



**NORTH CAROLINA GENERAL ASSEMBLY**  
Legislative Services Office

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*Mark Trogdon, Director*

**DATE:** August 29, 2014  
**TO:** Representative Millis  
**FROM:** Aubrey Incorvaia, Fiscal Research Division  
**RE:** **Cost of Discretionary Incentives- JDIG, One NC & JMAC**

If the General Assembly were to cease Commerce's authorization to make new awards under discretionary incentive programs (i.e. Job Development Incentive Grant (**JDIG**), One North Carolina (**One NC**) Fund, and the Job Maintenance and Capital Development Fund (**JMAC**)), future annual appropriations would still be required to meet pre-existing grant commitments; this brief overviews these future costs. **Maximum liability across these three programs for existing awards as of the date of last report totals \$831.6 million and extends into 2027.**

**Job Development Investment Grant (JDIG)**

The JDIG program provides a discretionary incentive measured against a percentage of withholding taxes (10% to 75%) paid by new employees that offers sustained annual grants directly to new and expanding businesses statewide. The agreement "is a binding obligation of the State and is not subject to State funds being appropriated by the General Assembly."<sup>1</sup>

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;<sup>2</sup> this cap translates to a maximum potential liability of \$180 million over a 12-year grant period (maximum term length), for all businesses awarded a grant in the same calendar year.<sup>3</sup> Each new calendar year affords the JDIG program with a fresh award-making capacity (also known as a liability cap) from which to award new grants. Meanwhile, General Fund appropriations pay for existing award commitments made in prior years.<sup>4</sup>

By April 1<sup>st</sup> of each year, the Department of Commerce publishes a study on the minimum current funding level necessary to honor the State's existing obligations.<sup>5</sup> Table 1, at the end of this document, shows that **existing grant payments will continue into 2027 and if all companies perform at their maximum levels, associated funding requirements will total \$753 million.**<sup>6</sup> Future award commitments will increase funding requirements in future fiscal years.

<sup>1</sup> §143B-437.57(c)

<sup>2</sup> §143B-437.52(c)

<sup>3</sup> The General Assembly has occasionally increased the calendar year liability cap, but the standard threshold is \$15 million. In the 2013 Appropriation Act, the cap was modified to be \$22.5 million for the FY 2013-15 biennium and \$7.5 million for July 1, 2015 to December 31, 2015 (the authority to award new grants expires January 1, 2016).

<sup>4</sup> JDIG receives a recurring appropriation of \$63 million. For FY 2014-15, the JDIG appropriation was reduced on a nonrecurring basis by \$15.6 million; combined with available cash balance, total funds appropriated are \$54 million.

<sup>5</sup> §143B-437.55(e)

<sup>6</sup> Actual JDIG payments are based on company performance related to job creation, wages, and capital investment. A portion of JDIG payments made to companies located in Tier 2 and 3 counties is directed to the Industrial Development Fund Utility Account for infrastructure development in Tier 1 and 2 counties.

## One North Carolina Fund (One NC)

One NC awards provide a discretionary incentive “to local governments for use in connection with securing commitments for the recruitment, expansion, or retention of new and existing businesses.”<sup>7</sup> Local governments are required to equally match the State’s grant amount, which may only be used for the following purposes: 1) installation or purchase of **equipment**, 2) structural repairs, improvements, or renovations of **existing buildings** to be used for expansion, or 3) construction of or improvements to new or existing water, sewer, gas or electric utility **distribution lines** or equipment for existing buildings (new buildings are eligible for manufacturing and industrial operations). One NC awards, unlike JDIG, are made subject to appropriations by the General Assembly.

One NC award commitments may not exceed \$28 million per fiscal biennium.<sup>8</sup> An average award amount ranges between \$250,000 and \$300,000; payments are generally provided in four equal disbursements over three years, although they can be up to five years. Annual General Fund appropriations are allocated for existing One NC award commitments.<sup>9</sup>

By April 1<sup>st</sup> of each year, the Department of Commerce publishes a funding study for One NC.<sup>10</sup> However, because a company (via the local government) is only required to submit performance information when filing a disbursement claim, Commerce has historically had limited information on which to base anticipated fiscal year payouts. In 2012, the General Assembly updated One NC statutes to require that a business anticipating filing a disbursement claim provide notice to Commerce; such new standards apply to prospective awards and will be used to manage the program budget going forward.

Historic One NC grant expenditures have ranged between \$1.4 and \$10.8 million per fiscal year. **Not all companies ultimately submit for reimbursement, but if all commitments were claimed, as of June 30, 2014, the maximum total liability would be \$44 million, which extends to calendar year 2018.**

## Job Maintenance and Capital Development Fund (JMAC)

The JMAC program is a discretionary incentive program that offers sustained annual grants directly to businesses in Tier 1 and Tier 2 counties. These grants are designed to encourage retention of significant numbers of high-paying, high-quality jobs and large-scale capital investment, to enlarge the overall tax base, and increase revenues to the State and its political subdivisions. A total of five grants may be awarded to major employers<sup>11</sup> and/or large manufacturing employers;<sup>12</sup> terms may be up to 10 years. The sum of all grants awarded under the program may not exceed \$79 million and the total annual cost of an agreement may not exceed \$6 million.<sup>13</sup> JMAC awards are subject to General Assembly appropriations.

**As of August, 2014, three grants have been awarded, totaling \$67 million; remaining potential total liability is \$34.5 million through calendar year 2018.**<sup>14</sup>

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<sup>7</sup> §143B-437.71(b)

<sup>8</sup> Prior to the 2013 Appropriations Act, the limit was \$14 million per fiscal year, as established in 2012.

<sup>9</sup> One NC receives a recurring appropriation of \$9 million. For FY 2014-15, One NC’s appropriation was reduced on a nonrecurring basis by \$7.1 million; combined with available cash balance, total funds appropriated are \$11.4 million.

<sup>10</sup> §143B-437.74(b)

<sup>11</sup> A major employer has at least 2,000 employees and has invested \$200 million in capital improvements or will do so within 6 years, and locates in a Tier 1 county. §143B-437.012(d)

<sup>12</sup> A large manufacturing employer is converting its manufacturing process to change the product the business manufactures, or investing in its manufacturing process by enhancing pollution controls or transitioning the manufacturing process from coal to natural gas for purposes of becoming more energy efficient or reducing emissions, has invested \$50 million in capital improvements or will do so within 5 years, and 1) if in a Tier 1 county, maintains at least 320 employees or 2) if in a Tier 2 county (which must have a population of less than 60,000 as of 7/1/13 to be eligible), maintains at least 800 employees. §143B-437.012 (d)

<sup>13</sup> Annual grant payments are based on amounts a grantee pays in certain taxes on, or resulting from, new project machinery and equipment and building materials, worker training expenses, and state permitting fees for expansion.

<sup>14</sup> Annual fiscal year payments are anticipated to be \$7.5 million.

**Table 1: Total Maximum Liability for Existing JDIG Awards as of 2014 Commerce Funding Study**

Original Year of Award	Grant Year, Year of Company Performance on which JDIG Payment is Made, typically in the following Fiscal Year																	Grant Year TOTAL
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
2003			175,000	175,000														350,000
2004			6,431,357	4,751,358	2,268,798	727,999	507,999	507,999										15,195,510
2005			1,263,000	1,263,000	1,263,000	1,263,000	1,263,000	458,000										6,773,000
2006			12,179,000	12,179,000	12,179,000	12,179,000	11,965,000	10,245,000	3,702,000									74,628,000
2007			4,760,000	4,760,000	4,760,000	4,760,000	1,712,000	1,076,000	1,076,000									22,904,000
2008			3,066,000	3,420,000	3,420,000	3,420,000	3,420,000	2,125,000	2,041,000	2,041,000								24,994,000
2009	732,000	1,037,000	10,186,000	11,206,000	11,636,000	11,636,000	11,636,000	9,571,000	6,872,000	5,203,000	4,028,000	4,028,000						87,771,000
2010	253,000	663,000	8,184,000	9,576,000	10,414,000	10,137,000	10,137,000	10,137,000	9,265,000	6,716,000	5,637,000	3,277,000						84,396,000
2011		204,000	6,017,000	7,772,000	8,783,000	7,889,000	8,112,000	8,330,000	8,548,000	7,837,000	5,844,000	4,928,000	1,103,000	1,103,000	1,103,000	1,103,000		78,676,000
2012		135,000	5,448,000	9,303,000	11,726,000	13,721,000	14,221,000	14,288,000	14,288,000	14,288,000	13,459,000	10,127,000	6,413,000	3,445,000	1,673,000	196,000		132,731,000
2013*			628,000	9,974,000	16,991,000	19,276,000	20,615,000	20,880,000	20,880,000	20,737,000	20,437,000	19,814,000	18,176,000	16,411,000	15,619,000	393,000	343,000	224,714,000
<b>TOTAL</b>	<b>985,000</b>	<b>2,039,000</b>	<b>58,337,357</b>	<b>74,379,358</b>	<b>83,440,798</b>	<b>85,008,999</b>	<b>83,588,999</b>	<b>77,617,999</b>	<b>66,672,000</b>	<b>56,822,000</b>	<b>51,446,000</b>	<b>42,174,000</b>	<b>25,692,000</b>	<b>20,959,000</b>	<b>18,395,000</b>	<b>5,232,000</b>	<b>343,000</b>	<b>753,132,510</b>

Source: Dept of Commerce April, 2014 Funding Study

\* 2013 Totals include both Calendar Year 2013 (Cap = \$15 million); and FY 2013-15 (Cap = \$22.5 M). This report does not account for the unutilized portion of the biennium cap (\$16.6 million), which had not yet been awarded at the time of Commerce's Funding Study.