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Tax Brief

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# JDIG, An Economic Development Initiative, Is Not Good Public Policy

## Overview

Created in 2002, the Job Development Investment Grant (JDIG) program serves as a last ditch effort to secure large development projects by awarding cash grants based on personal income tax withholdings. Currently, the Department of Commerce may enter into 15 agreements per calendar year, each lasting up to 12 years, and may commit up to $10 million annually prior to its 2005 sunset. To date, JDIG funds have been awarded to 14 companies totaling $59.2 million. Even if the program were ended today, North Carolina state government would still be writing checks to businesses until 2016. Legislation has been introduced to increase to 25 the number of annual agreements, to raise the spending cap to $18 million annually, and to extend the sunset to 2009. Since its inception, the program has failed on four key measures. Policymakers should give serious consideration this legislative session to eliminating the incentive.

## 1. Distressed Areas Are Largely Ignored

The most affluent and urbanized counties have benefited from the grants. To date, only two businesses located in distressed areas have secured grants. Of the 14 grants awarded, 10 have supported the metropolitan counties of Durham, Guilford, Mecklenburg, New Hanover, Union, and Wake counties. These Tier 5 counties do not require economic development incentives to maintain high-performing schools, lower unemployment rates, or quality infrastructure. In comparison, Tier 1 counties, which have received only one JDIG award, experienced a median unemployment rate of 9.5 percent in January 2004 compared to the median unemployment rate of 5.4 percent in Tier 5 counties. Economic development funds should support areas in need of state assistance. This program blatantly ignores these blighted areas while favoring the state's most developed areas.

## 2. Small Businesses Are Disadvantaged

The initiative undermines a key tenet of good tax policy by extending the unfair tax advantage granted to large corporations over small businesses. According to the NC Rural Center, small businesses are the backbone to North Carolina's economy and are responsible for creating 83,000 new jobs in 1998 through 2002. These establishments, employing fewer than 50 employees each, "account for 95 percent of all rural establishments and employ over 614,000 people in rural North Carolina".[i] Small businesses are largely ineligible for the grants. First, JDIG targets businesses that may relocate to North Carolina, not established businesses. Second, the purpose of JDIG is to lure businesses that would not expand or relocate "but for" the grant. Therefore, small businesses with planned expansions do not qualify. Third, at least 10 new jobs must be created in Tiers 1, 2, or 3 in order to qualify. In effect, a small business of 20 employees must expand its staff by 50 percent in order to qualify, assuming the expansion would not occur without lure of the incentive.

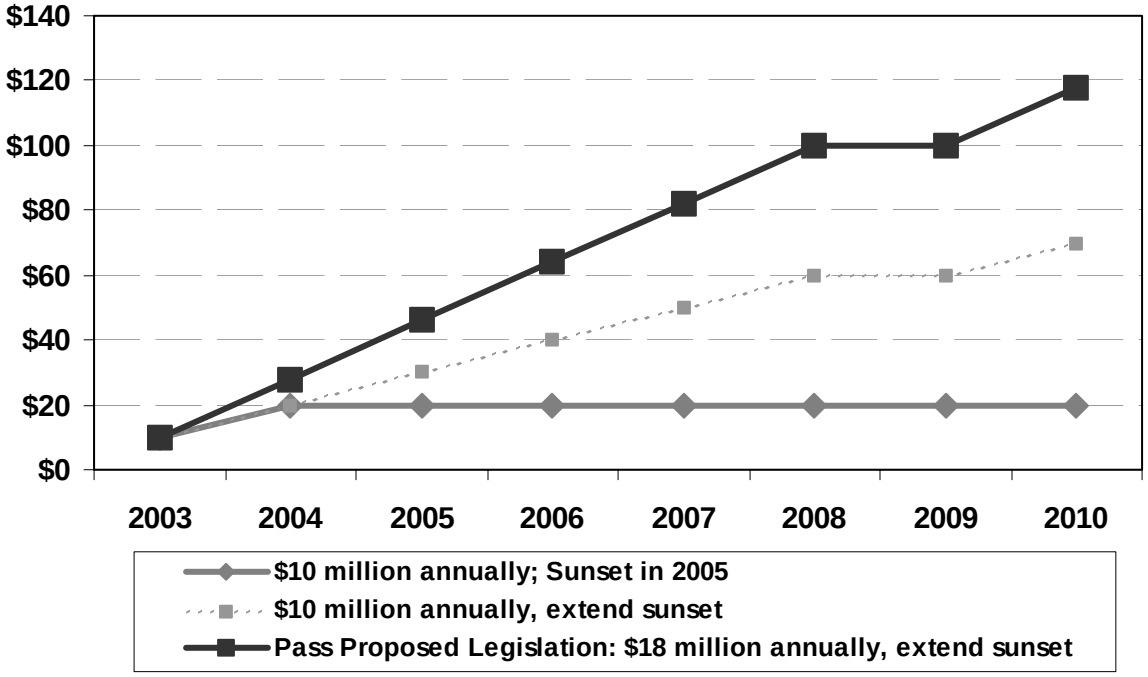
## 3. Current and Cumulative Revenue Loss Is Startling – Tradeoffs are already apparent

The impact of the loss of revenue resulting from JDIG outlays is evident in the current budget process. House budget makers, for example would cut or freeze several key human services programs, including the Health Choice children's health insurance program, childcare subsidies, community mental health programs, and child protection services. Many analysts question the wisdom of expanding JDIG at a time at which core human services programs are under such pressure.

In the long term, the amount of yearly allocation will increase substantially in future years given the cumulative effect of prior year grants. Figure 1 examines the fiscal impact of JDIG given three scenarios (including the total cost through 2010):

1) No legislative action is taken-- the January 1, 2005 sunset is upheld ($150 million).
2) The sunset is pushed back to January 1, 2009 ($350 million).
3) Proposed bill is adopted-- cap raised to $18 million; sunset extended ($548 million).

**Figure 1: Annual Fiscal Impact of JDIG (in millions)**




## 4. Workers are not afforded a living wage

JDIG is the latest economic development incentive to eliminate wage standards. Wage standards protect North Carolina's economy and its workers by ensuring that the jobs being subsidized by the state's incentive package pay an adequate wage to support a family without necessitating the worker receive further state assistance. A requirement to secure workers a living wage should be a fundamental principle in developing state incentives that sponsor business activity. Research also shows that employers that pay higher wages have a much greater incentive to invest in employee development, therefore improving the long-term prospects for workers to advance.

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[i] The Rural Center.