

## **Summary of Projections and Recommendations**

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 \$73.7 million will be required to cover JDIG obligations in FY 2016-17**, reflecting JDIG grantee calendar year 2015 performance, plus a few payments not yet made for 2014 performance. This amount reflects reductions to the maximum 2015 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 2016-17 are provided at the end of this report.

To date, in FY 2015-16, the JDIG program has paid \$48.1 million to JDIG grantees for performance in 2011, 2012, 2013 and 2014. In addition, the program expects to pay an additional \$7.7 million to grantees for 2014 performance prior to the end of the fiscal year, for total payments in FY 2015-16 of \$55.8 million.<sup>1</sup>

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% (80% for awards after October 1, 2015 in Tier 1 counties). 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 is determined by the JDIG Statute. Given the gradual “ramp up” of new jobs by each company and the fact that in most years the annual cap is never reached, the maximum State liability is typically far less than the maximum annual cap.

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. HB117 reduced the amount transferred to the Utility Fund for projects located in a Tier 2 county to 10% of the total annual grant payment for awards after October 1, 2015.

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

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<sup>1</sup> For additional payment details see the JDIG Annual Report, filed annually on April 30. <https://www.nccommerce.com/research-publications/incentive-reports>

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 3<sup>rd</sup> 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 2016-17 for calendar year 2015, plus the remaining calendar year 2014 payments, and thus these payments will commence with the start of the fiscal year beginning on July 1, 2015. 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 March 8, 2016 the Committee has publicly awarded 217 grants. Of these grants, 105 are required to report for 2015 performance. Of these, approximately 83 are expected to be eligible for payments in FY 2015-2016. Typically there is some time lag between the awarding of grants and the beginning of operations; 17 of the 217 grantees are not required to have created jobs for the 2015 grant reporting year (and thus will not be eligible for payment in FY2015-2016), but will create program liabilities based on jobs created and retained in future years. 89 of the 217 grantees have terminated or withdrawn from the program, and 6 of the 217 grantees have completed their grant term.

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 \*

Grant Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Grand Total
2004			2,268,798	727,999	507,999	507,999													\$4,012,795
2005			805,000	805,000	805,000														\$2,415,000
2006			12,179,000	12,179,000	11,965,000	10,245,000	3,702,000												\$50,270,000
2007			4,760,000	4,760,000	1,712,000	1,076,000	1,076,000												\$13,384,000
2008			1,379,000	1,379,000	1,379,000	84,000													\$4,221,000
2009	692,000	2,379,000	9,579,000	9,579,000	9,579,000	7,972,000	6,872,000	5,203,000	4,028,000	4,028,000									\$59,911,000
2010		2,942,000	8,844,000	8,844,000	8,844,000	8,844,000	7,972,000	5,423,000	4,665,000	3,277,000									\$59,655,000
2011			4,831,000	3,781,000	4,004,000	4,222,000	4,440,000	4,154,000	3,051,000	2,510,000	1,103,000	1,103,000	1,103,000	1,103,000					\$35,405,000
2012		1,455,000	11,409,000	13,407,000	13,907,000	13,974,000	13,974,000	13,974,000	13,145,000	9,812,000	6,886,000	3,918,000	1,673,000	196,000					\$117,730,000
2013		266,000	14,043,000	15,431,000	16,124,000	16,151,000	16,151,000	16,008,000	15,708,000	15,572,000	13,934,000	12,169,000	12,029,000	343,000	343,000				\$164,272,000
2014			6,116,000	10,461,000	14,387,000	15,946,000	16,227,000	14,252,000	14,252,000	14,252,000	14,252,000	14,252,000	14,252,000	13,511,000	164,000				\$162,324,000
2015			67,000	2,645,750	4,339,000	5,737,000	7,807,000	8,836,000	8,836,000	8,836,000	8,836,000	8,836,000	8,836,000	8,836,000	8,698,000	1,797,000	1,797,000	1,797,000	\$96,536,750
2016					93,000	192,000	348,000	435,000	576,000	576,000	576,000	576,000	576,000	576,000	576,000	576,000			\$5,676,000
<b>Total</b>	692,000	7,042,000	76,280,798	83,999,749	87,645,999	84,950,999	78,569,000	68,285,000	64,261,000	58,863,000	45,587,000	40,854,000	38,469,000	24,565,000	9,781,000	2,373,000	1,797,000	1,797,000	\$775,812,545

\*\*GY 2013 totals include both 2013 from 1.1.2013 to 7.29.2013 (Cap = \$15 million); and July 30, 2013 thru December 31, 2015 (Cap = \$35 million). Tables 2 and Table 3 break out the cap between 2013 calendar year and the July 30, 2013 thru December 31, 2015.

Table 2: Maximum Liability for the CY2013 Cap (1/1/2013 thru 7/29/2013)(\$15 million)

Award Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Grand Total
2013	\$12,676,000	\$13,344,000	\$13,830,000	\$13,857,000	\$13,857,000	\$13,714,000	\$13,414,000	\$13,278,000	\$11,640,000	\$10,833,000	\$10,693,000	\$141,136,000
<b>Total</b>	\$12,676,000	\$13,344,000	\$13,830,000	\$13,857,000	\$13,857,000	\$13,714,000	\$13,414,000	\$13,278,000	\$11,640,000	\$10,833,000	\$10,693,000	\$141,136,000

Table 3: Maximum Liability for Period Between July 30, 2013 and December 31, 2015 (\$35 Million Cap)

Award Year	July 30, 2013 thru December 31, 2015																	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Grand Total
7.30.13 thru 12.31.13	266,000	1,367,000	2,087,000	2,294,000	2,294,000	2,294,000	2,294,000	2,294,000	2,294,000	2,294,000	1,336,000	1,336,000	343,000	343,000				\$23,136,000
2014		6,116,000	10,461,000	14,387,000	15,946,000	16,227,000	14,252,000	14,252,000	14,252,000	14,252,000	14,252,000	14,252,000	13,511,000	164,000				\$162,324,000
2015		67,000	2,645,750	4,339,000	5,737,000	7,807,000	8,836,000	8,836,000	8,836,000	8,836,000	8,836,000	8,836,000	8,836,000	8,698,000	1,797,000	1,797,000	1,797,000	\$96,536,750
<b>Total</b>	266,000	7,550,000	15,193,750	21,020,000	23,977,000	26,328,000	25,382,000	25,382,000	25,382,000	25,382,000	24,424,000	24,424,000	22,690,000	9,205,000	1,797,000	1,797,000	1,797,000	\$281,996,750

Remaining payments to be made in FY15-16 for previous grant years	\$7,734,000
Estimated grant year 2015 payments to be made in FY16-17	+ \$66,000,000
Total funds needed in FY16-17 for JDIG payments	= \$73,734,000
Current Balance in JDIG Reserve as of 3/10/2016 (Cash)	\$12,859,777
less Transfer to Utiltiy Fund per SL 2014-100 Section 15.13 (Ag Gas) -	\$0
plus Recurring Appropriation (budget code 19013)	+ \$71,728,126
Total Funds Available for Payments	= \$84,587,903
Total Funds Available for Payments	\$84,587,903
Total Funds Needed in FY16-17 for JDIG Payments	- \$73,734,000
Excess funds (shortfall) for FY16-17	= \$10,853,903