

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”), under the direction 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, to implement the JDIG Program.

The DOC’s analysis has determined that up to \$22.5 million will be required to be expended in FY 2011-12, reflecting expected payments required to be made to JDIG grantees for calendar year 2010 performance. This amount incorporates reductions to the maximum 2010 annual liability established for existing grants, reflected in the State’s Community Economic Development Agreement with each JDIG grantee (the “CEDA”). The reduction is based on historical data which shows that actual annual grant amounts disbursed to businesses has been less than the maximum liability established for each grant by the Committee because of lower than expected withholdings and missed performance targets (with the gap narrowing after the first few years of a grant). Tables detailing the maximum program liabilities, estimated disbursements, and estimated funds to be expended in FY 2011-12 are provided at the end of this report. In light of budgetary constraints, for this funding study, Commerce has not included amounts that it typically would have paid to grantees in the last quarter of the fiscal year (April – June 2012) for grantees’ calendar year 2011 performance.

Table 1 provides the maximum State liability over the life of existing JDIG grants. Table 2 provides Commerce’s estimate of what the actual liability will be under those grants, over their lifetime. Future grants to be made under the Program will increase these totals, and existing grantees may perform more or less strongly than the Table 2 estimates suggest.

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. Currently, grants awarded under the JDIG Program can result in payments to up to 25 businesses annually. 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.

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. This tier structure also provides for a portion of each grant payment made for a project located in a Tier 2 or 3 county, to be transferred to the Utility Account. Beginning in 2007, 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 spring following the calendar year of performance (although, as noted above, for this funding study, the amount required reflects payments to be made commencing in FY 2011-12 for calendar year 2010 only). This study and the tables that are attached describe the fiscal impact of the JDIG Program based on maximum possible payments for each grant year.

Funding Analysis

As of April 1, 2011, the Committee had publicly awarded 125 grants. Of those grants, 60 are expected to require payments in FY 2011-2012. Typically there is some time lag between the awarding of grants and the beginning of operations; 23 of the 125 grantees will not have created jobs for the 2010 grant reporting year (and thus eligible for payment in FY2011-2012), but will create program liabilities based on jobs created and retained in future years. 37 of the 103 grantees have withdrawn 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

¹ For 2006 only, the passage of HB 2744 increased the cap to \$30 million, resulting in a maximum potential annual liability of \$18.95 million, and a maximum potential 12-year liability of \$188.34 million for the sum of all grants awarded in 2006.

will perform at the maximum level. The Committee generally allows grantees a 10% variance between the expected maximum and the minimum performance requirement necessary to achieve compliance. And, should a company fail to create the minimum number of jobs required by the CEDA, the costs of that grant would be even lower. 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. 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																
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
2003	\$1,641,666	\$1,641,666	\$1,641,666	\$775,000	\$175,000												
2004	\$7,162,057	\$7,268,190	\$7,268,190	\$7,268,190	\$5,588,191	\$2,780,298	\$727,999	\$507,999	\$507,999								
2005	\$1,665,000	\$1,679,000	\$1,694,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$458,000								
2006	\$12,597,000	\$13,367,000	\$14,296,000	\$14,296,000	\$14,296,000	\$13,782,000	\$12,633,000	\$11,965,000	\$10,245,000	\$3,702,000							
2007	\$6,544,000	\$7,584,000	\$8,030,000	\$8,030,000	\$8,030,000	\$8,030,000	\$8,030,000	\$4,831,000	\$2,260,000	\$2,260,000							
2008	\$6,500,790	\$8,155,454	\$10,266,067	\$10,900,067	\$11,344,067	\$11,344,067	\$11,344,067	\$11,344,067	\$8,243,210	\$6,061,000	\$2,041,000	\$2,041,000					
2009	\$3,358,000	\$8,154,000	\$9,753,000	\$11,204,000	\$12,342,000	\$12,900,000	\$12,970,000	\$12,970,000	\$10,055,000	\$7,356,000	\$5,687,000	\$4,512,000	\$4,512,000	\$484,000			
2010	\$1,496,000	\$4,828,000	\$7,519,000	\$9,257,000	\$10,649,000	\$11,487,000	\$11,210,000	\$11,210,000	\$11,210,000	\$10,338,000	\$6,716,000	\$5,637,000	\$3,277,000				
2011		\$568,000	\$1,373,000	\$2,076,000	\$2,299,000	\$2,526,000	\$1,425,000	\$1,648,000	\$1,866,000	\$2,084,000	\$2,084,000	\$2,084,000	\$1,963,000	\$1,103,000	\$1,103,000	\$1,103,000	\$1,103,000
Total	\$40,964,513	\$53,245,310	\$61,840,923	\$65,516,257	\$66,433,258	\$64,559,365	\$60,050,066	\$56,186,066	\$44,845,209	\$31,801,000	\$16,528,000	\$14,274,000	\$9,752,000	\$1,587,000	\$1,103,000	\$1,103,000	\$1,103,000

Table 2. Estimated Amount of Disbursement for Existing Grants (*based on performance)

Award Year	Grant Year																
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
2003	\$1,295,894	\$1,395,416	\$1,395,416	\$658,750	\$148,750												
2004	\$5,406,486	\$6,177,962	\$6,177,962	\$6,177,962	\$4,749,962	\$2,363,253	\$618,799	\$431,799	\$431,799								
2005	\$1,007,937	\$1,367,370	\$1,439,900	\$1,453,500	\$1,453,500	\$1,453,500	\$1,453,500	\$1,453,500	\$389,300								
2006	\$9,350,335	\$11,038,550	\$12,151,600	\$12,151,600	\$12,151,600	\$11,714,700	\$10,738,050	\$10,170,250	\$8,708,250	\$2,499,680							
2007	\$2,551,359	\$6,446,400	\$6,628,380	\$6,744,860	\$6,700,060	\$6,825,500	\$6,825,500	\$4,106,350	\$1,921,000	\$1,921,000							
2008	\$912,776	\$6,218,782	\$8,510,557	\$9,265,057	\$9,642,457	\$9,642,457	\$9,642,457	\$9,642,457	\$7,006,729	\$5,151,850	\$1,734,850	\$1,734,850					
2009	\$1,436,459	\$5,646,390	\$7,474,970	\$8,856,160	\$10,450,660	\$10,965,000	\$11,024,500	\$11,024,500	\$8,546,750	\$6,252,600	\$4,833,950	\$3,835,200	\$3,835,200	\$411,400			
2010	\$495,023	\$3,289,340	\$5,504,890	\$7,042,360	\$8,963,310	\$9,763,950	\$9,528,500	\$9,528,500	\$9,528,500	\$8,787,300	\$5,708,600	\$4,791,450	\$2,785,450				
2011	\$0	\$357,840	\$1,032,820	\$1,478,760	\$1,940,010	\$2,101,560	\$1,171,290	\$1,307,420	\$1,586,100	\$1,771,400	\$1,771,400	\$1,771,400	\$1,668,550	\$937,550	\$937,550	\$937,550	\$937,550
Total	\$22,456,269	\$41,938,050	\$50,316,495	\$53,829,009	\$56,200,311	\$54,829,922	\$51,002,598	\$47,664,777	\$38,118,429	\$26,383,831	\$14,048,800	\$12,132,900	\$8,289,200	\$1,348,950	\$937,550	\$937,550	\$937,550

Table 3. Estimated Funds to be Expended in FY 2011-12

FY 09-10	Current balance in JDIG account as of 3/31/10 (budget code 19944) - per Jennifer Wimmer at OSBM	\$	7,191,014
	No additional payments to be made in FY 2010-2011 - per Jennifer Wimmer at OSBM		
	Balance on 6/30/11 to be carried forward to FY 2011-2012	\$	7,191,014
FY 10-11	plus: FY11-12 recurring appropriation (budget code (19013)	\$	27,400,000
	Total funds available for FY 2011-2012	\$	34,591,014
	less: Estimated Grant Year 2010 payments that will be made in FY 2011-2012	\$	22,456,269
	Excess funds (shortfall) for FY 2011-2012	\$	12,014,069