Community Development and Housing

Efforts to expand affordable housing production and to stimulate economic development in the state’s most distressed communities were particularly successful in the General Assembly in 1998. In addition to increasing funding for a number of core public and nonprofit community development organizations, the General Assembly approved funding and enabling legislation for two new initiatives that could prove to be invaluable tools for community developers working in rural areas or areas of concentrated urban poverty. Those two initiatives are the water and sewer and natural gas bond package and the establishment of state economic development zones.

Community and Economic Development

Perhaps the most important piece of community development legislation this session, S.L. 1998-55 (S 1569) introduced a variety of job creation and investment tax incentives for new and expanding businesses to stimulate local economic activity in the state’s most distressed communities. The legislation complements the William S. Lee Quality Jobs and Business Expansion Act (William S. Lee Act), which was adopted by the General Assembly in 1996 and is codified as Article 3A of G.S. Chapter 105. S.L. 1998-55 is discussed in greater detail in Chapter 26 (State Taxation).

State Development Zones

Under the William S. Lee Act, companies receive tax credits for jobs they create. The amount of the credit is based on the designation (Tier One through Tier Five) of the county in which the jobs are created: the poorer the county (i.e., the lower the tier number), the larger the tax credit. S.L. 1998-55 gives companies an additional $4,000 tax credit for each job created in a development zone.

A development zone consists of contiguous census tracts or block groups in which the poverty level exceeds 20 percent. The development zone area must have a population of 1,000 or more and must be located in a city with a population of more than 5,000. There is no maximum size for a development zone. The Department of Commerce estimates that at least sixty-one cities presently have eligible development zones.
A development zone is considered an enterprise Tier One area for purposes of the credit for investing in machinery and equipment and the credit for worker training. For all other purposes, a development zone has the same enterprise tier designation as the county in which it is located.

A local government or taxpayer must request the Secretary of Commerce to certify the development zone in order for the credits to be available. A strategy for revitalizing the zone must be developed and submitted with the request for zone certification. Once certified, the designation is effective for forty-eight months. To qualify for development zone credits, the jobs created by businesses must pay at least 100 percent of the applicable average weekly wage for the county, which is the wage standard in the William S. Lee Act that applies to Tier One counties.

In addition to the tax incentives, the development zone designation means that projects located within the zone are given priority in the Small Cities Community Development Block Grant program. This benefit is available, however, only if the local government appoints a zone committee and adopts a strategy to improve the zone in conformity with requirements established by the Secretary of Commerce.

In its final form, S.L. 1998-55 did not include some significant provisions that community developers had sought. For example, community developers had suggested that the legislation include only $2,500 in tax credits (in addition to those credits already provided for in the William S. Lee Act) for each job created within a zone but further stimulate the local economy by allowing an additional $4,000 “bonus” credit for hiring zone residents and Work First participants. Community developers had also suggested the inclusion of “Neighborhood Partnership Incentives,” which would have offered tax credits to individual and corporate taxpayers who invested in neighborhood-based development zone projects. Those incentives were aimed at stimulating investments and contributions in zone-based small businesses and projects sponsored by community development corporations, credit unions, community development financial institutions, and housing authorities. The Neighborhood Partnership Incentives were introduced as a separate bill (S 396), which passed the Senate but did not make it out of the House Rules Committee. Last, the Department of Commerce had sought appropriations for two types of direct state development funding: project funding and zone funding. Project funding would have been made available by grants to specific economic development projects in any certified zone. Zone funding would have been made available, through a competitive process, to approximately eight zones to offset nonspecific development costs, such as infrastructure improvements, acquisition and disposition of key development sites, and predevelopment planning.

Other Economic Development Provisions

S.L. 1998-55 makes the following additional changes to existing law:

- It expands the Industrial Development Fund and Utility Account to include the same businesses as the William S. Lee Act.
- It extends the Utility Account to include Tier Two counties.
- It raises the amount of the maximum grant under the Industrial Development Fund from $4,000 to $5,000 per new job and from $400,000 to $500,000 per project.
- It permits the Department of Commerce to allow a local government to use 2 percent of its Industrial Development Fund grant to administer the grant.
- It increases the worker training credit from 50 percent of the wages paid to eligible employees to 100 percent.
- It amends the William S. Lee Act to expand the central administrative office credit to gross premiums taxes and to jobs created before the property is constructed.
- It provides that the investment tax credit threshold applies only once for a two-year project.
- It expands the investment tax credit to operating leases for projects over $150 million.
- It expands the research and development tax credit.
- It simplifies the worker training tax credit.
- It imposes a $75 fee for incentive applicants.
- It extends the credit carryforward period for projects over $150 million.
- It provides for a single tier designation for two-county industrial parks.
It clarifies that credits are allowed for businesses that are sold only if there is imminent closure of an employee buyout.

It clarifies the method of calculating the investment tax credit for leases.

It clarifies the definition of the types of businesses eligible for incentives.

Other aspects of the final legislation (a mixture of tax incentives and exemptions) were part of incentive packages designed to benefit specific businesses, namely the Federal Express air courier hub in Guilford County and Nucor steel mill in Hertford County.

Water and Sewer and Natural Gas Bonds

In a major step toward improving the public infrastructure of North Carolina’s rural and distressed urban communities, the General Assembly authorized a November 1998 statewide referendum on the issuance of $800 million in general obligation bonds for water and sewer projects and another $200 million in bonds for the extension of natural gas service. S.L. 1998-132 (S 1354). North Carolina voters approved both measures.

The water and sewer bonds will provide $500 million in state matching funds for federal wastewater or water supply grants, additional funding for the Clean Water Revolving Loan and Grant Fund, and funding by grants to local governments for wastewater treatment and water supply and distribution needs. The bonds will also provide $300 million in loans to local governments to finance the cost of water supply and distribution systems, wastewater collection systems, wastewater treatment works, water conservation projects, and water reuse projects.

Of particular interest to community developers are those portions of the funds set aside for rural counties to finance water and sewage projects, sewage grants for communities lacking sewers, and grants to subsidize water and sewer service for industrial recruitment. Backers of the bond referendum promise that these bonds will not only restore waterways, but will also spur economic growth.

The legislation gives priority to local governments with comprehensive land use plans, capital improvement plans, and water reuse and conservation programs. Priority is also given to local governments that reduce their overall volume of wastewater. Projects may not be funded that would extend water or sewer lines for new connections in any WS-I watershed or within critical areas for WS-II, WS-III, or WS-IV watersheds. Waivers are allowed, however, for correction of preexisting water quality of health problems. The legislation permits a county to apply for a school water or wastewater project grant on behalf of a rural school located in the county.

S.L. 1998-132 also creates a new nineteen-member State Infrastructure Council. G.S. 143-690. The council is charged with developing a statewide strategic plan that addresses North Carolina’s water supply and distribution and wastewater treatment needs. Located within the Department of Environment and Natural Resources, the Council consists of four persons appointed by the Governor; five persons appointed by the President Pro Tempore of the Senate; five persons appointed by the Speaker of the House of Representatives; and the Secretary of Commerce, the Secretary of Environment and Natural Resources, the State Treasurer, the Executive Director of the League of Municipalities, and the Executive Director of the North Carolina Association of County Commissioners.

Housing

Abandoned Housing

In recent years, the General Assembly has received increasing numbers of requests for assistance from local governments searching for ways to deal with the problem of abandoned housing. Abandoned houses can cause far more than aesthetic problems. If used for illicit purposes, as they often are, they create health and safety hazards for their surrounding neighborhoods.

G.S. 160A-443(5a) allows municipalities in counties with populations over 163,000 to require that buildings that have been vacated and closed for a year be either repaired or demolished. Two local bills,
S.L. 1998-26 (H 1290) and S.L. 1998-87 (H 1618), extended the provisions of G.S. 160A-443(5a) to the smaller cities of Waynesville and Eden, respectively. In recent years, similar legislation has extended the provisions of G.S. 160A-443(5a) to other smaller cities, including Greenville, Lumberton, Roanoke Rapids, Bethel, Farmville, and the municipalities in Lee County.

**Indian Housing Authority**

S.L. 1998-155 (H 1082) authorizes an increase in the maximum number of members on the North Carolina Indian Housing Authority from nine to fifteen.

**Housing for the Elderly**

Section 12.4(b) of the 1998 Appropriations Act, S.L. 1998-212 (S 1366), transfers $2 million from the Work First Reserve Fund to the Housing Trust Fund for affordable housing for the elderly.

**Landlord’s Duty to Provide Smoke Detectors**

The Residential Rental Agreements Act places certain duties on a landlord who rents residential premises, including the duty to make repairs and keep the premises in a fit and habitable condition. In 1995, the General Assembly amended G.S. 42-42 to require landlords to provide operable smoke detectors and to repair or replace detectors if a tenant notifies the landlord in writing of needed replacement or repairs. The tenant is responsible for replacing batteries during the tenancy.

Section 17.16 of S.L. 1998-212 (S 1366) modifies that provision by requiring a landlord to repair a smoke detector within fifteen days after notice from a tenant. It also requires the landlord to ensure that a smoke detector is operable and in good repair at the beginning of each tenancy. A landlord’s failure to install or repair a smoke detector within thirty days of receiving a written notice of lack of compliance from a tenant or any agent of the state or local government is an infraction subject to a fine of not more $250 for each violation. If a smoke detector is disabled or damaged, other than through actions of the landlord or acts of God, the tenant must reimburse the landlord for the reasonable and actual cost of repairing or replacing the smoke detector within thirty days of notice to the tenant of the need for reimbursement. Failure to reimburse the landlord is an infraction subject to a fine of not more than $100 for each violation. These provisions are effective January 1, 1999.

**Funding for Home Ownership and Nonprofit Housing Developers**

The General Assembly authorized the allocation of up to $10 million in state funding to the Center for Community Self-Help to expand its Community Advantage Homeownership Program in North Carolina. This allocation must be matched on a dollar-for-dollar basis to create a loan loss reserve that leverages private capital for home ownership and is expected to generate $200 million in affordable home loans for 3,500 North Carolina families. S.L. 1998-223 (H 1472), sec. 8.1.

Section 15.16 of the 1998 Appropriations Act, S.L. 1998-212 (S 1366), allocates an additional $1 million of state funds for the Center for Community Self-Help to further a statewide program of lending for home ownership. These funds will be leveraged to generate at least $10 million in nontraditional home loans.

The General Assembly, however, failed to pass House Bill 1531, which sought funding to increase and sustain the capacity of nonprofit, community-based housing developers to produce affordable housing. Funds would have been used for direct grants to new and existing housing development and technical assistance organizations to support operations and project activities and for administrative and other operational purposes that expand the capacity of these organizations to provide affordable housing and associated comprehensive services and programs.

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