Measures of County Economic Well-Being and Local Revenue Capacity

JOINT LEGISLATIVE ECONOMIC DEVELOPMENT AND GLOBAL ENGAGEMENT OVERSIGHT COMMITTEE

THURSDAY, JANUARY 11, 2018

Cindy Avrette, LAD, NCGA
Emma Turner, FRD, NCGA
Rodney Bizzell, FRD, NCGA

Getting Started

CINDY AVRETTE
PRINCIPAL LEGISLATIVE ANALYST
LEGISLATIVE ANALYSIS DIVISION
NCGA

State Investment

Grants

Support Services

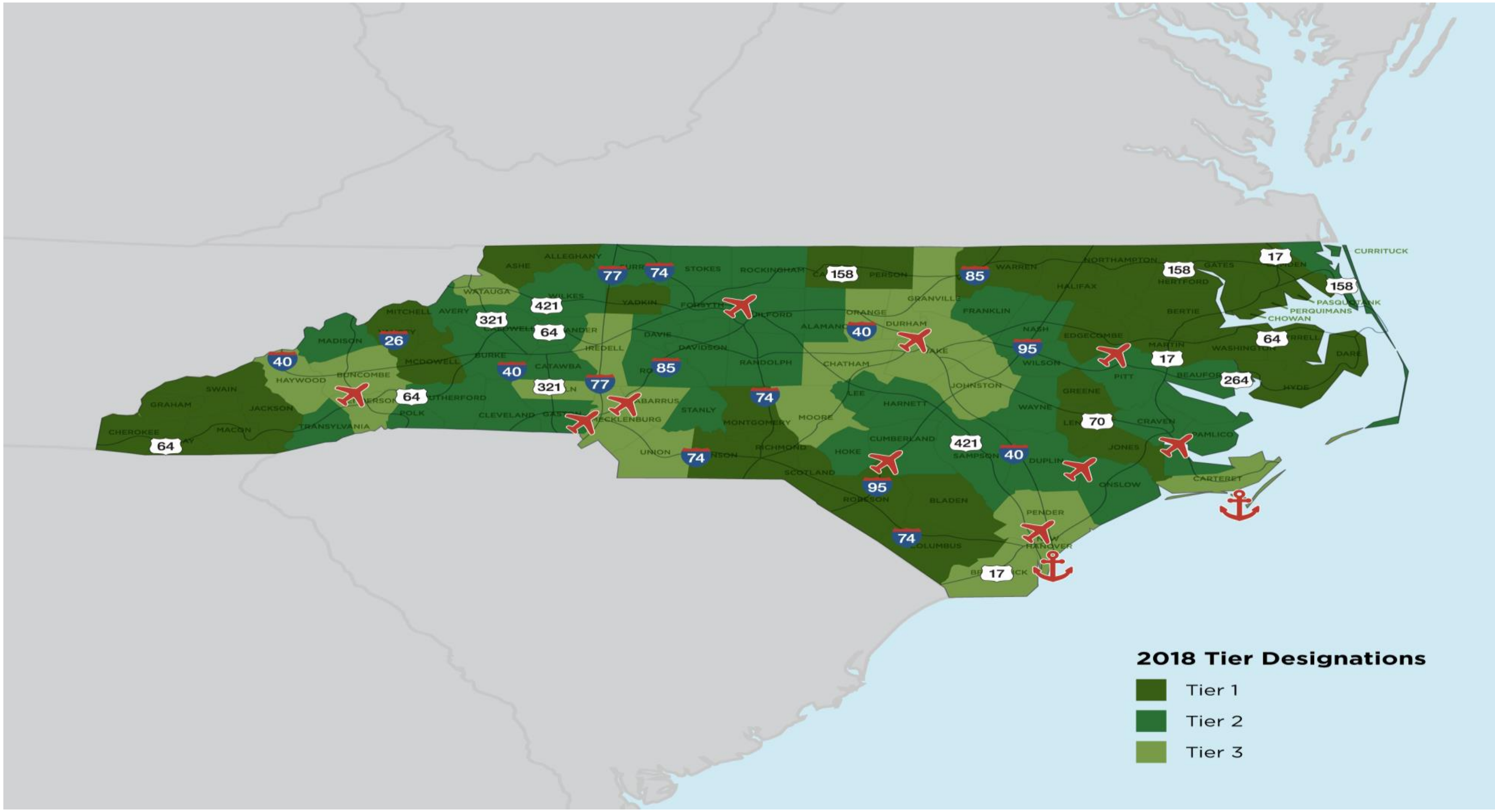
Pass-through Entities

Tax Expenditures

Joint Legislative Economic Development & Global Engagement Oversight Committee

Created in 2005

County Tier Designations



County Tier System

1987	2018

1987

- Policy goal
  - Award tax credits for employers who created jobs in one of the 20 most severely distressed counties
- Indicators
  - Rate of unemployment
  - Per capita income

2018

- Policy Goals
  - Tax credit program eliminated in 2014
  - More than 15 programs use the tier system to distribute funding or resources
- Indicators
  - Rate of unemployment
  - Median household income
  - Population
  - Property value per capita
- Application of adjustment factors

North Carolina Should Discontinue the Economic Development Tiers System and Reexamine Strategies to Assist Communities with Chronic Economic Distress

A presentation to the Joint Legislative Economic Development and Global Engagement Oversight Committee

January 7, 2016

Sara Nienow, Senior Program Evaluator

Redesigning NC's Economic Development Tiers System

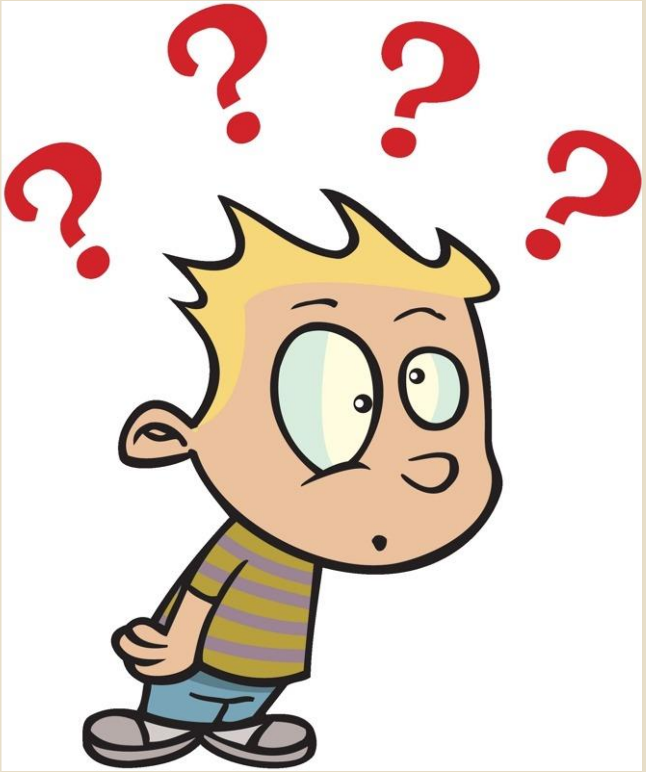
Nothing Compares
NORTH CAROLINA

Jeff DeBellis

NC Department of Commerce

January 7, 2016

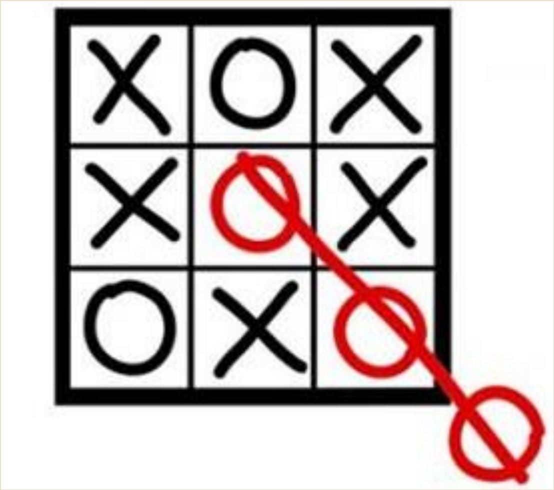
EDGE Working Group



Presentation Goals

- Understand what the current tier system measures
  - Define the concepts (indicators) used
  - Evaluate the indicators
- Assess the performance of the current tier system
  - Does the tier system measure what it is intended to measure?
  - Is the tier system used in ways that match the policy goals of the program?
  - Are better indicators available?
  - Should different indicators be used for different programs?
  - Is the tier structure the right measure for the programs for which it is used?

Moving Forward



- Define the policy goals of the program
- Based on the policy goals of the program:
  - Define the relevant indicators that will make up the funding criteria
  - Evaluate the indicators for reliability
  - Decide how much weight to apply to each indicator

Measuring Economic Distress

EMMA TURNER
ECONOMIST
FISCAL RESEARCH DIVISION
NCGA

Outline

- Defining & Measuring Economic Distress
- Evaluating the Tier System
- Alternative Measures
- Conclusions

Economic Development Tier System

- The Economic Development Tier System is typically thought-of as way to categorize counties by economic distress:
  - Tier 1: 40 most distressed counties
  - Tier 2: 40 counties in the middle
  - Tier 3: 20 least distressed counties

- What does “economic distress” mean?
- How well does the Tier System measure “economic distress”?

Measuring Economic Distress

- Economic distress is a multi-dimensional concept that can't be captured by a single economic indicator.
- To make comparisons easier, you can combine several indicators into a "composite indicator" of economic distress.
- To figure out what indicators to use and how to combine them, you need a specific definition of economic distress.
- The definition of economic distress should be consistent with program goals.

Defining Economic Distress

Geographic Level

- Limited data makes is very difficult to measure economic distress for sub-county areas.

Time Period

- Short-term distress: Cyclical, identifies recent issues like the closing of a major employer
- Long-term distress: Persistent, structural problems

Who's economic distress?

- Residents
- Governments

Some Dimensions of Economic Distress

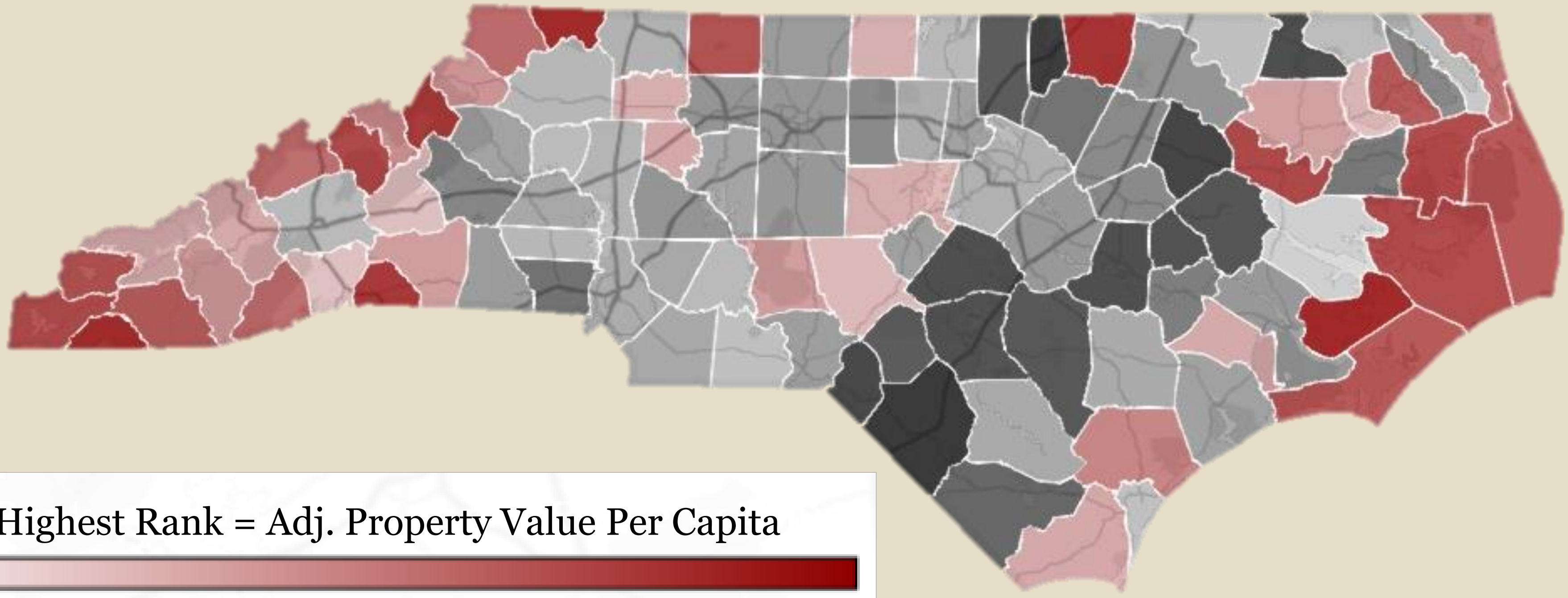
Residents

- Economic mobility
- Household economic well-being
- Employment opportunity
- Job quality

Governments

- Tax Capacity

Wages vs. Property Value



Highest Rank = Adj. Property Value Per Capita

Highest Rank = Average Wage

Evaluating a Composite Indicator of Distress

- Relevance: each of the indicators that are included in the composite indicator should reflect the intended meaning of economic distress
- Representativeness: Taken together, the indicators should fully reflect the various aspects of economic distress and reflect their relative importance to the overall concept
- Data Quality: indicators are only useful if they are measured using high-quality data.

Economic Development Tier System

What definition of economic distress does the Tier System measure?

- <u>Geographic Level</u>: County
- <u>Time Period</u>: Short-term or long-term?
- <u>Group</u>: Residents or Governments?

Indicators Used in Economic Development Tiers

- Ranking – Sum of rankings on the following measures:
  - Median household income - annual
  - Unemployment rate - annual average
  - Population growth - 3 year
  - Property value per capita - annual
- Adjustment Factors – Applied after rankings
  - Population - annual
    - < 12,000 => Tier 1
    - 12,000 – 50,000 => Tier 2
  - Poverty rate – 5 year
    - >= 19% and population < 50,000 => Tier 1

Relevance: Annual Median Household Income

Generally accepted as a very good measure of the economic well-being of the typical household

Relevance: Annual Unemployment Rate

- Measure of short-term joblessness of residents
- Misses discouraged workers, long-term unemployed, and marginally attached individuals who are not seeking work
- Can fluctuate widely depending on the degree of attachment of workers to a community
- Employment growth may be a more relevant indicator of economic distress

Relevance: 3-Year Population Growth

- Indirectly measures long-term economic distress of residents and governments
- A decline in population is generally indicative of economic distress, but population growth may occur in response to economic expansion or due to features such as attractive natural amenities
- Over longer periods, population growth is highly-correlated with employment growth, which is a more direct measure of economic distress

Relevance: Annual Property Value Per Capita

- Measure of government's resource capacity
- Short-term indicator of economic distress for governments
- Not a direct measure of economic distress of county residents
- May obscure economic distress in counties with high property values in a small concentrated part of the county such as in coastal counties

Relevance: 5-Year Poverty Rate

- Generally accepted as very good measure of long-term economic well-being of residents.
- Measures a similar concept as median household income

Relevance: County Population

The number of people living in a county is not related to the economic distress of county residents or county governments.

Relevance of Tier System Measures

Measure	Time Period	Residents or Governments?
Annual Median Household Income	Short	Residents
3- year Population Growth	Long	Both, indirectly
Annual Average Unemployment Rate	Short	Residents
Annual Property Value Per Capita	Short	Governments
Annual County Population	Short	Not relevant
5-year Poverty Rate	Long	Residents

Evaluation of Adjustment Factor: Population

- For 12,000 residents, population is the *only* criteria used to measure economic well-being
- Automatically designating low-population counties as Tier 1 displaces other counties that are otherwise ranked as more distressed
- So, this irrelevant measure replaces more relevant measures and reduces the overall "representativeness" of the tier calculation

Evaluation of Adjustment Factor: Poverty Rate

- 5-year poverty rate is the most relevant long-term measure of economic distress of county residents included in the tier calculation
- The relevance of poverty rate does not depend on population size and there is nothing special about a 19% poverty rate

Representativeness: Without Adjustment Factors

Measure	Time Period	Residents or Governments?
Annual Median Household Income	Short	Residents
3- year Population Growth	Long	Both, indirectly
Annual Average Unemployment Rate	Short	Residents
Annual Property Value Per Capita	Short	Governments

Example of Alternative Measures for Residents

Measure	Time Period	Concept
Median Household Income	Short	Household economic well-being
3-year Employment Growth	Long	Employment opportunity
% of Population with Bachelor’s Degree or Higher	Long	Economic mobility
Average Annual Wage	Short	Job Quality

Conclusion

- There are many ways to define economic distress.
- Economic distress of residents and economic distress of governments do not always go together.
- The Tier System includes a mix of indicators that are not representative of a single cohesive definition of economic distress.
- Ultimately, defining what the Tier System is intended to measure and determining the indicators that best measure it are policy decisions for the General Assembly to make.

Measuring Local Government Tax Capacity

RODNEY BIZZELL
PRINCIPAL FISCAL ANALYST
FISCAL RESEARCH DIVISION
NCGA

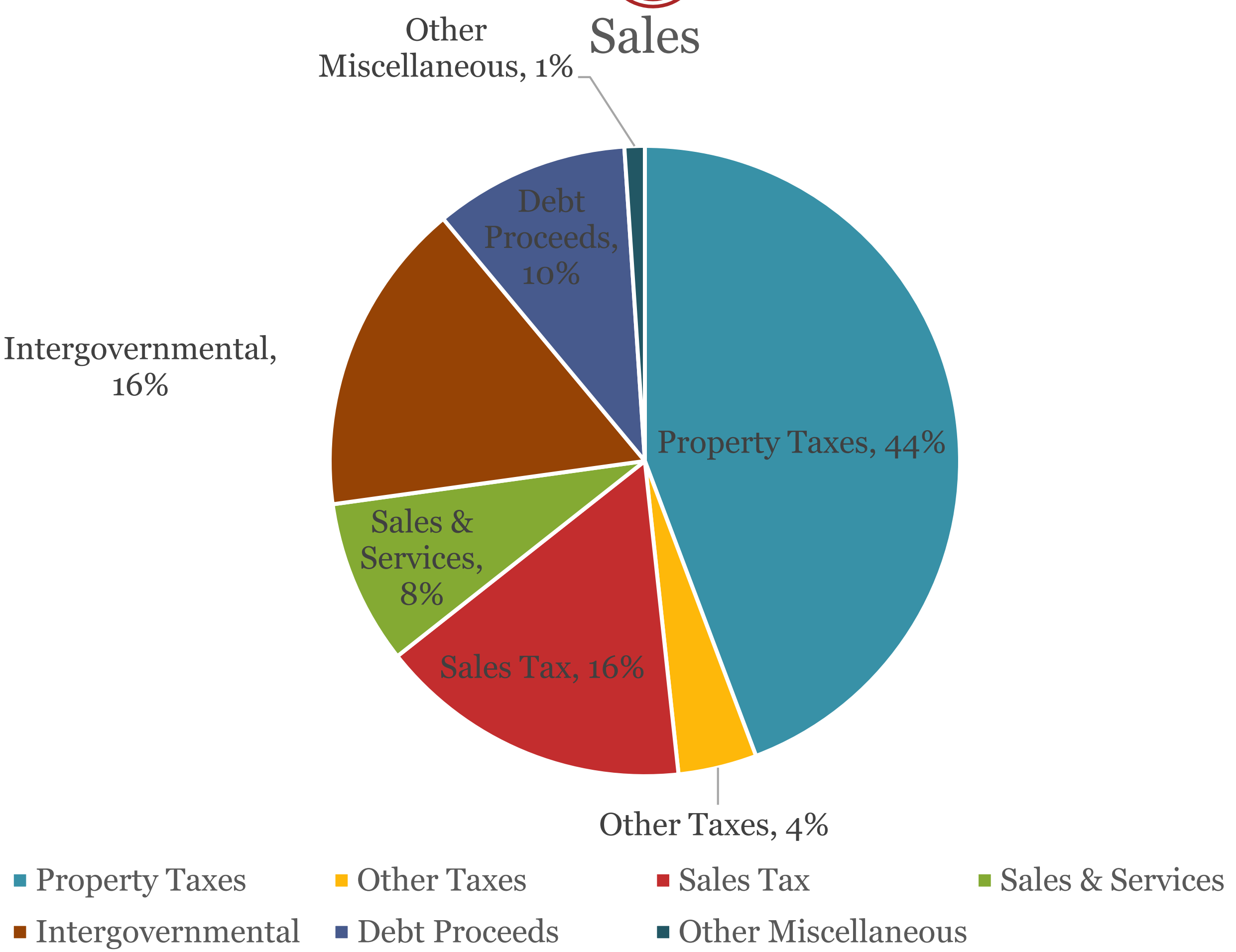
Outline

- Tax Capacity
- Measures of Tax Capacity
- How Is It Used?
- Variation among Counties
- Conclusions

Local Tax Capacity

- Local tax capacity measures the potential tax base of a local government (ability to pay).
  - Fiscal Health of Local Governments
  - Ability to Generate Revenue
- Typically measured by 2 or 3 largest revenue sources:
  - Property Tax (tax base per capita)
  - Sales Tax (tax base per capita)

County Sources of Revenue (FY 16-17)



Potential Uses

How is Tax Capacity Used?

- Additional funding criteria alongside economic well-being of residents
- Alternatively, could be used separately for determining eligibility for local grant matches
  - Match Requirements for One NC
    - Tier 1 – 1:3
    - Tier 2 – 1:2
    - Tier 3 – 1:1

Variation among Counties

- Tax capacity among local governments varies considerably
- Property Value per Capita ranges from $48,192 in Robeson County to $375,258 in Dare County
- Sometimes shows large contrast with measures of economic well-being
- Vacation destination counties with large numbers second homes can have high property values per capita despite low indicators of economic well-being.

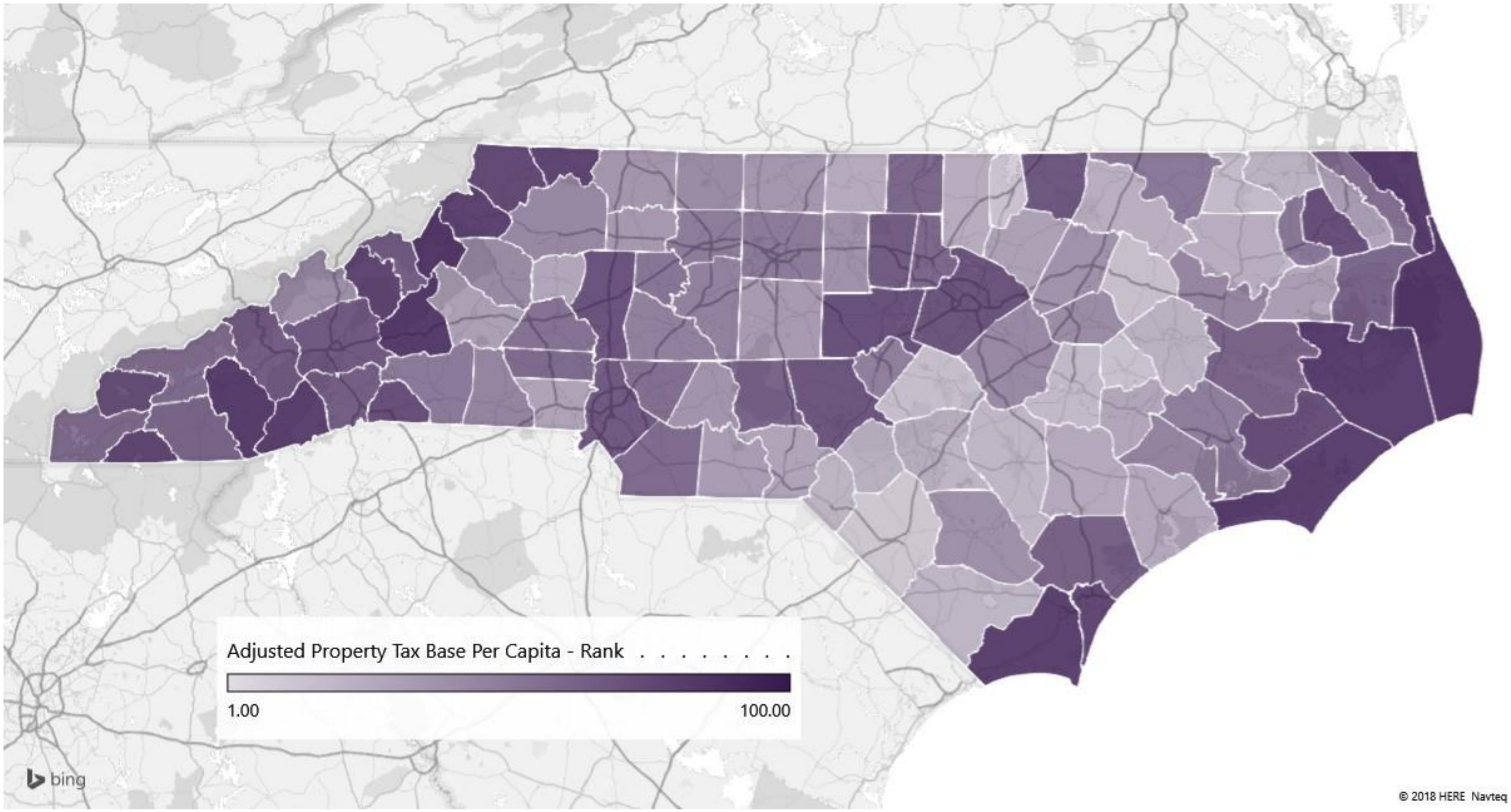
Example: Hyde County

Hyde Co.	Prop. Value per Capita	Pop. Growth	Median HH Income	UI Rate
Value	$219,654	-3.46%	$37,074	9.22%
2018 Rank	96	1	24	1

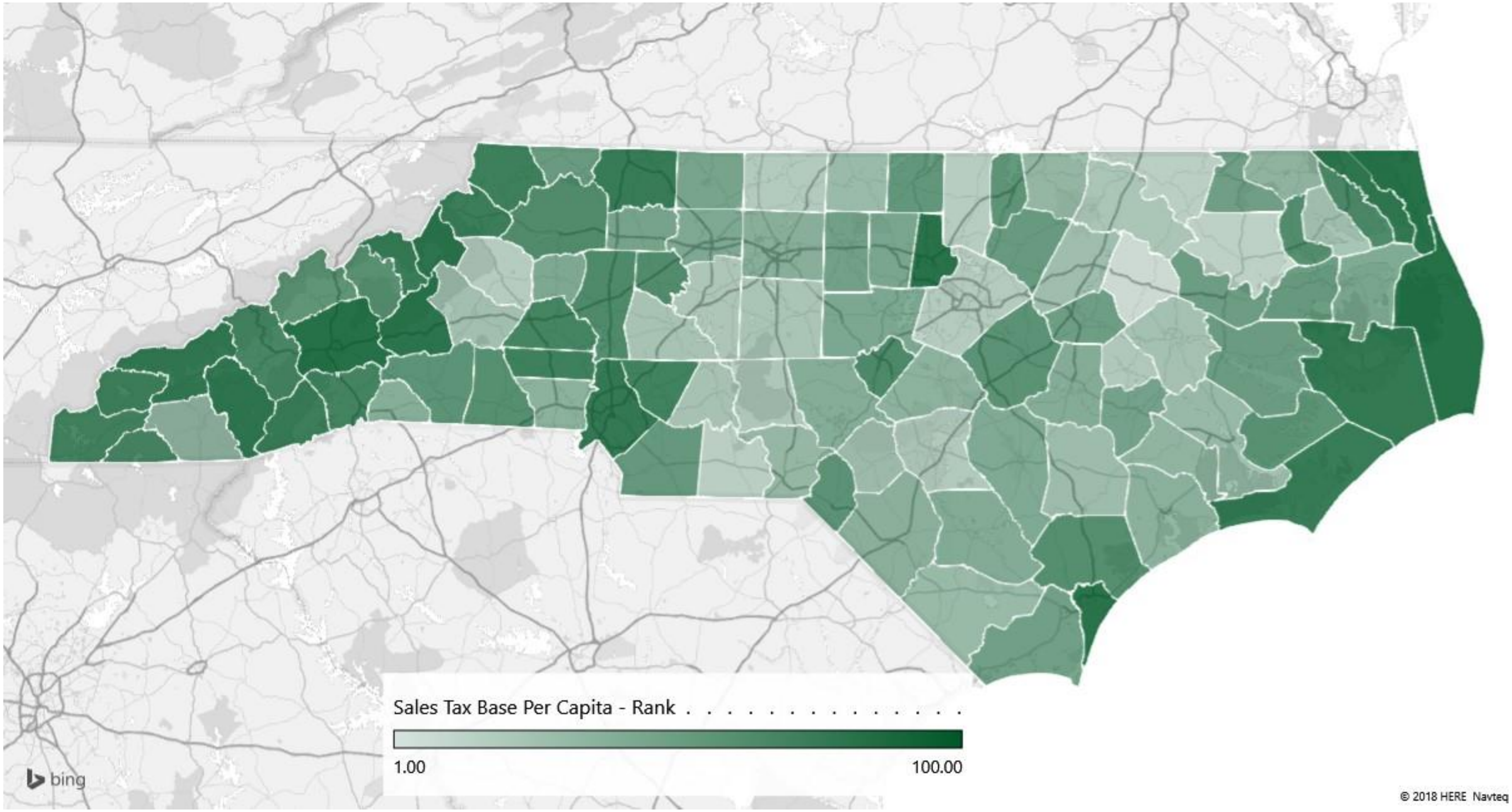
Example: Graham County

Graham Co	Prop. Value per Capita	Pop. Growth	Median HH Income	UI Rate
Value	$127,551	-0.32%	$33,827	7.15%
2018 Rank	81	31	9	8

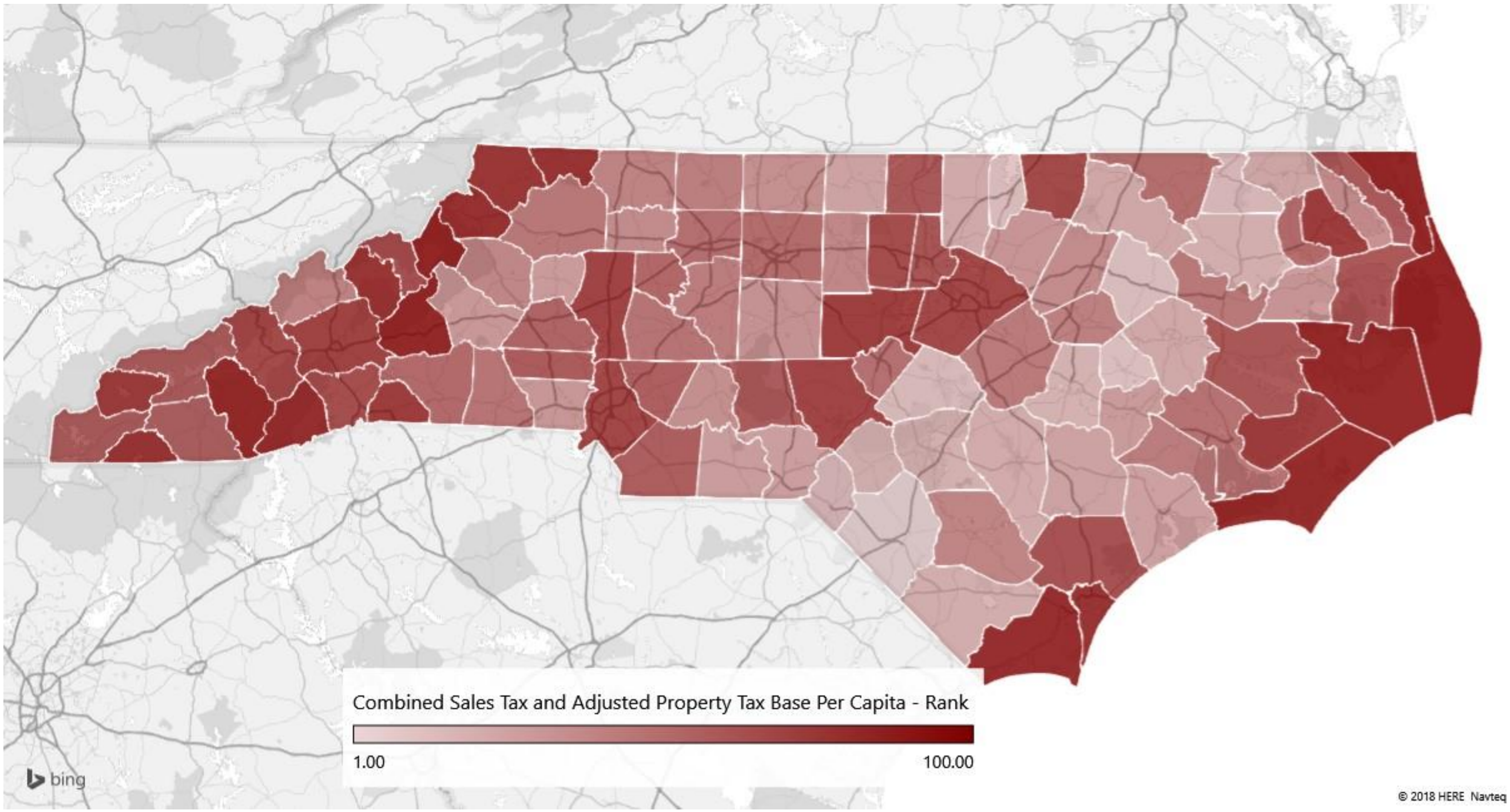
Adjusted Property Value per Capita



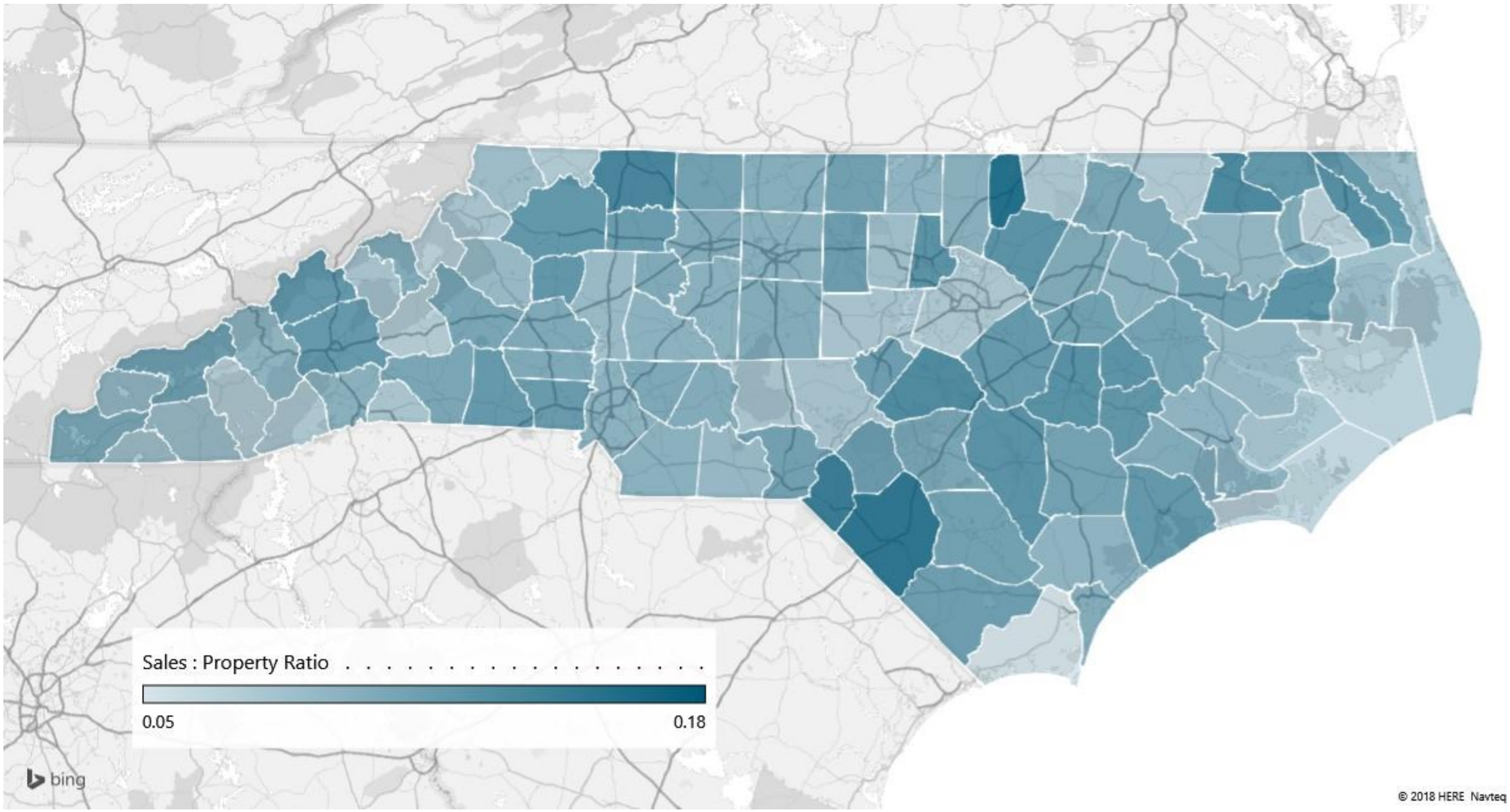
Sales Tax Base per Capita



Property and Sales Tax Base per Capita



Sales Tax/Property Tax Ratio



Conclusions

- Tax Capacity is not a direct measure of the economic well-being of county residents
- It does serve as a good measure for ability to pay
- Combining property taxes and sales tax capacity provides a more accurate picture of overall tax capacity.
- The measure can be useful for determining resource allocation and required local contributions when ability to pay is a factor.