

Section 4 -
Economic Development Issues -
Coordination and Organization of ECD Programs

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Issue Statement

The objective of this paper is to examine the organization and coordination of economic development activity within North Carolina state government and to recommend ways to improve organization and coordination to increase effectiveness and efficiency.

This issue paper is one of four issue papers on economic development. For further information on the subject of economic development, see the issue papers on Strategic Planning, the Role of Special Purpose Nonprofits, and the Regional Offices of the Department of Commerce.

Background

Defining Economic Development

The term economic development connotes a wide variety of meanings. For the purpose of this study, economic development is defined as those activities conducted for the express purpose of increasing and maintaining the economic vitality of North Carolina. These activities include, but are not limited to:

- Industrial/business recruitment
- Business retention
- Facilitating business creation
- Small business assistance
- Job training and workforce preparedness programs
- Investments in infrastructure, both physical (roads, water, sewer, etc.), and technological (fiber optic networks and other information system links)

For more background on defining economic development, see the related issue paper on Strategic Planning.

North Carolina's Investment in Economic Development

There are several ways to estimate North Carolina's level of investment in economic development activity. The 1990 *State Auditor's Report on Small Business Assistance* estimated the total state appropriation for economic development in FY 1989 at \$136.5 million. However, this estimate includes appropriations to the UNC-affiliated Cooperative Extension Service and Agricultural Research Service of over \$60 million. While these services do perform functions related to economic development, most states do not include them as economic development programs. If these services were removed from the Report's estimates, the Report estimates the total state economic development appropriation at about \$76 million. For purposes of this analysis, these services are not considered part of economic development.

This study employed another, independent means of estimating the State's economic development investment. Data from the Office of State Management and Budget, the Community Colleges, and

the UNC System were used to estimate state *appropriations* for economic development in FY 1992 at \$80 million. We further collected data on state general fund expenditures for economic development, and developed an estimate of \$84 million in economic development *expenditures* in FY 1992.

This estimate of \$84 million of expenditures is the most valid accounting of North Carolina's investment in economic development, since it captures funds actually spent on economic development programs and activities.

The difficulty of providing a single, incontrovertible accounting for economic development activity should be noted. Many programs have an economic development element, and determining whether or not to "count" them as economic development is very subjective. For example, the higher education study conducted for GPAC includes an independent accounting of higher education's activities directly and indirectly supporting state economic development. This study estimates State higher education funding for direct support of state economic development at \$12.2 million, and State higher education funding for indirect support of state economic development at \$145.1 million. The indirect support category includes the entire \$957.9 million UNC instructional budget. (See Appendix 1.) Alternatively, the accounting of State economic development used here estimates State higher education expenditures for direct support of state economic development at \$27.8 million. It should further be noted that Appendix 1 is based on FY1993, while the figures used for this study are for FY1992.

Key Players in State Economic Development Activity

This \$84 million expenditure on economic development is allocated among about 40 different state and state-associated programs and entities. These programs and entities can be grouped into five major categories including:

- Nonprofit agencies, including four special purpose nonprofits established by the State
- The Department of Community Colleges
- The Department of Commerce
- Other State departments, including Agriculture, Secretary of State, Administration, and Environment, Health, and Natural Resources
- The University of North Carolina (UNC) system

The table below summarizes the allocation of FY1992 general fund economic development expenditures among these five groupings.

Organization(s)	Expenditures (\$M)	%
Nonprofits	\$30.1	35.7%
Community Colleges	\$23.1	27.5%
Commerce	\$18.7	22.2%
Other state agencies	\$7.6	9.0%
UNC System	\$4.7	5.6%
Total	\$84.2	100%

The programs or organizations comprising each of these five groupings are briefly described below.

Nonprofits-- The State has established four special purpose nonprofits to conduct economic development related activity. They are the:

- Rural Economic Development Center (REDC)
- Technological Development Authority, Inc. (TDA)
- Microelectronics Center of North Carolina (MCNC)
- Biotechnology Center (Biotech)

The State has also provided funding in the last three years to three other nonprofits involved in economic development: The North Carolina Institute for Minority Economic Development; the Land Loss Prevention Project, Inc., and North Carolina Coalition of Farm and Rural Families. For more information about nonprofits involved in economic development, see the related issue paper on the Role of the Special Purpose Nonprofits.

Community Colleges - The Community Colleges administer four major economic development programs: Focused Industrial Training (FIT), New and Expanding Industries, and Small Business Centers. FIT is a program that provides development and delivery of customized training programs to skilled and semi-skilled workers. The New and Expanding Industries Program provides job training to specific companies as part of a State attraction and retention effort. The Small Business Centers provide one-on-one business counseling, seminars, workshops, business courses, referrals, literature and learning materials to small businesses. Currently, there are 53 centers at the community colleges. The Small Business Centers had a \$2.6 million budget for FY1992. Also included among community college economic development programs in this study is the Occupational Extension, which provides a range of instructional programs to community members.

Commerce - The Department of Commerce has 16 units and programs involved in economic development. The three largest programs, which comprise over 60 percent of the Department's total economic development expenditures, are: Travel and Tourism, Business and Industry Development, and local planning and management. Travel and Tourism focuses on promoting tourism in the state of North Carolina. The Business and Industry Development Division works to recruit new businesses to the state and to help expand and retain existing businesses. The Business and Industry Division also maintains and manages nine regional offices that conduct recruitment, retention, and expansion activities in their respective geographic areas. Other major economic development expenditures of the Department of Commerce go to Industrial Financing, Welcome Centers, and International Development.

Other State Agencies - Other state agencies with economic development expenditures include:

- Department of Agriculture, which supports the agribusiness industry
- Department of Administration, which administers economic development programs conducted through the Commission on Indian Affairs and on Science and Technology Research
- Department of Environment, Health, and Natural Resources, whose Division of Water Resources and Central Office make economic development expenditures
- The Secretary of State, which administers the Business License Office

UNC System - The University of North Carolina System's campuses administer many programs related to economic development. These programs are listed below by campus, as of FY1992:

Elizabeth City State University	Small Business Development Technology Center
	North Carolina Tomorrow
East Carolina University	Regional Development Institution
Pembroke State University	Economic Development Center
Western Carolina University	Western North Carolina Tomorrow
UNC Chapel Hill	Small Business Technology Development Center
	Kenan Center of North Carolina
NCSU	Industrial Extension Service
	Industrial Telecommunications
	Internal Trade Center
	NC Japan Center
	Textiles Extension

In addition, the universities support economic development through basic and applied research, centers, institutes, and laboratories.

- Business creation, or investing in, educating, or otherwise supporting individuals who are creating new businesses in North Carolina
- Worker training, or preparing the workforce to have the skills required by new and existing businesses

The Department of Commerce's greatest strength is in business recruitment, retention, and expansion. As discussed in the related issue paper on the special purpose nonprofits, they are uniquely situated to assist in business creation activity. The Department of Agriculture has the necessary expertise to work with agribusiness. The Department of Community Colleges, with its strong regional infrastructure at its many campuses and its instructional emphasis, is uniquely situated to implement worker training programs.

The UNC system also has a unique contribution to make to economic development, due to its access to ongoing research. The UNC system's extension service currently serves a function that is only indirectly related to economic development. However, given its regional infrastructure, it could be used for even more direct economic development activity than it is currently conducting.

Finding 3: Commerce has excess levels of management, excessively narrow spans of control, and some unnecessary positions in some units

An organization and staffing study conducted in Phase I of the GPAC study revealed some duplication in the Department of Commerce, and between Commerce and other Departments. Four to nine positions have functions that overlap with those of other divisions or state agencies. The Agribusiness Division has programs that are duplicated in the Department of Agriculture and the Department of Environment, Health, and Natural Resources. This overlap results in two to five unnecessary positions.

In addition, the Energy Division includes a Weatherization Assistance Program which weatherizes houses for the needy. The Community Assistance Division of Commerce has a related program which renovates houses for low-income people. Two to four positions could be eliminated if these programs were combined.

Commerce also has excess layers of management, excessively narrow spans of control, and some unnecessary positions that result in inefficiencies. Twelve positions are excessive due to narrow spans of control. In general, the positions involve a supervisor and an assistant supervisor who both have narrow spans of control. One of the positions could be eliminated, and the remaining supervisor could oversee all of the staff. These positions are found in the following divisions or units:

Personnel Office
Energy Division
Banking Commission
Savings Institutions Division

Credit Union Commission
Finance and Budget (ESC)
Labor Market Information (ESC)

An additional six positions involve one-to-one reporting relationships in the following divisions:

- International Trade Division
- Banking Commission
- Credit Union Division
- Community Assistance
- Personnel (ESC)
- Labor Market Information (ESC)

There are an additional 11-16 positions in which the functions are unnecessary. These are included in the Burial Commission and the Cemetery Commission whose programs are related and are being used by fewer people. The two Commissions could be effectively combined. Certain functions or positions are also considered unnecessary in the following:

- Community Assistance Division
- Security Administration (ESC)
- Public Information Office (ESC)
- Manpower Programs (ESC)

In the Utilities Commission, each of the Commissioners is assigned an individual secretary. In addition, there are several other secretarial positions within the Commission which are excessive in comparison to other divisions. Seven positions could be eliminated if support services were pooled and secretaries shared.

Finding 4: The results of State economic development activities are not effectively monitored and evaluated.

The State employs several conventional means of ensuring the accountability of those agencies involved in economic development, such as budgets, departmental plans, and internal audits. However, these accountability measures focus on inputs, or programs and budget levels; rather than outcomes, or the results of their efforts. Without outcome-based accountability measures, the extent to which these agencies are contributing to economic development in the State cannot be fully assessed.

Throughout economic development-related entities in North Carolina, there is limited use of performance-based indicators to evaluate the results of economic development activities. Most state agencies have not yet developed and implemented meaningful measures to evaluate and report on performance. This leaves the General Assembly with limited means of evaluating the outcome of the significant state investments made in economic development.

Some exceptions exist. For example, the Small Business Centers of the Department of Community Colleges track their services provided to small business owners and potential owners. In FY 1992, the small business centers provided on-on-one counseling to 4,993 individuals, referred 14,101 individuals to other services, and served 45,981 individuals through seminars. Similarly, the Focused

Industrial Training (FIT) program of the Community Colleges tracks the training provided to individuals. Since its inception in 1981, FIT has trained more than 30,000 workers in over 3,000 companies. Even these indicators, however, only measure results in a limited way. A more effective results measure would track the success rates over time of small business owners who have participated in the programs, for example. While these examples are not comprehensive, they do indicate that some attempt is being made to develop and utilize performance indicators to track results.

Recommendations

Recommendation 1: Assign responsibility for recommending appropriate allocations of economic development appropriations to the Economic Development Council associated with Commerce.

Economic development encompasses a very broad range of activities and expertise. It would therefore be inappropriate and ineffective to require any single state agency to conduct effectively the broad range of activities, including recruitment, retention and expansion, business creation, worker training, basic and applied research that fosters new business creation, and infrastructure development, that are necessary for successful economic development. Therefore, we do not recommend that these activities be consolidated. Rather, we recommend that North Carolina take a more integrated approach to this wide array of activities that it is already conducting.

To implement this integrated approach, North Carolina should develop an integrated statewide plan for economic development as recommended in the related issue paper on strategic planning. As also recommended in that issue paper, an Economic Development Council with policy-making authority should be established to replace the current advisory Economic Development Board, and this Council should be responsible for planning.

We further recommend that the Council be responsible for recommending appropriate allocations of economic development appropriations to the Governor. This responsibility, combined with the responsibility for planning, will ensure the required integrated approach, while also leveraging the unique strengths of the key economic development players.

Recommendation 2: Assign key responsibilities for each major economic activity area to a specific department of organization.

In conjunction with the planning and resource allocation process discussed in Recommendation 1, assign key responsibilities for economic development as follows:

- Commerce - recruitment, retention, and expansion of industry and tourism
- Agriculture - recruitment, retention, and expansion of agribusiness industry in support in

Commerce

- Community colleges - implementation of worker training programs
- Nonprofits - facilitation of business creation
- Labor - worker training planning and coordination

By assuming key responsibility for one of the economic development strategies, these agencies would be primarily responsible for achieving the outcomes associated with their assigned strategy. These agencies should be encouraged, through resource allocation and planning, to focus on their key responsibility area and not diffuse their resources into conducting activities already assigned to other agencies. This assignment of key responsibility for each economic development strategy is the final step in implementing the integrated approach that we believe would maximize the return on North Carolina's considerable investment in economic development.

Recommendation 3: Reallocate the Science and Technology Research component of the Department of Administration to Commerce.

The Department of Administration is not one of the key players in economic development, yet it includes a Science and Technology Research component that is considered an economic development expenditure. This function and its attendant funding should be reallocated to the Department of Commerce, whose major thrust is economic development.

Recommendation 4: Restructure Commerce to reduce duplication and increase efficiency.

To reduce duplication and increase efficiency in the Department of Commerce and between this and other departments, the positions described above as unnecessary due duplication, narrow span of control, excessive layers of management should be eliminated.

Recommendation 5: The UNC System should determine the appropriate role for extension within its overall economic strategy.

As discussed above, the UNC System administers the Extension Service, which has an indirect role in economic development. Consistent with the recommendations in the higher education issue papers, we recommend that the UNC System should determine the appropriate role for extension within its overall economic strategy, and reassign it a more active role in economic development, if appropriate.

Recommendation 6: Base budget allocations on outcomes as measured by performance indicators, where appropriate.

To implement a truly integrated approach to economic development, each key player must be accountable for its contribution to meeting the overall economic development goals of the state. Performance indicators provide an effective and appropriate means to assure this accountability on a regular basis. Performance indicators articulate specific, measurable results for each of the key players, and make their continued economic development appropriation contingent on achieving those

results. Clear understanding of pre-established performance-based criteria allows the agencies to understand the outcomes expected of them by the State. From the General Assembly's perspective, performance indicators will allow for more systematic evaluation of the agencies to more objectively appropriate funds. The State has begun to implement this concept, though only on a limited basis.

The greatest challenge in establishing performance-based contracts is determining appropriate and measurable criteria on which to hold the agencies responsible. It is particularly difficult to attribute some results, such as the recruitment of a high technology company to North Carolina, to the efforts of any one individual entity. It is therefore important to select criteria that the individual entity can substantively influence. The criteria should be based on baseline data and reasonable expectations.

Implications

These recommendations would significantly increase the effectiveness of the State's economic development initiatives by ensuring an integrated approach, reducing fragmentation and duplication, and increasing the State's ability to evaluate the impact of its economic development investment.

Implementation of the recommendation to restructure Commerce would also yield significant cost savings. If the recommendation were implemented, a total of about \$1.7 million would be saved annually. This estimate assumes that the upper end of the range of 22-50 total positions to be eliminated can be reached, at an average cost of \$35,500 per position.

Appendix 1
Summary of Funding for Selected
Higher Education Activities Directly and Indirectly
Supporting State Economic Development
FY 1992-93

Program/Entity	Dollars (in millions)	
	State	Federal/ Other
Direct Economic Development Programs		
UNC Small Business and Technology Development Center	1.4	1.8
NCCCS Focused Industrial Training Program	1.5	2.8
NCCCS New and Expanding Industries Program	6.4	0.0
NCCCS Small Business Center Network	<u>2.9</u>	<u>0.0</u>
Total Direct Economic Development Programs	12.2	4.6
Core Mission Programs Supporting Economic Development		
Instruction-UNC (Academic Budget)	957.9	N/A
Instruction-NCCCS	406.4	N/A
UNC Basic and Applied Research/Sponsored Programs	21.3	290.1
UNC Regional Research, Policy, and Outreach Centers*	--	--
UNC Cooperative Extension Service	27.9	36.7
UNC Agricultural Research Service**	35.7	27.5
UNC Industrial Extension Service***	1.9	4.4
UNC Textiles Extension and Continuing Education+	<u>0.0</u>	<u>.2</u>
Total Core Mission Programs Supporting Economic Development	1,451.1	358.9
Technology Transfer/Industry Linkages		
Research Triangle Park++	--	--
University Research Park-Charlotte++	--	--
Triangle Universities Licensing Consortium++	--	--
Ben Craig Center at University Research Park++	--	--
MCNC	16.5	8.8
North Carolina Biotechnology Center	<u>7.2</u>	<u>.8</u>
Total Technology Transfer/Industry Linkages	23.7	9.6

* Funding for these programs is included in UNC Instruction.

** Not discussed in text.

*** Includes a \$700,000 state contract for energy audit assistance to industry.

+ State appropriation is \$60,000.

++ Independent not-for-profits that do not receive state appropriations but are "university-related" economic development entities.

General Fund Expenditures Identified in the Budget as Economic Development

Dept. #	Department	Program	FY 1990	FY 1991	FY 1992
13200	Secretary of State				
		Business License Information	\$369,371	\$427,173	\$434,877
13700	Department of Agriculture (see note a)				
		Markets	\$4,817,000	\$4,781,251	\$5,059,105
		Commercial Feed and Pet	\$345,494	\$338,860	\$289,478
14100	Department of Administration				
		Commission on Indian Affairs	\$30,000	\$30,000	\$36,014
		Science and Tech Research	\$415,461	\$498,051	\$639,117
14300	Dept. of Env, Health, and NR (see note a)				
		Central Office	N/A	\$29,205	\$28,729
		Division of Water Resources	\$361,842	\$363,648	\$358,000
53700	Raleigh Farmer's Market (see note b)				
		Farmers Market - Raleigh	\$126,890	\$385,960	\$736,602
Subtotal Other State Agencies			\$6,466,058	\$6,854,148	\$7,581,922
14600	Department of Commerce				
		Administrative Services (see note a)	\$891,023	\$1,035,450	\$1,057,668
		Air Transportation Services	\$881,546	\$572,270	\$624,532
		Economic Development Board	\$464,861	\$538,349	\$439,153
		Business/Industry Development	\$5,165,368	\$6,307,642	\$3,974,422
		International Development	\$1,416,851	\$1,595,806	\$1,640,620
		Travel and Tourism	\$4,649,618	\$4,818,034	\$4,792,483
		Welcome Centers	\$1,143,294	\$1,205,453	\$1,176,661
		Wanchese Seafood Industrial Park	\$15,823	\$116,762	\$75,929
		NC Film Office	\$235,756	\$221,691	\$261,988
		Industrial Financing	\$3,753,420	\$1,393,620	\$1,289,924
		Local Planning and Management	\$2,887,034	\$2,177,325	\$2,131,708
		Energy Division Administration	\$416,688	\$472,347	\$433,039
		Science and Technology	\$118,894	\$401,828	\$339,448
		Minority Business Development	\$20,098	\$86,164	\$159,499
		Employment and Training	N/A	\$34,273	(\$250)
		Small Business Assistance	\$111,767	\$347,589	\$322,535
Subtotal - Commerce			\$22,172,041	\$21,324,603	\$18,719,359

General Fund Expenditures Identified in the Budget as Economic Development

General Fund Expenditures Identified in the Budget as Economic Development

Dept. #	Department	Program	FY 1990	FY 1991	FY 1992
14610	MCNC				
		Microelectronics Center	\$23,782,673	\$18,560,520	\$16,525,140
14612	Biotechnology Center				
		Biotechnology Center (78 % of Funds)	\$5,919,368	\$7,332,751	\$7,157,547
14614	Rural Econ Dev Center (see note d)				
		Rural Economic Development Center	\$3,068,500	\$2,206,160	\$4,600,000
	Technological Development Authority	TDA	\$1,275,018	\$1,037,448	\$1,045,273
	Land Loss Prevention Project, Inc. (see note e)		\$300,000	\$300,000	\$300,000
	North Carolina Coalition of Farm and Rural Families, Inc. (see note e)	Small Farm Economic Development Project	\$250,000	\$250,000	\$250,000
	North Carolina Institute for Minority Economic Development, Inc. (see note e)		\$200,000	\$200,000	\$200,000
Subtotal Nonprofits			\$34,795,559	\$29,886,879	\$30,077,960
16800	Dept. of Community Colleges				
	Department Level	Focused Industrial Training	\$51,756	N/A	N/A
		Program Development - 1530	\$638,579	\$731,244	\$753,770
		Business and Industry - 1550	\$100,788	\$432,823	\$456,211
		Small Business	\$100,363	\$109,999	\$108,216
	State Aid to Colleges	New and Expanding Industries	\$7,621,867	\$7,306,431	\$6,151,789
		Focused Industrial Training	\$1,500,000	\$1,455,000	\$1,405,000
		Occupational Extension	\$12,064,747	\$12,163,031	\$11,608,261
		Small Business Training	\$2,703,079	\$2,707,781	\$2,691,060
Subtotal - Community Colleges			\$24,781,179	\$24,906,309	\$23,174,307

General Fund Expenditures Identified in the Budget as Economic Development

General Fund Expenditures Identified in the Budget as Economic Development

Dept. #	Department	Program	FY 1990	FY 1991	FY 1992
University of North Carolina (see note f)					
	Elizabeth City State University	Small Business Development Technology Ce	\$127,972	\$135,171	\$123,648
		Northeastern North Carolina Tomorrow	\$219,839	\$212,452	\$72,584
	East Carolina University	Regional Development Institution	\$325,176	\$378,422	\$331,044
	Pembroke State University	Economic Development Center	\$147,350	\$156,700	\$75,412
	Western Carolina University	Western North Carolina Tomorrow	\$313,015	\$314,968	\$218,202
	UNC Chapel Hill	Small Business Technology Development Ce	\$1,150,155	\$1,147,143	\$1,388,556
		Kenan Center of North Carolina	\$256,666	\$244,733	\$301,957
	NCSU	Industrial Extension Service	\$1,287,146	\$1,337,538	\$1,233,619
		Industrial Telecommunications	\$153,220	\$173,175	\$158,749
		International Trade Center	\$74,459	\$73,890	\$27,427
		NC Japan Center	\$212,031	\$198,806	\$206,069
		Textiles Extension	\$612,510	\$632,054	\$607,042
Subtotal University System			\$4,879,539	\$5,005,052	\$4,744,309
GRAND TOTAL			\$93,094,376	\$87,976,991	\$84,297,857
<i>Percentage</i>	<i>Distribution Across Economic Development Players</i>				
UNC SYSTEM			5.2%	5.7%	5.6%
COMMUNITY COLLEGES			26.6%	28.3%	27.5%
NONPROFITS			37.4%	34.0%	35.7%
DEPARTMENT OF COMMERCE			23.8%	24.2%	22.2%
OTHER STATE AGENCIES			6.9%	7.8%	9.0%
Source: Office of State Budget and Management, BD 701.					
a) These figures are appropriated dollars obtained from the Office of State Budget and Management, Program Statistics.					
b) Source: Raleigh Farmer's Market Budget Officer					
c) This reflects administrative overhead for the entire Department including employees not directly involved in economic development activities.					
d) Includes pass-through funding for four smaller nonprofit organizations.					
e) Estimated amounts based on 1992-93 legislatively appropriated amounts in HB 1340, HB 83, and SB 1426.					
f) Source: UNC System, Budget Office					

General Fund Expenditures Identified in the Budget as Economic Development