Economic Development In North Carolina

Types of Economic Incentives

- Finance-based Tax Expenditures
  - The Article 3X tax credits (Bill Lee, Art. 3J, Mill and Historic Rehab, Research & Development, etc.)
  - Targeted income tax credits (Film, Ports)
  - Economic incentive sales tax refunds (passenger air carrier, motorsports)
  - Preferential tax liability calculations (single sales factor, 1%/$80 mill machinery)
- Appropriations-based discretionary incentive funds
  - Job Development Investment Grant Program
  - One North Carolina Fund
  - Industrial Development Fund Utility Account
  - Job Maintenance and Capital Development Fund
  - Site Infrastructure Development Fund

Job Development Investment Grant Program (JDIG) - Introduction

- Discretionary incentive program for businesses (new or existing) that create new jobs in the State
- Amount of incentive = (withholdings of the created eligible positions) X (percentage between 10-75%).
- Pre-requisites:
  - Net increase in employment in the State by the business
  - Only available when the project would not locate in NC “but for” the JDIG incentive
  - Total project benefits outweigh costs (Walden model)
  - Increases employment opportunities and strengthens the economy
  - Consistent with State/local economic development goals

JDIG – Eligibility, Limitations

Eligibility:

- Project must create at least 10 jobs in tier 1 and at least 20 jobs in tier 2 or tier 3
- No retail or sports team projects
- Health insurance
- OSHA record

Limitations:

- Maximum annual cost of JDIG agreements: $15M/CY
  - Originally $10M/CY
  - 2004: Increased to $15M/CY
  - Cap modifications occurred as one-time increases and by collapsing of future time periods into current time periods
- New agreement limitation eliminated (15 >> 25 >> N/A)
- Agreement term </= 12 years

JDIG - Process

- Preliminary contact between business and Commerce
- Business applies to Economic Investment Committee for participation in JDIG program
- EIC is composed of 5 members (the Secretaries of Commerce and Revenue, the Director of OSBM, and 2 appointees of the General Assembly) and is responsible for implementing the program
- Subject to public records and open meetings laws (and exceptions regarding economic development activities)
- Application:
  - Fee of $10,000
  - Name of business, proposed project location, type of activity
  - Financial statements of the business
  - Number of eligible positions proposed and estimate of total withholdings
  - Information concerning other locations considered and anticipated incentives
  - Other State and local government incentives offered

JDIG – Process; agreement terms

- Committee evaluates applications and chooses projects for participation in program.
- Committee and business negotiate community economic development agreement
- Agreement terms:
  - Number of eligible positions
  - Amount of incentive
  - Percentage of withholdings used to determine incentive (10-75%)
  - Utility Account reduction
  - Term of agreement (max of 12 years)
  - Requirement to maintain operations for 150% of agreement term
  - Encouraging employment of State residents, use of State ports, fair employment practices
  - Numerous other terms

JDIG - Clawbacks

- Committee may recapture all or part of incentive paid to a business if it fails to maintain operations at the project for at least 150% of the agreement term
- If business fails to meet terms of the agreement for one year – incentive paid to business is reduced proportionate to the failure
- If business fails to meet terms of agreement for two consecutive years:
  - If within base period, further incentive installments are withheld after second year of noncompliance until business satisfies term of agreement
  - If outside of base period, agreement is terminated

JDIG – Disbursement Schedule & Monitoring

- No amount is disbursed to a business until the Secretary of Revenue certifies to EIC the amount of withholdings received in that year from the business
- Business submits annual payroll reports to EIC with fee
- EIC may audit at any time
- EIC reports annually on program re: listing of each award for preceding year, update on projects prior to the preceding year, number and development tier of eligible positions created, wage levels, amount of new income tax revenue, and other metrics.
- EIC conducts and reports on annual study to determine minimum funding level required to implement JDIG

JDIG – Appropriations

- Example:
  - In 2015, Stark Industries enters into a JDIG agreement with the Department
  - JDIG incentive = $1M for 12 years, if all performance criteria is met.
  - What is the total potential JDIG obligation to Stark?
  - How much must be appropriated for the JDIG obligation in 2015? In 2016? In each year of 2017-27?
  - What if Ultron Industries enters an economically identical JDIG agreement in 2016?

- EIC study for funding
- EIC report to General Assembly by 4/1
- Annual JDIG obligation depends on compliance with performance metrics
- Projected FY 16 as of last funding study, if all metrics are met: $74M
- Actual base budget appropriation: $63M
- Surplus? Deficit?

Company	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	GRAND TOTAL
Stark	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1		$12
Ultron		$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$120
TOTAL	$1	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$10	$132

One North Carolina Fund

- Discretionary incentive program with moneys allocated to local governments to secure commitments for recruiting, expanding, or retaining new and existing businesses.
- Funds are used to:
  - Install/purchase equipment
  - Structure repairs, improvements, or renovations to existing buildings
  - Construction of utility infrastructure for existing or proposed buildings
- Maximum One NC commitment: $28M/ fiscal biennium
- Two agreements:
  - Local government grant agreement: between State and one or more local governments
  - Company performance agreement: between local government and business

One NC – Agreements

- Company performance agreement:
  - Requires job creation or maintenance with salary and location requirements
  - Schedule for fund disbursement with requirement that disbursement be proportional to amount of completed performance
  - Recapture provisions for failure to comply with agreement terms
- Local government grant agreement:
  - Local match requirement (cash or in-kind match allowed)
  - Provision requiring recapture in event of failure to comply with company performance agreement
  - Provision requiring reimbursement to State of recaptured funds
  - Record access
  - Fund disbursement schedule
- Funds may be disbursed only after local government demonstrates business has complied with applicable terms.

Industrial Development Fund Utility Account

- Discretionary fund used for construction/improvement of utility infrastructure
- Restricted to tier one and two counties
- Reserved for projects reasonably anticipated to create new jobs
- No local match requirement for 25 most economically distressed counties
- Priority for company HQ projects, air courier services, IT projects, manufacturing, and warehousing/wholesale trade
- Not available for retail, entertainment, or sports projects

Site Infrastructure Development Fund

- Discretionary fund used to provide grants or forgivable loans to businesses, State agencies, nonprofit corporations, or one or more local government to acquire/ improve land for industrial purposes
- Requires a business to invest at least $100M in private funds, to employ at least 100 new employees, and to meet health insurance, OSHA, & environmental requirements
- Businesses selected by EIC
- SIDF agreements must have safeguards to protect State's investment (job maintenance and wage standards, e.g.) and reimbursement provisions proportionate to the extent a business fails to comply with required metrics
- Originally used to attract Merck Pharmaceuticals; inactive since payments to Merck depleted the Fund

Job Maintenance and Capital Development Fund

- Discretionary fund used to encourage businesses to maintain high-paying jobs in the State and to make further capital investment in the State
- Businesses selected by EIC
- Sliding investment and minimum job requirements, depending on type and tier location of business
- JMAC agreements must provide each of the following:
  - Incentive payments are reduced for reductions in workforce and withheld if employment is less than 80% of what is required
  - Recapture of incentive payments if business fails to meet investment requirements
- Incentive amount is based on taxes paid on machinery and equipment, sales taxes paid on building materials, additional income and franchise taxes not offset by tax credits, taxes paid on electricity and fuels, worker training expenses, and State permitting fees
- Limited to 5 agreements total with a maximum aggregate cost of $79M and a maximum individual agreement cost of $6M