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 $71.6 million will be required to cover JDIG obligations in FY 2019-20, reflecting JDIG grantee calendar year 2018 performance, plus a few payments not yet made for 2016 and 2017 performance. This amount reflects reductions to the maximum 2018 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. 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.

As of March 11, 2019, in FY 2018-19, the JDIG program has paid approximately $60.8 million for JDIG performance for grant years 2016 and 2017.

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 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 2019-20 for calendar year 2018, plus the remaining calendar year 2016 and 2017 payments, and thus these payments will commence with the start of the fiscal year beginning on July 1, 2019. 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 11, 2019, the Committee has publicly awarded 285 grants. Of these grants, 103 are required to report for 2018 performance. Of these, approximately 88 are expected to be eligible for payments in FY 2019-2020. Typically, there is some time lag between the awarding of grants and the beginning of operations; 39 of the 285 grantees are not required to have created jobs for the 2018 grant reporting year (and thus will not be eligible for payment in FY 2019-2020) but will create program liabilities based on jobs created and retained in future years. 125 of the 285 grantees have terminated or withdrawn from the program, and 18 of the 285 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 – in millions

Award Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Grand Total
2004			0.507999																0.508
2006			10.245	3.702															13.947
2007			1.076	1.076															2.152
2008		0.507	0.084																0.591
2009	1.310	1.702	6.755	5.655	3.986	2.811	2.811												25.030
2010		0.716	6.815	5.943	4.119	4.000	3.277												24.870
2011		0.494	3.183	3.401	3.401	2.750	2.510	1.103	1.103	1.103	1.103								20.151
2012		0.538	8.829	8.829	8.829	8.685	6.878	5.692	3.445	1.673	0.196								53.594
2013			15.178	15.178	15.035	15.035	14.899	13.794	12.029	12.029	0.343	0.343							113.863
2014		0.115	14.414	14.431	12.456	12.456	12.456	12.456	12.456	12.456	11.715	0.164							115.575
2015			2.914	4.788	5.740	5.740	5.740	5.740	5.740	5.740	5.740	5.602	1.797	1.797	1.797				58.875
2016		0.096	3.078	4.694	6.557	7.563	7.582	7.601	7.620	7.620	5.870	4.873	4.133	0.375	0.375	0.375			68.412
2017			2.501	8.622	13.25075	16.287	17.224	17.395	17.395	17.395	17.395	17.395	17.395	15.531	9.020	2.704	1.721		191.231
2018			0.387	3.449	9.169	12.6636	16.711	19.487	20.538	20.773	20.462	20.462	19.964	19.964	17.861	11.520	1.330	1.330	216.071
2019					0.175	0.354	0.549	0.563	0.563	0.563	0.563	0.563	0.563	0.563	0.563	0.563	0.168		6.313
Total	**1.310**	**4.168**	**75.966999**	**79.768**	**82.71775**	**88.3446**	**90.637**	**83.831**	**80.889**	**79.352**	**63.387**	**49.402**	**43.852**	**38.230**	**29.616**	**15.162**	**3.219**	**1.330**	**911.182**

Remaining payments to be made in FY19-20 for previous grant years - 2016 & 17 pmts		$5,478,000
Estimated grant year 2018 payments to be made in FY19-20	+	$66,145,999
Total funds needed in FY19-20 for JDIG payments	=	$71,623,999

Current Balance in JDIG Reserve as of 3/11/2019	(Cash)	$7,394,376
less Transfer to Utility Fund per G.S. 143B-437.020(g) (FY17-19 Biennium)	(Utility Fund) -	$2,500,000
plus Recurring Appropriation (budget code 19013)	+	$71,728,126
Total Funds Available for Payments	=	$76,622,502

Total Funds Available for Payments		$76,622,502
Total Funds Needed in FY19-20 for JDIG Payments	-	$71,623,999
Excess funds (shortfall) for FY19-20	=	$4,998,503