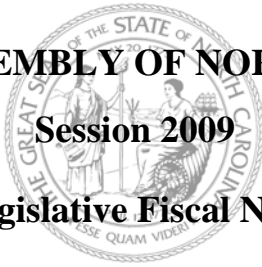


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: Senate Bill 501 (First Edition)

SHORT TITLE: IDF Eligibility Modifications.

SPONSOR(S): Senator Allran

| FISCAL IMPACT | | | | | |
|--|--------------------------|--------------------------|----------------------------------|--------------------------|--------------------------|
| | Yes () | No (X) | No Estimate Available () | | |
| | <u>FY 2009-10</u> | <u>FY 2010-11</u> | <u>FY 2011-12</u> | <u>FY 2012-13</u> | <u>FY 2013-14</u> |
| REVENUES | | | | | |
| EXPENDITURES | | | | | |
| POSITIONS (cumulative): | | | | | |
| PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Commerce | | | | | |
| EFFECTIVE DATE: July 1, 2009 | | | | | |

BILL SUMMARY: Under current law the Industrial Development Fund (IDF) may expend funds at a maximum rate of \$5,000 per new job created. S.B. 501 makes the following changes to GS 143B-437.01:

- Increases the award to a maximum award of \$15,000 per new job created in a Tier I county and \$10,000 per job created in a Tier II county, up to \$750,000 (was, \$500,000) per project.
- Requires a wage standard as set out in GS 105-129.83(c) for any non-manufacturing project [was, as set out in GS 105-129.4(b)].
- Amends the definition for economically distressed county to mean a county that is defined as a Tier I or Tier II county under GS 143B-437.08 (was, one of the 65 highest rankings under GS 143B-437.08).
- Redefines eligible industry as defined in GS 143B-437.53 (regarding eligible projects).
- Expands the availability of Utility Account funds from the 65 most distressed counties to all 80 counties in Tier I and Tier II.

ASSUMPTIONS AND METHODOLOGY:

S.B. 501 will have no fiscal impact. However, it may reduce the number of projects that receive funds from the Industrial Development Fund (IDF) and the IDF Utility Account.

Industrial Development Fund (IDF)

IDF grants are currently available to local governments in the 65 most distressed counties as defined by G.S. 143B-437.08 (all of the Tier I counties and 25 of the Tier II counties). Funds may be used to improve public infrastructure (such as water, sewer, gas, or utility lines) for economic development purposes. Local governments can also apply for loans for building renovations or equipment purchases. Up to \$100,000 of the funds available for IDF may be used to provide emergency economic development assistance in any county that is documented to be experiencing a major economic dislocation. G.S. 143B-437.01, the IDF statute, states that no local match is required for the 25 most distressed counties. The statute is silent regarding matches in the other counties; the Department of Commerce's guidelines require a 25% match from them. There is no specific job creation requirement, although the statute does state that funds shall be used for projects that will directly result in the creation of new jobs. A wage standard is required only for non-manufacturing projects.

IDF receives a recurring appropriation of \$320,107 from the General Fund. There is currently a cash balance of \$3,247,957 in the fund (as of May 5, 2009). The following table provides a history of the fund balance and grant and loan payments since FY 2004-05:

| Industrial Development Fund History | | | | | <i>Budgeted as of 5/5/09</i> |
|--|--------------------|--------------------|--------------------|--------------------|----------------------------------|
| Fiscal Year | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| Carryforward Prior Year | \$7,428,631 | \$5,169,577 | \$5,894,227 | \$4,953,793 | \$5,123,549 |
| Appropriation | \$320,107 | \$320,107 | \$ 320,107 | \$320,107 | \$320,107 |
| Receipts | \$677,366 | \$781,669 | \$164,515 | \$352,955 | \$21,990 |
| Subtotal Available Funds | \$8,426,104 | \$6,271,353 | \$6,378,849 | \$5,626,855 | \$5,465,646 |
| Grant Payments | \$268,180 | \$377,126 | \$1,425,056 | \$333,517 | \$4,685,471* |
| Loans Awarded | \$0 | \$0 | \$0 | \$0 | \$100,000 |
| Subtotal Expenditures | \$268,180 | \$377,126 | \$1,425,056 | \$333,517 | \$4,785,471 |
| Legislative Adjustments | \$(2,988,347) | | | \$(169,789) | |
| Total EOY Availability | \$5,169,577 | \$5,894,227 | \$4,953,793 | \$5,123,549 | \$680,175 |

*The amount shown for FY 2008-09 grant payments is total encumbrances, not the actual amount that will be paid this year.

Since FY 2004-05, Commerce has awarded an average of six IDF awards per year with an average award amount of \$182,871, or 37% of the maximum award amount of \$500,000. The table below provides some historical statistics for the IDF program.

| IDF Statistics Since FY 2004-05 | | | | |
|--|----------------|----------------|----------------|----------------|
| | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Number of Awards | 4 | 7 | 4 | 8 |
| Total Grants Awarded | \$800,000 | \$1,850,838 | \$123,079 | \$1,432,134 |
| Total Loans Awarded | \$0 | \$0 | \$0 | \$100,000 |

The current cash balance (\$3,247,957) less outstanding FY 2008-09 encumbrances (\$2,567,782) plus the FY 2009-10 estimated appropriation (\$320,107) equals \$1,000,281. Therefore, it is estimated that the Department of Commerce will have approximately \$1 million for new IDF grants in FY 2009-10. Under the current statute with a \$500,000 cap, Commerce could award two grants at the maximum award level with those funds. Under the new statute, Commerce will only be able to make one grant at the maximum award level with the funds. If the grants awarded in FY 2009-10 are made at the average rate as in prior years (37% of the maximum award amount, or \$185,000 each), Commerce will be able to make five awards under the current maximum. Under the new maximum, Commerce will be able to make three awards. (37% of 750,000 is \$277,500. \$1 million divided by \$277,500 is 3.6.) Therefore, S.B. 510 may reduce the number of grants available through IDF. To the extent that grants are awarded at less than the maximum granting level, the number of awards may be increased.

IDF Utility Account

IDF Utility Account grants are available to local governments for the construction of or improvements to utility lines (gas, water, sewer, telecommunications, broadband, and electrical), or for transportation infrastructure. These grants require no wage standard and may be used for job creation or retention in manufacturing and processing, warehousing and distribution, or data processing. There is no maximum grant level in statute, but Commerce guidelines cap the grants at \$500,000. Current law restricts these grants to the 65 most distressed counties.

Funding for the Utility Account comes from awards made in Tier II and III counties through the Job Development Investment Grant (JDIG) program. A JDIG award is calculated based on the withholding taxes of a company (awards can be anywhere from 10% to 75% of withholdings, depending on several factors including job creation and investment). Once the maximum award is determined, if the company is locating in a Tier III area, 25% of the award is subtracted from the amount the company will receive and transferred to the Utility Account. If the company is locating in a Tier II area, the amount subtracted is 15%. Funds are transferred each year when payments are made to the recipient company. The Utility Account does not receive a direct General Fund appropriation.

The FY 2009-10 Continuation Budget estimates that \$937,007 will be transferred to the Utility Account from JDIG in FY 2009-10. There is currently a cash balance of \$6,875,427 in the Utility Account (as of May 5, 2009). The following table provides a history of the fund balance and grant and loan payments since FY 2004-05:

| Utility Account Fund History | | | | | <i>Budgeted as of</i> <i>5/5/09</i> |
|-------------------------------------|------------------|--------------------|--------------------|--------------------|--|
| Fiscal Year | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
| Carryforward Prior Year | \$110,315 | \$ 642,450 | \$1,603,176 | \$2,474,513 | \$6,060,385 |
| Transfer from JDIG | \$489,538 | \$935,778 | \$990,214 | \$4,021,647 | \$1,667,268 |
| Receipts | \$42,597 | \$42,598 | \$50,343 | \$38,725 | \$0 |
| Subtotal Available Funds | \$642,450 | \$1,620,826 | \$2,643,733 | \$6,534,885 | \$7,727,653 |
| Grants or Loans | | \$17,650 | \$169,220 | \$474,500 | \$6,875,427 |
| Subtotal Expenditures | | \$17,650 | \$169,220 | \$474,500 | \$6,875,427 |
| Total EOY Availability | \$642,450 | \$1,603,176 | \$2,474,513 | \$6,060,385 | \$852,226 |

*The amount shown for FY 2008-09 grant payments is total encumbrances, not the actual amount that will be paid this year.

Since FY 2004-05, Commerce has awarded an average of three Utility Account awards per year with an average award amount of \$105,913, or 21% of the maximum award amount of \$500,000. The table below provides some historical statistics for the IDF program:

| Utility Account Statistics Since FY 2004-05 | | | | |
|--|----------------|----------------|----------------|----------------|
| Fiscal Year | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| # Grants Awarded | 0 | 2 | 1 | 8 |
| Total Grant Amount | | \$546,845 | \$100,000 | \$2,848,300 |

The current cash balance (\$6,875,427) less outstanding FY 2008-09 encumbrances (\$6,875,427) plus the FY 2009-10 estimated transfer from JDIG (\$937,007) equals \$937,007. Therefore, it is estimated that the Department of Commerce will have approximately \$937,000 for new IDF grants in FY 2009-10. Commerce could award one grant at the maximum award level with those funds. Although there is no statutory cap, Commerce guidelines cap Utility Account grants at the same level as IDF, so it can be assumed that the Utility Account cap will increase if S.B. 510 becomes law. Under the new statute, Commerce will be able to make one grant at the maximum award level with the funds. If the grants awarded in FY 2009-10 are made at the average rate as in prior years (21% of the maximum award amount, or \$105,000 each), Commerce will be able to make nine awards under the current maximum. Under the new maximum, Commerce will be able to make six awards. (21% of 750,000 is \$157,500. \$937,000 divided by \$157,500 is 5.9.) Therefore, S.B. 510 may reduce the number of grants available through IDF. To the extent that grants are awarded at less than the maximum granting level, the number of awards may be increased.

SOURCES OF DATA:

TECHNICAL CONSIDERATIONS: None.

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