

**Job Development Investment Grant (JDIG)
Funding Study**

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Receiving Entities:

The House of Representatives Finance Committee

The Senate Finance Committee

The House of Representatives Appropriation Subcommittee on Natural and Economic Resources

The Senate Appropriation Subcommittee on Natural and Economic Resources

The Fiscal Research Division

Submitting Entity:

Department of Commerce – Commerce Finance Center

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 \$24.2 million will be required to be expended in FY 2012-13, reflecting expected payments required to be made under JDIG grants for calendar year 2011 performance. This amount reflects reductions to the maximum 2011 annual liability established for these grants, reflected in the 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 2012-13 are provided at the end of this report.

Table 1 provides the maximum State liability over the life of all 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 JDIG 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, 25 grants may be awarded under the JDIG Program 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.

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.

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 2012-13 for calendar year 2011 only), and thus payments with this funding will commence after July 1, 2012. 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, 2012, the Committee had publicly awarded 145 grants. Of those grants, 73 are required to report for 2011 performance. Of these, approximately 54 are expected to be eligible for payments in FY 2012-2013. Typically there is some time lag between the awarding of grants and the beginning of operations; 23 of the 145 grantees are not required to have created jobs for the 2011 grant reporting year (and thus will not be eligible for payment in FY2012-2013), but will create program liabilities based on jobs created and retained in future years. 49 of the 145 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 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
2003	\$1,641,666	\$1,641,666	\$775,000	\$175,000												
2004	\$6,613,357	\$6,613,357	\$6,613,357	\$4,933,358	\$2,450,798	\$727,999	\$507,999	\$507,999								
2005	\$1,679,000	\$1,694,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$458,000								
2006	\$11,764,000	\$12,693,000	\$12,693,000	\$12,693,000	\$12,179,000	\$12,179,000	\$11,965,000	\$10,245,000	\$3,702,000							
2007	\$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	\$3,977,454	\$5,327,067	\$5,881,067	\$6,235,067	\$6,235,067	\$6,235,067	\$6,235,067	\$4,437,210	\$2,255,000	\$2,041,000	\$2,041,000					
2009	\$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	\$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	\$1,101,000	\$4,333,000	\$7,326,000	\$9,431,000	\$10,730,000	\$9,891,000	\$10,114,000	\$10,332,000	\$10,550,000	\$8,648,000	\$6,655,000	\$5,739,000	\$1,914,000	\$1,914,000	\$1,103,000	\$1,103,000
2012		\$560,100	\$1,101,000	\$1,765,000	\$1,961,000	\$2,141,100	\$2,141,100	\$2,141,100	\$2,141,100	\$2,141,100	\$1,864,100	\$443,000				
Total	\$47,342,477	\$58,164,190	\$64,590,424	\$67,963,425	\$67,682,865	\$65,094,166	\$61,684,166	\$51,646,309	\$38,602,100	\$25,233,100	\$20,709,100	\$13,971,000	\$2,398,000	\$1,914,000	\$1,103,000	\$1,103,000

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

Award Year	Grant Year															
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
2003	\$1,395,416	\$1,395,416	\$658,750	\$148,750												
2004	\$5,621,354	\$5,621,354	\$5,621,354	\$4,193,354	\$2,083,178	\$618,799	\$431,799	\$431,799								
2005	\$1,367,370	\$1,439,900	\$1,453,500	\$1,453,500	\$1,453,500	\$1,453,500	\$1,453,500	\$389,300								
2006	\$9,676,000	\$10,789,050	\$10,789,050	\$10,789,050	\$10,352,150	\$10,352,150	\$10,170,250	\$8,708,250	\$2,499,680							
2007	\$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	\$2,860,792	\$4,339,427	\$4,998,907	\$5,299,807	\$5,299,807	\$5,299,807	\$5,299,807	\$3,771,629	\$1,916,750	\$1,734,850	\$1,734,850					
2009	\$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	\$3,376,910	\$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	\$693,630	\$3,019,690	\$5,345,340	\$7,204,480	\$8,969,120	\$8,367,390	\$8,503,520	\$8,782,200	\$8,967,500	\$7,350,800	\$5,656,750	\$4,878,150	\$1,626,900	\$1,626,900	\$937,550	\$937,550
2012		\$352,863	\$796,980	\$1,275,300	\$1,604,830	\$1,819,935	\$1,819,935	\$1,819,935	\$1,819,935	\$1,819,935	\$1,584,485	\$376,550				
Total	\$37,084,262	\$46,565,940	\$52,307,261	\$56,478,272	\$57,317,037	\$55,290,083	\$52,338,163	\$43,899,364	\$32,164,766	\$21,448,136	\$17,602,735	\$11,875,350	\$2,038,300	\$1,626,900	\$937,550	\$937,550

FY 11-12	Current balance in JDIG account as of 3/31/12 (budget code 19944) - per Jennifer Wimmer at OSBM	\$	2,639,000
	Current balance in Prior Year Refunds (538341) - per Donna Barnes at DOC - Fiscal*	\$	406,100
	Less Payments to be made in FY 2011-2012 for Grant year 2011 payments	\$	-
	Balance on 6/30/12 to be carried forward to FY 2012-2013	\$	3,045,100
FY 12-13	plus: FY12-13 recurring appropriation (budget code 19013)	\$	27,400,000
	Total funds available for FY 2012-2013	\$	30,445,100
	less: Estimated Grant Year 2011 payments that will be made in FY 2012-2013	\$	24,200,000
	Excess funds (shortfall) for FY 2012-2013	\$	6,245,100

* In years past Prior Year Refunds were returned to the JDIG reserve at OSBM and became part of the JDIG reserve balance. OSBM made the determination in FY11-12 that the recaptured funds would stay at Commerce and be used to pay grants.