



Commerce's Role with the Tier System

- Calculate Tiers annually
- Field questions from public & community leaders
- Administer programs with Tier requirements
- Published "Measuring Economic Distress in North Carolina" report per S.L. 2014-100
- Provided assistance & review of PED's Tier report



*Primary Use of Tiers
Has Changed For Commerce*

Was

- Administer business recruitment & expansion incentives through William S Lee & 3J Tax Credits

Now

- Make infrastructure investment decisions



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*6 Active Commerce Programs
Use Tiers System to Decide Projects to Fund*

- Industrial Development Fund Utility Account
- Building Reuse Program
- Economic Infrastructure Program
- Community Development Block Grant
- Main Street Solutions Fund
- Job Maintenance & Capital Development Investment Fund
- NC Green Business Fund



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Assessment of PED's Tier Study

- End the current Tier system
- NC should have one consistent methodology to measure distressed communities
- Give programs & agencies flexibility
- Commerce should design a new calculation
- Proposed timeline for changes
 - Commerce's proposed system could be implemented quickly



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S.L. 2014-100

COMMERCE STUDY ADJUSTMENTS TO DEVELOPMENT FACTORS USED IN MAKING DEVELOPMENT TIER DESIGNATIONS

*"shall study factors that may be used to make an
adjustment to a county's development tier designation"*

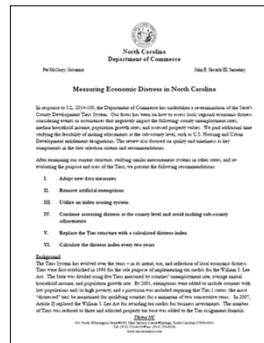


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Commerce's Tier Report

Commerce's Guiding Principles for Study

- I. Align data elements with economic development goals
- II. Use current, reliable, quality data
- III. Make methodology easy to understand
- IV. Accurately identify distressed areas
- V. Examine options for a sub-county Tier system



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Recommended Changes

1. Adopt new data measures for factors
2. Remove artificial exemptions
3. Utilize index score
4. Confirm county level geography



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#1 Incorporate New Data Metrics

Data should reflect causes of distress

- large unemployed population
- low quality jobs
- high percentage of low-wealth households
- low level of education

Eliminate unnecessary or symptomatic factors

- Population size
- Population growth
- Property values
- Poverty



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New Metrics

	Application to Economic Distress	Frequency	Source
Annual Unemployment Rate (12-month average)	Joblessness	Monthly	LEAD / BLS
Average Annual Wage*	Job quality	Quarterly	LEAD / BLS
Median Household Income*	Household economic well-being	Annual	Census
<i>Low Educational Attainment</i> (% Pop Without High School Degree)	<i>Economic mobility</i>	<i>5-Year Average</i>	<i>Census</i>

* These factors have low but positive correlation, suggesting they are measuring different economic aspects.



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#2 Remove Exemptions

- Tier 1 status for at least two years
- Exemptions added in 2001 for small counties & poverty



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#3 Adopt Index Scoring

Current Method *(relative scoring)*

- Sums rankings of individual measures
- Big changes in rankings can occur with slight changes in performance

Example:

Franklin County's 12-month Unemployment Rate = 5.7%, 66th Highest

0.1 increase (to 5.8%) it would change overall distress score 5% and move it 4 spots – from 54th to 50th Most Distressed

A 0.5 increase to Edgecombe's unemployment rate (from 9.6% to 10.1%) would have no impact in overall distress score or rank



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#3 Adopt Index Scoring

Index Score (*absolute scoring*)

- Accounts for level/degree of performance
- Rates county performance as percentage of NC average
- Averages county/state ratios



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Replacing Tiers with Index Scoring

- Changes focus to Performance Average based on Index
- Programs or Legislation could have flexibility in how index is administered
- Those using Tiers could see number of counties per Tier change year to year based on economic conditions
 - For example:
 - Counties equaling or outperforming NC = Tier 3 (*18 counties using 2016 data*)
 - Counties between 80% and 100% of state score = Tier 2 (*46 counties*)
 - Counties scoring less than 80% of NC score = Tier 1 (*36 counties*)



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Distressed Areas of Successful Counties

Why is a Sub-County System Challenging?

1. Data quality

- Margins of error are sometimes larger than estimate
(i.e. Unemployed in Tract 613.02 = 76 +/- 78)

2. Timeliness

- Most sub-county is created by US Census using 5-year averages

3. Difficulty administering

- Confusing for businesses and economic developers
- Businesses often can't commit to a specific address prior to receiving incentive offer



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#4 Keep County Level System

- Problems with sub-county data & administration
- Prefer multi-county region alternative
 - Use same data as county-level (*except maybe median income*)
 - Grouping counties based on labor markets



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*Benefits of Commerce's Recommendations &
Replacing Tiers with Distress Index*

- Based on research & quality data
- Clear & easy to understand & communicate
- Could be incorporated into economic development programs quickly
- Gives policy makers or program managers flexibility to meet diversity of program goals & resources
- Allows for performance measurement over time

