mitchell Setzer

Section 3. The Committee shall undertake a comprehensive review of the current State and local resources devoted to economic growth and development to determine how the State, working together with local communities, can best achieve economic stability, growth, and development in North Carolina. In undertaking this study, the Committee shall:

a. Determine the existing programs, entities, and tax expenditures devoted by the State and local governments to economic growth and development.
b. Identify the goal or mission of each program, entity, and expenditure devoted by government to economic growth and development and its relationship to the other identified programs, entities, and expenditures.
c. Determine the amount of tax dollars devoted to economic growth and development and evaluate the effectiveness of these expenditures.
d. Identify the resources of the State that could be used more effectively to foster economic growth and development.
e. Identify the factors that promote the growth of businesses, both large and small.
f. Identify the factors that impede the growth of businesses, both large and small.
g. Identify the factors that affect business location.
h. Identify the types of industries the State is best positioned to foster and determine how to attract those industries.

i. Recommend any changes necessary to the current State and local resources devoted to economic growth and development to ensure a comprehensive approach and an effective use of tax dollars.
j. Determine the State's ability to respond to large industrial displacements and recommend methods to more effectively respond to these industrial displacements.

Section 4. The Committee may report on the results of its study, including any proposed legislation, to the members of the Senate and the House of Representatives, on or before the convening of the 2004 Regular Session of the 2003 General Assembly by filing a copy of the report with the President Pro Tempore's office, the Speakers' offices, and the Legislative Library. The Committee shall report on the results of its study, including any proposed legislation, to the members of the Senate and the House of Representatives, on or before the convening of the 2005 General Assembly by filing a copy of the report with the President Pro Tempore's office, the Speakers' offices, and the Legislative Library. The Committee terminates upon the convening of the 2005 General Assembly, or upon the filing of its final report, whichever occurs first.

Section 5. The Committee shall meet during the interim period between regular sessions upon the call of the House and Senate co-chairs.

Section 6. The Committee is vested with the authority contained in Article 5A of Chapter 120 of the General Statutes.

Section 7. Members of the Committee shall receive per diem, subsistence, and travel allowance at the rate established in G.S. 120-3.l.

Section 8. The expenses of the Committee shall be considered expenses incurred for the joint operation of the General Assembly. Individual expenses of $5,000 or less, including per diem, travel, and subsistence expenses of members of the Committee, and clerical expenses shall be paid upon the authorization of a co-chair of the Committee. Individual expenses in excess of $5,000 shall be paid upon the written approval of the President Pro Tempore of the Senate and the Speakers of the House of Representatives. All expenses of the Committee shall be paid from the Legislative Services Commission's Reserve for Studies.

Effective this _______ day of September, 2003.

______________________	______________________	______________________
Marc Basnight President Pro Tempore	James B. Black Speaker	Richard T. Morgan Speaker

APPENDIX B

ADDENDUM TO THE AUTHORIZING DOCUMENT INCREASING THE COMMITTEE'S MEMBERSHIP

JOINT SELECT COMMITTEE ON ECONOMIC GROWTH AND DEVELOPMENT

Addendum to the Original Authorization
Dated September 3, 2003

Section 1. The **Joint Select Committee on Economic Growth and Development** (hereinafter "Committee") was established by the President Pro Tempore of the Senate and the Speakers of the House of Representatives on September 3, 2003.

Section 2. The membership of the Committee is hereby increased to a total of twenty-eight members. The additional eight Committee members are listed below, four of whom are appointed by the President Pro Tempore of the Senate and four of whom are appointed by the Speakers of the House of Representatives. Members serve at the pleasure of the appointing officer.

Sen. Charles Albertson	Rep. James Harrell, III
Sen. Thomas Apodaca	Rep. Paul Stam
Sen. Stan Bingham	Rep. Joe Tolson
Sen. Wib Gulley	Rep. Tracey Walker

Effective this _______ day of September, 2003.

Marc Basnight President Pro Tempore	James B. Black Speaker	Richard T. Morgan Speaker

APPENDIX C

ABBREVIATED AGENDAS

OVERVIEW OF AGENDA ITEMS AND SPEAKERS

- **October 2, 2003**
  - Dan Gerlach, Sr., Governor's Office, Policy Advisor for Fiscal Affairs
  - Snapshot of North Carolina's Economy
    - Employment Security Commission
      Harry E. Payne, Jr., Chairman of the ESC
      David Clegg
    - NC Department of Commerce, Policy Division
      Ed Feser, Director of the Commerce Policy Division
  - Overview of Existing Economic Development Programs – NC Department of Commerce
    - Structure and Role of Commerce in Economic Development
      Secretary Jim Fain
      Linda Weiner
    - Workforce Development/Rapid Response Team
      Alan Alexander
      Myra Beatty

- **October 23, 2003 (NC Rural Economic Development Center, Raleigh, NC)**
  - The 2003 Rural Partners Forum: Homegrown Jobs Initiative
  - Overview of Existing Economic Development Programs – NC Community College System
    H. Martin Lancaster, President of the North Carolina Community College System

- **November 6, 2003**
  - Creating Sustainable Communities in an Era of Economic Uncertainty and Global Insecurity
    Dr. James Johnson, Director, Urban Investment Strategies Center, Frank Hawkins Kenan Institute of Private Enterprise
  - Overview of Existing Economic Development Programs – The University of North Carolina SystemThe Role of the University in Economic Development
    Molly Corbett Broad, President, The University of North Carolina
    - UNC: Engaged in the Knowledge Economy
      J.B. Milliken, Senior Vice President for University Affairs
    - Research in North Carolina: Changing the State
      Russ Lea, Vice President for Research and Sponsored Programs

  - Making a Difference through Outreach and Service to North Carolina's Small and Mid-Sized Companies
    Scott Daughtry, Executive Director, Small Business Development Technology Center (SBDTC)
  - The Role of Higher Education in the Future Economy of Western North Carolina
    John Bardo, Chancellor, Western Carolina University
  - North Carolina Cardiovascular Diseases Institute: A Springboard for Economic Development
    Randall Chitwood, Associate Vice Chancellor, Health Science Division, and Professor and Chief of Cardio-Thoracic and Vascular Surgery, East Carolina University

- Overview of Existing Economic Development Programs – North Carolina Community College System, continued from November 6th meeting
  - Training Insights for Economic Development
    Dr. Larry Keen, Vice President for Economic and Workforce Development, NCCCS
  - NCCCS: A Local Perspective
    Dr. Scott Ralls, President, Craven Community College

■ **November 13, 2003 (Fayetteville, NC)**

- Economic Development Board Meeting and Military Summit

■ **December 4, 2003 (Kannapolis, NC)**

- Overview of Existing Economic Development Programs – Local and Regional Economic Development
  - Regional Partnerships for Economic Development
    Jane Smith, Chair of the Southeastern Regional Economic Development Partnership and Secretary/Treasurer of the North Carolina Partnership for Economic Development
  - Local Chambers of Commerce
    Cindy Mynatt, President, Cabarrus Regional Chamber of Commerce
    Bob Wright, President, Rowan County Chamber of Commerce
  - Local Economic Developers
    Richard Wiley, President, North Carolina Economic Developers Association and Director of Economic Development for Duke Power
    Donny Hicks, Executive Director, Gaston County Economic Development Commission and co-chair of the North Carolina Economic Developers Association's Legislative Committee

- Local perspective on State's Response to Large Industrial Displacement
  James Cook, Director, Cabarrus County Social Services
  Robert Neal, Vice-President, Local 1501 of Unite, Union of Needletrades, Industrial, and Textile Employees

- Voices from across the State:
  - *Robert M. Freeman, President, Freeman Development Co. and chair of the Cabarrus County Board of Commissioners*
  - *Ruth Shaw, President Duke Power*
  - *Robert Tucker, President, The Shoe Show, Inc.*
  - *David Rupp, Sr. Vice President, Home Equity, Bank of America*
  - *Nicole Henderson, Chair and Founder of Motor Sports Training Center of America, Inc.*
  - *Bob Morgan, President of the Gaston County Chamber of Commerce*
  - *Harry Welch, Micro PC*
  - *Ballard Everett, North Carolina Motorsports Association*
  - *James H. Woodward, Chancellor for UNC-Charlotte*
  - *Randy Harrell, Economic Development Director, Rowan County*

■ **January 8, 2004**

- Overview of Existing Economic Development Programs – Minority Economic Development
  - Institute of Minority Economic Development, Inc.
    Andrea Harris
  - North Carolina Minority Support Center
    Linwood Long

- Presentation of Research Triangle Regional Partnership Report
  Charles Hayes, CEO of the Research Triangle Regional Partnership
  Ted Abernathy, Executive Vice-President of the Research Triangle Regional Partnership

- Impact of Industrial Displacements – Mortgage Foreclosures
  Louise Mack, Executive Director of the Cabarrus County CDC

- Overview of Amounts Appropriated to State Agencies for Economic Development and Distribution of Surveys
  Stephanie Schmitt, Fiscal Research

■ **February 5, 2004**

- Update on Working Group on Mortgage Foreclosures
  Al Riply, Legal Counsel, Housing and Consumer Affairs

- 'North Carolina Citizens for Business and Industry
  Phil Kirk, President, NCCBI

- 'North Carolina's Economic Development Strategic Plan'
  Robert H. Stolz, Chairman of the North Carolina Economic Development Board

- North Carolina Economic Developer's Association
  Richard Wiley, President of the NCEDA

- Duke Power
  Tony Almeida, Vice President of Economic Development

- Department of Commerce
  Secretary Jim Fain

- Distribution of the "Economic Development Best Practices Study", conducted by KPMG

■ **February 9 and 10, 2004 (McKimmon Center, NCSU, Raleigh, NC)**

- 2004 Emerging Issues Forum: *Creative Responses to Global Economic Change*

■ **February 23, 2004**

- Economic Outlook and Growth Prospects for the Southeast
  Mark Vitner, Senior Economist, Wachovia Securities

- Overview of Current North Carolina Business Incentives
  Canaan Huie, Bill Drafting Division, NCGA

- Panel Discussion on Incentives
  - *Richard Beard, Site Selection Consultant with Development Advisors, Inc.*
  - *John Chaffee, Local Economic Developer, Pitt County, NC*
  - *Secretary James Fain, Department of Commerce*
  - *Donny Hicks, Local Economic Developer, Gaston County, NC*
  - *Bill Schweke, Corporation for Enterprise Development*
  - *Michael Walden, Economist, NCSU*

■ **March 4, 2004 (Red Hat Building, Centennial Campus, Raleigh, NC)**

- Why Glaxo Chose North Carolina
  Bob Ingram, CEO of Glaxo-Smith-Kline

- NC Biotechnology Center's strategic plan 'New Jobs Across North Carolina: A Strategic Plan for Growing the Economy Statewide through Biotechnology'
  Dr. Leslie Alexandre, President and CEO of the North Carolina Biotechnology Center

- Comments from Interested Parties
  Dan Rizzo, MCNC
  Joan Myers, NCEITA

- Huron Study Results

■ **March 23, 2004 (Greenville, NC)**

- 'Occupationally Themed Education' – Presentation of the formation of the Health Sciences Academy, a partnership between Pitt County Memorial Hospital and Pitt county Schools
  Dave McRae, CEO of University Health Systems
  Michael Priddy, Superintendent of Pitt County Schools

- The Importance and Development of Agri-Business in North Carolina
  - Department of Agriculture and Consumer Services
    David Smith, Deputy Commissioner of the Department of Agriculture and Consumer Services
  - Davenport Farms
    Charles Davenport, President, Davenport Farms and Director on the Board of Grain Growers Cooperative
  - Eastern Region, SBTDC, ECU
    Bion Schulken, Mfg. & Technology Counselor
  - North Carolina Agri-Business Council
    Erika Peterson
- Presentation of the Eastern Region Support Paper on Critical Issues
  Joel Butler, Chair of the Steering Committee

■ **April 1, 2004**

- The Rural 'Jobs' Challenge
  Billy Ray Hall, NC Rural Economic Development Center, Inc.

- Report from the 'Robeson County Jobs for the Future Project' trip to Washington, D.C.
  Mac Legerton, Executive Director, Center for Community Action
  Dr. Leslie Hossfeld, UNC-Pembroke

- The Importance and Development of the Child Care Industry in North Carolina
  Clark Plexico, Vice-Chair of the North Carolina Partnership for Children Board of Directors

■ **April 15, 2004**

- Update by Working Group on Mortgage Foreclosures
  Al Ripley, Legal Counsel, Housing and Consumer Affairs

- Connect*inc*. – A nonprofit organization that connects families with a network of support services … re-employment, job retention, career advancement, and asset accumulation
  Jackie Savage, Connectinc

- The Importance and Development of the Film Industry in North Carolina
  Stuart Ward

- NC Metropolitan Coalition – Legislative and Regulatory Priorities 2003/04
  The Honorable Keith Holliday, Mayor of Greensboro

- NC Association of County Commissioners – Policy Positions on Economic Development
  The Honorable Kitty Barnes, Chair of the Catawba Board of Commissioners and 2nd Vice President of the NCACC

- Manufacturers and Chemical Industry Council of North Carolina
  Preston Howard, President MCIC

- Business Resource Alliance
  Leslie Scott, Director of the Institute for Rural Entrepreneurship
  Scott Daugherty, SBTDC
  Greg Godard, NC Regional Councils

■ **April 29, 2004**

- Summation of the Carolina Seminar on Economic Development
  Jesse L. White, Jr., Adjunct Professor, School of Government, University of North Carolina at Chapel Hill

- State of the South Report
  Ferrel Guillory, Director of the Program on Southern Politics, Media and Public Life

- Life Sciences Revenue Bond Authority Report
  Dr. Charles Hamner