

Summary of Projections and Recommendations (Revised*)

This report has been prepared pursuant to N.C. Gen. Stat. § 143B-437.55(e), by the Department of Commerce (“Commerce”), on behalf of the Economic Investment Committee (the “Committee”), which administers the **Job Development Investment Grant Program** (the “JDIG Program”). Its purpose is to provide the General Assembly with information on the minimum current funding level required for the upcoming fiscal year, necessary to honor the State’s obligations under Community Economic Development Agreements with JDIG grantees (the “CEDAs”).

The DOC’s analysis has determined that up to \$54 million will be required to cover JDIG obligations in FY 2014-15, reflecting JDIG grantee calendar year 2013 performance, plus a few payments not yet made for 2011 or 2012 performance. This amount reflects reductions to the maximum 2013 annual liability established for these grants, reflected in the CEDAs, which reductions are based on Commerce’s assessment of actual performance reports submitted by grantees. Tables detailing the maximum program liabilities, estimated disbursements, and estimated funds to be expended in FY 2014-15 are provided at the end of this report.

Table 1 provides the maximum State liability over the life of all existing JDIG grants. Future grants to be made under the JDIG Program will increase these totals.

Background of JDIG Program

The JDIG Program is a performance-based economic development incentive program that provides annual grant disbursements for a period of up to 12 years, to new and expanding businesses based on a percentage of withholding taxes paid by new employees during each calendar year of the grant. The percentage of withholdings ranges from 10% to 75%. In adopting the JDIG Program in the 2001-2002 Session, the General Assembly intended "to stimulate economic activity and to create new jobs for the citizens of the State by encouraging and promoting the expansion of existing business and industry within the State and by recruiting and attracting new business and industry to the State." N.C. Gen. Stat. § 143B-437.50(1).

After extensive review and analysis of applications, and a determination that a company meets the required JDIG Program criteria, the Committee may make a JDIG award to a grantee, subject to an overall cap set by the General Assembly on future grant year liability, for the aggregate of grants made in a particular calendar year. The total amount paid out in any single grant year to all companies awarded a grant in the same calendar year cannot exceed \$15 million, which translates to a maximum potential liability of \$180 million over a 12-year grant period, for all businesses awarded a grant in the same calendar year.¹ Given the gradual “ramp up” of new jobs by each company, the fact that most companies do not receive a full 12-year grant term, and the fact that in most years the annual cap is never reached, the maximum State liability is typically far less than the \$180 million.

¹ For 2006 only, the passage of HB 2744 increased the cap to \$30 million; however the maximum potential annual liability attributable to that year came to only \$18.95 million, resulting in maximum potential 12-year liability of \$188.34 million for the sum of all grants awarded in 2006. In addition, in 2013 SB 402 changed the cap for the FY2013-2015 fiscal biennium to \$22.5 million, and the cap for the period from July 1, 2015 to December 31, 2015 to \$7.5 million. Tables 2 and 3 provide the maximum State Liability over Calendar Year 2013 and the FY2013-2015 fiscal biennium.

For grants that were awarded through 2006, for projects to be located in Tier 4 or 5 counties under the William S. Lee Tax credit program (Article 3A), 25% of every grant disbursement is required to be transferred into the Utility Account of the State's Industrial Development Fund (the "Utility Account") to help fund rural infrastructure, pursuant to N.C. Gen. Stat. § 143B-437.61.

As of January 1, 2007, the William S. Lee tax credit program was replaced by Tax Credits for Growing Businesses, commonly referred to as "Article 3J Credits." Article 3J reduced the current five-tier structure to three tiers. Under this tier structure, for projects located in Tier 3 counties, 25% of the total annual grant payment, and for projects located in Tier 2 counties, 15% of the total annual grant payment, must be transferred to the Utility Account.

For the purposes of this study, funds required to be transferred to the Utility Account are included as a part of the total grant liability reported. Thus, maximum liability figures provided herein include *both* the amount of the grant to be paid to each company and the amount to be transferred to the Utility Account for rural counties.

Payments under a CEDA are made annually, following each calendar year that is a grant year for the company, based on the company's compliance with performance requirements of the CEDA, as reported to Commerce by March 1 of each year. Typically, these payments will commence the 3rd quarter following the calendar year of performance. As noted above, for this funding cycle, the amount required reflects payments to be made commencing in FY 2014-15 for calendar year 2013, plus the remaining calendar year 2011 and 2012 payments, and thus these payments will commence with the start of the fiscal year beginning on July 1, 2013. This study and the table that is attached describe the fiscal impact of the JDIG Program based on maximum possible payments for each grant year.

Funding Analysis

As of January 31, 2014, the Committee had publicly awarded 185 grants. Of those grants, 98 are required to report for 2013 performance. Of these, approximately 78 are expected to be eligible for payments in FY 2014-2015. Typically there is some time lag between the awarding of grants and the beginning of operations; 19 of the 185 grantees are not required to have created jobs for the 2013 grant reporting year (and thus will not be eligible for payment in FY2014-2015), but will create program liabilities based on jobs created and retained in future years. 68 of the 185 grantees have terminated from the program.

In evaluating projected liability indicated in this study, it is important to emphasize that maximum liability is stated, based on the actual maximums possible under each award. Actual costs to the State are expected to be a lesser amount, as not all companies that are awarded grants will perform at the maximum level. Businesses that miss their minimum job creation requirement may receive reduced grant payments for the year based on a weighted average demonstrating at least 80% compliance with jobs, wages, and investment requirements (for two years during the job ramp up period, at which point the company is required to be in full compliance in order to receive a payment). The CEDA also provides for termination of the grant after a period of non-performance.

Table 1. Total Maximum Liability for Existing Grants

Award Year	Grant Year																	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Grand Total
2003			\$175,000	\$175,000														\$350,000
2004			\$6,431,357	\$4,751,358	\$2,268,798	\$727,999	\$507,999	\$507,999										\$15,195,510
2005			\$1,263,000	\$1,263,000	\$1,263,000	\$1,263,000	\$1,263,000	\$458,000										\$6,773,000
2006			\$12,179,000	\$12,179,000	\$12,179,000	\$12,179,000	\$11,965,000	\$10,245,000	\$3,702,000									\$74,628,000
2007			\$4,760,000	\$4,760,000	\$4,760,000	\$4,760,000	\$1,712,000	\$1,076,000	\$1,076,000									\$22,904,000
2008			\$3,066,000	\$3,420,000	\$3,420,000	\$3,420,000	\$3,420,000	\$2,125,000	\$2,041,000	\$2,041,000	\$2,041,000							\$24,994,000
2009	\$732,000	\$1,037,000	\$10,186,000	\$11,206,000	\$11,636,000	\$11,636,000	\$11,636,000	\$9,571,000	\$6,872,000	\$5,203,000	\$4,028,000	\$4,028,000						\$87,771,000
2010	\$253,000	\$663,000	\$8,184,000	\$9,576,000	\$10,414,000	\$10,137,000	\$10,137,000	\$10,137,000	\$9,265,000	\$6,716,000	\$5,637,000	\$3,277,000						\$84,396,000
2011		\$204,000	\$6,017,000	\$7,772,000	\$8,783,000	\$7,889,000	\$8,112,000	\$8,330,000	\$8,548,000	\$7,837,000	\$5,844,000	\$4,928,000	\$1,103,000	\$1,103,000	\$1,103,000	\$1,103,000		\$78,676,000
2012		\$135,000	\$5,448,000	\$9,303,000	\$11,726,000	\$13,721,000	\$14,221,000	\$14,288,000	\$14,288,000	\$14,288,000	\$13,459,000	\$10,127,000	\$6,413,000	\$3,445,000	\$1,673,000	\$196,000		\$132,731,000
2013*			\$628,000	\$9,974,000	\$16,991,000	\$19,276,000	\$20,615,000	\$20,880,000	\$20,880,000	\$20,737,000	\$20,437,000	\$19,814,000	\$18,176,000	\$16,411,000	\$15,619,000	\$3,933,000	\$343,000	\$224,714,000
Grand Total	\$985,000	\$2,039,000	\$58,337,357	\$74,379,358	\$83,440,798	\$85,008,999	\$83,588,999	\$77,617,999	\$66,672,000	\$56,822,000	\$51,446,000	\$42,174,000	\$25,692,000	\$20,959,000	\$18,395,000	\$5,232,000	\$343,000	\$753,132,510

2013 totals include both Calendar Year 2013 (Cap = \$15 million); and FY2013-2015 (Cap = \$22.5 million). Tables 2 and Table 3 break out the cap between 2013 calendar year and the 2013-2015 fiscal biennium.

Table 2: Total Liability for Calendar Year 2013 Grants

Award Year	Calendar Year 2013															Grand Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025			
2013	\$628,000	\$9,316,000	\$13,536,000	\$14,401,000	\$14,969,000	\$14,996,000	\$14,996,000	\$14,853,000	\$14,553,000	\$13,930,000	\$12,292,000	\$11,485,000	\$10,693,000		\$160,648,000	
Total CY2013	\$628,000	\$9,316,000	\$13,536,000	\$14,401,000	\$14,969,000	\$14,996,000	\$14,996,000	\$14,853,000	\$14,553,000	\$13,930,000	\$12,292,000	\$11,485,000	\$10,693,000		\$160,648,000	

Table 3: Maximum Liability for FY13-15 Biennium Grants

Award Year	FY2013-2015 Biennium															Grand Total
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027		
2013	\$658,000	\$3,455,000	\$4,875,000	\$5,646,000	\$5,884,000	\$5,884,000	\$5,884,000	\$5,884,000	\$5,884,000	\$5,884,000	\$4,926,000	\$4,926,000	\$3,933,000	\$343,000	\$64,066,000	
Total FY13-15	\$658,000	\$3,455,000	\$4,875,000	\$5,646,000	\$5,884,000	\$5,884,000	\$5,884,000	\$5,884,000	\$5,884,000	\$5,884,000	\$4,926,000	\$4,926,000	\$3,933,000	\$343,000	\$64,066,000	

Current balance in JDIG Reserve as of 03/10/2014	\$6,550,327
Less remaining payments to be made in FY2014-15 for Grant Years 2011 and 2012 payments	\$3,024,000
Excess (Shortfall) for 2011 and 2012 remaining payments	\$3,526,327
plus: FY14-15 recurring appropriation (budget code 19013) (SB402_ Committee Report 2013-07-21 L-2 #15)	\$63,045,357
Total funds available for FY2014-15	\$66,571,684
less: Estimated grant year 2013 to be made in FY2014-15	\$51,000,000
Excess funds (shortfall) for FY 2014-15	\$15,571,684

*Revised report due JDIG Staff not being aware that the FY14-15 recurring appropriation was increased to \$63,045,375.