

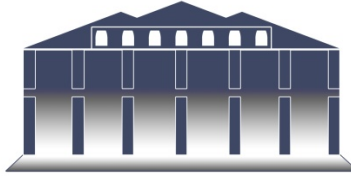
**Economic Development Partnership of North
Carolina Should Increase Private Funding and
Improve Formal Coordination with
Department of Commerce**



**Final Report to the Joint Legislative
Program Evaluation Oversight Committee**

Report Number 2019-02

January 29, 2019



Program Evaluation Division
North Carolina General Assembly
Legislative Office Building, Suite 100
300 North Salisbury Street
Raleigh, NC 27603-5925
919-301-1404
www.ncleg.net/PED

50 copies of this public document were printed at a cost of \$72.90 or \$1.46 per copy.

A limited number of copies are available for distribution through the Legislative Library:

Rooms 2126, 2226
State Legislative Building
Raleigh, NC 27601
919-733-7778

Room 500
Legislative Office Building
Raleigh, NC 27603
919-733-9390

The report is also available online at www.ncleg.net/PED.



NORTH CAROLINA GENERAL ASSEMBLY
Legislative Services Office

Paul Coble, Legislative Services Officer

Program Evaluation Division
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603-5925
Tel. 919-301-1404 Fax 919-301-1406

John W. Turcotte
Director

January 29, 2019

Senator Brent Jackson, Co-Chair, Joint Legislative Program Evaluation Oversight Committee
Representative Craig Horn, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, NC 27601

Honorable Co-Chairs:

The 2018 Work Plan of the Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to analyze the effectiveness and efficiency of the Economic Development Partnership of North Carolina (the EDPNC), a non-profit organization that operates as the sales and marketing arm of the State.

I am pleased to report that the EDPNC and the Department of Commerce cooperated with us fully and were at all times courteous to our evaluators during the evaluation.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Turcotte".

John W. Turcotte
Director

Mandatory Evaluation Components

Report 2019-02: Economic Development Partnership of North Carolina Should Increase Private Funding and Improve Formal Coordination with Department of Commerce

N.C. Gen. § 120-36.14 requires the Program Evaluation Division to include certain components in each of its evaluation reports, unless exempted by the Joint Legislative Program Evaluation Oversight Committee. The table below fulfills this requirement and, when applicable, provides a reference to the page number(s) where the component is discussed in the report.

N.C. Gen. § 120-36.14 Specific Provision	Component	Program Evaluation Division Determination	Report Page
(b)(1)	Findings concerning the merits of the program or activity based on whether the program or activity		
(b)(1)(a)	Is efficient	The Economic Development Partnership of North Carolina (EDPNC) is efficient because 94.2% of expenditures are used to support programs ; only 5.8% goes toward administration. Charity Navigator rates community foundation group highest if they spend less than 10% of funds on administrative activities. The EDPNC is less efficient in terms of fundraising: 17% of every unrestricted dollar raised was spent on fundraising.	12, 14
(b)(1)(b)	Is effective	The Department of Commerce has contracted with the EDPNC to perform several functions: business attraction, tourism, business assistance, international trade, and marketing. Overall, the EDPNC performs these functions more or as effectively as the Department of Commerce did in previous years.	10, Appendix A
(b)(1)(c)	Aligns with entity mission	The EDPNC' s mission is focused on recruiting new businesses to the state, supporting the needs of existing businesses, connecting exporters to global customers, helping small business owners get their start, and attracting tourists and visitors from all over the world. This mission aligns with the Department of Commerce's mission to improve the economic well-being and quality of life for all North Carolinians.	3-4
(b)(1)(d)	Operates in accordance with law	The EDPNC does operate in accordance with law. However, Recommendation 7 states that the General Assembly should clarify G.S. 143B-431A(b)(1) to allow the EDPNC to award federal grant funds for the State Trade and Export Promotion and Manufacturing Extension Partnership programs.	27-28, 37-38
(b)(1)(e)	Does not duplicate another program or activity	Although the potential for market research duplication exists, the Program Evaluation Division found no evidence that this type of duplication is occurring. Finding 3 determined that management of the tourism program is split between both the EDPNC and the Department of Commerce.	16, 33-34 17-19
(b)(1a)	Quantitative indicators used to determine whether the program or activity		
(b)(1a)(a)	Is efficient	The Program Evaluation Division determined efficiency of the EDPNC because 94.2% of expenditures are used to support programs ; only 5.8% goes toward administration. The EDPNC is less efficient in terms of fundraising: 17% of every unrestricted dollar raised was spent on fundraising.	12, 14
(b)(1a)(b)	Is effective	The Program Evaluation Division determined effectiveness of the EDPNC by comparing the EDPNC's average performance from	Appendix A

		<p>FY 2015-2018 to the Department of Commerce's reported performance between FY 2009-2013 on the same measures.</p> <ul style="list-style-type: none"> The EDPNC performed better than the Department of Commerce on capital investment (\$3.5 billion versus \$3.1 billion) foreign direct investment (\$1.6 billion versus \$.83 billion), and number of companies receiving export assistance (509 versus 394). The EDPNC performed worse than the Department of Commerce on overall job creation (16,540 versus 16,906) and the number of existing businesses receiving assistance (964 versus 1,363). 	
(b)(1b)	Cost of the program or activity broken out by activities performed	<p>EDPNC activities had the following state costs in Fiscal Year 2017-18:</p> <ul style="list-style-type: none"> Travel and tourism = \$12,853,799 Administration and investor relations = \$854,112 Research and marketing = \$2,403,282 International Trade = \$1,652,836 Business support = \$1,177,623 Business recruitment = \$1,287,157 Business development = \$922,187 	
(b)(2)	Recommendations for making the program or activity more efficient or effective	<p>Recommendation 1 states the General Assembly should direct the EDPNC to increase private fundraising to better support the organization's mission and reinforce the public-private nature of the entity. If private funding becomes extensive, there is the potential to reduce state funding, making programs more efficient for the State.</p> <p>Recommendation 2 states the General Assembly should require the EDPNC and Department of Commerce to work with a third party to develop a communication plan for areas such as marketing, business development, and market research to improve the overall flow of communication between organizations and reduce potential duplication or requests for information.</p> <p>Recommendations 4, 5, and 6 aim to make the strategic planning and communication processes between the EDPNC and the Department of Commerce stronger. These actions may improve coordination between organizations and reduce potential for duplication.</p> <p>Recommendation 8 states the General Assembly should direct the EDPNC to improve the buildings and sites database in order to make it more competitive with other states' databases.</p> <p>Recommendation 9 directs the EDPNC to work with an academic organization to suggest more nuanced and additional program performance metrics to better measure what it actually accomplishes.</p>	<p>32-33</p> <p>33-34</p> <p>36-37</p> <p>38</p> <p>39</p>
(b)(2a)	Recommendations for eliminating any duplication	<p>The functions of the tourism division are split between the EDPNC and the Department of Commerce. For this reason, there is duplication in administration. Recommendation 3 is for the General Assembly to consider whether these functions should be consolidated in one organization</p>	<p>17-19, 34-36</p>
(b)(4)	Estimated costs or savings from implementing recommendations	<p>Recommendations entail costs and savings. One-time costs include</p> <ul style="list-style-type: none"> Estimated \$7,000 for facilitation that will be paid for by the agencies. <p>Recurring costs include</p> <ul style="list-style-type: none"> Approximately \$200,000 for the Department of Commerce to redirect existing resources towards two positions to assist with strategic research and planning; and 	

		<ul style="list-style-type: none">• Approximately \$85,000 for maintaining the buildings and sites database. <p>If private funds for EDPNC operations increase, there may be a potential to reduce state funding.</p>	
--	--	--	--



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

January 2019

Report No. 2019-02

Economic Development Partnership of North Carolina Should Increase Private Funding and Improve Formal Coordination with Department of Commerce

Summary

The Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to analyze the effectiveness and efficiency of the Economic Development Partnership of North Carolina (the EDPNC), a non-profit organization that operates as the sales and marketing arm of the State.

The majority of the EDPNC's budget (89%) is funded by state appropriations. Much of this appropriation is restricted to specific activities such as tourism marketing, which limits the EDPNC's ability to strategically allocate funds. There has been no growth in the amount of private funds raised in recent years and the current fundraising requirement does not provide an incentive for the EDPNC to continue fundraising once the required amount has been pledged.

The EDPNC and the Department of Commerce lack effective communication and coordination. The two agencies do not coordinate their strategic plans and the Department of Commerce has little formal oversight of the EDPNC's activities.

Other issues noted include: the tourism division having minimal synergy with the rest of the EDPNC; the EDPNC's below-market salaries being coupled with a bonus system that is unusually generous compared to similar organizations; the EDPNC operating without a strategic plan; the EDPNC's administration of discretionary federal grant funds going against the intent of existing state law; the buildings and sites database and associated web tool not being competitive with those used by other states; and the EDPNC's performance measures not adequately capturing true project involvement and performance.

To address these findings, the General Assembly should

- direct the EDPNC to increase private funding to \$2 million per year and provide a matching incentive;
- charge the EDPNC and Commerce with engaging a facilitator to create a communication protocol and resolve coordination issues;
- create a legislative commission to consider the best way to organize and manage the tourism division;
- abolish the Accountability and Standards Committee and entrust the Secretary of Commerce with these responsibilities;
- make the Secretary of Commerce an ex-officio, voting member of the EDPNC's Board of Directors and require agencies to coordinate strategic plans;
- modify existing state law to specify that the EDPNC Board of Directors is responsible for creating an organizational strategic plan;
- specify in state law that the EDPNC may award federal grant funds;
- instruct the EDPNC to improve the buildings and sites database; and
- consider recommendations for additional or alternative performance measures.

Purpose and Scope

The 2018 Work Plan of the Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to examine the effectiveness of the Economic Development Partnership of North Carolina (EDPNC), a private nonprofit organization created in 2014 and responsible for a number of economic development “marketing and sales” functions that previously resided within the North Carolina Department of Commerce. These responsibilities include business recruitment, existing industry and small business support, import and export assistance, marketing, tourism, film, and sports development.

This evaluation addressed four research questions:

1. How does North Carolina’s economic development partnership differ from other states in terms of its structure, responsibilities, and oversight?
2. How is public-private partnership (PPP) performance measured in other states and North Carolina?
3. Is the EDPNC providing the intended benefits to North Carolina?
4. In what ways can the EDPNC’s operations be changed to improve outcomes?

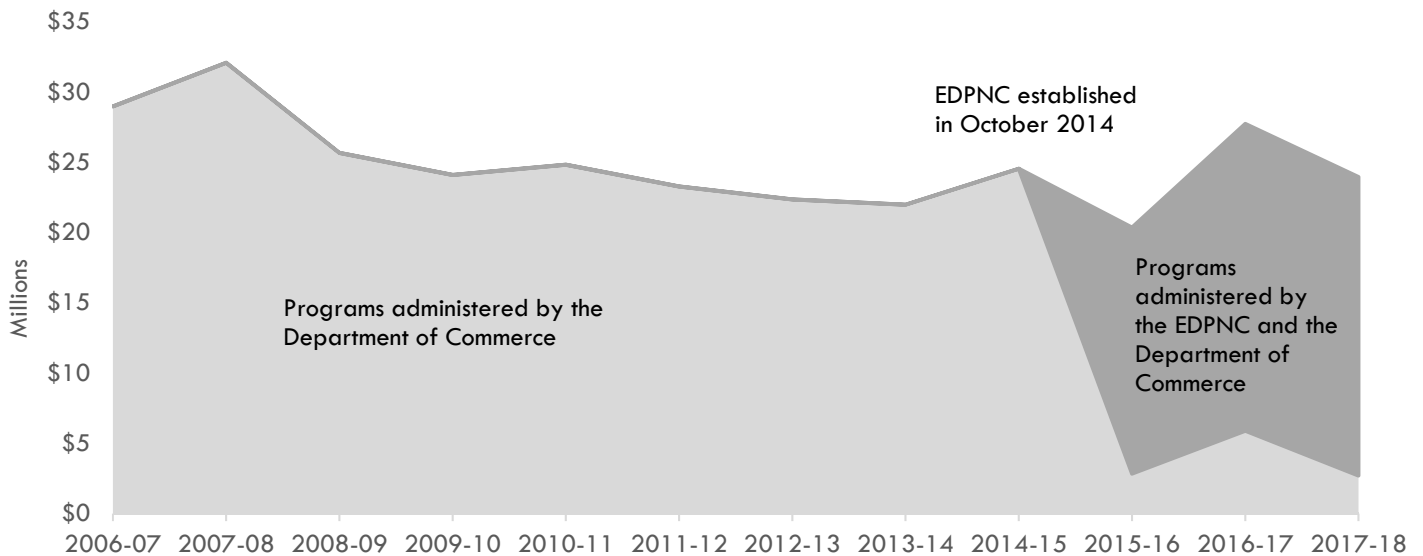
The Program Evaluation Division collected and analyzed data from several sources, including

- interviews with EDPNC division heads, board members, executive leadership, and the Secretary and Director of Economic Development from the Department of Commerce;
- review of state law that facilitated the creation of the EDPNC and existing financial and program audits;
- surveys provided to the members of the North Carolina Economic Development Association, site selection consultants, EDPNC staff members, and the EDPNC Board of Directors;
- interviews with individuals who helped create the EDPNC, the heads of current and former regional partnerships, and local economic developers;
- literature review of academic research about public-private partnerships; and
- interviews with 16 representatives from states in which a non-state agency is in charge of some or all state economic development efforts.

Background

The Department of Commerce created the Economic Development Partnership of North Carolina (the EDPNC) in 2014 to provide a new delivery system for sales and marketing functions traditionally performed by the department. A decline in the economic well-being of the State preceded the creation of the EDPNC. The Great Recession of the late 2000s marked a time of increased unemployment and decreased public funding for economic development activities. The State’s seasonally adjusted unemployment rate increased from 4.8% in January 2006 to 11.4% in 2010 and was 8.9% in January 2013. As depicted in Exhibit 1, state appropriations for business attraction and tourism activities declined from \$29 million in Fiscal Year 2006–07 to \$22 million in FY 2012–13.

Exhibit 1: Department of Commerce and EDPNC Expenditures for Select Economic Development Activities, Fiscal Years 2007–2018



Note: These amounts represent the actual expenditures for business lead development; business recruiting; existing industry and small business support; international trade and export assistance; business marketing and research; and tourism. The Fiscal Year 2014–15 amount was initially allocated to the Department of Commerce and some of these funds were later transferred to the EDPNC. EDPNC budget numbers represent total state expenditures on economic development activities as reported by the EDPNC. These amounts have been adjusted for inflation using the Personal Consumption Expenditures price index and are presented in July 2018 dollars.

Source: Program Evaluation Division based on actual expenditures data from the North Carolina Accounting System and the Economic Development Partnership of North Carolina.

The General Assembly facilitated the creation of the EDPNC with passage of Session Law 2014-18. On October 6, 2014, the Department of Commerce entered into a contract with the newly formed nonprofit to provide certain state business functions.

The EDPNC is North Carolina’s sales and marketing arm for business attraction and associated services and programs, though the Department of Commerce also performs some business development and retention functions. The EDPNC’s primary activities are as follows:

- **Business development** activities consist of identifying businesses that may be considering relocation or expansion.
- **Business recruitment** entails working with clients to identify appropriate sites for development and coordinating needed state and local resources.
- **Business support** provides resources for existing businesses to maintain and expand production as well as new and small business assistance in the form of Business Link North Carolina.
- **International trade** staff work to promote and expand trade opportunities for North Carolina companies.
- **Travel and tourism** activities consist of marketing North Carolina as a travel destination and operating the N.C. Film Office.
- **Research and marketing** staff support business attraction, existing industry, international trade, and tourism programs.

The North Carolina Department of Commerce improves public infrastructure and strengthens communities; encourages entrepreneurship and innovation; supports development of the State's workforce; and manages the North Carolina Unemployment Insurance Program. The Secretary of Commerce leads state efforts to recruit new companies and help existing businesses expand by meeting with company management and overseeing negotiations for discretionary incentives. The department manages the application and approval processes for incentives and administers and monitors company performance and compliance throughout the term of any incentives awarded. The Department of Commerce additionally retains responsibility for performing strategic planning for statewide economic development. The department collects and provides labor market statistics on behalf of the Bureau of Labor Statistics, as well as other data, information, and reports, for state government agencies. Department of Commerce divisions include Employment Services; Labor and Economic Analysis; Rural Economic Development; Science, Technology, & Innovation; and Workforce Solutions.

Exhibit 2 depicts the entity or entities responsible for specific business development activities

Exhibit 2: Business Development and Retention Activities by Entity



Note: This exhibit does not depict activities performed in other Department of Commerce divisions such as Employment Services; Labor and Economic Analysis; Rural Economic Development; Science, Technology, and Innovation; and Workforce Solutions.

Source: Program Evaluation Division based on materials from the EDPNC and the Department of Commerce.

A 17-member Board of Directors governs the EDPNC. The Governor selects eight members of the board and the chair. The Speaker of the House and the President Pro Tempore of the Senate each appoint four board members. Legislation states that these positions should represent the geographic diversity of the state, with no more than two members representing a single prosperity zone. The Governor's appointees should have expertise in one of more of the following industries: agribusiness, financial services, information technology, life sciences, energy, manufacturing, defense, and tourism. Members serve staggered terms of office of four years. As with all 501(c)(3) boards, the EDPNC's Board of Directors has responsibility for determining the mission and purpose of the organization, conducting strategic and organizational planning, overseeing activities and outcomes, fundraising, and selecting the executive director and reviewing his or her performance.

Session Law 2014-18 also created the Economic Development Accountability and Standards Committee to oversee and enforce the contract between the Department of Commerce and the EDPNC.

Whereas the Board of Directors oversees the activities and performance of the EDPNC, the Economic Development Accountability and Standards Committee only oversees and enforces the contract between the Department of Commerce and the EDPNC. The committee is made up of the Secretaries of Commerce, Environmental Quality, Revenue, and Transportation, the Chair of the NC Travel and Tourism Board, and two members appointed by General Assembly leadership. The committee is responsible for

- monitoring and overseeing the performance of the contract between the Department of Commerce and the EDPNC;
- reviewing any complaints regarding the contract or the EDPNC;
- requesting enforcement of the contract by the Department of Commerce or the attorney general;
- ensuring the EDPNC is audited at least biennially by the Office of Budget and Management, the State Auditor, or internal auditors at the Department of Commerce;
- coordinating the State's economic development grant programs between the Departments of Commerce, Environmental Quality, and Transportation; and
- other duties deemed necessary by the Committee.

The EDPNC is one variation of a public-private partnership (PPP), which comes into existence when a government entity contracts with a non-government entity to provide a public good or service. PPPs can be defined as "ongoing agreements between government and private sector organizations in which the private organization participates in the decision-making and production of a public good or service that has traditionally been provided by the public sector and in which the private sector shares the risk of that production."¹ Governments most often use this type of

¹ Forrer, John; Kee, James Edwin; Newcomer, Kathryn E; Boyer, Eric. "Public-Private Partnerships and the Public Accountability Question." *Public Administration Review*; May 2010; 70, 3; Social Science Premium Collection pg. 475.

organizational structure to operate infrastructure projects such as toll roads, canals, and railways.

Exhibit 3 illustrates the different organizational structures used by states for economic development.

- The majority of states (29) exclusively rely on a state agency to manage their economic development programs.
- Eight states use a state authority structure, which is an entity specifically authorized by the state legislature to provide a specific state program or service. Of these states, four are entirely publicly funded and the others receive both public and private funding. At least two of these states (New York and Rhode Island) issue bonds for and receive flows of revenue from economic development projects.
- Thirteen states use some form of non-profit organizational structure, all of which are exempt from federal taxation.
 - Six states, including North Carolina, use a 501(c)(3) structure, which performs specific functions and are limited in lobbying activities per the Internal Revenue Code. Donations to a 501(c)(3) are considered charitable donations.
 - Six states' economic development organizations use the 501(c)(6) structure, wherein lobbying activities are allowed but donations are not considered charitable donations.
 - Only Ohio uses a 501(c)(4) structure, which is most often used by groups such as volunteer fire departments or homeowners' associations.

There is no singular definition of a state authority or a public-private partnership. This study chose to differentiate between state agencies and non-state agencies and then provide descriptive information in the appendices related to each organization.

Exhibit 3: States Use a Variety of Organizational Structures to Operate Economic Development Programs

Category	Organizational Structure	Definition	States
State Agency	Public Agency or Department	A permanent or semi-permanent entity that receives state appropriations to operate and must comply with state contracting and procurement rules in order to administer and oversee specified functions	AK, AR, CA, CO, GA, HI, ID, KS, KY, LA, MA, ME, MN, MS, MT, NE, NH, ND, NV, OK, OR, PA, SC, SD, TN, VT, WA, WV, WY
	State Authority	A governmental entity authorized by the state legislature that typically provides limited governmental services in a particular area (may also be called a public corporation or public body corporate)	AZ, IA, MI, MD, NY, RI, VA, WI
Non-State Agencies	501(c)(3)	A nonprofit organization that qualifies for exemption from federal income tax and operates exclusively for one of the following purposes: religious, charitable, scientific, testing for public safety, literary, educational, fostering national or international amateur sports competition, or the prevention of cruelty to animals	DE, IL, IN, NC , NJ, TX
	501(c)(6)	A nonprofit organization that is typically supported by membership dues; donations to these organizations are not considered charitable as tax deductions (e.g., chambers of commerce, boards of trade)	AL, CT, FL, NM, MO, UT
	501(c)(4)	A nonprofit organization that operates primarily to further the common good and general welfare of people of the community (e.g., homeowners' associations, volunteer fire departments)	OH

Source: Program Evaluation Division based on information provided during interviews with other states, as well as Department of Treasury publication entitled "Tax-Exempt Status for your Organization."

Advocates for the creation of economic development partnerships assert that privatizing economic development efforts provide the following benefits:

- reduce state funding for economic development,
- engage private sector resources and additional funding in economic development,
- establish a strong culture of performance, and
- create flexibility, efficiency, and continuity by working outside of the traditional political framework.

Concerns voiced by critics of privatization include the potential for

- excessive executive pay;
- misuse of public funds;
- conflicts of interest involving board members;
- unanticipated costs to the public entity for managing the contract;
- overstated job creation numbers; and
- lack of transparency and disclosure.

Significant problems identified in some economic development PPPs include excessive pay (Virginia, Florida, Wyoming, and Michigan), overstated

performance (Wisconsin) and allegations of conflicts of interest (Florida, Utah, and Texas). Two states that previously used PPPs for economic development, California and Wisconsin, have returned some or all of these activities back to state agencies.

With concerns such as these in mind, the legislation that facilitated the EDPNC does not allow Commerce to contract responsibility for

- management of unemployment benefits provided by the Division of Employment Security;
- administration of federal grants or funds;
- awarding of state economic development grants such as the One NC and JDIG grants; or
- oversight or management of boards or commissions.

The legislation further limits the amount of state funds that may be spent on the executive director's salary, contains a detailed list of elements that must be reported to the General Assembly each year, and requires the EDPNC to receive an audit from either the Office of State Budget and Management, the State Auditor, or the Department of Commerce's internal audit team every two years in addition to the annual financial audit the EDPNC is required to perform as a 501(c)(3).

Past audits of the EDPNC did not identify performance concerns. The EDPNC underwent annual financial audits starting in Fiscal Year 2014–15, and none of these reviews contained audit findings. Every two years, the Economic Development Accountability and Standards Committee (EDASC) is required to conduct an operational audit to review the EDPNC's financials, performance, and compliance with state statutes. In 2016, the EDASC retained the Office of State Budget and Management to conduct this audit and found an internal control weakness due to a lack of formal written policy detailing limits on lobbying; the EDPNC subsequently corrected this deficiency. In 2017, Governor Cooper's office performed a review of the EDPNC to determine if the Department of Commerce should continue contracting with the private non-profit entity. This review was favorable to the State maintaining a partnership with the EDPNC but noted that confusion still existed regarding which entity handled specific economic development functions. The review also acknowledged a lack of clarity regarding the point at which a project should be transferred from the EDPNC to the Department of Commerce.

Economic developers report positive interactions with and results from the EDPNC. The Program Evaluation Division distributed a survey to economic developers in North Carolina to gauge their attitudes towards the EDPNC. Survey respondents primarily represented economic developers at the municipal or county level (48%) or the private sector (28%) with other respondents representing regional economic developers, researchers, site developers, or site selection representatives. On the whole, survey respondents reported positive views of the EDPNC, its leadership, and the climate of economic development in the state. Open-ended responses from the survey reflected positive attitudes towards EDPNC and included the following:

- “EDPNC staff are good to work with and display a sincere desire to help.”
- “The EDPNC has been a very good partner to our local community and economic development organization. From the leadership and throughout the organization, the EDPNC has been very helpful.”
- “As a local developer in a rural county, I can honestly say that the number of opportunities to respond to RFPs on potential projects/companies interested in locating within the state has improved for me by close to 1000%.”

When asked about the extent to which the creation of the EDPNC has improved North Carolina’s competitiveness in terms of economic development, 35% of respondents replied that the presence of the EDPNC increased competitiveness “extremely,” 32% reported “moderately” and only 15% reported “not at all.” Additionally, 44% of respondents for whom it was applicable noted their business leads increased since the creation of the EDPNC. Similarly, 52% of respondents noted that the amount of cooperative marketing opportunities has expanded since the creation of the EDPNC. One respondent noted the following:

“As I travel the state on a weekly basis, I only hear positive feedback about how everyone is impressed at the work of EDPNC.”

Program Evaluation Staff heard positive feedback through the evaluation beyond the economic development survey. Business leaders, EDPNC staff, and board members spoke highly of the EDPNC’s leadership and of the responsiveness and work ethic of the organization as a whole.

The Department of Commerce’s contract with the EDPNC will expire on October 5, 2019. The General Assembly wishes to know if the EDPNC’s activities are being performed efficiently and effectively. The Program Evaluation Division did not find any academic literature suggesting PPP organizational structures were more or less efficient or effective than using state agencies to perform economic development functions. Comparisons between the Department of Commerce and EDPNC’s performance may provide little insight into true organization effectiveness due to external factors that affect economic growth and investment.² The Department of Commerce and EDPNC’s performance measures are presented in Appendix A. This evaluation considers how the current organization structure, business practices, and relationship with the Department of Commerce affects EDPNC’s effectiveness. This report contains recommendations for changes to existing EDPNC operations that would align the organization’s scope of activities with similar organizations and provide greater effectiveness.

² A 2018 survey of site selection consultants listed, in priority order, leading factors driving expansion or greenfield site selection processes for corporate clients. The factors were workforce, transportation infrastructure, available buildings and sites, state and local tax structure, incentives, utilities, regulatory environment, university and college resources, and cost of real estate. None of these factors are directly controlled by economic development organizations.

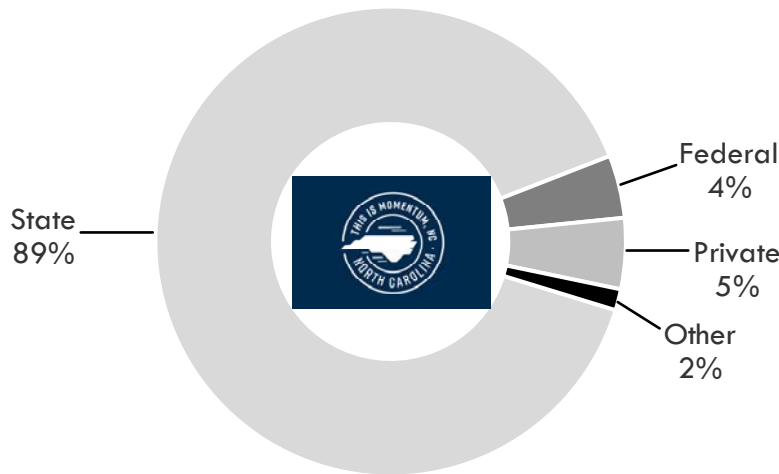
Findings

Finding 1. The EDPNC’s ability to allocate resources to vital activities is limited by restricted state appropriations and by private fundraising totals that are lower than those of comparable organizations in other states.

The Department of Commerce created the EDPNC to provide an innovative solution to shrinking state budgets. As presented in the Background, state appropriations for economic development functions administered by the Department of Commerce steadily declined in the years prior to the EDPNC’s creation. The architects of the EDPNC, part of then-Governor-Elect McCrory’s transition team, prepared a white paper on public-private partnerships (PPPs) for state-level economic development activities and concluded that a PPP could leverage state appropriations and resources to raise private funds, thus reducing exclusive reliance on state funds.

Though the EDPNC does not exclusively rely on state appropriations, the vast majority of its \$24.5 million in revenue for Fiscal Year 2017–18 came from state funds. Revenue by source is presented in Exhibit 4. State appropriations accounted for \$21.9 million (89%) of EDPNC funds. Federal funds accounted for \$1.1 million, or 4%. Private funds, solicited from companies and individuals, accounted for \$1.2 million, or 5% of total revenue. Lastly, 2% of revenue consisted of trade show fees and cooperative advertising.

Exhibit 4: EDPNC Revenue by Source, Fiscal Year 2017–18



Source: Program Evaluation Division based on information from the EDPNC.

Since its inception, the EDPNC has met legislatively mandated fundraising requirements. In its enabling legislation, the General Assembly mandated that the EDPNC raise at least \$750,000 during the first year of the term of the contract and raise at least \$1.25 million during

each subsequent year.³ Exhibit 5 depicts the fundraising requirements for the EDPNC and amounts raised through private donations.

Exhibit 5

The EDPNC's Private Fundraising Efforts Have Met Legislative Mandates

	Private Fundraising Requirement	Private Funding Raised
Contract Year 1	\$750,000	\$1,080,813
Contract Year 2	\$1,250,000	\$1,277,579
Contract Year 3	\$1,250,000 (initial)/\$500,000 (revised)	\$1,165,761
Contract Year 4	\$1,250,000 (initial)/\$584,239 (revised)	\$1,234,750
Totals	\$4,500,000/\$3,084,239	\$4,758,903

Note: The initial target set for fundraising for Contract Year 3 was \$1,250,000 but was adjusted during the 2017 Legislative Session to \$500,000 because there was uncertainty that the Governor would maintain the EDPNC contract during his transition. Additionally, the General Assembly allowed funds in excess of \$500,000 raised in Contract Year 3 to be carried forward to Contract Year 4, lowering the total needed in Contract Year 4 from \$1.25 million to \$584,239.

Source: Program Evaluation Division based on legislation as well as data provided by the EDPNC.

The EDPNC invests heavily in fundraising efforts in order to meet legislatively mandated requirements. During Contract Years 2 and 3, the private firm subcontracted to fundraise for the EDPNC charged significant fees and expenses. In 2016, the EDPNC paid the contractor 19% of the \$1.1 million raised, and in 2017 the contractor was paid an amount equal to 31% of the \$1.4 million raised during the subcontracting period.^{4,5} To reduce overhead costs associated with private fundraising, the EDPNC has hired one full-time position, an investor relations manager, to help raise private funds more efficiently. Using a three-year average of fundraising expenses, the EDPNC spends approximately 17 cents to raise one unrestricted dollar. According to a fundraising efficiency metric developed by Charity Navigator, an organization like the EDPNC should optimally be spending no more than 10 cents to raise a dollar.

Private donors contributing to the EDPNC represent a small number of industries in the state. Local business interests, including financial institutions, real estate and construction firms, utilities, retailers, and business services are the industry groups that primarily donate to the EDPNC. The only donors that provided more than \$50,000 in Fiscal Years 2015–18 were Duke Energy, Red Hat, MetLife, Bank of America, Wells Fargo, and Piedmont Natural Gas. These major donors accounted for 62%, 26%, 24%, and 42% of total donations for these four fiscal years.

³ The General Assembly reduced legislative fundraising requirements for Contract Year 3 (October 6, 2016 to October 5, 2017) from \$1.25 million to \$500,000 because of uncertainty that the Governor would maintain the EDPNC contract during his transition.

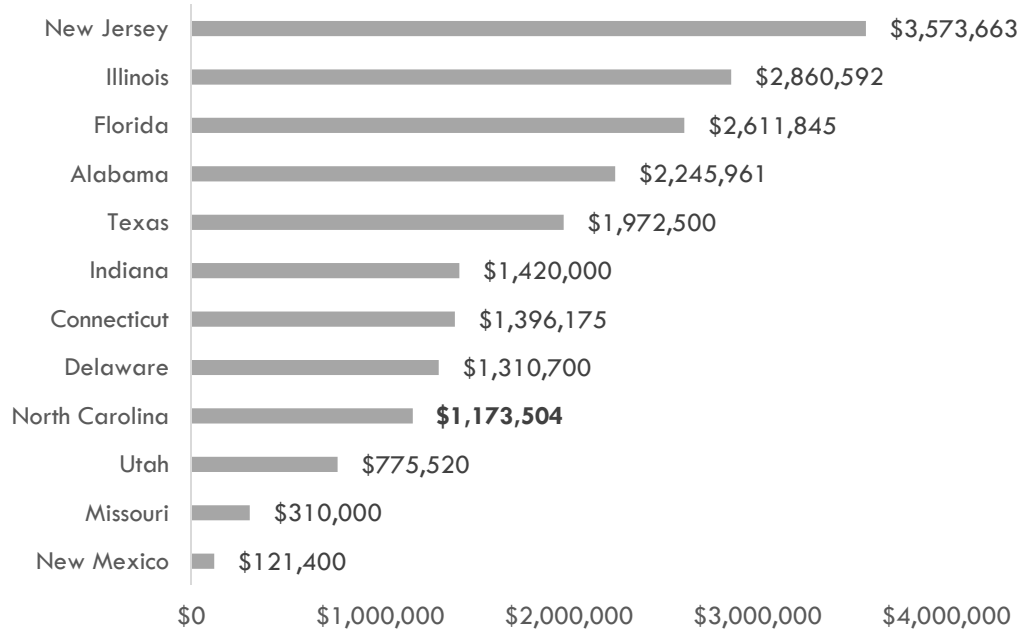
⁴ Discrepancies between this total and Exhibit 7 are due to the fact that the period in which the subcontractor engaged in fundraising efforts (February 29, 2016 to February 28, 2017) does not align with the fiscal year.

⁵ Discrepancies between this total and Exhibit 7 are due to the fact that the period in which the subcontractor engaged in fundraising efforts (March 1, 2017 to September 27, 2017) does not align with the fiscal year.

The EDPNC's private fundraising totals are lower than eight comparable economic development PPPs in the country. As shown in Exhibit 6, eight states that use a non-profit organizational structure for their economic development organizations have been able to solicit more private donations than the EDPNC. For instance, New Jersey's program is entirely privately funded and raised \$3.6 million in 2016. The EDPNC's fundraising amount for 2016, \$1.2 million, was higher than the amounts raised in Missouri, New Mexico, and Utah.

Exhibit 6

The EDPNC's Private Fundraising Amount is Lower Than Eight States with Similar Organizational Structures



Note: Amounts taken from each entity's most recent available IRS Form 990, either for 2016 or 2017, except in the case of Indiana, whose total was taken from a list of 2018 donors, and Missouri, which is for Fiscal Year 2018 and comes directly from the organization. Ohio was excluded because its funding comes from revenues from liquor sales in the state.

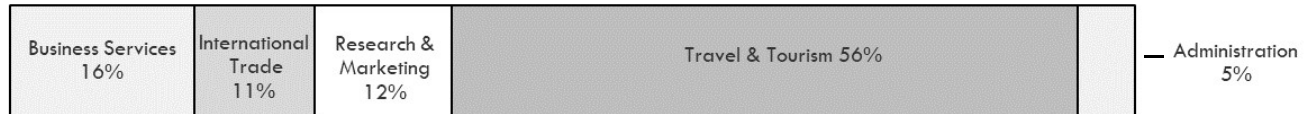
Source: Program Evaluation Division based on tax forms filed with Internal Revenue Service and Indiana's 2018 donor list.

The EDPNC is not incentivized to exceed legislatively mandated fundraising targets in a given contract year. Enabling legislation specifies that "amounts raised prior to entering the contract or during a year preceding the current year of the contract shall not apply to the amount required to raise during the current year."⁶ The EDPNC reports that it does not actively seek additional support once targets are met because of this restriction. Since many donor organizations make charitable giving decisions at fixed times of the year, this annual cut-off in fundraising may limit the number of potential donors and the total amount of funds raised. Incentivizing EDPNC to continue fundraising after legislative requirements are met would maximize its fundraising ability during each contract year. Additionally, it would allow EDPNC to build up a reserve of funds that would be available if state appropriations were ever reduced.

⁶ It should be noted that during contract year three, legislatively mandated fundraising targets were adjusted from \$1.25 million to \$500,000 and any additional funds beyond the required amount were allowed to roll over to contract year four.

In Fiscal Year 2017–18, the EDPNC spent \$23.4 million. Exhibit 7 shows the breakdown of the EDPNC’s spending for Fiscal Year 2017–18. The tourism division accounted for more than half (56%) of all expenditures, whereas 16% went to business development, business recruitment, small business assistance, and existing industry support. As discussed further in Finding 3, almost all of the EDPNC’s spending on tourism marketing is legislatively earmarked, and as a result the organization’s budget flexibility is significantly constrained.

Exhibit 7: Economic Development Partnership of North Carolina Expenditures, Fiscal Year 2017–18



Source: Program Evaluation Division based on information from the EDPNC.

Recent legislative budgets have tied allocation of funds to specific projects at the EDPNC, further limiting the organization’s financial flexibility. In recent years, the General Assembly dedicated funds for specific programs housed at the EDPNC. For example, positions were recently added to the EDPNC’s budget specifically targeting two industries: military and defense and outdoor recreation. In 2016, the North Carolina Military Affairs Commission redirected \$120,000 from the Military Presence Stabilization Fund to create a position at the EDPNC focused on recruiting military or defense-related businesses to the State. Additionally, the General Assembly redirected \$202,415 in recurring funding and \$50,000 in non-recurring funding to the EDPNC to be used for outdoor recreation recruitment. These sources of dedicated, recurring funding, like tourism marketing appropriations, are targeted for specific purposes. Additionally, as with dedicated tourism funding, these industry-specific funds limit the adaptability and responsiveness of the EDPNC to changing economic development priorities and opportunities.

To summarize, although the EDPNC has been meeting its fundraising goals, the organizations continues to be primarily state-funded and expends a significant amount of money in securing private donations. Private funds come from donors and industries of limited economic diversity and are smaller in total than what is achieved by similar PPPs in other states. Legislative requirements do not incentivize the EDPNC to continue fundraising after the current year’s goal has been met and limit the flexibility of the EDPNC to distribute limited private funds. Legislative limitations include the incorporation of tourism within the EDPNC as well as the addition of dedicated positions required to serve specific industries.

Finding 2. Little formal coordination exists between the EDPNC and the Department of Commerce.

The legislation that created the EDPNC required the Department of Commerce to develop a plan to work cooperatively with the nonprofit entity. Although the Department of Commerce created a contract that

describes the responsibilities and expectations for the EDPNC, there is no formal operating plan related to coordination with the EDPNC. Similarly, documents or policies guiding the delineation of roles in certain divisions or communication strategies between organizations do not exist. This lack of delineation and coordination has resulted in issues such as a new website launching without correct links to the other organization's relevant content and confusion regarding the content of official state publications. Conceivably, such plans and policies would detail how EDPNC staff and Commerce staff would work together on economic development projects, market research, marketing, and tourism. Plans and policies would also establish protocols for regular communication and coordination.

Perceived and actual coordination issues between the two entities are problematic in practice and detract from the State's economic development reputation. Program Evaluation Division staff surveyed economic developers about the creation of the EDPNC and economic development in the state. Respondents noted that bifurcation of economic development activities between the two entities without appropriate coordination leads to cumbersome, duplicative, and confusing processes. Some survey respondents discussed the lack of communication between the two organizations. Responses included the following:

- "Ideally the EDPNC and Commerce would be better integrated to help clients by providing more timely responses and certainty."
- "I do want to say that the relationship between Commerce and the EDPNC does appear to be somewhat antagonistic and not always functional."
- "There is a disconnect between the two organizations."

Economic developers and site selectors noted specific coordination issues with the incentive process. Several survey respondents noted the arrangement between the EDPNC and the Department of Commerce is more bureaucratic and slow especially as it relates to the incentive procurement process. For examples, one site selector who reported satisfaction with the EDPNC in general expressed frustration with how long it takes the EDPNC and the Department of Commerce to review and discuss incentive proposals. Specifically, the site selector reported experiencing an average turnaround time of one week for submitted proposals in other states compared to more than two weeks in North Carolina.⁷ Survey respondents and Department of Commerce staff also expressed concern about local developers and other parties not knowing which entity to contact in certain circumstances. Additionally, the Department of Commerce expressed concern that businesses seeking incentives may want to deal with executive level staff at Commerce and the Secretary earlier or exclusively in the process. Leadership at the EDPNC and Commerce agree the incentive process could be improved. Again, the presence of protocols for this process could enhance clarification of roles and responsibilities.

⁷ North Carolina uses competitive, discretionary incentives that are based on the type of company, number of workers, types of jobs, level of investment, and other factors. For this reason, North Carolina requires more information from companies in advance. Some other states primarily use statutory incentives that require less initial company information.

Lack of communication and the potential for duplication of effort between the EDPNC and the Department of Commerce is problematic as it applies to research. The EDPNC's Research and Marketing Division consists of ten employees, three of whom conduct market research for active projects. The Department of Commerce also has one employee who conducts research related to short-term company research and industry briefings, among other responsibilities.

Although both entities reported that their researchers work collaboratively across organizations, collaboration is conducted intermittently and informally. There is an understanding that the EDPNC will provide market research for active economic development projects, yet no formal agreement exists to link the two entities in terms of sharing information about requested research or current research efforts. Procedural clarity is needed to facilitate sharing of purchased data sets, research requests, and project-based data.

Commerce staff also noted that some individuals experience confusion regarding which entity to call for research purposes and that in some cases a person has a history in economic development that pre-dates the EDPNC and thus prefers to call professional connections at Commerce. Commerce staff field calls about research, labor, or requests for information (RFIs), and when appropriate they redirect queries to the EDPNC.⁸ Commerce staff additionally stated that they felt some people called both entities with the same research requests to increase the likelihood or speed in receiving information, which unnecessarily burdens both organizations with duplicative work. The Department of Commerce also owns or has access to labor data that EDPNC staff or economic developers may need, further requiring coordination.

Staff at the two entities know each other and communicate via phone, electronically, and in person about research or RFIs. For example, the EDPNC allows Department of Commerce staff to access current project files electronically. In addition, a staff member at the Department of Commerce runs a research roundtable in which EDPNC staff participate. However, none of these communication efforts are reflected in formal or defined agreements or plans.

Similarly, long-term research efforts lack formal coordination between the two entities. Neither entity engages in sustained statewide or industry-wide long-term research on a regular basis due to an overall reduction in funded research-related positions that occurred through the formation of the EDPNC. Both the EDPNC and the Department of Commerce expressed interest in and conveyed the necessity of engaging in these forms of research. This type of holistic and larger-scale research could inform future strategic industrial recruitment priorities and the comprehensive economic development strategic plan the Department of Commerce must produce every four years and update annually, as discussed in Finding 5.

⁸ Request for information is a standard business process whose purpose is to collect written information about the capabilities of various potential business locations. This business tool is different from a request for proposal (RFP), which is a document that solicits proposals, often made through a bidding process, by an agency or company interested in procurement of a commodity, service, or valuable asset.

The EDPNC engages the Department of Commerce regarding ongoing projects, but these efforts would benefit from expansion and formalization. For example, when a prospective company seeks more detailed information about incentives or labor analysis, the two entities connect. The primary conduit of communication between the two entities is between the Vice President of Business Recruitment at the EDPNC and the Chief Economic Development Liaison at the Department of Commerce. This connection arises from the two individuals who currently fill these roles knowing each other professionally, not due to policy. The Chief Economic Development Liaison also plays a significant role in coordination by facilitating a weekly call between the Secretary of Commerce, the Executive Director of the EDPNC, and the VP of Business Recruitment at the EDPNC to discuss ongoing projects.

The EDPNC uses Salesforce—a type of customer relationship management software—as its repository for all project information. The Vice President of this division as well as other leadership at the EDPNC stated plans to increase the amount of information housed in Salesforce to further capitalize on it as a project management and information warehouse tool. The EDPNC would like more communication with different levels of staff at Commerce using Salesforce as a way to facilitate project updates. The Department of Commerce currently holds 10 Salesforce partner licenses and places incentive letters in Salesforce for documentation and communication between the two entities. However, Salesforce is not used as a mechanism for expanded communication between the two entities as only a few staff members at Commerce use it robustly.

In summary, regardless of the mechanisms used, and there should likely be more than one due to the various divisions that need to communicate between both organizations, the EDPNC and the Department of Commerce would benefit from formalized, expanded communication strategies. Adjusting communication strategies may help address confusion about which entity performs specific tasks as well as increasing transparency and information sharing about ongoing projects.

Finding 3. There is limited synergy between tourism activities and other EDPNC functions.

States value the tourism industry as an economic engine that contributes to spending within their borders and generates corresponding jobs and tax revenue. However, during the formation of the EDPNC, it was unclear whether or not tourism activities would transfer to the EDPNC or be spun off into a separate public-private partnership.

Although travel and tourism activities did transfer to the EDPNC, along with business development, international trade, and marketing, legislation limited the EDPNC in actively managing these funds. All funds appropriated to the EDPNC for tourism marketing must be used exclusively for this purpose and may not be used for other activities such as statewide branding and business development marketing. Restrictions on the tourism budget limit the executive director's ability to shift funds to address trends, priorities, or needs that arise within other divisions at the organization.

More than half of current EDPNC's funds go towards tourism. As illustrated in Finding 1, 56% of the EDPNC's overall budget supports the tourism division. In Fiscal Year 2016–17, of the \$13 million devoted to tourism, approximately \$12.9 million represented restricted state funds earmarked for tourism marketing. Subsequently, the EDPNC is unable to shift or leverage those funds into potentially more impactful activities such as business development, existing industry outreach, or exports. Without budget flexibility, EDPNC's executive leadership may be unable to fully pursue emerging opportunities.

Tourism staff are given performance-based bonuses paid for with private funds, further reducing the amount of private funds available for other economic development programs. Currently, tourism is the largest division at the EDPNC, housing 14 out of a total of 68 employees. Restricted state appropriations fund the base salaries of tourism employees, but performance-based compensation is exclusively paid for with private funds. In Fiscal Year 2017–18, the EDPNC paid out \$105,159 in bonuses to the tourism department, which accounted for 19% of all performance-based compensation paid by the agency. The loss of private funds limits EDPNC's ability to strategically use funds unencumbered by restrictions placed on state funds. This is particularly significant due to the large staff size of the tourism department. Further, although the industry does provide in-kind support for tourism programs, only five private donors to the EDPNC have come from the tourism industry during the four contract years since the entity's inception.

Both the EDPNC and the Department of Commerce manage tourism-related programs. When the tourism division was moved to the EDPNC, management of the state's Welcome Centers and the call center remained at the Department of Commerce. The North Carolina Welcome Centers, as well as the 1-800-VisitNC Call Center, are both vital marketing assets of the travel and tourism industry. They often represent the first impression made to visitors entering into or communicating with the state. As a result of not moving the Welcome Centers to the EDPNC, both the Department of Commerce and the EDPNC now manage different parts of the tourism program.

Although most of the tourism division's expenditures at the EDPNC involve marketing, the division also manages two programs that may be better housed in the Department of Commerce's Rural Economic Development Division:

- The Certified North Carolina Retirement Community Program (Retire NC) aims to help communities attract and appeal to retirees. It came about from 2008 legislation intended to help coordinate efforts between levels of government and businesses to attract people to North Carolina to retire. The Department of Commerce and the Second Career Center of Robeson Community College led the initial pilot program and the Department of Commerce carried on the work until it contracted these services to the EDPNC's tourism division.

- The Tourism Resource Assistance Center (TRAC) is a program that tourism-related businesses use to learn about and connect with other programs in the state. It supports business development and marketing by aiding in strategic planning and funding source identification and by serving as a liaison with other government agencies.

Although legislation enables the Department of Commerce to contract with a nonprofit for the provision of any activities except those expressly prohibited, each entity performs activities that could be managed by either but are split between both. General community development and enhancement takes place in the Department of Commerce, and the department still manages North Carolina's Welcome Centers.

Shifting tourism to the EDPNC has produced some positive outcomes.

The transfer allows tourism to function in an apolitical environment with more financial and staffing flexibility. The Vice President of the tourism division noted the effectiveness of its ability to shift market advertising purchases during different times of the year to increase effectiveness in a way impermissible at the Department of Commerce. Also, the transfer allowed the division to decrease its staff size and redirect those funds to marketing. Nonetheless, the financial and staff restrictions related to the EDPNC tourism division and the bifurcation of tourism activities between the EDPNC and the Department of Commerce are problematic.

To summarize, tourism-related responsibilities are split between the EDPNC and the Department of Commerce, introducing coordination complexities and limitations to the efficient allocation of resources. More than half of the EDPNC's state appropriation goes to support tourism. Tourism requires significant additional resources from the EDPNC because the organization uses private funds to pay performance-based bonuses to staff, limiting the private resources it otherwise would have to pursue other economic development initiatives.

Finding 4. EDPNC base salaries are below market value yet bonus compensation practices are generous compared to other economic development public-private partnerships.

EDPNC employees earn a median salary that is lower than the median for all economic development professionals in the South. The Program Evaluation Division analyzed Fiscal Year 2016–17 salary data from the EDPNC and compared it to International Economic Development Council survey data. Employees at the EDPNC had a median base salary of \$58,841, whereas all economic development professionals in North Carolina had a median base salary of \$82,800.⁹ When the Program

⁹ Fiscal Year 2016–17 salary data from the EDPNC included all positions in the Business Development, Research and Marketing, Existing Industry Support, Business Recruitment, Existing Industry Support, Global Business Service Operations, and International Trade departments and the CEO. Salary data from the Administrative Services, Business Link North Carolina, and Travel and Tourism departments were excluded because these positions support economic development but are not directly classified as economic development professionals.

Evaluation Division conducted a survey of current EDPNC employees, it found that 23% were dissatisfied or very dissatisfied with their pay.

Bonus compensation is common in the private sector, particularly for sales professions. Commissions and other types of incentives give salespeople additional motivation to sell more products or services. In the field of economic development, however, bonus compensation is relatively uncommon. According to the 2017 Salary and Demographic Survey of Economic Development Professionals, only 36% of individuals surveyed reported that they were eligible for compensation beyond their base salary. However, the public-private partnership (PPP) structure enables these organizations to employ private sector strategies to hire top talent and create a performance-driven culture. One strategy the EDPNC utilizes is a bonus compensation program that financially compensates employees based on individual performance. The EDPNC bonus plan was created by executive leadership based on input from private business leaders and business practices used by the IBM/Lenovo sales team and approved by the EDPNC Board of Directors.

The EDPNC bonus compensation plan allocates 15% of gross total employee salaries for bonuses and allows employees to annually earn up to 18.75% of their gross salary. Whereas base salaries are paid from state appropriations, bonus compensation is paid from private funds. In Fiscal Year 2017–18, the EDPNC dispersed \$544,076, or 46% of all privately generated revenue, to employees through its bonus program. Although the majority of economic development PPPs in other states interviewed offer bonus compensation, the overall percentage of salary offered or the number of employees eligible for bonuses tend to be lower compared to the EDPNC.

Employees at the EDPNC receive larger bonuses than median bonuses offered by similar organizations. During Fiscal Year 2016–17, employees at the EDPNC received a median of 13.5% of their base salary as bonus compensation. This rate is higher than median performance bonuses for economic developers across the United States in general and the South in particular. Based on data from the 2017 Salary and Demographic Survey of Economic Development Professionals, performance bonuses accounted for less than 3% of total employee compensation throughout the South. Of those employees who were eligible for performance bonuses, the median cash value was \$5,000, whereas the median cash value for employees at the EDPNC in 2017 was \$9,221.

Awarding of bonuses at the EDPNC appears to be rather consistent across individuals and years as most employees have received bonuses for most years. From Fiscal Year 2015–16 through Fiscal Year 2017–18, the average employee received a performance-based bonus that amounted to 12.4% of his or her modified gross salary. During this timeframe, more than half of employees received a bonus of 13% or greater. Additionally, during these three years, only one employee did not receive a bonus award. Well-calibrated rating systems usually have the majority of workers' performance clustered around the middle in order to reward truly exceptional performance. Having most employees score at the high-end of normal suggests that bonuses are not being awarded

entirely on performance, that managers do not use consistent rating scales for employees, or that not enough higher-level review is occurring. Research indicates managers at many organizations may award bonus compensation for reasons such as wanting to signal loyalty to employees, an unwillingness to have difficult discussions about performance, or fear of losing even poor-performing employees. In addition, unit managers may need to have ‘calibration’ meetings and leadership should require business unit managers to justify questionable bonus awards.¹⁰

The EDPNC differs from some other PPPs because all employees are eligible for bonus compensation at the same percentage, regardless of position. Several economic development PPPs, such as those in Michigan, New Jersey, and Virginia, limit bonus compensation to business recruitment staff or senior positions and do not extend the program to all employees. For example, the Virginia Economic Development Partnership restricts bonus compensation to business development-focused roles such as lead generation and project management of business recruitment and expansion activities, whereas other roles, such as marketing, are excluded. The Michigan Economic Development Authority similarly divides employees into two categories: corporate and state employees. Business recruiters are considered corporate employees and are eligible for a “variable pay” percentage that is based on performance.

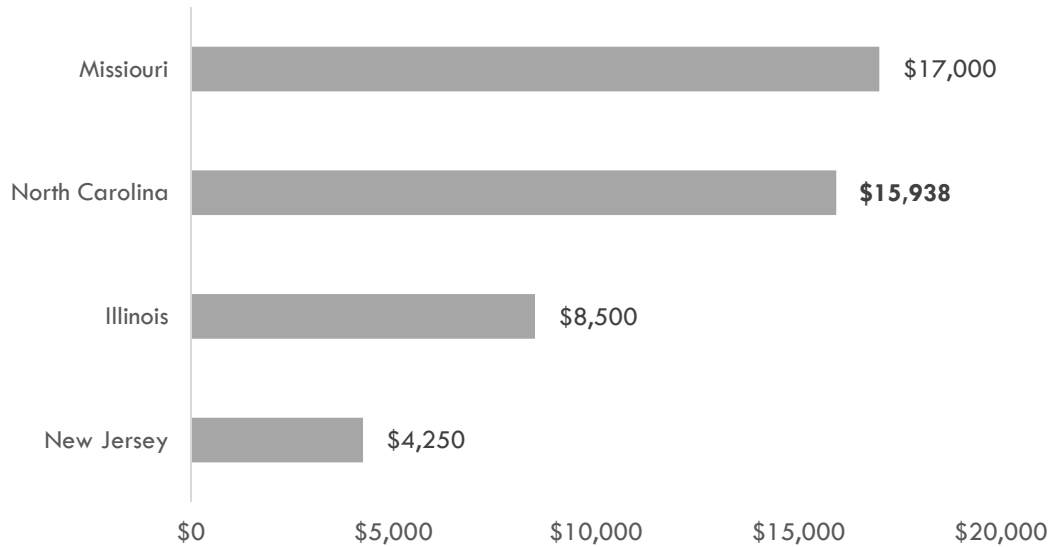
Employees at the EDPNC, however, are eligible for bonuses at the same percentage of salary, regardless of position, as long as they receive the same individual and division performance ratings. Employees managing the office and answering questions for small businesses are eligible for the same percentage of salary as a bonus as business recruiters, despite the fact that only the latter create a direct and individual impact on achieving a primary goal of the EDPNC—to attract businesses to and expand businesses within the state.

Several economic development PPPs cap bonus compensation at a lower percentage of salary than the EDPNC. Among the PPPs interviewed, the EDPNC had the second highest bonus compensation cap at 18.75%. Caps were lower for the majority of PPPs that provided detailed information on their bonus compensation programs. For example, the Wisconsin Economic Development Corporation uses one-time merit awards that range between \$500 and \$2,500. Junior staff at Choose New Jersey are capped at 5% of their base salary and senior staff are capped at 15%. Meanwhile, at Intersect Illinois, senior staff are eligible to receive up to 10% of salary, whereas support staff are capped at a lower percentage. Only Missouri has a higher bonus compensation cap at 20%. Exhibit 8 highlights the differences between these states and North Carolina by showing the maximum bonus a hypothetical employee earning \$85,000 per year could receive.

¹⁰ The objective of calibration sessions is to ensure that different managers apply similar standards in measuring and evaluating the performance of subordinates. Calibration ensures a level playing field for employees by neutralizing the effects of “tough grader” and “easy grader” managers who may view similar performance in different ways.

Exhibit 8

Potential Bonus for an \$85,000 Salary by Select State Economic Development PPPs



Note: Seven states with similar organizational structures declined to provide specific details about their bonus programs.

Source: Program Evaluation Division based on information from the EDPNC and interviews conducted with Illinois, New Jersey, and Missouri.

Many economic development organizations (and specifically economic development PPPs) tie bonus compensation to organizational performance. Staff at the EDPNC receive bonuses based on their own individual performance as well as the performance of their division as measured against a series of performance goals. This approach is different than how bonuses are structured for the majority of economic development professionals, for whom bonuses at least somewhat dependent on the performance of their organizations as a whole. This divergence may be due to the EDPNC’s relatively large mandate and staff size compared to other economic development PPPs. As depicted in Appendix D, the EDPNC employs the second largest staff among 501(c) PPPs, behind JobsOhio.¹¹ In addition, the EDPNC administers 10 economic development functions, whereas other nonprofit PPPs manage between four and eight.¹²

According to the 2017 Demographic Survey of Economic Development Professionals, 22% of respondents reported that department performance was a factor in determining cash compensation amounts beyond salary and 58% reported that overall organizational performance was a factor. Among public-private partnerships, the Missouri Partnership, which has the highest bonus compensation cap among interviewed PPPs, and Intersect Illinois exclusively tie bonus compensation to organizational performance

¹² Six non-state agencies, including the EDPNC, administer a business service center or helpline and less than half provide export assistance. Just two other non-state agencies besides the EDPNC, administer tourism functions for the state. This last distinction is noteworthy, because tourism has the largest staff size and operating costs of any division in the EDPNC, yet tourism is not a function traditionally managed by a PPP administering state-level economic development activities.

rather than individual performance. Specifically, employees are compensated only if organizational goals and milestones are achieved.

In summary, EDPNC base salaries are lower than those of comparable organizations. Instead, the organization utilizes a robust bonus compensation program to incentivize employees. The EDPNC's bonus program differs from those of some states because all employees are eligible for the same percentage of salary as a bonus and bonuses are based on individual and business unit performance rather than overall organizational performance.

Finding 5. Current systems for economic development strategic planning and oversight lack coordination.

The legislation that enabled the Department of Commerce to contract with the EDPNC for economic development activities altered the structure and composition of oversight bodies related to economic development. The legislation did the following:

- eliminated the Economic Development Board, a 39-member board made up of various agency secretaries and political appointees that conducted the comprehensive strategic planning process for the State in conjunction with administrative support from Department of Commerce staff and advice from the Interagency Economic Development Group, which was made up of staff from several state agencies;
- implemented the Accountability and Standards Committee, a 7-member board that manages oversight of the contract between the Department of Commerce and the EDPNC, reviews complaints about the entity, and ensures regular audits take place;
- specified membership of the EDPNC Board of Directors, a 17-member board that oversees the activities, finances, and strategic plan of the EDPNC; and
- Placed the executive director and one person appointed by the EDPNC Board on the NC Travel and Tourism Board, which oversees and advises the State on tourism activities, some of which are now housed in the EDPNC.

Three major outcomes resulted from these legislative changes.

1. There are fewer stakeholders and staff involved in the strategic planning process for statewide economic development.
2. No formal coordination exists between the state-level economic development planning being done by the Department of Commerce and the strategic and operational planning being performed by the EDPNC.
3. There are few formal opportunities for the Department of Commerce to review and provide feedback for EDPNC operations.

The Secretary of Commerce now undertakes all statewide economic development strategic planning that the Economic Development Board and supporting advisory and staff entities previously performed. Prior

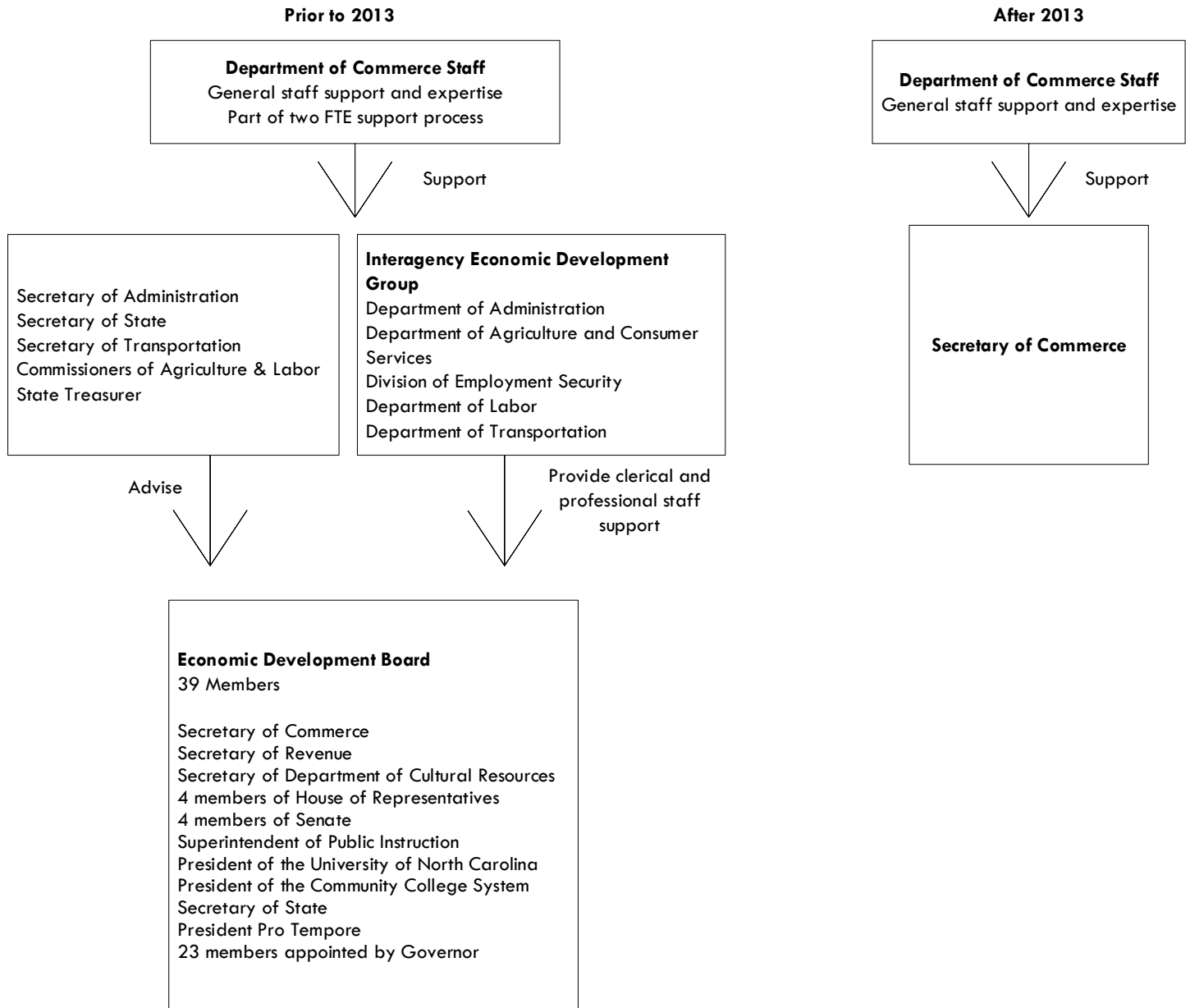
to the passage of current law, the Economic Development Board engaged in a process to develop a comprehensive strategic planning effort. Previous legislation instructed the Board to receive input from all affected parties including the public and relevant state agencies as part of generating the plan. In addition to holding public hearings and reaching out to various entities, the composition of the Economic Development Board helped ensure broad input. The Economic Development Board included membership from the North Carolina Community College System, Secretary of State, Department of Revenue, Secretary of Cultural Resources, and Department of Public Instruction. The 23 at-large members included business leaders, representatives from nonprofit organizations involved in economic development, and county economic developers. These planning efforts were supported and measured by two full-time equivalent (FTE) positions within the Department of Commerce.¹³

In 2014, the General Assembly created the Accountability and Standards Committee. Although the intent behind creating this committee may have been to keep various agencies involved in economic development, the committee's responsibilities are statutorily restricted to overseeing the contract between EDPNC and the Department of Commerce.

Academic literature recommends including multiple levels of stakeholders in generating a strategic plan, including any top policy and decision makers, middle management, and technical core or frontline personnel relevant to a given plan. Therefore, shrinking the pool of people involved and eliminating the staff positions responsible for supporting these efforts may be counterproductive to producing and maintaining a comprehensive, state-level plan for economic development. This shift in participating entities is illustrated in Exhibit 9.

¹³ A full-time equivalent is equal to one employee working full time, but time may be divided between several employees.

Exhibit 9: Entities Involved in Developing a Four-Year Comprehensive Strategic Economic Development Plan for the State Shifted Following the Creation of the EDPNC



Source: Program Evaluation Division based on review of current and previous state statutes.

The Secretary of Commerce is not legislatively required to include EDPNC staff or its board in the strategic planning process for the State’s economic development plan. The EDPNC conducts economic development activities in specified categories and represents the Department of Commerce in the field. Additionally, its board members represent influential and diverse business actors across the state. However, neither staff nor board members are formally included in state-level strategic planning. The only input avenue available to the EDPNC for strategic planning is the data it provides the Department of Commerce regarding outcomes and through regular reports. Informally, EDPNC staff

participated in the most recent annual update to the strategic plan, which included providing information about regional initiatives in each of the prosperity zones.

EDPNC leadership would like to participate in discussions related to the State's vision for economic development, communicating information about potential target industries, gaps in current state conditions that affect business recruitment efforts, and other changes that they foresee as the state entity directly engaged in business development and recruitment. However, the EDPNC staff is not legislatively included in the planning process. By not formally including the EDPNC in state comprehensive strategic planning efforts, the State forgoes the opportunity to take advantage of the expertise of EDPNC board members and staff.

The EDPNC is not legislatively required to produce an organizational strategic plan, nor is it required to include the Secretary of Commerce or Commerce staff in such efforts. The EDPNC Board of Directors is responsible for monitoring the operational activities of the nonprofit and directing changes when necessary. Board members approve annual operational plans; however, the EDPNC has not yet developed a long-range (three-to-five-year) strategic plan. The board intends to undertake the creation of a long-term strategic plan for the EDPNC and its activities during a first-time board retreat in December 2018.

Other states with comparable economic development arrangements legislatively direct the Secretary of Commerce to sit on the external economic development entity's board as an ex officio member. This arrangement is even more common when the entity operates separately from the main Commerce department but receives a large percentage of funding from the state (e.g. Florida, Maryland, Virginia). Presently, the Secretary of Commerce does not sit on the EDPNC Board of Directors. In fact, state law expressly forbids a public entity from sitting on the EDPNC board, which was likely done to keep the EDPNC as politically neutral as possible. However, in lieu of other formal connections to the Department of Commerce this type of structural arrangement provides the opportunity for increased coordination and communication. The EDPNC does invite the Secretary to participate in various meetings, but in light of statute it may be unclear whether the Secretary has any role. Ultimately, participation on the EDPNC board would give the Secretary a greater understanding of the nonprofit's activities and help ensure that state economic development priorities are incorporated into the EDPNC's strategic plan and activities.

The EDPNC and the Department of Commerce lack processes to work through contractual issues. Although state law empowers the Secretary of Commerce and the Accountability and Standards Committee to "enforce the contract" between the Department of Commerce and EDPNC, the language is vague. Ultimately, statute only enables the Secretary and Committee to hold the EDPNC accountable by facilitating complaints against the organization and by ending the contract entirely. Neither of these options allow for meaningful interactions between the two entities to work through issues short of completely ending the relationship. In order to sustain the contractual relationship and align efforts between the two entities through inevitable changes in leadership and staff, policies,

procedures, and legislation need to support meaningful and productive communication.

In summary, formal connective tissue between the EDPNC and the Department of Commerce regarding long-range strategic planning is nearly nonexistent. Legislation is needed to install the Secretary of Commerce as an ex officio member of the EDPNC board and to include the EDPNC's leadership and board in the Department of Commerce's strategic planning for the State.

Finding 6. The EDPNC's role as state administrator of the State Trade and Export Promotion program and sub-recipient of Manufacturing Extension Partnership program funds conflicts with the intent of state law and its contractual agreement with the Department of Commerce.

State law specifically forbids the Department of Commerce from contracting with the EDPNC for the administration of funds or grants received from the federal government or its agencies. Legislative staff who worked on the legislation that authorized contracting with the EDPNC said that the intent of this provision was to eliminate any potential for a pay-to-play atmosphere at the EDPNC in which discretionary funds would be directed toward companies that made donations. In addition to conflicting with the intent of this law, the scope of work in the contract between the EDPNC and the Department of Commerce states as follows: "All responsibilities for making grants, loans, or other discretionary incentives will remain public with the Department of Commerce."

The State Trade and Export Promotion (STEP) grant program was established in 2010 to increase exporting opportunities for small businesses. The U.S. Small Business Administration provides funding to qualifying small businesses to offset costs associated with exporting. STEP funds assist companies with

- participating in foreign trade shows and trade missions,
- developing websites to attract foreign buyers,
- designing international marketing materials to reach a broader audience,
- obtaining services to support foreign market entry, and
- attending select export education courses throughout the program year.

All states and some territories are eligible to compete for awards of matching-fund grants. Each state must have a designated state government entity that applies for these federal funds and manages the program at the state level. In North Carolina, the Department of Commerce was the initial federal grant recipient and managed the program until 2015. At that time, the responsibilities of the former International Trade Division were transferred to the EDPNC, which received STEP funds in Fiscal Year 2014–15 and every year since.

In addition, the EDPNC is a sub-grant recipient and awards funds from the federal Manufacturing Extension Partnership program. The National Institute of Standards and Technology's Manufacturing Extension

Partnership (NIST MEP) supports 51 MEP centers located in all 50 states and Puerto Rico. The North Carolina Manufacturing Extension Partnership (NCMEP) is housed at the Industrial Extension Service at North Carolina State University. Through combined resources and collaboration, the NCMEP provides manufacturing extension services that help companies save time and energy, improve productivity, increase sales, improve profits, and create and retain jobs. Although the Industrial Extension Service is the actual grant recipient, the EDPNC is one of six sub-recipients. As such, the EDPNC identifies and selects manufacturers to participate in the program and receive financial assistance. The EDPNC also undertakes grant management in order to comply with federal reporting requirements. In Fiscal Year 2017–18, the EDPNC was awarded \$671,213 in STEP funding and \$149,310 from NCMEP.

STEP and MEP funds are discretionary business awards. The EDPNC gives STEP and MEP funds to companies to reimburse them for the cost of certain activities related to engaging in international trade such as traveling to a trade show. As such, these funds are used as an incentive, or a method to encourage or motivate companies to participate. For this reason, STEP and MEP funds are considered discretionary awards provided to businesses.

Staff with both organizations believe that since the EDPNC's contract with the Department of Commerce does not specifically task the EDPNC with applying for and managing STEP or MEP funds, these are allowable activities for the nonprofit. The EDPNC undertakes these activities, as the Department of Commerce did prior to the contract, to financially support existing international trade programs and small manufacturing businesses.

Finding 7. Improvements to the buildings and sites database and more nuanced performance measures would improve the effectiveness and measurement of North Carolina's economic development efforts.

Economic development professionals and businesses use online site selection tools to identify and learn more about specific buildings, sites, and communities for potential relocation and expansion decisions. In recent years, these tools have become especially important to economic development organizations as site selectors are able to use online tools to gather data more quickly than they can by requesting it from economic development organizations. Site selectors tend to use online tools early in the site selection process to filter through thousands of potential sites.

Despite making substantial improvements, the EDPNC needs to make further enhancements to North Carolina's site selection database and website to make it competitive with other states' tools. The EDPNC inherited the existing site selection database and online tools from the Department of Commerce. Since the transition, the EDPNC has migrated these data and tools to a third-party vendor that provides ongoing software maintenance. Improvements already made to the system include a mechanism to encourage local developers to update their listings every 120 days and a method to verify rail service information. The website also contains contact information for an EDPNC staff member if a local property

contact is not provided. These improvements were funded by a one-time appropriation of \$84,000. Some economic development professionals expressed the belief that the EDPNC site selection tool is better now than when it was part of the Department of Commerce's Access NC data tool. However, further improvements are needed to make the site selection database and web tool comparable to the best in the country.

A sample of existing buildings and sites database listings revealed a lack of critical site selection information. The International Economic Development Council (IEDC) recommends that business and site databases should include

- location, size, and price;
- use and zoning;
- construction age, method, and condition; and
- available infrastructure and utility capacity such as roads, parking, gas, water, sewer, electric, and fiber optics.

The Program Evaluation Division examined a stratified sample of 15 office buildings, 15 industrial buildings, and 15 sites to determine if the listings are providing the recommended information. It is important to note that local economic developers are responsible for posting and maintaining listings. The EDPNC maintains the database and web tool via the third-party contractor, serves as a general point of contact for listings, and provides a limited amount of data verification.

Use and zoning information, construction information, and phone numbers for local developers are consistently missing from the State's buildings and sites database. As depicted in Exhibit 10, all of the sample entries in the buildings and sites database contained location and size information. More than 70% of entries contained price information. Recommended data points that were routinely missing include use and zoning information for sites, phone numbers for local property representatives, and information about construction. The construction category consisted of three factors: building age, condition, and materials. North Carolina's buildings listings do not contain a field for assessing building condition. Approximately 70% of sample listings included building age and 33% contained information on construction materials. The largest information gaps involved utility and infrastructure data. Few of the entries listed fiber optic availability. Only half of all sites and industrial buildings listings contained information about the availability of natural gas and 40% of buildings listings contained information about parking.

Exhibit 10

EDPNC's Buildings
and Sites Database
Frequently Omits
Critical Site
Characteristics Needed
by Prospects

	Office Buildings	Industrial Buildings	Sites
Location	100%	100%	100%
Size	100%	100%	100%
Price	73%	87%	100%
Use and Zoning	87%	86%	53%
Construction	33%	40%	NA
Phone Number for Local Property Representative	60%	67%	80%
Fiber Optic Communications	0%	0%	27%
Distance to Nearest Airport	27%	67%	46%
Parking Available/Number of Parking Spaces	40%	40%	
Rail Service Available	NA	93%	80%
Natural Gas Available	NA	53%	53%

Source: Program Evaluation Division based on a sample of listings available through the North Carolina Buildings and Sites tool on the EDPNC website as well as information from local developers.

North Carolina's buildings and sites database does not contain buildings with less than 10,000 square feet of space or sites that are less than one acre in size. As a result, communities with smaller buildings and sites for lease or sale are unable to list them in the state database, a prominent form of advertising. It is challenging to maintain a database with a large number of listings, but the State has an obligation to provide the same level of service and the same quality of tool to all types of available properties and communities. A review of site selection tools used by South Carolina, Virginia, Tennessee, and Georgia revealed that all of these states list buildings under 10,000 square feet and sites under one acre.

Other issues noted by individuals surveyed or interviewed included information taking a long time to load, geographic tools "glitching" during use, and attachments failing to load correctly. The Program Evaluation Division experienced this last issue when attempting to download and print attachments. In addition to technical issues with the database and site tools, the website's presentation of information is awkward. Column titles do not align with data, rows do not have a consistent height, picture quality varies, and other minor layout issues detract from the content.

The EDPNC's performance measures do not adequately capture performance and provide no information about service quality. The EDPNC reports program performance using measures required in state law. The three primary business recruitment measures are job creation, capital investment, and total dollars of direct foreign investment. These measures are further reported as being attributable to a new project or the expansion of an existing business. However, these measures do not gauge what economic gains are attributable to the EDPNC's level of involvement in a project and the value the organization brings to overall economic development efforts. Additional performance measures, such as

the number of leads directed to specific counties, number of site visits to counties, and number of training sessions or other events with county and local community staff would add important elements of information to the existing data.

Many different economic development organizations contribute to project success. Potential projects may be identified by local or state business developers, or companies or consultants may reach out directly to local developers, regional industry managers, or state developers or recruiters. The Governor's Office, the Secretary of Commerce or other department staff also may refer potential projects to the EDPNC. Either a local developer or a recruiter at the EDPNC may be the primary point person working on a specific development project. Current measures do not differentiate between the EDPNC's level of effort and those of other economic development partners. In addition, the use of announced job creation and capital investment instead of actual jobs and capital investment obscures the true outcomes that can be attributed to projects. Some job creation and investment may never materialize from specific projects, whereas other projects may create more jobs and investment than originally announced.

Business service performance measures do not include all activities. Relevant performance measures include the number of businesses receiving support, number of businesses receiving export assistance, total value of exports by assisted businesses, and team leads that result in an existing business expansion. Again, these measures do not include information about the level of assistance provided or the quality of such services. A business receiving brief advice may be counted as a business receiving a full array of services. State law does not require any measures for the small business assistance program Business Link NC, although this program does track customer satisfaction ratings among other performance measures. This program consists of three employees and one manager who answer phone and email questions from individuals with common new or small business questions.¹⁴

Finally, all performance measures reported in dollars are reported to the General Assembly in nominal numbers and compared to the Department of Commerce's average performance between 2008 and 2013. This practice represents an increasingly inappropriate method of comparing current and past performance as inflation diminishes the purchasing power of the dollar. In addition, the period between 2008 and 2013 included a lengthy recession, which negatively affected economic development performance.¹⁵

To summarize, the EDPNC's buildings and sites database and web tools are not comparable with similar tools used in other states. The database lacks important information about buildings and sites and limits the size of buildings and sites that may be listed. In addition, the performance measures specified in state law do not measure the EDPNC's level of

¹⁴ For this evaluation, the Program Evaluation Division placed five phone calls to Business Link North Carolina with unique business scenarios and accompanying questions. All five questions were answered courteously and correctly or were directed to an appropriate resource; three of five inquiries were followed up with an email providing contact information.

¹⁵ The Great Recession began in December 2007 and ended in June 2009, which makes it the longest recession since World War II.

involvement in specific projects and do not contain information about service quality.

Recommendations

Recommendation 1. The General Assembly should amend legislative language to spur increased private fundraising by the Economic Development Partnership of North Carolina.

Proponents of the EDPNC advocated for the creation of the organization so that private companies could support job creation and investment in North Carolina, and existing North Carolina businesses do indeed directly benefit from the EDPNC's activities. However, as detailed in Finding 1, opportunities exist to improve the fundraising capability of the organization. Currently, only 5% of total EDPNC revenues are contributed by the private sector. This metric requires improvement, as the success of a public-private partnership (PPP) is dependent on shared funding.

First, the General Assembly should allow the EDPNC to apply excess donations from the current contract year to satisfy fundraising goals of the following contract year. Specifically, the General Assembly should amend General Statute 143B-431.01(e)(14) by removing the following language:

“Amounts raised prior to entering the contract year or during a year preceding the current year of the contract shall not apply to the amount required to be raised during the current year.”

In addition, the General Assembly should direct the EDPNC's Board of Directors to increase its benchmark for private donations to \$2 million per year by the end of Fiscal Year 2021–22. If the EDPNC is unable to raise an average of \$2 million in private funding for three consecutive years, the General Assembly should consider directing the Department of Commerce to cancel the contract with the nonprofit and resume economic development marketing and sales functions.

The Department of Commerce should continue to report on fundraising activities of the EDPNC to the Joint Legislative Commission on Governmental Operations, Joint Legislative Economic Development and Global Engagement Oversight Committee, and Fiscal Research Division as directed in statute.

Recommendation 2. The General Assembly should direct the Economic Development Partnership of North Carolina and the Department of Commerce to contract with a facilitator to improve communication and coordination.

As detailed in Finding 2, the Department of Commerce and the EDPNC have had four years to coordinate activities and develop formalized methods to interact and work together. Although the relationship between the two entities is not adversarial, coordination is lacking. Local developers, businesses, and site selectors reported fractured business recruitment processes. Lack of coordination between entities is not uncommon in public-private partnership (PPP) arrangements, to the extent that sometimes entire

PPP coordination organizations are created or contracted to manage all interactions between a public and a nonpublic entity. However, this level of coordination is typically required only for infrastructure projects and is not usually necessary for economic development. Other states with economic development PPPs develop and use written protocols to guide how agencies will work together.

The Program Evaluation Division recommends that a third party help the EDPNC and the Department of Commerce design such protocols and practices to sustain coordination through staff and leadership changes and to ensure the success of the arrangement and of economic development in the State. Professional facilitators help entities collaborate effectively by focusing on the process of how the participants work together. Facilitation can help organizations take responsibility for specific roles in order to provide accountability.

At a minimum, the third-party facilitator should conduct a staff survey at both organizations to identify points where current efforts are insufficient and determine what measures can be taken to improve conditions.

Outcomes from the facilitation should include a formal written protocol detailing

- how the organizations will communicate and work together with each other, local economic development partners, and business representatives;
- how market research activities will be divided between the organizations;
- how the Governor and Secretary of Commerce's involvement in marketing functions will be leveraged to ensure the greatest participation of target companies and consultants;
- how rank-and-file staff will work together cooperatively; and
- how the EDPNC will review marketing materials with Department of Commerce leadership prior to development, publication, or release.

Potential improvements may include additional use of Salesforce and other forms of technology, assigning staff to work together on specific projects, and training. Regardless of the mechanisms used, the two entities need to formalize communications to meet legislative requirements, make processes more efficient, and uphold the reputation of economic development in North Carolina. Cost for this facilitation should be jointly paid for by the EDPNC and the Department of Commerce.

The EDPNC, the Department of Commerce, and the facilitator should jointly report to the Joint Legislative Economic Development and Global Engagement Oversight Committee, Joint Legislative Program Evaluation Oversight Committee, and Fiscal Research Division by January 31, 2020 on changes that have been made to improve communication and if these changes have resulted in a better working relationship between the organizations.

Recommendation 3. The General Assembly should consider forming a commission tasked with determining whether to consolidate state-level tourism functions.

As described in Finding 3, tourism funding makes up 56% of the EDPNC's expenditures. Restrictions on the tourism budget limit the executive director's ability to shift funds to address trends, priorities, or needs that arise within other divisions at the organization. In addition, a disconnect exists between tourism and other divisions because tourism funding is legislatively protected unlike the other business units at the EDPNC. Because the tourism division is now housed within the EDPNC, it is separated from the Welcome Centers, which are still operated by the Department of Commerce, and also no longer benefits from input from Commerce marketing and public information staff. Further, although tourism division staff receive bonuses paid for with privately raised funds, travel and tourism industry companies are not consistently investing in the EDPNC.

As a result, the General Assembly should establish a commission to evaluate whether state-level tourism functions should be consolidated. The new commission, made up of legislators and tourism industry professionals, should solicit opinions and information from the tourism industry in order to make a recommendation. There are three operational structures that the commission could consider:

- **The Department of Commerce could reassume operation of the tourism program.** By returning tourism functions to the Department of Commerce, the General Assembly would simultaneously eliminate the need to pay tourism staff performance bonuses (an uncommon practice in the tourism industry) as well as increase the amount of private funds available for use by the EDPNC. Additionally, the collocation of the Visit NC program with the Welcome Centers at the Department of Commerce may encourage additional operational synergies, such as collaborations between the tourism division and community development programs, as well as advisement of the tourism division by the Travel and Tourism Board, which is housed at the Department of Commerce. A potential disadvantage of this action is that some managerial flexibility may be lost.
- **The Visit NC program and the Welcome Centers could be spun off to form their own 501(c)(3).** In 1995, Florida created Visit Florida, a public-private partnership arrangement with a 501(c)(6) structure. A similar model in North Carolina would allow leadership of both the EDPNC and a new tourism entity to focus fundraising, operational, and policy efforts in concentrated, specific areas. Additionally, as mentioned with the prior option, this structure may eliminate the need for tourism staff bonuses, as well as increase the amount of private funding available to the EDPNC. However, the State would have to pay severance to Welcome Center staff, which could be a substantial expenditure.
- **The EDPNC could assume responsibility for the Welcome Centers.** This option would reintegrate the tourism division with the Welcome Centers. In terms of benefits, housing the Welcome

Centers administratively at the EDPNC may generate additional private support from the travel and tourism industry due to the direct role that the Welcome Centers play in encouraging tourism. This option would require the State to pay severance to Welcome Center employees and require significant private funds to pay for Welcome Center employee bonuses.

The commission should make its recommendation to the Joint Legislative Economic Development and Global Engagement Oversight Committee by May 2020.

Recommendation 4. The General Assembly should repeal N.C. Gen. Stat. § 143B-431.01(c), which created the Economic Development Accountability and Standards Committee, and entrust the Secretary of Commerce with these responsibilities.

As reported in the Background and Finding 5, the Economic Development Accountability and Standards Committee is made up of the Secretaries of Commerce, Environmental Quality, Revenue, and Transportation, the Chair of the North Carolina Travel and Tourism Board, and two members appointed by General Assembly leadership. This committee is responsible for:

- monitoring the performance of the contract between the EDPNC and the Department of Commerce;
- reviewing any complaints regarding the contract or the EDPNC;
- requesting enforcement of the contract by the Department of Commerce or the attorney general;
- ensuring that the EDPNC is audited at least biennially; and
- coordinating the State's economic development grant programs between the Departments of Commerce, Environmental Quality, and Transportation.

The General Assembly should repeal the state law that created the committee and entrust the Secretary of Commerce with these responsibilities, which are already within the purview of the Secretary's role and are similar to forms of oversight provided by state agencies for other contracts.

Recommendation 5. The General Assembly should amend state law to make the Secretary of Commerce a voting, ex-officio member of the Economic Development Partnership of North Carolina Board of Directors, specify that the Secretary of Commerce is required to consult with other state agencies and stakeholders during the strategic planning process, and prohibit the Secretary of Commerce from fundraising for the EDPNC.

Finding 5 details the lack of formal coordination occurring between the Department of Commerce and the EDPNC. One way to improve oversight and ensure the Governor's priorities for economic development are being incorporated into the EDPNC's strategic plan and operational plan is to

create a voting position on the EDPNC Board of Directors for the Secretary of the Department of Commerce. The Secretary's role as a board member would help ensure state-level plans for economic development are incorporated into the EDPNC's strategic plan and give the Secretary of Commerce greater understanding and oversight of the EDPNC's activities.

In addition, the General Assembly should amend state law to specify that the Secretary of Commerce should consult with leadership from the North Carolina Community College System, private universities, the Departments of Environmental Quality, Natural and Cultural Resources, Public Instruction, Revenue, and Transportation when new strategic plans are created and existing plans are updated. Existing state law already requires the Secretary of Commerce to consult with the Board of Governors of the University of North Carolina.

To facilitate this coordination, the General Assembly should direct the Department of Commerce to create two new positions using existing resources. One of these positions should coordinate stakeholder involvement; develop specific plan goals, objectives, measures, and timelines; and track progress towards specific objectives. The other position should conduct long-range industry and strategic research to identify emerging growth industries and economic development trends in North Carolina.

Finally, state law currently permits the Secretary of Commerce to engage in fundraising on behalf of the EDPNC. However, if the Secretary were to become a member of the EDPNC Board of Directors, raising money on behalf of the organization could create a 'pay to play' environment in which companies provided financial support to the EDPNC in exchange for preferential treatment for Commerce-administered incentives. As a result, in conjunction with giving the Secretary of Commerce a position on the Board, the General Assembly should also modify state law to prohibit the Secretary from participating in fundraising for the EDPNC.

Recommendation 6. The General Assembly should amend state law to specifically direct the Economic Development Partnership of North Carolina Board of Directors to create a long-range strategic plan for the organization.

As presented in Finding 5, the EDPNC Board of Directors has been approving division-level operational plans. However, until recently, the organization seems to be operating without a more comprehensive strategic plan. Such a plan would help board members focus on accomplishing specific objectives to improve the EDPNC's performance. Goals should be developed for general activities such as fundraising, statewide outreach, and programmatic components such as foreign office locations and marketing initiatives. Statute should specify that this plan should be complementary to the state-level plan for economic development.

The EDPNC's Board of Directors chairperson should report to the Joint Legislative Economic Development and Global Engagement Oversight

Committee and Fiscal Research Division by January 31, 2020 on efforts to implement a strategic plan.

Recommendation 7. The General Assembly should amend existing state law to clarify that the Economic Development Partnership of North Carolina is able to receive and administer federal funds for the State Trade and Export Promotion program and the Manufacturing Extension Program.

As presented in Finding 6, the EDPNC is receiving and administering federal grant funds for the State Trade and Export Promotion (STEP) program and is a sub-recipient for the Manufacturing Extension Program (MEP) funds. State law expressly restricts the Department of Commerce from contracting with the EDPNC for the administration of funds or grants received from the federal government or its agencies.

The General Assembly should clarify statute language to make it clear that the EDPNC may administer these programs.

Recommendation 8. The General Assembly should direct the Economic Development Partnership of North Carolina to make improvements to the buildings and sites database and website.

As Finding 7 details, North Carolina's current buildings and sites database and web search tool lack critical building and site information, do not list smaller buildings and sites, and lack aesthetic appeal.

The General Assembly should direct the EDPNC to evaluate other buildings and sites databases on the market in order to select one that fits the needs of the State. Better auditing of existing data also is needed.

The EDPNC should report on improvements to the buildings and sites database and website to the Joint Legislative Economic Development and Global Engagement Oversight Committee, Joint Legislation Program Evaluation Oversight Committee, and Fiscal Research Division by January 31, 2020.

Recommendation 9. The General Assembly should direct the Economic Development Partnership of North Carolina to work with faculty from the Department of Public Administration at North Carolina State University or the University of North Carolina's School of Government to make suggestions for additional or alternative performance measures.

Performance measures should capture all major activities performed by the EDPNC and ideally contain activities and outcomes. At this time, the General Assembly does not require any measures for the Business Link NC program, and other activities such as research are only captured indirectly. Although the EDPNC collects information about service quality, state law does not require that this information be reported to the General Assembly.

The General Assembly should direct the EDPNC to contract with faculty from the Department of Public Administration at North Carolina State University or the University of North Carolina's School of Government to design appropriate reporting measures in addition to the ones listed in N.C. Gen. Stat. § 143B-431A(e)(2). These measures should establish the EDPNC's level of participation in local economic development efforts by reporting more location-specific measures. Potential metrics should include business leads identified by the EDPNC versus those brought to the EDPNC from partners and the number of site visits for EDPNC-identified prospects by county. County visit measures should be broken down by whether companies visited a particular site or building and how many companies visited (because some companies will visit more than one location). These data would better allow the economic development community and the General Assembly to assess the geographic spread of state economic development efforts. In addition, this information potentially may inform local economic developers about the quality of their sites and buildings.

Finally, the EDPNC and the Department of Commerce should report and compare performance using a three-year or five-year rolling averages to mitigate changes in the purchasing power of the dollar.

The EDPNC should be responsible for funding this consultation and should make proposals for changes to the performance measures in N.C. Gen. Stat. § 143B-431.01(e)(2) to the Joint Legislative Economic Development and Global Engagement Oversight Committee, Joint Legislation Program Evaluation Oversight Committee, and Fiscal Research Division by January 31, 2020.

Appendices

Appendix A: Economic Development Outputs Attributable to the Department of Commerce and the EDPNC

Appendix B: Functions of State Economic Development Organizations

Appendix C: Governance Structures of State Economic Development Organizations

Appendix D: Personnel Information for State Economic Development Organizations

Agency Response

A draft of this report was submitted to the Economic Development Partnership of North Carolina and the Department of Commerce to review. Their responses are provided following the appendices.

Program Evaluation Division Contact and Acknowledgments

For more information on this report, please contact the lead evaluator, Sara Nienow, at sara.nienow@ncleg.net.

Staff members who made key contributions to this report include Joanne Brosh and Emily McCartha. John W. Turcotte is the director of the Program Evaluation Division.

Appendix A: Economic Development Outputs Attributable to the Department of Commerce and the EDPNC

Department of Commerce								EDPNC			
Business Recruitment	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total number of announced jobs	20,067	16,309	18,471	17,895	15,668	17,767	14,369	14,812	14,806	15,748	20,794
Total New Project Investment (\$ billions)	\$ 4.75	\$ 3.37	\$ 2.66	\$ 4.03	\$ 3.63	\$ 2.21	\$ 2.79	\$ 2.39	\$ 4.25	\$ 3.83	\$ 3.58
Total Foreign Direct Investment (\$ billions)			\$ 0.51	\$ 1.11	\$ 0.44	\$ 0.72	\$ 1.38	\$ 0.56	\$ 2.66	\$ 1.27	\$ 1.71
Business Services											
Number of Existing Businesses Receiving Support			1240	1901	1573	1384	717	672	927	1195	1062
Team leads that result in existing business expansion			6	7	1	3	5	5	42	75	91
Number of businesses receiving export assistance			362	374	385	413	435	394	522	566	555
Tourism	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Number of Consumer Travel Inquiries					4,343,766	4,836,120	5,666,620	6,504,569	7,159,931	7,530,199	NA
Total Visitor Spending (\$ billions)	\$16.90	\$15.62	\$ 17.02	\$ 18.42	\$ 19.41	\$ 20.22	\$ 21.32	\$ 21.96	\$ 23.02	\$ 22.93	NA
State and Local Tax Revenues from Visitor Spending (\$billions)	\$ 1.40	\$ 1.35	\$ 1.49	\$ 1.52	\$ 1.55	\$ 1.61	\$ 1.69	\$ 1.79	\$ 1.89	\$ 1.97	NA

Source: Program Evaluation Division based on information from the Economic Development Partnership of North Carolina and the North Carolina Department of Commerce.

Appendix B: Functions of State Economic Development Organizations

Organizational Structure	Name (year established)	Functions									
		Business Recruitment	Business Retention	Business Expansion	International Trade	Tourism	Business Service Center or help line	Existing Industry Services	Export Assistance	Market Research	Foreign Direct Investment
State Authority	Arizona Commerce Authority (2011)	✓	✓	✓	✓		✓	✓	✓	✓	✓
	Iowa Economic Development Authority (2011)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Maryland Public-Private Partnership Marketing Corporation (2015)				✓					✓	
	Michigan Economic Development Corporation (1999)	✓	✓	✓	✓	✓		✓	✓	✓	✓
	Virginia Economic Development Partnership (1995)	✓	✓	✓				✓		✓	
	Wisconsin Economic Development Corporation (2011)	✓	✓	✓	✓			✓	✓	✓	✓
501(c)(3)	Choose New Jersey (2010)	✓			✓					✓	✓
	Delaware Prosperity Partnership (2017)	✓	✓	✓	✓					✓	✓
	Economic Development Partnership of North Carolina (2014)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Indiana Economic Development Corporation (2005)	✓	✓	✓	✓		✓	✓			✓
	Intersect Illinois (2016)	✓	✓	✓				✓		✓	✓
501(c)(4)	JobsOhio (2011)	✓	✓					✓		✓	✓
501(c)(6)	Connecticut Economic Resource Center (1993)	✓	✓	✓					✓	✓	✓
	Economic Development Corporation of Utah (1987)	✓	✓	✓				✓		✓	
	Economic Development Partnership of Alabama (1991)		✓	✓			✓			✓	✓
	Enterprise Florida, Inc. (1996)	✓	✓	✓	✓		✓		✓	✓	✓
	Missouri Partnership (2007)	✓	✓	✓					✓	✓	✓
	New Mexico Partnership (2003)	✓		✓						✓	✓

Note: This table does not contain information for New York, Rhode Island, and Texas.

Source: Program Evaluation Division based on interviews with representatives from economic development organizations in other states and additional research.

Appendix C: Governance Structures of State Economic Development Organizations

Organizational Structure	Name	Board of Directors composition	Do any public officials serve on the board?
State Authority	Arizona Commerce Authority	17 member private-sector board from diverse geographic areas and additional ex-officio members without the power to vote	Yes
	Iowa Economic Development Authority	11 member board appointed by the governor and split by political party, gender, and geographic location	Yes
	Maryland Public-Private Partnership Marketing Corporation	17 member board from diverse sectors/geographic areas plus 1 member from House and 1 from Senate with nonvoting rights.	Yes
	Michigan Economic Development Corporation	People from different state agencies and some from the private sector, all with different term lengths	Yes
	Virginia Economic Development Partnership	17 member board; while the majority of the board are private sector, the Secretary of Trade and Secretary of Finance are ex officio members	Yes
	Wisconsin Economic Development Corporation	12 member board; 6 are appointed by the Governor and 6 are appointed by the legislature	Yes
501(c)(3)	Choose New Jersey	54 members made up of representatives from utilities and private businesses; can buy in at different price points	No
	Delaware Prosperity Partnership	Governor, 1 member from each Senate party appointed by the President Pro Tempore, 1 member from each House party appointed by the Speaker, 10 additional members appointed by the Governor; Governor may appoint additional members as necessary	Yes
	Economic Development Partnership of North Carolina	17 member board; eight members and the chair are appointed by the Governor; the Speaker of the House and the President Pro Tempore of the Senate each appoint four board members.	No
	Indiana Economic Development Corporation	15 member board (all private executives) appointed by the Governor	Yes
	Intersect Illinois	18 people and cannot exceed 25; primarily corporate membership (CEOs); two-thirds are financial contributors	No

Organizational Structure	Name	Board of Directors composition	Do any public officials serve on the board?
501(c)(4)	JobsOhio	9 member board appointed by the Governor; qualifications are laid out in statute	No
501(c)(6)	Connecticut Economic Resource Center	12 member board consisting of state economic development officials and utility company representatives	Yes
	Economic Development Corporation of Utah	29 member governing board; 15 are private sector investors for the organization, 14 public sector board members including 2 representatives of the Governor's Office of Economic Development, 4 at-large members of community, 4 county commissioners, and nonvoting rights for 2 legislators	Yes
	Economic Development Partnership of Alabama	CEO and representatives of partner companies	Yes
	Enterprise Florida, Inc.	62 member board comprised of Governor, state officials, and private members who pay \$50,000 to serve on the board	Yes
	Missouri Partnership	12 member board consisting of state economic development officials and Hawthorn Foundation appointees	Yes
	New Mexico Partnership	Board of 15 directors, one business person and one economic developer from each of the 7 regions in the state, and the Secretary of Economic Development	Yes

Note: This table does not contain information for New York, Rhode Island, and Texas.

Source: Program Evaluation Division based on interviews with representatives from economic development organizations in other states and additional research.

Appendix D: Personnel Information for State Economic Development Organizations

Organizational Structure	Name	Funding Source	Number of staff	Staff eligibility for performance bonuses	Administers incentives?	Legislatively established?
State Authority	Arizona Commerce Authority	State appropriations and private funding	68	All full-time employees eligible	✓	✓
	Iowa Economic Development Authority	Entirely state appropriations	100	Staff not eligible	✓	✓
	Maryland Public-Private Partnership Marketing Corporation	\$1 million dollars in appropriations in 2017 and rest is private funding	3	Staff not eligible		✓
	Michigan Economic Development Corporation	Entirely state appropriations	275 people with 159 corporate and 116 state employees	Corporate employees have a variable pay component as part of their compensation plan, whereas state employees follow the state civil service compensation plan	✓	
	Virginia Economic Development Partnership	Entirely state appropriations	115	30-35 positions on modest bonus program with senior staff on a bigger program; does not include some divisions such as marketing. No awards were given in FY 2017.		✓
	Wisconsin Economic Development Corporation	Entirely state appropriations	116	All staff are eligible for merit awards ranging between \$500 and \$2,500. These awards are given quarterly and are capped at 1% of total payroll.	✓	
501(c)(3)	Choose New Jersey	Entirely private funding	12	All staff eligible with senior staff capped at 15% of base and junior staff capped at 5% of base		

Organizational Structure	Name	Funding Source	Number of staff	Staff eligibility for performance bonuses	Administers incentives?	Legislatively established?
501(c)(3)	Delaware Prosperity Partnership	\$2 million state appropriations/\$1 million private funding	6	All staff are eligible but have not enacted process yet		✓
	Economic Development Partnership of North Carolina		68	All staff eligible for up to 15% of salary		✓
	Indiana Economic Development Corporation	State appropriations and private funding	17-18	NA	✓	✓
	Intersect Illinois	Entirely private funding	10	Employees can get up to 10% performance bonus with junior staff capped at lower percentage		✓
501(c)(6)	Connecticut Economic Resource Center	65% utility, 15% state, and 20% earned through consulting	18	All staff eligible and based on percentage of salary		✓
	Economic Development Corporation of Utah	One third state appropriations, one third private funds, one third local government investment	18	All staff eligible		
	Economic Development Partnership of Alabama	Entirely private funding	10	All staff eligible		
	Enterprise Florida, Inc.	State appropriations and board member dues (\$50,000 each)	60	All staff eligible. No awards were given in 2017.		✓
	Missouri Partnership	Hawthorne Foundation raises private sector funding which supports the partnership	13	All employees receive same percentage across the board up to 20%		
	New Mexico Partnership	State appropriations and private funding	7	All staff eligible		✓

Organizational Structure	Name	Funding Source	Number of staff	Staff eligibility for performance bonuses	Administers incentives?	Legislatively established?
501(c)(4)	JobsOhio	Entirely private funding through revenues from liquor sales in Ohio	90	All staff eligible		✓

Note: This table does not contain information for New York, Rhode Island, and Texas.

Source: Program Evaluation Division based on interviews with representatives from economic development organizations in other states and additional research.



January 2, 2019

Mr. John Turcotte – Director
Program Evaluation Division
North Carolina General Assembly
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603

Dear Mr. Turcotte:

Please accept this official response to the Program Evaluation Division's (PED) report concluding its recent evaluation of the Economic Development Partnership of North Carolina (EDPNC). We thank you for the opportunity to respond.

First, please allow us to express our appreciation to Sara Nienow, Joanne Brosh, Emily McCartha, and Carol Shaw. Throughout the evaluation process, Ms. Nienow and her colleagues were always professional, courteous, and accessible. We value the work done by the PED and know it is performed in the spirit of ensuring that public resources are used as effectively as possible.

Working with an unparalleled statewide network of partners spanning the public and private sectors, since 2015, the EDPNC has helped North Carolina to win more than 500 corporate locations and expansions, along with 67,000 announced new jobs and \$14 billion in proposed new investment. In 2017 and 2018, North Carolina saw two consecutive years of new job announcements exceeding 19,000 each year, besting annual job-creation announcement totals every year for the past decade. Just as importantly, nearly two-thirds of recruitment and expansion announcements since 2015 have located in more economically distressed "Tier 1" and "Tier 2" communities.

Since 2015, the EDPNC has also assisted more than 1,600 North Carolina manufacturers in winning new customers in international markets and growing their export sales by nearly \$3.4 billion, new revenue that enables many of these firms to expand further in our state.

In the past four years, the EDPNC has counseled more than 78,000 clients in all 100 counties through our small-business support team (Business Link NC), giving many of these would-be entrepreneurs a strong start to the business ventures that they are launching in all corners of North Carolina.

Finally, through a strategic, targeted marketing effort promoting North Carolina's natural beauty, vibrant communities, and welcoming spirit, the EDPNC's tourism division (VisitNC) has helped spur at least \$70 billion in tourism spending across this state, generating substantial economic impact all along our shores, atop our mountains, and everywhere in between.

The EDPNC has helped secure these outcomes thanks in part to raising nearly \$5 million in additional private funds, resources that complement the public funding we receive and that enable us to achieve more success on the state's behalf through this public-private partnership model.

NORTH CAROLINA

Mr. John Turcotte
January 2, 2019
Page 2 of 8

Beyond these measurable results, our stakeholders also appreciate how the EDPNC has successfully integrated previously siloed economic development functions like business recruitment and tourism, so that the whole of our efforts is greater than the sum of its parts. More stakeholders yet credit the EDPNC with fostering greater collaboration and partner engagement across all its endeavors. Our stakeholders see us placing a greater focus than ever on accountability for accomplishments and results – as opposed to mere activity – and putting in place performance metrics that measure the outcomes that matter most in our work.

Traditional state agencies are rarely, if ever, dissolved. However, as an independent non-profit, we know the continued existence of the EDPNC depends wholly on the results we produce and the value we deliver for our many stakeholders in the public and private sectors and at the state, regional, and local levels. If we do not perform at the level our partners, investors, and elected officials demand of us, we face ultimate accountability in the form of termination of our contract.

The absence of any material findings in PED's report questioning the EDPNC's execution and effectiveness is important validation that our results – the ultimate measure of our performance – are not being called into doubt. In fact, as noted throughout the report, stakeholder views of the EDPNC have been overwhelmingly positive, and previous performance audits of the organization also find no issue with how the organization is approaching its mission. All of this gives us confidence that the EDPNC is accomplishing exactly what was envisioned when the organization was created just four years ago.

That said, as a young organization, we are the first to recognize room for progress in how we fulfill our important mission on the state's behalf. In fact, continuous improvement, rapid adaptation to changing market trends, and innovation to deliver the best service all represent the founding values of the EDPNC: We were formed to be more nimble, competitive, and creative in how we approach economic development for North Carolina.

Though we are proud of all we have accomplished over the past several years, we appreciate PED illuminating opportunities for us to do even better as an organization.

In this official response, we would like to address several key findings and recommendations:

PED finding that little formal coordination exists between Commerce and EDPNC and recommendation that a professional facilitator assist the two entities in developing more formal protocols

We agree with the need for and welcome stronger communication and coordination measures with Commerce. However, we hope it does not go unnoticed that both groups have already undertaken many steps towards this end over the past several years. The EDPNC and Commerce are integral partners in North Carolina's economic development efforts, and our collective success depends on a strong working relationship. We appreciate PED's recommendations for more strategic alignment, so that both organizations can continue striving to produce increased economic opportunity for the citizens of this state that they ultimately serve.

We also believe that strategic alignment between two organizations is different than a direct management relationship between the same two entities. The EDPNC functions as a contractor to Commerce; as in any contract relationship, the EDPNC strives towards fulfilling the overarching objectives of the contract. Empowering the EDPNC to decide how best to meet those objectives, so long as its efforts are aligned with the broader strategy set by Commerce, should remain a defining characteristic of the partnership between Commerce and the EDPNC.

We also agree with stakeholder perspectives cited in the report that highlight opportunities for improvement in the state's decision-making process for economic development incentives. The incentives application, approval, and procurement process must be expeditious, consistent, and responsive to the needs of companies considering locating or expanding in North Carolina. With many site selection factors beyond the influence of any state, offering a predictable, business-friendly incentives process is one of those factors well within North Carolina's control. While the current process lives outside the EDPNC and predates the organization's creation, we would gladly assist any future task force or evaluation effort focused on reviewing and optimizing these processes.

PED finding that EDPNC's VisitNC tourism functions have little synergy with other EDPNC functions and recommendation that the General Assembly examine where VisitNC functions should best reside

PED claims that housing the state's tourism marketing functions in the EDPNC delivers little synergistic benefit. We believe this assertion is erroneous for several reasons and that these functions are best-served by the current public-private partnership model that the EDPNC represents.

One, PED's assessment appears rooted in a view that somewhat discounts tourism as a form of economic development, especially compared to recruiting large businesses to the state. We strongly disagree. Tourism is the primary, sustainable economic development strategy in many of the state's communities, supporting more than \$24 billion in economic impact and more than 200,000 jobs across the state. It remains a legitimate economic development driver for many communities in North Carolina, often more so than does business recruitment.

Two, PED seems to believe that promoting the state to potential visitors and promoting the state to prospective businesses are mutually exclusive activities, with little overlap and few opportunities for coordination. We disagree and have furnished to PED numerous examples where joint business-marketing and tourism-marketing efforts have delivered advantages that an "either/or" approach would not. We had hoped more of these instances would be included in the final version of the report, but since that was not the case, we are happy to share these with the General Assembly upon request.

For example, the EDPNC's tourism team has helped the business recruitment group to sharpen its pitch on the state's quality of life amenities when persuading companies to locate here. Our existing industry and Business Link NC counseling teams have helped VisitNC to better assist small businesses in the state's sizable tourism industry. Materials developed by VisitNC to promote tourism in the state have been displayed by our international trade and business development teams when marketing North Carolina at industry events all over the world. Tourism staff have even joined business recruitment staff to present to prospective employers, as happened just weeks ago.

In fact, we are confident that collaboration between the state's business-facing economic development functions and tourism-facing functions – all now housed within EDPNC – has never been stronger. This is especially true compared to pre-EDPNC days, when VisitNC staff were far removed on a separate floor of the DPI building from all other Commerce staff, where they experienced no opportunities – and received no invitations – for cross-functional collaboration. It is difficult to imagine how PED's recommendations – including potentially moving tourism functions back into Commerce or spinning them off as a separate public-private partnership – would continue, let alone enhance, the collaboration now in place; instead, these recommendations would diminish and likely erase any progress that has been made in marrying business-development and tourism-development efforts these past several years.

Three, PED asserts that the EDPNC's chief executive has no ability to control how tourism marketing funds are used by the organization. This is also incorrect. Like all aspects of our organization, we constantly evaluate how best to deploy our finite resources in areas where we can attain the most impact relative to our mission, including in our performance of tourism marketing. We certainly do not dispute that \$13 million in annual funding is critical to our ability to execute a successful tourism marketing effort; in fact, more funding would allow us to compete with states that have far bigger marketing funds to reach the same audience of prospective travelers, especially since tourism marketing is aimed at a much larger audience of consumers, compared to marketing that targets the business community.

However, we do dispute PED's assertion that EDPNC management has no ability whatsoever to allocate that \$13 million in ways that will optimize results in raising visitor interest and driving increased tourism spending. In fact, the EDPNC's CEO and Board have direct oversight of the EDPNC budget and the authority to expend tourism marketing funds where deemed most impactful to our mission of increasing visitor spending in the state. In any case, wherever tourism functions are housed – whether inside the EDPNC, inside Commerce, or in a separate entity – we believe the state should be spending at least \$13 million on marketing the state to potential visitors, given the outsize economic impact that tourism has across North Carolina.

Lastly, and most importantly, PED's analysis overlooks the fact that the state's tourism marketing efforts are performing far more effectively since becoming part of the EDPNC, especially with six fewer employees than when these functions were housed at Commerce. As one important measure, VisitNC has increased partner participation in its annual cooperative marketing program by 43 percent, as well as increased increased visitor website inquiries by 33 percent. VisitNC's efforts have generated more than \$8 million in private partner co-op funds over the last three years – more than any three-year period when tourism functions were housed entirely in state government – all of which have gone to increasing the reach of the EDPNC's tourism marketing efforts.

These record levels of partner participation represent a strong vote of confidence in the EDPNC and VisitNC to market the state strategically, effectively, and collaboratively; that more partners than ever are contributing more of their funds than ever, tells us that these partners have more confidence than ever in the performance of the EDPNC's tourism team. We had hoped that PED's evaluation would include a comprehensive survey of tourism industry partners, such as was done with partners involved in the EDPNC's business recruitment and expansion functions. We maintain such a survey would further validate the shift of tourism responsibilities to the public-private partnership model represented by the EDPNC.

With respect to the PED recommendation that the General Assembly explore the best structure for the state's tourism promotion efforts, we look forward to any opportunity to further make our case for the advantages offered by the EDPNC's public-private partnership approach.

In summary, we believe that the functions currently performed by VisitNC would be best fulfilled by having VisitNC remain within the EDPNC. Divorcing tourism from the state's other economic development marketing and sales efforts would reduce current synergies and collaboration involving business and tourism promotion efforts; greatly diminish VisitNC's agility and flexibility (as made possible under the EDPNC model); and signal to tourism industry stakeholders that the state sees tourism as less important of an economic development function compared to business recruitment and existing business support.

PED finding that the EDPNC lags other states' public-private partnerships (PPPs) in terms of private fundraising and recommendation that EDPNC raise at least \$2 million annually

We are grateful to PED for pointing out structural limitations that affect public and private funding resources available to the EDPNC. We also concede that as a young organization, it has not always been easy to win the confidence of private investors before first demonstrating a strong track record of results. Now entering our fifth year of operations with four years of solid performance behind us, we are confident that our private fundraising performance will gain strength going forward.

However, we would like to address the feasibility of PED's recommendations related to this finding. It is unclear from PED's report what rationale is employed for arriving at the suggested \$2 million figure. When looking at 10 other public-private partnerships that PED benchmarked, the average annual fundraising among those groups is closer to \$1.73 million. PED's recommendation also overlooks other factors relevant to their comparison of private fundraising between the EDPNC and other PPPs. For example, although Enterprise Florida (that state's PPP) raises \$2.6 million in private funds annually, it also operates with a budget more than twice as large as the EDPNC's.

PED's recommendation also ignores the delicate balance between the various fundraising efforts of state, regional, and local economic development organizations. The EDPNC has always been clear with its regional and local partners that our fundraising efforts will be conducted in such a way as to minimize any adverse impact to their own efforts. In fact, we declined two potential investors when we learned of their plans to redirect funds away from supporting a local group and instead contribute to the EDPNC. While we might have benefitted from the increased funding, it would have come at the expense of the important partnerships we depend on for our success.

Our operating philosophy when approaching investors has always been this: If investors have just one dollar to invest, we strongly recommend they do so in support of their local community's or region's economic development efforts; if they have a second dollar to invest, then we would appreciate earning their support. Our many local partners appreciate this nuanced approach to raising funds, especially when they know we have a legislative requirement to raise private funding; in fact, this sentiment among partners is reflected in the responses received by PED after its survey of local economic developers.

Raising the EDPNC's annual fundraising requirement to \$2 million would increase pressure to "poach" private funds currently going to local and regional efforts, which in turn would threaten the strong working relationship with our partners that makes our success possible. While increased private funds would certainly help the EDPNC to do more on the state's behalf, setting an arbitrary requirement that risks jeopardizing the collaborative dynamic between the EDPNC and its partners seems counterproductive.

Most concerning is PED's recommendation that the General Assembly call for immediate cancellation of the EDPNC contract should the EDPNC fail to raise \$2 million in private funds for three consecutive years. While we recognize the desire for minimum thresholds of private funding, PED is implying that any amount of additional private funding raised is *less* preferable than zero dollars in private funding, which is what a traditional state government agency can raise. This view strikes us as sacrificing the good for the perfect, especially when a key benefit of the public-private partnership model is to generate additional private-sector resources to augment public-sector funding.

Lastly, PED's recommendation also overlooks the realities of private fundraising during economically challenging times. Non-profit organizations like the EDPNC face declining contributions when the economy softens; yet, these are the periods when a steady, focused economic development effort is most needed to position the state for a quick recovery. Imagine, for example, if PED's recommended provision were in effect prior to the 2008 recession. This recommendation would essentially result in a major disruption in the state's economic development approach (i.e. cancellation of the EDPNC contract) at precisely the moment when market conditions demand the utmost stability.

PED finding that the EDPNC Board is not legislatively required to produce a long-term organizational strategic plan and recommendation that such a long-range plan be developed

The EDPNC Board of Directors currently reviews and approves annual division-level strategic plans developed by management. These annual plans encompass updated strategies by which each division (e.g. business recruitment, tourism, etc.) will accomplish its key objectives, performance metrics by which to track the division's progress towards those objectives, annual target goals for each metric, and new strategic initiatives meant to further bolster performance by the division. We certainly see benefit to a comprehensive plan that includes strategies for such organization-wide priorities as private fundraising and stakeholder engagement.

That said, the challenge with developing a "long-range" plan is that the EDPNC has been operating since 2014 under a contract with an initial expiration date of October 2019; current legislation allows the contract only to be renewed in one-year increments, making long-term planning that much more difficult. With a longer contract term available to the EDPNC, we are confident the Board and staff will work together to develop the type of long-term plan that PED recommends. Good-faith steps towards that end have already been made with the first-ever Board strategic planning retreat in late 2018.

PED finding that the state's building and sites database would benefit from improvement and recommendation that EDPNC make these enhancements

We agree that enhancements to the state's database of sites and buildings (SelectNC) would improve our business recruitment efforts and provide value to the local communities responsible for maintaining property data on this platform. We are happy to report to PED that some of the suggested recommendations (including a lower size threshold for available sites and buildings to be displayed) have already been implemented. A reinstatement of the \$84,000 in state funding previously appropriated by the General Assembly would greatly enable continuous platform improvements and long-term delivery of a platform that effectively markets available properties in the state.

PED finding that legislatively mandated performance measures for the EDPNC need more nuance and recommendation that EDPNC work with NC State or UNC to identify additional metrics

We recognize that measuring performance with appropriate metrics is important for any organization, including ours. Since our inception – with the guidance of our Board of Directors, all of whom run businesses and organizations that focus on results first – we have elected for outcomes-based measures, hence the set of performance metrics we currently report to our Board, our investors, and other key stakeholders. PED believes that other measures – namely the various activity that leads to the outcomes we already measure – should also be considered. While we remain open to looking at other metrics, the Board and staff of the EDPNC are proud of the organization's results-focused culture, one that will always give more weight to metrics that measure tangible achievements over those that merely measure activity.

PED analysis of the EDPNC's compensation structure

We appreciate PED pointing out that average base pay for EDPNC personnel is considerably (i.e. 29 percent) below the average for other economic development professionals in the southern U.S. In 2014, when the EDPNC officially assumed economic development duties on the state's behalf and then-Commerce staff migrated to the EDPNC, base pay was not adjusted.

This inability to adjust base pay closer to market averages was primarily because of budget realities. Namely, the EDPNC launched with \$1 million less in public funding than when its functions were housed at Commerce. Simply put, when the EDPNC was formed, the money was not there to align base compensation with market rates. As a result, this sizeable gap in EDPNC base pay versus industry averages existed both prior to and persisted following the EDPNC's creation.

Instead, where the EDPNC has made a significant difference is in its use of private funds to establish a well-designed bonus compensation plan, one that incorporates key elements borrowed from the private sector experience represented on the EDPNC's Board of Directors. Enabling employees to qualify for as much as 15 percent of their base pay in performance-based compensation – assuming organizational and individual performance targets are met – has allowed the EDPNC to bring total compensation more in line with the market, therefore more effectively recruiting and retaining the professional talent necessary for success. This is especially true when comparing EDPNC to state government entities unable to establish such performance-based compensation measures.

Mr. John Turcotte
January 2, 2019
Page 8 of 8

We strongly believe the EDPNC must maintain the ability to develop and implement compensation practices that not only allow us to remain competitive for talent, but more importantly, to motivate the performance-minded behaviors that characterize successful organizations of all stripes.

In conclusion, we are proud of what the EDPNC has accomplished in its brief history thus far. We are especially proud of these accomplishments because we have attained them as part of a collaborative team working together every day to bring greater economic opportunity to North Carolina and the communities and citizens that make up this incredible state.

A former Secretary of Commerce, who was among the longest to serve in that role, was fond of the saying, "Good start, right direction, more to do." As we look back on EDPNC's achievements over the past four years, and as we consider the future of this organization, we couldn't think of a better way to put it.

Respectfully submitted,

Frank Emory Jr., Chairman of the Board – Governor's Appointee (Mecklenberg County)
Marie Flow Arcuri, Board Director – Speaker's Appointee (Forsyth County)
Mark Bellissimo, Board Director – Governor's Appointee (Polk County)
Spence Broadhurst, Board Director – Governor's Appointee (New Hanover County)
Dave Craven, Board Director – Speaker's Appointee (Randolph County)
Mike Hawkins, Board Director – Senate President Pro Tem's Appointee (Transylvania County)
Joan Higginbotham, Board Director – Governor's Appointee (Mecklenberg County)
John Kane, Board Director – Senate President Pro Tem's Appointee (Wake County)
Sheila Knight, Board Director – Senate President Pro Tem's Appointee (Onslow County)
Vimal Kolappa, Board Director – Speaker's Appointee (Beaufort County)
Karen LeVert, Board Director – Governor's Appointee (Durham County)
Larry McAdams, Board Director – Governor's Appointee (Nash County)
Gene McLaurin, Board Director – Governor's Appointee (Richmond County)
Pleas McMichael, Board Director – Senate President Pro Tem's Appointee (Rockingham County)
Lee Nettles, Board Director – Governor's Appointee (Dare County)
Aaron Thomas, Board Director – Speaker's Appointee (Robeson County)
Jeffery Turner, Board Director – Governor's Appointee (Duplin County)

The staff of the EDPNC



ROY COOPER
Governor

ANTHONY M. COPELAND
Secretary

January 2, 2019

Ms. Sara Nienow
Principal Program Evaluator
NC General Assembly
Program Evaluation Division
100 Legislative Office Building
Raleigh, NC 27603

Dear Sara,

Thank you for PED's thorough evaluation of the effectiveness and efficiency of the EDPNC. To my knowledge, there has been no other evaluation to this level of detail performed to date and many of the findings certainly deserve further discussion.

Sincerely,



Anthony M. Copeland