

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 \$68.8 million will be required to cover JDIG obligations through FY 2022-23, reflecting JDIG grantee calendar year 2021 performance, plus a few payments not yet made for 2018, 2019, and 2020 performance. This amount reflects reductions to the maximum 2021 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 8, 2022, in FY 2021-22, the JDIG program has paid approximately \$35 million for JDIG performance for grant years 2017, 2019, and 2020.

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.

Due to the Covid-19 pandemic, the Economic Investment Committee offered Compliance Relief for JDIG recipients. Grantees could request to have all obligations associated with the grant carried forward by one year and/or request that Project Employees working from home-office locations within North Carolina to be considered to be employed at the Project Facility with respect to grant years 2020 and 2021. There are 37 grantees that requested the carry forward, 40 requested both carry forward and home office locations and 25 requested home office locations.

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 2022-23 for calendar year 2021, plus the remaining calendar year 2018, 2019, and 2020 payments, and thus these payments will commence with the start of the fiscal year beginning on July 1, 2022. 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, 2022, the Committee has publicly awarded 373 grants. Of these grants, 122 are required to report for 2021 performance. Of these, approximately 87 are expected to be eligible for payments in FY 2022-23. Typically, there is some time lag between the awarding of grants and the beginning of operations; 61 of the 373 grantees are not required to have created jobs for the 2021 grant reporting year (and thus will not be eligible for payment in FY 2022-23) but will create program liabilities based on jobs created and retained in future years. 154 of the 373 grantees have terminated or withdrawn from the program, and 37 of the 373 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

Year Awarded	Previous Grant Years	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Transfor mative - Enhanced Years	Grand Total
2009	2.811	2.811	2.811																8.433
2010	0.310	1.037	0.314																1.661
2011		2.907	2.510	1.103	1.103	1.103	1.103												9.829
2012	0.443	8.533	7.112	5.877	3.683	1.673	0.196												27.517
2013		14.175	14.175	13.571	12.836	12.029	1.075	0.343	0.343										68.547
2014	1.552	7.902	7.902	7.902	7.902	7.902	7.902	2.710											51.674
2015		4.855	4.855	4.855	4.855	4.855	4.855	4.855	3.844	1.797	1.797	1.797							43.220
2016	1.249	5.792	6.638	6.638	6.638	6.638	6.638	4.888	3.891	2.575									51.585
2017	0.217	14.135	16.015	16.618	16.660	16.660	16.660	16.660	16.660	16.660	14.316	8.890	2.081						172.232
2018	1.209	9.193	12.173	16.052	18.513	18.749	18.984	18.673	18.175	18.175	18.175	14.545	5.808	1.330	1.330				191.084
2019		7.459	11.630	14.601	16.920	17.358	17.668	17.856	17.865	17.865	17.865	17.766	10.041	3.404	0.975	0.866			190.139
2020		0.772	2.775	9.162	13.459	16.666	19.837	22.197	23.475	24.935	26.274	27.711	17.692	13.515	11.491	0.696	0.696	392.970	624.323
2021		0.189	3.563	7.165	11.060	20.678	27.176	31.950	36.322	38.766	39.512	40.896	20.037	19.433	12.586	9.878	6.631	885.744	1211.586
2022					0.155	1.299	3.295	4.019	4.403	5.228	7.140	7.140	7.140	7.140	7.140	7.140	6.824	48.735	116.798
Grand Total	7.791	79.760	92.473	103.544	113.784	125.610	125.389	124.151	124.978	126.001	125.079	118.745	62.799	44.822	33.522	18.580	14.151	1327.449	2768.627

Remaining Payments to be made in FY22-23 for previous grant years		\$7,791,000
Estimated grant year 2021 payments to be made in FY22-23	+	\$61,000,000
Total funds for JDIG payments	=	\$68,791,000
Current Balance in JDIG Reserve as of 3/8/2022	(Cash)	\$27,199,428
less Transfer to Utility Fund per G.S. 143B-437.020(g) (FY21-23 Biennium)	(Utility Fund) -	\$2,500,000
plus Recurring Appropriation (budget code 24609)	+	\$71,728,126
less Non-reoccurring reduction of appropriation	-	\$15,000,000
Total Funds Available for Payments	=	\$81,427,554
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Total Funds for JDIG Payments	-	\$68,791,000
Excess funds (shortfall) for FY22-23	=	\$12,636,554