

Analysis finds state's economic-incentive program has 60 percent failure rate

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As Gov. Pat McCrory and Commerce officials revise their pitch for more economic-incentive money, a study from a left-leaning research group released Monday shows the state's top program is failing to deliver at a 60 percent rate.

Authors of the N.C. Justice Center's report, titled "Picking losers," said Commerce was forced to cancel 62 out of 102 eligible Job Development Investment Grant (JDIG) awards from 2002 to 2013 due to companies' failure to fulfill their job pledges.

That includes nine of 16 failed projects in the 14 counties of the Triad and Northwest N.C., accounting for 7,263 jobs.

Perhaps the top failure was the \$110 million Dell Inc. plant in Winston-Salem, particularly the corporation's inability to fulfill its pledge of 1,700 jobs in the facility before it was shut down after five years in November 2010.

Dell was eligible for about \$17.3 million in JDIG funding and up to \$267 million in overall state incentives – the largest package in state history when pledged in November 2004.

A January 2010 series by the Winston-Salem Journal revealed that of the 13,045 jobs pledged in 70 city and county packages from 1990 to 2010, 40 percent of them were either never created or no longer existed. Foremost, of course, was the Dell plant.

McCrory has said for months – to mixed response – that North Carolina is missing out on potential projects of all sizes, in part because of limited incentive monies.

"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 from companies most likely to experience robust growth," said Allan Freyer, author of the report.

A Republican-generated economic-development bill is expected to be introduced this week. McCrory's requests likely will be included in his fiscal 2015-16 budget, expected to be released in March. A Democrat-generated omnibus economic-development bill was introduced Thursday and included a limited job catalyst fund.

The report's measuring stick was JDIG projects whose base performance period started and ended between 2002 and 2013. The typical base performance period was five to seven years.

In some instances, Commerce officials were forced to cancel the JDIG grants for company nonperformance and claw back the funds. In other cases, the companies volunteered to either forgo the incentives or accept a lower prorated amount as the economic downturn led to a change in growth plans.

“The findings suggest 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,” Freyer said.

Legislators from both parties have said for years that state government shouldn't be in the position of giving some corporations competitive advantages over others, as well as over existing small businesses.

Much of the JDIG funding approved for 2014-15 by the General Assembly already has been allocated in recent announcements or projects committed to in previous years.

MetLife said in March 2013 it would open operations in Charlotte and Cary, creating up to a combined 2,622 jobs by the end of 2015 with an average salary of \$81,891. MetLife is eligible for up to \$87.2 million from JDIG over 12 years, taking about half of the current \$22.5 million annual allotment.

McCrory wants the legislature to approve \$20 million in annual job catalyst funding to serve as a deal closer for Commerce officials. He also wants the annual JDIG allotment raised to \$36.5 million.

Similar requests were rejected in a heated legislative vote in August.

“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,” Freyer said.

Several key Republican legislative leaders say recent cuts to the corporate tax rate should be sufficient recruitment incentive for corporations, rather than increasing incentive funding.

“By the nature of these arrangements these are reasonably high-risk deals,” said Rep. Donny Lambeth, R-Forsyth. “Any funds provided by the state needs to be protected and paid back if there is a failure to achieve the desired results.

“We need to be smart and cautious in the future and learn from some of the past failures.”

The study's authors cited concerns about how the state is measuring JDIG grant successes and failures. “The cost-benefit analysis every project must undergo is clearly letting too many bad projects slip through the cracks,” the authors said.

After the celebratory groundbreakings and grand openings fade and production begins, most incentive packages don't require keeping the public updated on how recipients are performing during the contract period.

John H. Boyd, a principal at The Boyd Co., a corporate site-selection firm in Princeton, N.J., said he doesn't believe North Carolina's “handicapping track record is any worse than other states.”

“States competing for high-profile projects do need some kind of closing fund to draw from.”

On Feb. 5, the Golden Leaf Foundation committed providing up to \$50 million in incentive money to land an automobile manufacturing plant – the holy grail of state economic development efforts.

“Today's reality is that these trophy projects demand it,” Boyd said.

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