north carolina
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FACT SHEET

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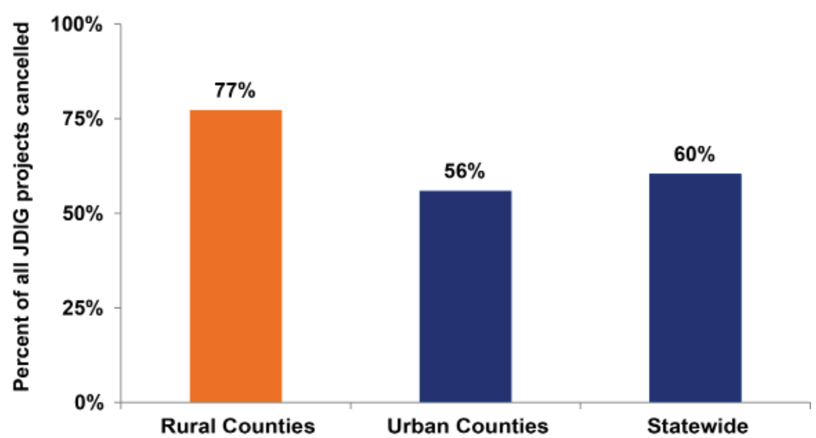
PICKING LOSERS:

Majority of all state incentive projects end in failure

If North Carolina continues to use incentives to pick winners and losers in economic development, the state needs to do a much better job of picking winners. More than half of all firms receiving incentive awards from the state's Job Development Investment Grant (JDIG) program since its inception in 2002 have failed to live up to their promises of job creation, investment, or wages. These failed projects have forced the Department of Commerce to cancel those grants and even occasionally take back funds that had already been given these non-performing firms. **Given the troubling number of failed projects, now is not the time to accept the Governor's proposal to expand JDIG and create a new "catalyst fund" for closing new incentive deals.**

- **North Carolina has been picking more losers than winners with its JDIG incentives—60 percent of all JDIG projects have failed since 2002.** Project failure occurs when a company receiving a JDIG fails to live up to its promises of job creation, investment, or wages after a five-year base period, and the Department of Commerce cancels the grant. In the years between the creation of the JDIG program in 2002 and 2013 (the last year for which the program's performance data is available), the Department of Commerce was forced to cancel 62 out of 102 eligible JDIG awards due to companies' failure to fulfill their promises, according to an analysis of the Department's annual JDIG reports—a 60 percent failure rate for all JDIG projects across the state.

FIGURE 1: **Rural counties see highest rates of JDIG failure, 2002-2013**

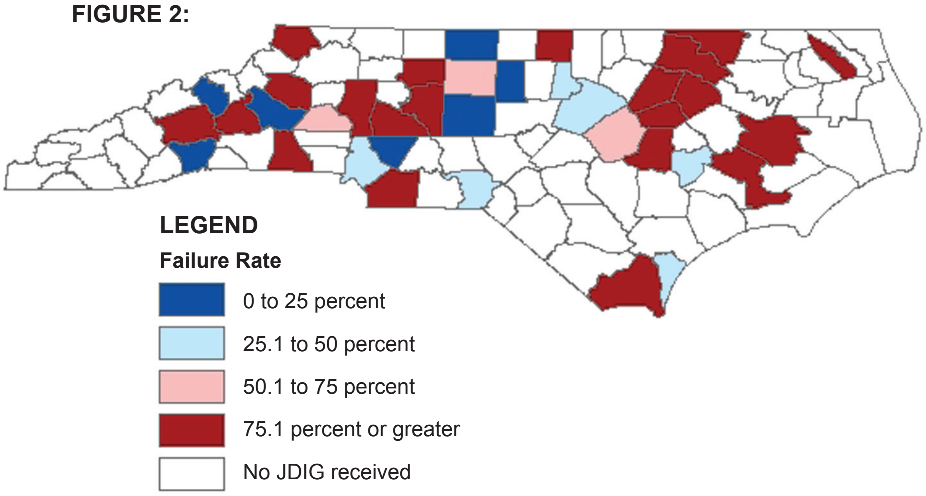


- **JDIG isn't working for rural North Carolina—rural counties have received a fraction of the awards urban counties have received, while experiencing significantly worse project failure rates.** Since 2002, only 9 percent of all JDIG dollars have gone to rural counties, while more than 90 percent have gone to urban counties. Meanwhile, even those dollars haven't translated into the reality of more jobs in rural North Carolina—**more than 77 percent of JDIG projects in rural counties have failed, compared to just 56 percent of urban county projects.**

- **JDIG is running out of money because the Governor spent more than half of the program's available funds on one project in 2013—the MetLife deal in Charlotte—leaving less for everyone else.** The JDIG program didn't just suddenly stumble into insolvency. Since 2002, the legislature has capped the total amount of public dollars JDIG could spend on all projects combined in each year. In 2014, this fiscal cap stood at $22.5 million. Unfortunately, the

Governor ate up about half of the available JDIG funds below this cap in a single project—the 2013 award to insurance giant MetLife as part of the company's decision to locate its corporate headquarters in Charlotte. At the time, the Governor proudly described it as the largest JDIG award in history, coming in at $110 million over 10 years (or about $11 million per year).

FIGURE 2:



- **JDIG is failing to recruit jobs to the state—59 percent of JDIG recruitment projects have failed since 2002.** The Governor often talks about JDIG as an essential tool in recruiting new businesses from outside North Carolina to locate here, yet almost 60 percent of the 58 awards used in recruitment projects failed to generate the benefits promised by the recipient firms and were cancelled. This suggests that while JDIG may be a useful tool in securing the promises of new jobs, it falls very short in securing the reality of new jobs.

- **The Governor's proposed "deal closing" fund is unnecessary and duplicative, since the OneNC program already plays this role.** The existing OneNC program operates in almost exactly the same way as the proposed "Catalyst Fund"—it provides matching grants to local government to help increase their incentive offers to prospective firms, and more distressed counties receive larger awards. Governors have used OneNC as a deal closer 26 times over the past ten years by piggy-backing OneNC awards on top of JDIG awards—spending total of $90 million since 2002.

- **The "deal closing" fund simply gives away more money in awards, but does nothing to ensure that these projects succeed at their stated goals of creating jobs and spurring private investment.** Making more projects eligible for incentives doesn't make them more likely to actually create jobs. As a result, this new catalyst program simply exacerbates the failings of the JDIG program—it does nothing to address the high failure rate of JDIG awards statewide or the reality that projects in rural and more distressed counties are failing at a much higher rate than those in urban areas.

To address these problems, legislators should resist adding to the state's incentive programs and instead focus on strengthening the performance standards that hold recipient firms accountable for the promises they make. Without these critical accountability measures, each one of these unsuccessful projects would have continued to receive millions in public subsidies, despite failing to create promised jobs and investment. There is no need to create a new "closing" fund, since there is already an existing, similarly designed, incentive program that Governors have traditionally used to help close projects—namely, the OneNC program.

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