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ASSESSMENT OF THE NORTH CAROLINA COUNTY DISTRESS RANKINGS (TIERS)

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Acknowledgements

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About Us

NCGrowth works nationally to build an economy with opportunities for all to prosper. We provide technical assistance to businesses, governments, anchor institutions, and other organizations to create good jobs and new wealth in economically distressed communities. We produce applied research and develop innovative policies that promote equitable development. We host unique, cross-sector convenings and workshops to bring together diverse perspectives. Our staff is in North Carolina, South Carolina, Virginia, Georgia, and other communities across the U.S. Our work and thought leadership range in scope from hyper-local to international. NCGrowth was founded in 2012 at the University of North Carolina at Chapel Hill and is affiliated with the Kenan Institute of Private Enterprise and UNC Kenan-Flagler Business School.

ncIMPACT Initiative was launched by the UNC School of Government in 2017 to help local communities use data and evidence to improve conditions and inform decision-making on complex policy matters. We work to support civic leaders across the state, from elected and appointed local government officials to non-profit and business-sector leaders who are working every day on cross-sector collaborations that improve their communities. Our approaches include work that deeply experiments with communities, shares widely what we learn, and builds a culture of innovation across North Carolina.

Authors

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Anita Brown-Graham is the founder and director of the ncIMPACT Initiative and the Gladys Hall Coates Distinguished Professor of Public Law and Government at the UNC School of Government. This initiative seeks to expand the School's capacity to work with public officials on complex policy issues including economic mobility, the expansion of prekindergarten, and extending the labor pool. In 2020, she was named the Gladys Hall Coates Distinguished Professor of Public Law and Government at the School.

Brown-Graham previously taught at the School from 1994 to 2006, specializing in governmental liability and economic development aimed at revitalizing communities. She served as director of the Institute for Emerging Issues (IEI) at North Carolina State University from 2007 to 2016, where she led efforts to build North Carolina's capacity for economic development and prosperity, working with business, government, and higher education leaders from across the state.

Brown-Graham began her career as a law clerk in the Eastern District of California. She is a William C. Friday Fellow, an American Marshall Fellow, and was named Distinguished Global Fellow by the Eisenhower Fellowships in 2021. The White House named her a 2013 Champion of Change for her work at IEI, and the Triangle Business Journal awarded her the inaugural 2021 Andrea Harris Trailblazer Award and named her a 2017 CEO of the year. Brown-Graham serves on the boards of several organizations, including Blue Cross Blue Shield of North Carolina. She earned an undergraduate degree from Louisiana State University and a law degree from UNC-Chapel Hill.

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As the lead policy and data analyst for the School's ncIMPACT Initiative, Jacob Hunter supports the team's public policy research and programs through data analysis, research dissemination and communication, and program development. He joined the School in 2024.

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Mark Gabriel Little is the executive director of NCGrowth, a national center, based at UNC Chapel Hill, that is helping businesses, governments, and other organizations create good jobs, equitable economies, and new wealth in distressed communities. Driven by the vision of an economy that provides opportunities for all to prosper, his team provides transformational technical assistance; produces useful research; develops innovative policy; and hosts unique convenings. Mark is co-chair/founder of Black Communities: A Conference for Collaboration, an annual international convening of scholars and leaders across the African diaspora. He previously served as managing director of the UNC Kenan Institute of Private Enterprise supervising operations, research, external affairs and student-facing activities. Mark has served as an AAAS congressional science fellow to the U.S. House Committee on Foreign Affairs and a Luce Scholar at Peking University. He is also a composer, writer, and baba.

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Hallie Springer is a second year MPA student at the UNC School of Government working as a research assistant with ncIMPACT. With ncIMPACT, she has worked on projects relating to economic development, workforce development, mental health and suicide prevention, and affordable housing. Prior to graduate school, she worked for one year with a teacher's union in Washington, D.C. Hallie holds a bachelor's degree in Public Policy and Economics from UNC Chapel Hill.

Assessment of the North Carolina County Distress Rankings (Tiers)

Executive Summary

This report evaluates North Carolina's County Distress Rankings System, known as the Tiers System, established in 1987 to promote economic development in less prosperous areas. The study was funded by the North Carolina Collaboratory and conducted by NCGrowth and ncIMPACT as preliminary research for policymakers. This report provides background and context, stakeholder insight into the system's effectiveness, and comparison with alternative models.

Key Findings

- Stakeholders do not have deep understanding of the system and are unclear on its goal.
- The system has little impact on economic development deals.
- The system was developed for a narrow application within one economic development incentive program but is now used across an unknown array of state and nongovernmental programs, for which it was not designed or intended.
- County Tier category sizes are arbitrary, making the groupings imprecise; the designations do not accurately capture the need for support, and stakeholders have mixed ideas on what their designations mean.
- The calculation method itself blurs real differences in the underlying data, making the resulting categorizations almost meaningless.
- North Carolina is the only state using a county tier system with broad application.
- Changing the input factors will not fundamentally change the system.
- Stakeholders believe that developing tailored systems for specific uses would be a more meaningful and effective approach.

These questions can guide future research into alternatives to the Tiers System:

1. How many and what kinds of programs are currently using the Tiers designations, and in what ways?
2. What would it mean for North Carolina to do away with this system, and what, if anything, is the cost of continuing it?
3. What are the statistically significant differences between counties in terms of economic conditions and capacity?
4. What do stakeholders see as the primary goal of an economic development designation system?
5. What factors are most important to business decisions about entering and expanding in North Carolina?
6. What would be the effect of using an index-based system?
7. What would be the effect of using a system based on local nomination/designation?

Introduction

Under the North Carolina County Distress Rankings (Tiers) system, the North Carolina Department of Commerce assigns the state's 100 counties to one of three Tiers each year based on four input metrics. The system traces its roots to a 1987 tax credit aimed at creating jobs in the 20 most economically distressed counties. In 1996, the William S. Lee Tax Incentive took the categorization of counties by economic distress further, developing a five-tier system to categorize all counties and serve as the basis for calculating the amount of tax credit an employer could receive for new job creation, in order to encourage business starts and expansions. The William S. Lee credits sunset in 2010 but the Tiers System persists. Today, the Job Development Investment Grant (JDIG) and One North Carolina Fund (OneNC) programs incorporate the Tiers System in a similar fashion to how it was used in the economic development tax credit programs it was originally designed for. However, the system has also been incorporated into an unknown number of programs across state government to determine funding allocation and program eligibility; non-governmental entities have also adopted it..

Over the years, questions have been raised about whether the current design and application achieves its original goal. This study was funded by the North Carolina Collaboratory to provide background on the current system, interview a small group of stakeholders on their perceptions, and compare Tiers with other models. This report distills this research and presents questions for future research to improve the system.

How Tiers are Assigned

County Tiers are assigned by the NC Department of Commerce annually as defined by N.C. General Statute 143B-437.08. The counties are first ranked on four determining factors, with scores ranging from 1 to 100:

1. Average Unemployment Rate
2. Median Household Income
3. Percentage Growth in Population
4. Adjusted Property Tax Base Per Capita

These scores are then totaled for a 'rank sum', ranging from 4 to 400, to determine each county's economic distress ranking. A lower score indicates more distress. The 40 counties with the lowest distress ranking are designated Tier 1, the next 40 are Tier 2, and the 20 with the highest ranking are Tier 3. The statute requires this 40/40/20 split; in the event of a tie, both counties are placed in the lower tier. By November each year, the Secretary of Commerce submits a written report on how the rankings are calculated and each county's designated Tier. According to the Department, "Any county underperforming the state average on any of the four factors may request assistance from the Department to improve their performance on the given factor." Figure 1 uses Alamance County to illustrate how the process works.

Despite numerous modifications and attempts to eliminate the Tiers System, it continues to be used by statute and voluntarily by state departments, and nongovernmental entities, for purposes including economic development, education, public health, to determine program eligibility, prioritize and allocate funding, and determine required local contribution.

See Appendix A for a timeline of significant proposed and adopted legislative actions and amendments that have shaped the system over the years.

For a more detailed review of the Tiers System history, see Appendix B or visit this blog post. For references to previous research into the Tiers System, see Appendix C.

Figure 1: Example Calculation for Alamance County in 2023

Step 1 – Rank by Factors

Counties are ranked and assigned a rank score, 1-100, on four factors.

	Median Household Income	Rank
Yadkin	$53,154	59
Alamance	$53,220	60
Alexander	$53,523	61
	Adjusted Property Tax Base Per Capita	Rank
Surry	$93,010	32
Alamance	$93,470	33
Franklin	$93,987	34
	Percentage Growth In Population	Rank
Gaston	4.05%	83
Alamance	4.06%	84
Onslow	4.30%	85
	Average Unemployment Rate	Rank
Wilkes	3.70%	47
Alamance	3.67%	48
Rowan	3.67%	49

Step 2 - County Rank Sum

The ranks across all four factors are totaled and counties are re-ranked. In 2023, Alamance County's rank sum was 225.

County Rank Sum	
Rowan	224
Alamance	225
Forsyth	227

Step 3 - Economic Distress Rank

Counties are assigned a new score and an economic distress rank of 1-100. In the 2023 example, Alamance County was assigned an economic distress rank of 60.

Economic Distress Rank	
Rowan	59
Alamance	60
Forsyth	61

Step 4 – Tier Assignment

Counties are assigned to a tier based on their economic distress rank. In 2023, Alamance County was assigned to Tier 2.

Economic Distress Rank			Tier Assignment	
Rowan	59		**Rank 1-40**	Tier 1
Alamance	60	→	**Rank 41-80**	Tier 2
Forsyth	61		**Rank 81-100**	Tier 3

Methodology

The research team used a mixed-methods approach incorporating longitudinal analysis of county level Tiers data and semi-structured interviews. The quantitative data were gathered from annual reports published by the North Carolina Department of Commerce, including:

- County distress ranks and tiers for years 2007 through 2023
- Raw input data for each factor (average unemployment rate, median household income, percentage growth in population, and adjusted property tax base per capita) for 2015 through 2023 (The Department did not publish input data prior to 2015).

The analysis was conducted using descriptive statistics on raw, unadjusted inputs using Looker Studio.

We conducted 19 semi-structured interviews with stakeholders across the state using an interview guide (Appendix D) to explore each person's:

- Awareness and understanding of the Tiers System
- Experience with the system
- Use of the Tiers System as a measurement and designation tool
- Views on the system's policy administration and operationalization.

We focused our search on four main sectors of stakeholders:

1. State and local government practitioners, such as county managers, commissioners, and economic developers, whose communities are impacted by the system; and state-level officials involved in the management of the system.
2. Business leaders who could potentially utilize or be influenced by the system.
3. Representatives from non-governmental organizations, including professional associations, foundations, community-based nonprofits, and other non-governmental organizations that serve or represent businesses and local governments in regard to economic development.
4. Academic and research professionals who have studied the system or have expertise in economic development.

We identified interviewees using a combination of purposive sampling of the research team's professional network, and online research and snowball sampling through interviewee recommendations. To maximize diversity and provide a nuanced understanding of stakeholder perspectives, we tracked participation across county tier designations, geographic regions, and sectors.

One challenge was the business leaders' limited interest, familiarity, and availability – which may indicate that Tiers is not of high relevance or priority to the private sector. Ultimately, three members of the business community participated. Stakeholders representing government entities and non-governmental organizations were generally more accessible and eager to participate, which enabled us to gather a mix of perspectives across all county tier designations and geographic regions. Stakeholders representing academic or research perspectives were selected based on their individual expertise related to the Tiers System.

Figures 2-4 show stakeholder representation by category. Participants who work across multiple counties of varying tier designations are included under "Multi-Tier Perspective" and interviewees that work across multiple geographic regions are included under "Multi-Region Perspective."

Figure 2: Stakeholder Representation by Sector

Sector	Number of Interviewees
State or Local Government	7
Non-Governmental Organization	7
Business	3
Academic or Research	2
Total	19

Figure 3: Stakeholder Representation by County Tier Designation

County Tier Designation	Number of Interviewees
Tier 1	2
Tier 2	2
Tier 3	3
Multi-Tier Perspective	12
Total	19

Figure 4: Stakeholder Representation by Geographic Region

Geographic Region	Number of Interviewees
Coastal Plain Region	4
Piedmont Region	1
Mountains Region	2
Multi-Region Perspective	12
Total	19

For additional methodology details about the stakeholder sampling and interview process, see Appendix E.

Throughout the interview process, we identified emerging themes and categorized them as either insights on the current system or as considerations for a potential re-design. We developed a spreadsheet analysis tool to code prevalence and digest interviewees' sentiments, and created visualizations from the quantitative data analysis.

Results

The following sections feature analysis of stakeholder insights and excerpted quotes from interviews.

Stakeholder Insights on the Current System

How Accurate Is the Tiers System in Measuring Economic Distress?

The prevailing sentiment across almost all interviews, regardless of sector or Tier designation, was that the system could be improved to more accurately gauge economic distress and capture community nuances. More than half of the interviewees answered that they believe the current system does not accurately reflect economic distress. These participants frequently referenced fairness – especially in the context of counties ranked very high or low for one variable that significantly changed positions when the overall score was calculated. Four stakeholder interviewees saw the Tiers System as a somewhat accurate measure of economic distress, but none suggested that it provides a flawless assessment.

> *"I think having a measure of distress is important and can be helpful. I think we could probably do better – a little more reflective of reality on the ground." - a non-governmental stakeholder*

Are county-level designations limiting the accuracy of the Tiers System?

Fifteen interviewees questioned the use of county as the unit of analysis for tier designations. Four of which include stakeholders from Tier 2 and Tier 3 counties that felt their designations did not adequately reflect significant pockets of poverty within their counties and could mislead policymakers and program administrators about where resources are most needed. For example:

- In rapidly growing counties, some areas thrive economically while others remain distressed, indicating a need for a more nuanced understanding of local conditions.
- Urban counties tend to rank higher in the system but still have significant pockets of economic distress that are masked by the county-level designation.

Nearly half of all interviewees suggested the need for a more granular approach, such as using census tracts or zip codes, to capture sub-county differences. However, concerns were raised about the quality and reliability of granular data and the complexity it would add to the general understanding and administration. Three stakeholders were strongly opposed to the use of data at the census tract-level because they believe it is not robust enough to be meaningful. One noted that zip codes as the unit of analysis could also present challenges because they do not always align with county boundaries.

> *"If you went more granular, you would definitely get a better construct that's more true to that particular situation. That makes, obviously, the whole thing even more complicated and hard to understand, too. So, there's good and bad and everything, but certainly the dynamics can vary within a county and the county structure is relatively arbitrary in terms of a given labor market." – a business stakeholder*

Five interview participants recommended exploring a regional approach to account for economic conditions that transcend county boundaries, noting that businesses and workers often cross county lines. However, two other interviewees highlighted the potential for challenges to arise with this approach because of the lack of widely recognized regional boundaries.

> *"When you think about the economy, and particularly the labor market, it tends to be helpful to think about them regionally. Planning often happens at a regional level and economic development projects that come to one county don't only benefit that one county." – a government stakeholder*

Are the factors in the Tiers System the best indicators of economic distress?

Every interviewee was asked for their thoughts on the four factors used to calculate the Tiers System:

1. Average Unemployment Rate
2. Median Household Income
3. Percentage Growth In Population
4. Adjusted Property Tax Base Per Capita

Six interviewees found most or all these factors to be adequate for measuring economic distress. However, 10 others argued for a reevaluation to reflect economic distress more accurately and suggested additional or replacement factors, such as measures of:

- Persistent poverty
- Housing stability
- Educational attainment
- Public health
- Crime
- Economic mobility
- Age distribution
- Job and business growth
- Wage levels
- Commercial and industrial revenue

Exploring the inclusion of these factors could better capture the complexities of local economies, give a sharper snapshot of what county residents are experiencing, and provide a more accurate representation of counties that have suffered from persistent economic distress over an extended period. Nonetheless, it was recommended by one interviewee to be cautious of adding too many factors as the system could become too complex for stakeholders to understand and utilize.

> *"It seems to me that a good distress formula would try to capture the cyclical indicators like unemployment rate, but also would capture those chronic indicators of the stress that some counties, you know, for example, have been suffering from persistent poverty for decades, right? And I don't know if that's really captured in the current distress formula." – an economics researcher*

Additional details, stakeholder insights, and quotes regarding each of the four equally weighted factors that determine tier designations are included below as Figure 5.

Figure 5: Stakeholder Insights on Factors of the Current System

Factor	Insights	Quotes
Average unemployment rate for the most recent 12 months for which data are available (N.C. Dept. of Commerce's Local Area Unemployment Statistics program)	The average unemployment rate does not account for workers who have given up on their job search nor capture the quality of life or employment for residents.	*"You have a labor force participation issue. You don't have an unemployment issue. Because maybe people are just giving up and they're like, because of my poverty or my addiction… I'm just not participating. And so [unemployment rate] doesn't catch it." – a non-government stakeholder* *"While unemployment rate is a good health indicator for your economy, it does not actually show what the quality of life is that people have in that economy." – a non-government stakeholder with a tier 2 and mountains region perspective*
Median household income for the most recent 12 months for which data are available (U.S. Census, Small Area Income & Poverty Estimates)	Non-wage income, such as retirement funds, may mask underlying economic and workforce issues; and commuters' income can hide low wages because it is based on the county in which they live, even if they work and receive wages in a different county.	*"A median household income in these tourism-based economies where we have secondary homes, and we attract retirees – some of that income is coming from pension and Social Security. And a lot of times these are not your retirees just living on Social Security. They're living on pension plans and 401(k)s, and the economic factors there are exterior to [our] county. Whether or not their pension is doing well or 401(k) is doing well has nothing to do with what's happening within our county." – a government stakeholder with a tier 2 and mountains region perspective* *"Do you want [the Tiers] to be about measuring the economic prosperity of the people who live in your county or the people who work in your county or some combination of those two things… I don't know that the current system really has a philosophy on that." – a government stakeholder*
Percentage growth in population (minus prison population) for the most recent 36 months for which data are available (N.C. Office of State Budget & Management)	Some county leaders do not view population growth as desirable; it can cause additional challenges and may strain local government capacity, infrastructure, and housing markets. Population growth does not reflect age distribution and changing workforce demographics; growth of full-time residents may not be accurately represented for tourism-based counties. Growth rate for small counties is more erratic because movement of small numbers of people swings this rate high or low.	*"It may be that some counties like their low population growth rate if they don't want lots of population increase." – a government stakeholder* *"It might be a growth in population, but how does our population spread? We are not growing, but our population is increasingly getting older. So, what does that mean?" – a non-government stakeholder with a tier 2 and mountains region perspective* *"There are a lot of communities that are growing very quickly, but don't have the necessary infrastructure and resources in place to support that population, which puts them at a greater disadvantage." – a government stakeholder with a tier 3 and coastal plain region perspective*

Adjusted property tax base per capita for the most recent taxable year (N.C. Dept. of Public Instruction)	Adjusted property tax base per capita measures a local government's fiscal capacity and is not necessarily reflective of local economic conditions, especially in counties with a high number of vacation homes or residents who commute to other counties for work.	*The property tax, that's the one you need if you're saying these are for programs that benefit local governments because you need some idea of what the local government capacity is to carry that out." – a non-government stakeholder* *"[Property values] can sometimes move in different directions than the [other measures], especially in tourism heavy areas." – an economics researcher* *"So, we have a lot of people moving in from outside of our community, buying up homes and driving up property values. They're not working here... Really, they're just transplanting and living here and still working and doing their life in [another county]. And so that doesn't give a true snapshot of what's happening with the residents and the natives in our county that are struggling." – a non-government stakeholder with a tier 2 and mountains region perspective*

Does the stratification of counties into Tiers accurately reflect economic distress?

Five interviewees saw value in stratifying counties to distribute limited resources effectively, though the current system's use of three Tiers used to arrange counties was not seen as helpful by any. Stakeholders expressed that utilizing a greater number of smaller groupings or simply ranking counties 1-100 is more useful because of the variance between counties in the same Tier designation. The lack of meaningful distinctions between counties at the margins also contributes to the misrepresentation of county-level economic distress.

"With a world of limited resources, you have to target resources where they're most impactful." – a non-governmental stakeholder

Tiers' forced designation treats all differences between counties as the same, regardless of the magnitude of the difference. For example, using the 2023 tier designation calculations, the $6,031 difference in median annual household income between Orange County (Tier 3) and Wake County (Tier 3) was weighted the same as the $4 difference between Tyrell County (Tier 1) and Martin County (Tier 1). This "equalizing" does not reflect these counties' costs of living and how that impacts purchasing power. This approach creates a difference where it doesn't really exist and reduces real differences.

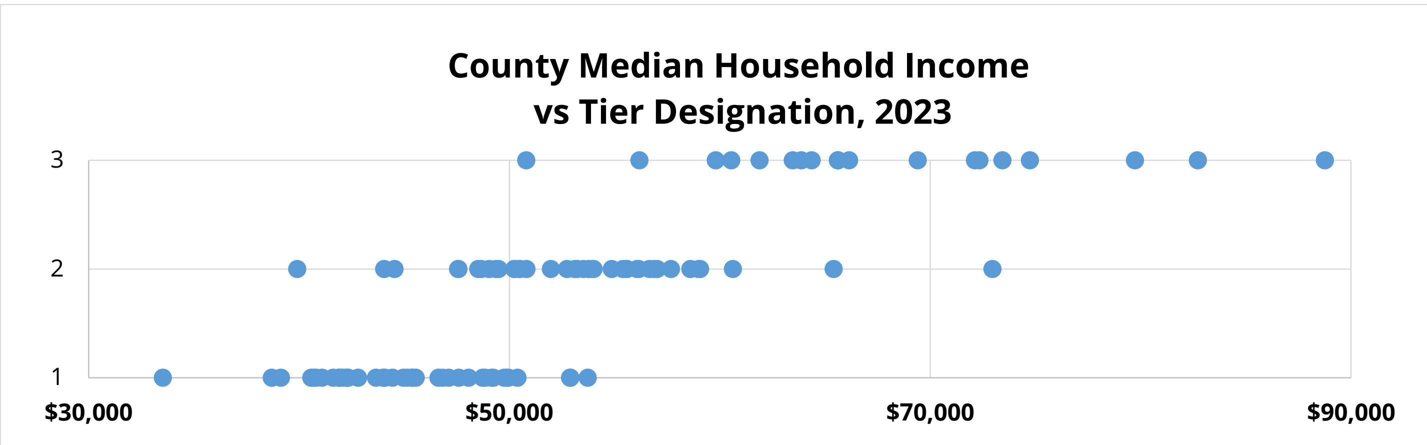
"I think that you could argue that [the Tiers System] makes a lot out of very small distinctions between counties... The real economic distinction between [a county that] has an unemployment rate of 5.02 versus 5.03, is probably economically insignificant... And yet because of the way that the Tiers work, everyone gets put into a slot. Everyone gets ranked one to one hundred. And so sometimes... the ranking sort of suggests that there's more of a distinction than there may really be." – a government stakeholder

Each stage of the tier calculation further obscures crucial differences in the underlying data. By the final step, the dividing lines are meaningless: a county's tier simply reflects its position relative to other counties, not its economic health or performance. A county is just as likely to move from one tier to another because another county's rank changes than to real shifts in its own economic health or performance.

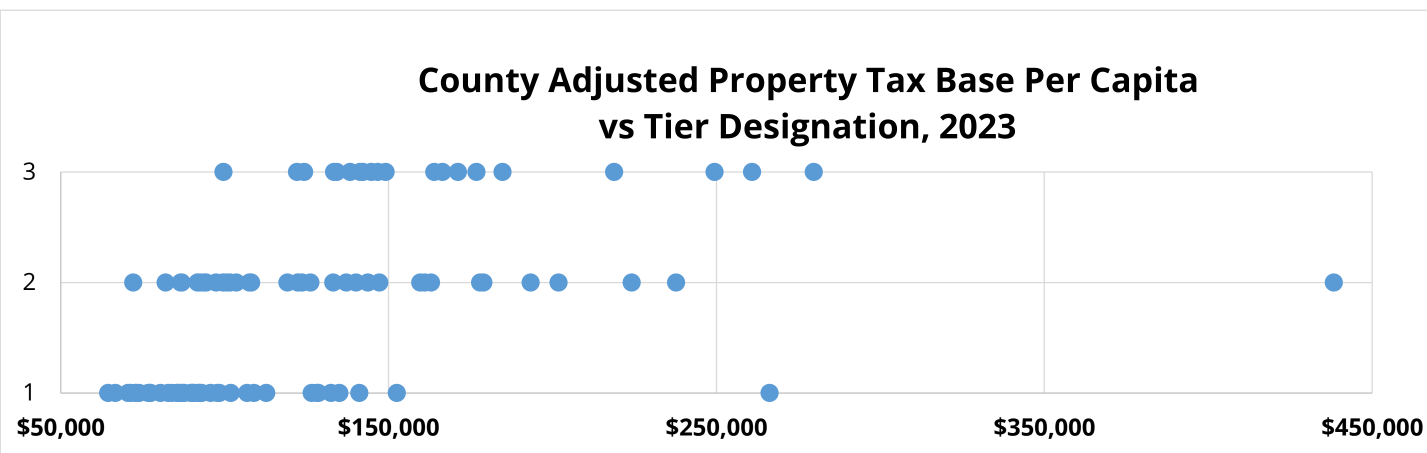
This lack of meaningful distinction between tiers is quantified by our data analysis. The following charts show the raw county values for each of the factors grouped by 2023 tier designation. Across all four factors we see more variation within tier designations than between them, calling into question the validity of the categories themselves.

So the question remains: what are the truly significant differences between counties? Applying a statistical analysis to these variables can determine where significant differences do exist, and indicate what groupings make sense mathematically.

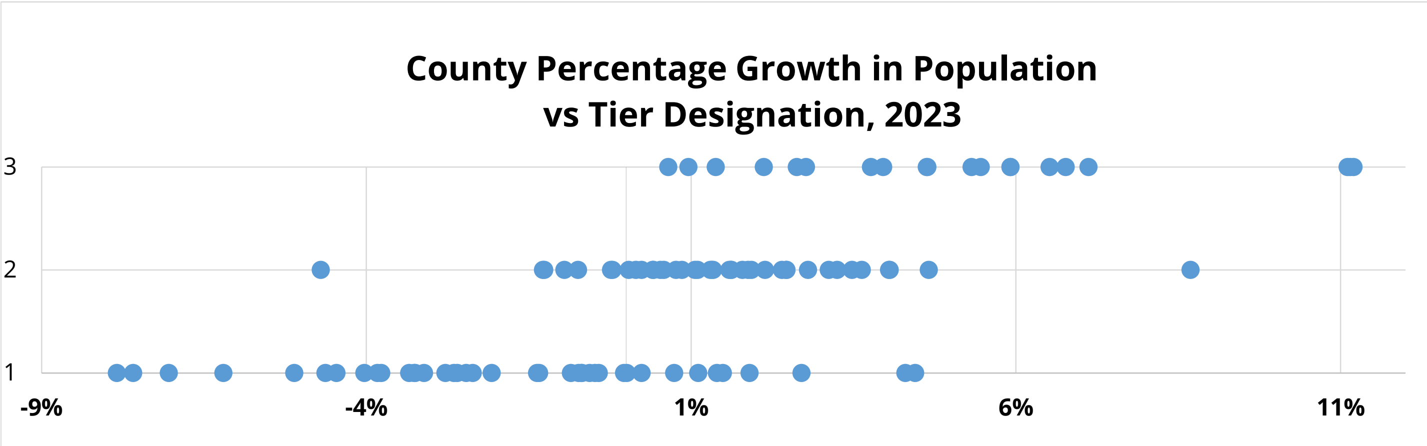
Figures 6-9:



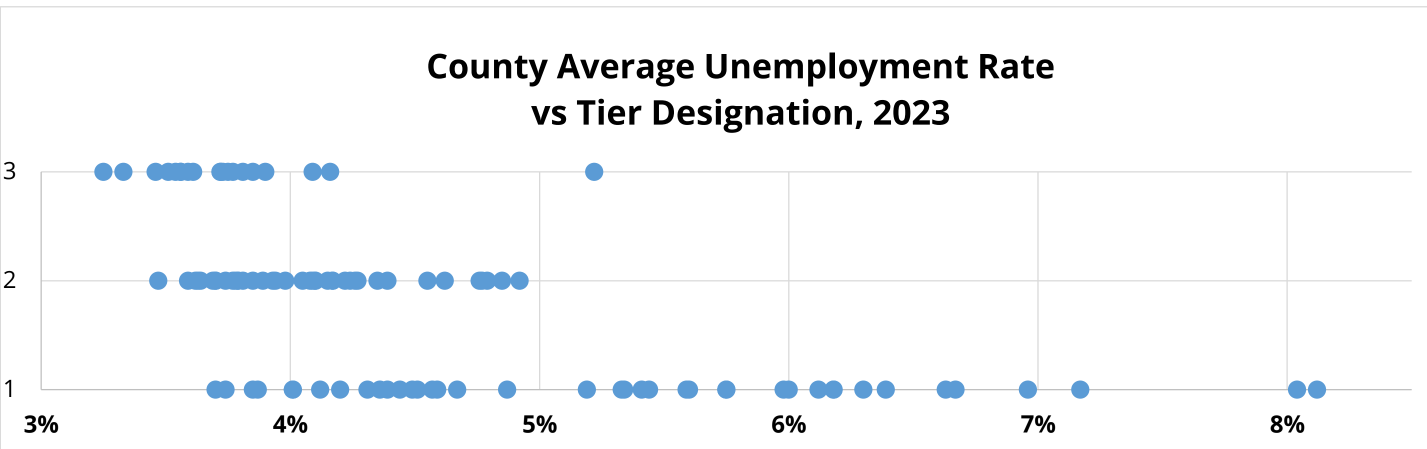
In 2023, 91 counties had a median household income that fell within the range of designated Tier 2 counties, $39,916 - $72,962.



In 2023, 92 out of 100 counties had a population growth rate that fell in the range of designated Tier 2 counties, -4.7% - 8.69%.



In 2023, 96 counties had a per capita property tax value that fell within the range of designated Tier 2 counties, $72,119 - $438,337.



In 2023, 74 counties had an unemployment rate that fell within the range of designated Tier 2 counties, 2.97% - 4.42%.

What are the implications of using the Tiers System beyond economic development?

Although Tiers' use in state-administered economic development programs was not viewed as inherently problematic, all stakeholders were critical of its application in unrelated discretionary funding and programs – adding that it should be restricted to economic development. Despite the system's stated goal, interview participants indicated that the Tiers System has become a default tool for allocating resources in a wide range of contexts, often without clear justification. For example, stakeholders noted that Tiers has been used:

- As a general measure of county needs.
- To prioritize counties and determine matching ratios for public school funding, even though there are no school-related measures used in the calculation.
- In connection with education loan forgiveness opportunities, medical cannabis licensing, and veterinary spay and neuter programs.

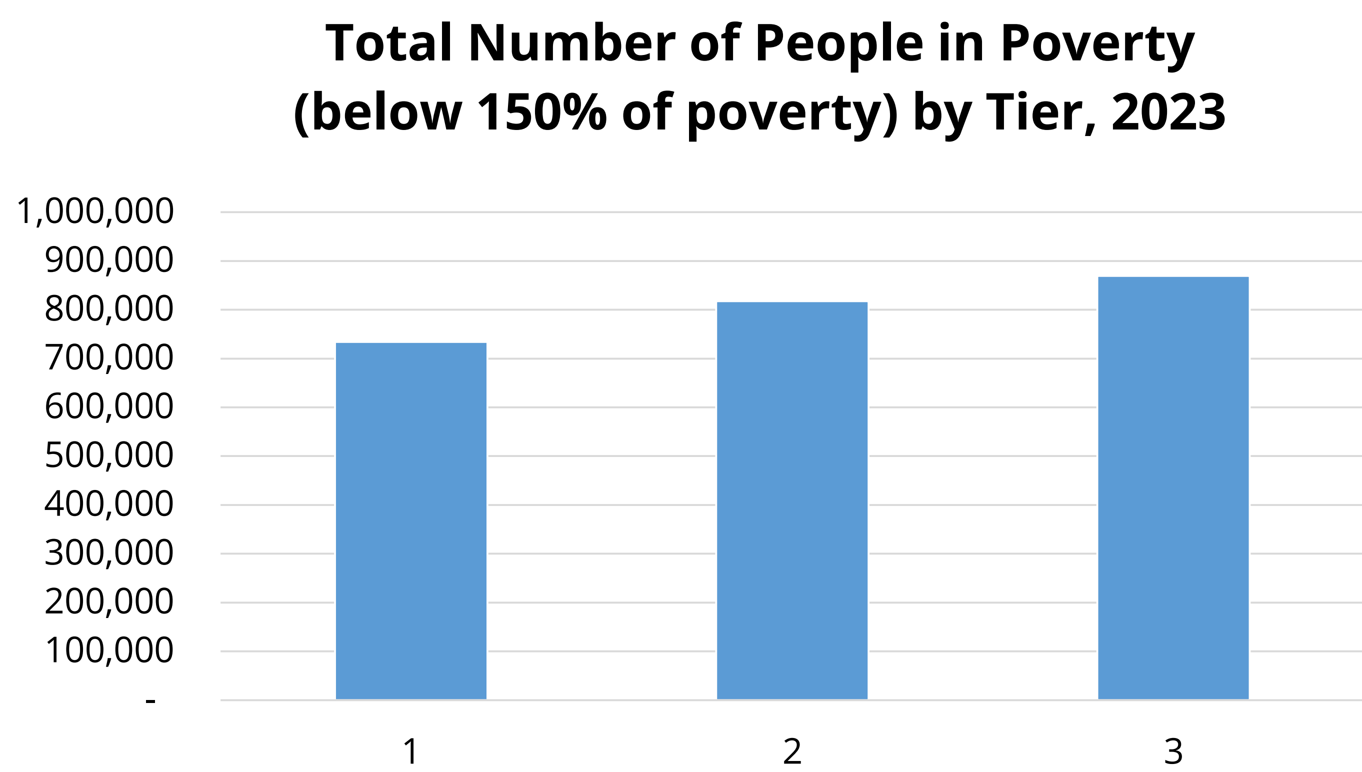
This broader adoption was described as a gradual process that was not explicitly encouraged, but has led the Tiers System to become increasingly entrenched in state government over time.

> *"It's just been like, if you don't know how to define something, you put it on the Tiers. Or if you're looking to do something and you want to make sure that no money goes to urban counties, then you can sometimes rely on the Tiers. And so, I feel like it's been a fallback for a lot of things, but it's not completely clear to me what it measures." – an economics researcher*

Is the Tiers System designed to help people or places?

Four stakeholders noted the system appears to prioritize rural counties over the most economically distressed communities, raising the question for some participants of whether the Tiers System is designed to help people or places, since urban areas often have higher numbers of economically distressed residents. Figure 10 shows there are more people living in poverty in the 20 Tier 3 (least distressed) counties than in Tier 1 and 2 combined. This translates to an average of 43,470 people living in poverty in each Tier 3 county, versus an average of 20,434 in Tier 2 counties and 18,357 in Tier 1.

Figure 10: Total Number of People in Poverty (below 150% of poverty) by Tier, 2023



Whether or not the goal of the system is to drive economic development in rural North Carolina, clarifying this purpose could help to reduce stakeholder misconceptions. For example, one stakeholder shared that they feel the system is falling short if its intended goal is to address the needs of the most economically distressed individuals, rather than places. Figure 10 illustrates this point, showing that in 2023 there were 135,084 more people living in poverty in Tier 3 counties than in Tier 1 counties.

"Is it really just an urban-rural thing? Is that really what we're talking about? I mean, if that's really what it is, let's just be honest." - a non-governmental stakeholder

How do tier designations impact program and funding eligibility?

More than half of the interviewees noted that Tiers designations can significantly influence eligibility for programs and funding opportunities, in some cases functioning as a rigid "on/off switch", restricting eligibility to counties with specific tier designations. This exacerbates frustration of higher-tier counties who are automatically excluded from economic development resources for highly distressed communities in their jurisdiction. In counties that move up the list, the "improvement" is a double-edged sword. Moving up may seem like a win to the public, but it may prevent future economic development funding.

"I saw people spin moving up in Tiers as positive, but in private they said, 'Yeah, this is going to hurt us on the next project'. So economic development is about momentum. And when you get that kind of setback, do you want to cheer and say, 'Yeah, we did better on this metric'. But inherently, if you believe that you're at a competitive disadvantage for the next project, it doesn't matter much." – a business stakeholder

One interviewee also noted that local leaders in counties that move to a lower tier can use this to their advantage to gain greater eligibility or prioritization for specific opportunities, even if only in the lower tier for one year. The tension is amplified by the 100-county ranking, since one county's movement to a lower tier pushes other counties higher regardless of any actual change in economic conditions.

"[A county's] economic conditions improve and they move to a tier ranking which gives them less of an advantage. They're disturbed about that. Because they know they're going to lose some advantage, whether it's true or not and how much of an advantage it really is, you could argue that. But yeah, people want to hold it. They like the perception that their economy is improving because that's the way economic developers keep their jobs, but they hate to lose any advantage in trying to recruit companies." – a business stakeholder

In other programs, the Tiers System is used as a consideration or reference for decision-making. For example, a Tier 3 county may be viewed as less favorable for a particular funding opportunity because of their higher tier designation but it is not a disqualifying factor. While this is generally seen as a process improvement among stakeholders, it still raises concerns about fairness and consistency in how resources are distributed.

As deployed, then, the Tiers System effectively creates "winners" and "losers" and fosters a culture of competition rather than collaboration. Two stakeholders noted that this is especially true among counties that fluctuate between tier designations often or tend to sit at the margins of tier designations. This competitive environment cultivates tension over perceived gains and losses rather than promoting shared economic progress.

Importantly, our research revealed a widespread perception that the tiers hold more power in determining program and funding eligibility than they often do in practice. For example, one interviewee explained that some N.C. Commerce programs utilize the Tiers System but extend eligibility to rural census tracts within Tier 3 counties, in addition to the previously eligible Tier 1 and Tier 2 counties. However, this nuanced application of the system is not widely known among local stakeholders. Due to this misperception, stakeholders may continue to desire and advocate for a lower tier designation even when other avenues for accessing support or resources might be available. Interviews indicated that this gap in understanding contributes to a sense of frustration with the system and its perceived limitations.

How does the Tiers System affect business development and investment decisions?

Twelve participants mentioned that they find the Tiers System to be ineffective at incentivizing business development because it does not significantly influence business location decisions. Interviewees emphasized that these types of incentives are not a primary consideration for most companies. Instead, they noted, businesses prioritize factors such as infrastructure, workforce, available sites, and quality of life. Two stakeholders who work closely with businesses reported that the Tiers System typically only comes into play later in the process, once they have identified sites that meet these more fundamental factors.

Five interviewees indicated that economic developers often target discretionary incentive programs like the One North Carolina Funding (OneNC) and the Job Development Investment Grant (JDIG) program, which utilize tier designations as one of six factors determining the size of the award. However, these programs also have limited influence over company decision-making compared to other factors. One example from the interviews was a tech company's expansion into a Tier 2 county that was driven more by site suitability and infrastructure than tier-based incentives. One stakeholder noted that the Tiers System appears to be more relevant to smaller, standard projects than larger, more complex investments.

"Tiers System incentives ultimately are not the leading project driver for companies or for site-selection consultants and ultimately why they're choosing a location for a project or an expansion, whatever it may be. Workforce, workforce training, higher education assets – you've got to have real estate product, pad-ready sites, buildings, infrastructure, water, sewer, electric infrastructure, and cost of doing business. All of these things are much more important." – a non-governmental stakeholder

Stakeholder Considerations for a Potential Re-Design of the System

Engaging Diverse Stakeholders

We asked interviewees who should be involved in designing or selecting a new economic assessment tool. Responses varied widely based on each participant's position in the economic development landscape, highlighting the need for a "large table" approach to bring together diverse stakeholders and ensure the tool is reflective of a variety of perspectives. The idea of a bottom-up approach that involves communities in the redesign process and annual designations also came up as a way for the state to ensure that the system remains relevant and adaptable to local needs.

Frequently suggested participants included:

- State and local government officials
- Economic developers and research professionals
- Community leaders
- Representatives from relevant nonprofits and the private sector

The precise stakeholders that should be involved in any conversation about changing the system will depend on the specific programs and purposes that the system is intended to support.

"Do you want to redesign the system exclusively for its intended original use, or do you want to redesign the system for the current bevy of programs that rely upon it? Because if you're going to open it up to all the different people that use it, you're going to have an insane number of stakeholders from all over the place. If you focus that effort on why the Tier System was created and its original intent, then I think you've got a fairly small group of stakeholders." – a business stakeholder

Aligning Tool Design with Intended Use

13 interview participants expressed concerns about the limitations of a single system for multiple broad applications, with nearly half of these participants also emphasizing that any redesign of the system should clearly align with the intended uses of the system, whatever they may be. For example, tools designed to support business and economic development should be different from those focused on promoting social welfare because the goals and metrics for success vary significantly. Interviewee sentiments indicate that developing tailored systems for specific uses provides more meaningful and effective solutions for the stakeholders and communities that rely on them.

Exploring an Index-Based Model

Rather than the Tiers System, an index would focus on tracking a county's economic progress relative to the state overall and/or against established benchmarks. Over half of the interviewees encouraged the exploration of an index-based model to provide a clearer picture of economic health and address concerns about fairness. More details about index-based models are in the next section and Appendix F.

"The difference between rank #1 and rank #2 looks like a 100th of an improvement in a ranking system. But it wouldn't have to look like that in an index. It could compare, how close are these unemployment rates, how close are these population growth rates, or how close are these median household incomes? Those distinctions would be better captured, and it would better capture outliers." – a government stakeholder

Factoring in Administrative Considerations

If the Tiers System were eliminated, three interviewees suggested a phased removal to mitigate disruptions in funding and programs, and four interviewees stressed the importance of prioritizing simplicity in a replacement for a straightforward and easy-to-understand system. Participants also highlighted the need for regular evaluations to assess the system's effectiveness over time and for transparent communication about how designations are determined and applied to facilitate trust and understanding.

To supplement these perspectives from stakeholders, a list of existing alternative approaches is included in Appendix F for reference.

Future Research

Additional research is needed to understand the implications of alternatives to the current Tiers System and chart a path forward. Following is a selection of questions to guide researchers:

1. **How many and what kinds of programs are currently using the Tiers designations, and in what ways?** While there is no definitive list of departments and programs deploying the tiers, the interviews and research reveal that they are being used by both governmental and non-governmental groups. Conducting a census of all the ways the system is being used and by whom would help determine unmet needs for decision-making data. Developing this list would require close communication with state offices.
2. **What would it mean for North Carolina to do away with this system, and what, if anything, is the cost of continuing it?** While many seem to agree that the system is not working, there is a great deal of inertia around changing it simply because it is the way things have been done for so long and it is embedded in so many programs. Considering the implications of dismantling it and reckoning with its costs or harms may be a way to shift the narrative and open new pathways for negotiation. Answering question one would be a precursor to this to understand the full scope of impact.
3. **What are the statistically significant differences between counties in terms of economic conditions and capacity?** A detailed statistical analysis of county metrics over time would reveal groupings of counties sharing similar challenges and inform a more strategic approach for support. Additional and more timely metrics – such as density of commercial activity, business starts and closures and building permits – could be explored. With access to good data, this could be the most quickly answered question and would help generate potential criteria for consideration later.
4. **What do stakeholders see as the primary goal of an economic development designation system?** Several goals were suggested in interviews, each requiring different metrics and methodology and aligning with a different overall approach:
   - Promoting economic development in rural or economically distressed areas
   - Allocating limited resources across all state programs
   - Assessing local capacity for project development
   - Increasing quality of life
   - Helping local leaders plan, set goals, and track progress

   The list of alternative approaches in Appendix F includes methodologies which could be investigated to support these goals. This question is likely the most time intensive and would involve a great deal of stakeholder engagement, however it is also the most critical.

5. **What factors are most important to business decisions about entering and expanding in North Carolina?** Stakeholders indicated that the system has little impact on business location decisions today, so understanding the factors that do influence decisions could lead to more strategic and relevant economic development supports for both businesses and communities. There is a great deal of economic development literature on this topic; compiling it into a policy brief for legislators to help guide next step could be sufficient.

6. **What would be the effect of using an index-based system?** An index calculation considers change over time or change relative to a target value, allowing a more nuanced comparison of county performance to the state, rather than just against each other. Researchers could investigate how existing indices, or a custom index, would apply in North Carolina and the effects on programs currently using the Tiers System. The list of alternative approaches in Appendix F includes some indices. Insight from previous questions on stakeholder goals and business priorities would determine if this was a suitable approach and guide the set of metrics in an index.
7. **What would be the effect of using a system based on local nomination/designation?** Enterprise Zones and the federal Opportunity Zone program both rely on local governments to designate regions that are a priority for new investment. This approach could strike a balance between the perspective of county leaders that feel that Tiers are not accurately capturing the need in their communities, with the state's need for prioritizing limited funds. Insight from previous questions on stakeholder goals and business priorities would determine if this was a suitable approach and help guide the selection of criteria for the zones.

Conclusion

Stakeholders across the board say the current Tiers System is inadequate. Their insights, coupled with our other research, reveals a need for rethinking the current approach.

It is crucial to note that changing the input factors will not fundamentally change the system. While it is tempting to conclude that tweaks to the input variables could make the current system more accurate, there will be little difference without changing the overall calculation method.

As it stands, the Tiers system is an ineffective, though convenient, tool. It fosters a sense of competition between counties yet has little impact on economic development deals. Our analysis shows there is more difference within each Tier than between them, and by its own definition 90 out of 100 counties are eligible for additional assistance, making it clear that it is an inaccurate capture of need. Anything that is designed to replace it must be clearly tied to specific goals, and clearly communicated to stakeholders.

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Appendix A: Timeline of Proposed Tiers System Changes

July 6, 1987 - Senate Bill 113

In 1987, the N.C. General Assembly established an employer tax incentive aimed at creating new jobs in economically distressed counties. Under this system, companies are eligible for a tax credit if they located their business in a severely distressed county. The N.C. Department of Commerce was then tasked with identifying the 20 most distressed counties in the state based on unemployment rates and per capita income.

August 2, 1996 - Article 3A, William S. Lee Tax Incentives

In 1996, the William S. Lee Tax Incentives for New and Expanding Businesses were introduced to encourage capital expansion, professional development, innovation, and job creation. This legislative act also created a five-tier system to categorize counties into the 10 most distressed counties, the next 15 most distressed counties, and three groups of 25 counties representing the least distressed areas of the state.

August 4, 1999 - Senate Bill 1115

Three years later, the act was amended to prevent counties in Tier 1, the most economically distressed tier, from moving to a higher tier until they had remained at Tier 1 status for at least two consecutive years.

August 17, 2006 - Article 3J, Tax Incentives Program

In 2006, the William S. Lee Tax Incentives were replaced with a new tax incentive program that reduced the county tier system from five tiers to three tiers. This new legislation also included a specific tax credit amount for each new job created, with the credit amount depending on the county's tier. Jobs created in Tier 1 Counties offered the most credit and jobs created in Tier 3 Counties offered the least credit.

December 2015 - Program Evaluation Division Report

Following the tax incentives program's expiration in 2014, the Program Evaluation Division of the N.C. General Assembly conducted a full evaluation of the Economic Development Tiers System. This evaluation identified several flaws in the accuracy and effectiveness of the Tiers System. In their final report, they call for the General Assembly to discontinue the Tiers System and reexamine the State's strategy for identifying and assisting economically distressed communities.

May 10, 2016 - Senate Bill 844 (or HB 1082) - Not Passed

In 2016, a bill was introduced that instructed state departments to stop using the Tiers System and independently develop criteria to achieve the objectives of each program. This bill did not pass and failed to eliminate the use of economic development tiers.

April 4, 2017 - Senate Bill 660 - Passed

In 2017, changes were made to the metrics used to determine a county's economic development tier. Each metric, unemployment rate, median household income, population growth, and per capita property value, was assessed for each county and compared to the state's metric on an index. This bill also eliminated automatic tier qualifications based on population and the stipulation that tier one counties must stay tier one for two consecutive years. Additionally, this bill removed tier designations for eco-industry parks, multijurisdictional industrial parks, and two-county industrial parks.

April 11, 2017 - House Bill 795 - Not Passed

This bill, introduced in the House almost immediately after the previous bill, called for changes in the metrics used for tier designations. Per capita property value remained the same, population growth was eliminated, median household income changed to average annual wage, and unemployment rate changed to the ratio of employment to population for 25–64-year-old residents. This bill also proposed "high-growth areas," where county metrics exceeded the state's metrics. Finally, this bill proposed similar changes to population qualifications and industrial park designations as the previous bill.

April 4, 2019 - Senate Bill 597 - Not Passed

This bill proposed an additional five-tier "enterprise tiers" system to be used alongside the three "development" tiers. There would be 20 counties per tier and the enterprise tier designation would be included in the same report as the development tier.

April 5, 2021 - Senate Bill 491 - Not Passed

Three years later, a second attempt to add an additional five-tier "enterprise tiers" system to be used alongside the three "development" tiers was introduced. Again, it did not pass.

May 5, 2021 - House Bill 870 – Not Passed

After Senate Bill 660 removed population qualification requirements in 2017, this 2021 bill was introduced that denotes that any county 30% or more located within a rural census tract is automatically disqualified from being in Tier 3. Rurality was linked to economic distress once again.

January 26, 2023 - House Bill 13 - Not Passed

This bill called for the Joint Legislative Economic Development and Global Engagement Oversight Committee to evaluate the tiers system for possible adjustment or elimination.

April 10, 2023 - Senate Bill 671 - Not Passed

A few months after the previous bill called for a systems evaluation, this bill was proposed calling for all state departments, excluding Commerce, to cease use of the Tiers System. Each department was instructed to create their own criteria to evaluate economic distress. Additionally, this bill changes the existing Tiers System so that Tier 1 would include the 20 most distressed counties, Tier 2 would include the 50 moderately distressed counties, and Tier 3 would include the 10 least distressed counties. Any county that had a population density of over 750 people per square mile would automatically receive a Tier 3 designation.

Appendix B: N.C. County Tiers System: A Review

This report was produced through a collaboration between NCGrowth at the Kenan Institute of Private Enterprise and the ncIMPACT Initiative at the UNC School of Government.

Introduction

The North Carolina County Tiers System was developed out of a desire to spur economic development in economically distressed geographic areas. County Tier designations were originally intended to help determine whether a company would receive tax incentives for local job creation. In the Tiers System, counties are classified from most distressed, Tier 1, to least, Tier 3. Since its inception, the Tiers System has also been used to allocate school funds, determine health care provider loan forgiveness, and more. The simple method of calculating Tiers and the diverse ways in which Tiers are used have created many challenges, including:

- The designation obscures sub-county-level needs and characteristics. Tier 3 counties have communities in them that experience Tier 1 level distress.
- The system has failed to slow the growing economic disparity observed between the state's urban and rural areas.
- The Tiers System as originally designed was linked to one specific economic development program; its broad application now conflates economic status with education, health and other specific community needs that would benefit from more targeted metrics.
- The system's method of force ranking the 100 counties is much like grading on a curve. Under the forced ranking, a county may change Tiers simply because its position changed relative to other counties, having nothing to do with the underlying economic circumstances within the county of interest.
- The ubiquity and false simplicity of the system have led communities and policymakers to assign objective meaning to Tier status, when it is merely a reflection of the county's status in relationship to other counties. The system cannot be used to set benchmarks or assess progress as it does not give an indication of economic performance that could be used to set goals, i.e. is our county performing at the level that we would like it to?

History of the Tiers System in NC

In 1987, a new tax incentive for companies was introduced that attempted to promote job creation in distressed counties. As a result, the N.C. Department of Commerce was tasked with identifying the 20 most distressed counties to encourage area specific growth. Subsequently, the William S. Lee Tax Incentives for New and Expanding Businesses were introduced, which promoted capital expansion, professional development, and innovation, along with job creation. This legislation also developed a five-Tier system to stratify counties by economic distress level.

In 2006, the William S. Lee Tax Incentives were replaced with a similar tax incentive program that reduced the number of Tiers from five to three. This new legislation offered a specific credit amount per job created. The credit amount was linked to the Tier of the county in which the new job was created. Tier three counties offered the least credit, and Tier one counties offered the most credit. That program expired in 2014. Since then, the Tiers System is primarily used to determine allocation of funding for state-funded programs across departments. There are two economic development incentives that still utilize the Tiers System: the Jobs Development Investment Grant (JDIG) program and the One North Carolina Fund. Both are discretionary grants awarded only in competitive recruitment or retention situations. The county Tier designation is used to determine the level of local match required and the size of the grant awarded.

Current Tiers System Definition

NC General Statute 143B-437.08 defines how the Tiers are categorized and how counties are assigned a Tier. The counties are first ranked based on four determining factors:

1. Average Unemployment Rate
2. Median Household Income
3. Percentage Population Growth
4. Adjusted Assessed Property Value Per Capita

These rankings are then summed for a total 'rank sum.' As there are 100 counties, this rank sum will range from 4 to 400. The 40 counties with the lowest rank sum are designated Tier 1 counties, the next 40 are Tier 2 counties, and the 20 with the highest rank sum are Tier 3 counties. Statute requires this 40/40/20 split; in the event of a tie both counties are placed in the lower tier. Each year by November 30th, the Secretary of Commerce submits a written report on how the rankings are calculated and each county's designated Tier. The memo states "Any county underperforming the state average on any of the four factors may request assistance from the Department to improve their performance on the given factor."

Changes to the Tiers System

There have been multiple proposed bills to adjust or eliminate the Tiers System (see appendix). Originally, Tier 1 counties held this status for at least two consecutive years before the county could be redesignated. This criterion was later changed requiring counties to be redesignated yearly. The Program Evaluation Division of the North Carolina General Assembly evaluated the Tiers System in late 2015, resulting in an almost 40-page report on its merits, weaknesses, and recommendations for future implementation. Most recently, proposed Senate Bill 671 (4/10/2023) called for all departments, excluding the Department of Commerce, to stop using the Tiers System by July 1, 2025. Each department would develop their own development criteria to use instead of the Tier system. This bill also proposed changes to § 143B-437.08, including making an adjustment for urban counties that are population dense to automatically fall within the10 least distressed counties, ensuring these counties receive a Tier 3 designation. Additionally, the changes called for the Department of Commerce's report to specify low-wealth census tracts within Tier 3 counties. A full timeline of proposed and enacted changes to the Tiers System is in the appendix in Figure 1.

Current Tiers System Usage

The Tiers System is now used in dozens of state programs, by statute and voluntarily, to determine eligibility, prioritization of funding, funding allocation and required local contribution. There are seven programs within Department of Commerce meant to spur economic development that factor in county Tier designation (listed here); beyond that there are a multitude of programs unrelated to economic development and administered by a range of departments that also rely on the Tiers System either by statute or voluntarily. A few recent examples of Tiers in use outside of economic development programs include:

- Public school funding: The 2023 Governor's Budget allowed Tier 1 and Tier 2 public schools to receive priority for hiring nurses and social workers. These counties also could receive financial advice from state agencies on how to spend allocated funds. This bill also delineated the ratio at which counties receive matched state funds based on Tier. Tier 1 counties had a dollar matching ratio of 1:3, Tier 2 counties had a dollar matching ratio of 1:2, and Tier 3 counties had a dollar matching ratio of 1:1.
- Education loan forgiveness: The 2023 Appropriations Act used the Tier system to provide health care providers in Tier 1 and 2 counties with education loan forgiveness.
- Medical cannabis licenses: To obtain a license, suppliers are required to operate at least one dispensary in a Tier 1 county and priority is given to those that commit to dispensaries in more than one Tier 1 county. See the side bar for further discussion of this proposed use of Tiers.
- Veterinary Spay and Neuter Program: Tier 1 counties are prioritized for reimbursement when program funds are insufficient to pay 100% of the requests.

Many stakeholders criticize how the Tiers System is currently used because it is a specific metric being applied broadly, it is used as an 'on/off switch' to determine program eligibility, and it forces the county rankings into three categories.

How do other states prioritize economic development resources?

County-level Tiers Systems used for allocating funds for economic, educational, and health programs are not common outside of North Carolina. In place of Tiers, many states use localized grant funding, census tracts, or community nominations to determine where economic development would be the most impactful. **South Carolina** has a four-Tier system that is used solely to administer tax incentives to companies who create jobs in low-wealth counties. Unlike in North Carolina, the South Carolina Tier system is not used by any other state agency or for any non-economic development-related purpose. South Carolina's Coordinating Council for Economic Development oversees the Tiers System as well as all other economic development efforts. This council evaluates potential projects on a case-by-case basis and determines what projects to fund. After allocating funds, economic development activities are primarily managed and administered by partner organizations.

Virginia's state economic development programs offer loans, grants, and tax abatement. The Joint Legislative Audit & Review Commission is statutorily required to evaluate economic development programs and report on findings. The FY13-FY22 report found that most economic development incentives since 2017 have been custom grants. Grants are administered with specific goals for each program, most of which are in the areas of job creation, average wages, and capital investment. Some of Virginia's economic development incentives rely on area economic distress levels in the state. Until 2021, the state primarily focused on rural areas as low population density was equated with economic distress. Since then, the state has recognized that distress is not only present in rural areas and now considers attributes such as access to capital, educational attainment, aging infrastructure, and others to determine distress levels. These factors are used to determine eligibility for state-funded economic development programs on a case-by-case basis.

Alabama also uses county-specific measures to define two economic development designations under its Enterprise Zone Program, originally enacted in state legislation in 1987. "Targeted Counties" have a population of 50,000 or fewer. 45 of Alabama's 67 counties were designated Targeted Counties in 2024. "Jumpstart Counties" are those that are not Targeted Counties, have experienced negative population growth, and as of 2019 house fewer than two Opportunity Zones (economic development program established by Congress in the Tax Cuts and Jobs Act of 2017). No counties qualified as Jumpstart Counties in 2024. More recently, these county classifications are used for economic development purposes including capital investment embedded in the Alabama Jobs Act and tax credit for job creation, allowing companies to claim a tax rebate if they meet specific job creation or capital investment thresholds. Greater incentives are offered for job creation and capital investment that occur within Targeted or Jumpstart Counties.

Texas uses nominations to determine how discretionary funding is spent on economic development programs. Community-nominated Enterprise Zones qualify for a sales and use tax refund from the state. Businesses in these Zones can qualify for refunds based on capital investment and average wages for full-time employees. Additionally, Texas utilizes grants or loans for purpose-based initiatives. For example, the Texas Water Development Board provides financial assistance for projects serving economically distressed residential areas where water or sewer services do not exist, or existing systems do not meet state standards.

Economic development measures and strategies vary widely. Some systems use population density, income, unemployment rate, access to education, or other factors to determine how distressed an area is. These measures differ in effectiveness when using counties, municipalities, states, or census tracts. Below is a distilled analysis of three major frameworks used to measure distress with the goal of alleviating that stress through development initiatives or resource redistribution.

Conclusion

The North Carolina County Tiers System was originally developed to encourage job creation in economically distressed counties by providing tax incentives. Since then, the system has been broadly applied as on indicator of distress that is used for education funding, health programs, and other reasons unrelated to economic development, drawing questions and criticism from many stakeholders as to whether it accomplishes its stated purpose. North Carolina is unique in its use of a Tiers System, and even among peers that use a Tiers System is unique in the broad application of that metric outside of economic development.

Timeline of Proposed Legislative Changes to Tiers

July 6, 1987	Senate Bill 113 Created an employer tax incentive for companies creating new jobs in distressed counties Department of Commerce identified the 20 most distressed counties in the state
Aug 2, 1996	Article 3A, William S. Lee Tax Incentives Incentivized capital expansion, professional development, innovation, and job creation Created five-Tier system for counties: the 10 most distressed counties, the next 15 most distressed counties, and three groups of 25 counties representing the less-distressed areas of the state
Aug 4, 1999	Senate Bill 1115 Amended Article 3A to prohibit Tier 1 counties from moving to a higher Tier until the county has had Tier 1 status for two consecutive years
Aug 17, 2006	Article 3J, Tax Incentives Program Incentivized capital expansion, professional development, innovation, and job creation County Tiers System reduced from five Tiers to three Tiers Planned sunset for tax incentives in 2014
Dec 2015	Program Evaluation Division Report Full evaluation conducted calling for Tiers System elimination
May 10, 2016	Senate Bill 844 (or HB 1082) – Not Passed Instructed departments to discontinue use of the Tiers System and create their own development criteria
April 4, 2017	Senate Bill 660 – Passed Removed adjustments and exemptions for the Tiers System Added an index with development factors for standardization of the county ranking process
April 11, 2017	House Bill 795 – Not Passed Proposed changes to Tier determination criteria; ratio of employment to population instead of unemployment rate and annual average wage instead of median household income Departments have the option to discontinue use of the Tiers System
April 4, 2019	Senate Bill 597 – Not Passed Proposed an additional five-Tier economic distress system to be used along with the three-Tier system
April 5, 2021	Senate Bill 491 – Not Passed Proposed an additional five-Tier economic distress system to be used along with the three-Tier system
May 5, 2021	House Bill 870 – Not Passed Proposed that sufficiently rural counties are automatically excluded from being ranked in the lowest 20 counties.
Jan 26, 2023	House Bill 13 – Not Passed Called for Joint Legislative Economic Development and Global Engagement Oversight Committee to evaluate Tiers System for possible elimination
April 10, 2023	Senate Bill 671 – Not Passed Departments (excluding Commerce) to stop using Tiers System and create departmental development criteria

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Appendix C: Previous Research into the Tiers System

- "North Carolina Should Discontinue the Economic Development Tiers System and Reexamine Strategies to Assist Communities with Chronic Economic Distress."
  - In late 2015, the Program Evaluation Division of the N.C. General Assembly published a report that answered questions relating to why the Tiers System was created and how could it be made better. The PED reviewed legislation, interviewed stakeholders, and held small group discussions with representatives across the state who interacted with the Tiers System. The report recommended that the Tiers System be discontinued, and new distress measurements and aid strategies be developed.

- Applying an Economic Index to Measure Distress
  - This presentation was given by a representative from the N.C. Department of Commerce in early 2016. The presentation outlines the department's recommendations for changes to the Tiers System including using an index to score counties and using new metrics to reach these scores.

- "Measures of County Economic Well-Being and Local Revenue Capacity"
  - This early 2018 presentation by Cindy Avrette, Emma Turner, and Rodney Bizzell of the N.C. General Assembly discusses the Tiers System and how distress is defined for economic development in North Carolina. The presentation concludes that the measures used for distress do not constitute a cohesive definition of distress and that changes to the Tiers System are ultimately up to the General Assembly.
  - This presentation is accompanied by this memo, Selection of economic indicators for measuring economic well-being, which also describes the indicators of distress used by the Tiers System.

- Mapping CED Progress...and Struggle: The 2024 N.C. County Tier Rankings
  - This blog post, published by faculty at the UNC School of Government, discusses the history of the Tiers System. It also discusses an example of a county which recently changed tier designations and the implications that has on economic development in that county.

Appendix D: Interview Guide

Interview Guide

This guide is primarily used to ensure the key areas are covered during the call versus as a script.

Introduction, Context Setting:

NCGrowth and ncIMPACT are researching and analyzing the N.C. Department of Commerce Tier System. We are connecting with stakeholders like yourself and others who use or may be affected by the Tier System. We are exploring: (1) Awareness and understanding of the Tier System; (2) Experience with the System; (3) Tier System as a measurement and designation tool; and (4) Policy administration and operationalization of the System.

Based on your (current or previous role/experience as___________), we would love your candid feedback and insights.

Before we get started, we'd like to ask your permission to record this call for research purposes. All contents will remain confidential to the research team. Any feedback will be aggregated and anonymized when reported, removing personally identifiable information. Do we have your permission to record?

Interview Prompts

Section 1: Awareness and Understanding

1. What is your level of familiarity with NC's Development Tiers?
2. How would you describe the Tiers System?
3. What is your understanding of how it is used and who uses it?

Section 2: Experience With N.C. Development Tiers

1. What is your working experience with Tiers?
2. Why was Tiers used?
3. What, if any, guidance or resources did you receive with understanding use of Tiers?
4. How would you describe the effectiveness of Tiers for this use?
    - Positives
    - Negatives
    - Gaps
5. What, if any, other systems were considered?

6. *Not in order but suggest including in interviews with Economic Development organizations that use but do not make policy and in corporate site selection. *
   - What is the strategic process for site selection?
   - What are the primary drivers for selecting state/region/location contenders? (Specific community or location measures.)
   - When, if ever, is economic distress considered and how is that weighed in decision making?

Section 3: Tier System as a Measurement and Designation Tool

1. Is Tiers an accurate gauge of economic distress? Why?
2. What evidence or use cases illustrate the stakeholder's response?
3. Can you share specific examples or use cases?

Section 4: Alternative Systems

1. What, if any, other economic development assessment tools are you familiar with?
2. What, if any, other community development assessment tools?
3. What if any of these tools are well regarded or successfully matches intention and application? Not well regarded?

Section 5: System Elements

1. What elements must be included in an economic distress assessment tool?
2. What elements should not be included?

Section 6: Policy Administration and Operationalization of a System

1. What stakeholders should provide input on designing or selecting an assessment tool?
2. What kind of administrative considerations need to be part of designing or selecting a tool or system?

Closing question:

Are there others you recommend we speak with?

Appendix E: Additional Interview Methodology Details

Requests for interviews were administered by email and phone and interviews were conducted via Zoom on a rolling basis from July to October of 2024. Each interview lasted approximately 45 minutes. At least one member of the research team participated in each interview to facilitate the conversation, with an additional member of the research team participating as a note-taker when possible.

Each interview began with introductions and an overview of our research objectives. Stakeholders were assured that all interview contents would remain confidential to the research team and responses anonymized when reported, removing personally identifiable information. This was critical to ensure that subjects felt empowered to provide candid feedback and insights.

The interview guide was not used as a script; its primary function was ensuring that key areas were covered. In this way, interviewees guided most of the conversation, sharing their full perspectives and focusing on aspects they felt to be of importance. This approach was deemed most appropriate given the diversity of roles and experiences across interviewees.

Appendix F: Alternative Approaches

Below is a sample of existing alternative methodologies that attempt to measure distress, guide policy making and encourage investment.

- Persistent Poverty Designation – The U.S Census Bureau's Persistent Poverty Designation is an example of another place-based indicator of economic distress. High-poverty areas are more likely to experience acute systemic problems, and those that have been in poverty longer are more likely to lack the infrastructure to address these issues. The Bureau defines counties as being in persistent poverty if they maintain poverty rates of 20% or more for the past 30 years. Eight of North Carolina's 100 counties meet this standard: Bertie, Bladen, Columbus, Halifax, Northampton, Pitt, Robeson, and Washington.
- Opportunity Zones – A federal program in which census tracts were nominated by local and state governments to receive development incentives.
- Enterprise Zones – geographic designations typically by neighborhood or census tract made by local and state government based on a set of criteria to encourage investment. Texas, Virginia, Georgia, Maryland, and Colorado are examples of states that use enterprise zones.
- Community Benefits Agreements (CBA) – contracts between local governments, community organizations and private companies detailing incentives and requirements specific to a development project. Instead of targeting a geography, CBAs are tailored to each project to ensure that community needs are met.
- North Carolina Resilience Index from the North Carolina Pandemic Recovery Office (NCPRO) evaluates local economic health and resilience across the state. It uses a variety of measures – including employment, income, education, housing, and demographics – to rank counties on a one to 100 scale for overall community resilience and on nine resilience metrics. Notably, ranking is still core to this system's calculation, however it uses the raw ranking as opposed to grouping counties based on rankings as Tiers does.
- The Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry (CDC/ATSDR) Social Vulnerability Index measures demographic and socioeconomic factors that adversely affect communities that encounter hazards. It obtains or derives four themes from 16 U.S. Census variables: socioeconomic status, household characteristics, racial and ethnic minority status, and housing type and transportation. Percentile rankings are created for each one and then summed.
- Upward Mobility Framework from the Urban Institute assesses five pillars of community support using 24 predictors, including living wages, access to preschool, housing stability, access to health services, and political participation. County data is reported via its Upward Mobility Data Dashboard.

The Kenan Institute of Private Enterprise develops and promotes innovative, market-based solutions to vital economic issues. With the belief that private enterprise is the cornerstone of a prosperous and free society, the institute fosters the entrepreneurial spirit to stimulate economic prosperity and improve the lives of people in North Carolina, across the country and around the world.

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