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A Case for Moving State Economic Development Functions to a Public-Private Partnership

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I. Analyzing Economic Development Strategies.

When it comes to the business of attracting, retaining and growing jobs and businesses, states are in the business of selling a location. The customer's final decision will be based on a multitude of factors involving business strategy, proximity to supply chain, transportation, collaboration or resources; workforce education, age, training programs, retention, and wages; quality of personal life and other opportunities for employees and their families; security and ease of doing business within the location's regulatory and legal framework; availability of capital and financial services; and overall costs and savings related to taxes, energy, transportation, real estate and relocation.

In evaluating effective business model strategies applicable to states in the business of selling location as a product that companies want to buy and retain, four themes emerge: (1) the need for strong, nimble leadership and strategic innovation in order to meet the challenges of an exploding competitive landscape and a shrinking state budget; (2) the market demand for relentless innovation in creating a product that is better, cheaper and hassle-free; (3) the crucial importance of providing a consistent, enjoyable and effective sales and customer service experience; and (4) the need to hire and develop top talent in sales and marketing and to create a strong culture of performance.

1. **Strategic Innovation to Adapt to Changing Landscape**. As with any business, states must carefully monitor ever-changing market conditions and remain flexible, innovative and readily prepared to meet the demands of an evolving landscape. In addition, leaders must be prepared to take an intensively objective evaluation of current business model and strategies against measurable data to determine what is working and where they must improve. The challenges that states face in approaching economic development today represent three major shifts in the modern economic landscape: (i) the rise of intense global competition, (ii) the evolution of customer demand, and (iii) shrinking state budgets.

   i. **Rise of Intense Global Competition**. Globalization and increased mobility of ideas, capital, people and even manufacturing facilities have resulted in the dramatic rise of market competition for businesses and jobs. As new businesses in China, India, Singapore, Brazil, Argentina and Eastern Europe establish themselves as competitors in the global economy, the traditional focus on local clusters to drive regional competition between states has begun to give way to regional clusters competing in the international marketplace

   ii. **Evolution of Customer Demand**. The needs and demands of companies have changed. Traditional corporate development needs were based on real estate and construction, workforce training and management, equipment and capital expenditures and financing. Today, companies are operating in the landscape of perpetual innovation, intense focus on research and development, social media and big data, technology transfer and commercialization, international trade and manufacturing, creative joint ventures in science and technology, highly specialized manufacturing processes, commonplace mergers and acquisitions, small business incubators, sophisticated financial services, and new complicated regulations in areas such as healthcare, data, privacy, banking and international transactions.

Figure 1.1.1. The Changing Model for a State Economic Development Agency

Area	Traditional Model	New Model
Geographic focus	• Locally focused clusters drive regional competition	• Global competition and globally focused clusters require regional collaboration
Economic development priorities	• Attract large companies • Create more jobs • Support all small business startups • Monitor business costs and regulations	• Grow and retain existing businesses • Create better jobs, higher incomes • Support high-growth small businesses • Foster an entrepreneurial environment
Workforce development priorities	• Provide "one size fits all" job training funding across industries • Focus on entry occupations	• Public-Private Partnerships to engage industry • Target specific industries • Focus on career ladders
Marketing approach	• Use conventional means to market state domestically • State employees lead business recruitment	• Use online and social media and other means to market state internationally • Private sector and governors lead business recruitment and global connections/networks

Source: National Governors Association, "Redesigning State Economic Development Agencies." September 12, 2012 (adapted from Sara Dial & Associates' presentation at the June 2010 experts roundtable and Washing Economic Development Commission).

iii. **Shrinking State Budgets**. North Carolina faces a challenge familiar to many states across the country: A stagnant or shrinking state budget for economic development. The chart below describes the annual state appropriations for various departmental divisions of the North Carolina Department of Commerce.

Figure 1.1.2. State Appropriations to Various Departmental Divisions of the North Carolina Department of Commerce

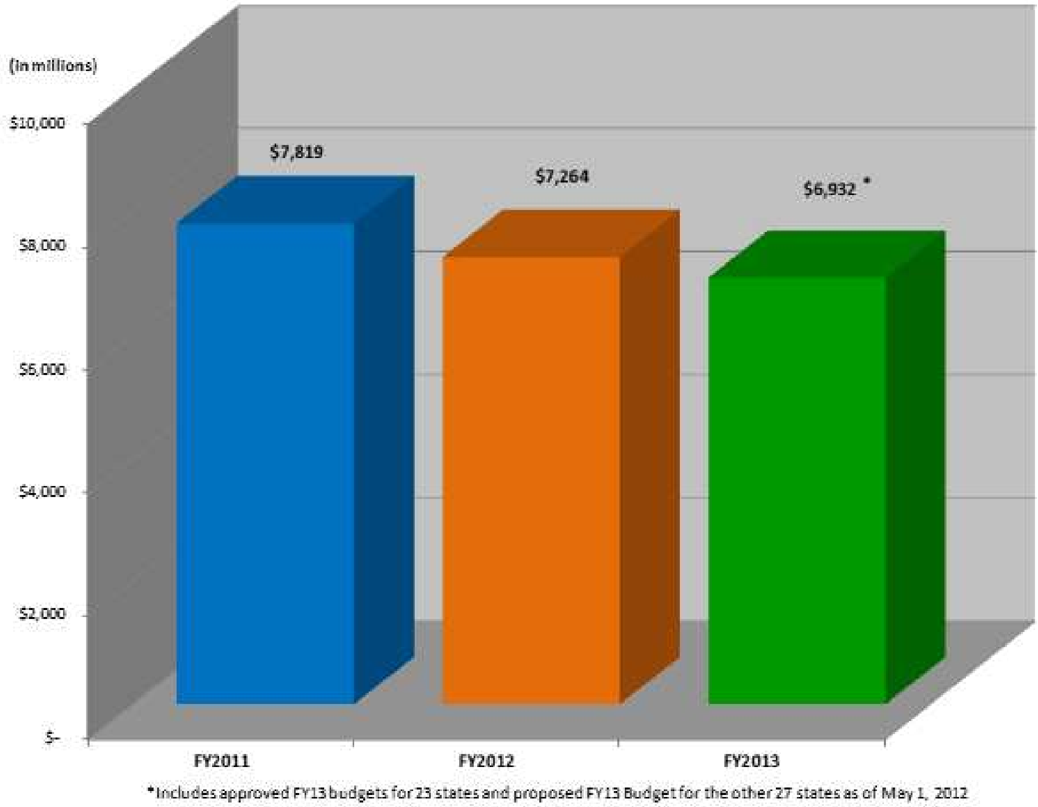
Department Division	2009-2010	2010-2011	2011-2012	2012-2013
Business & Industry	5,412,189	5,412,189	4,331,671	4,244,741
Energy	3,955,819	3,403,389	1,449,563	1,802,067
Finance *Adjusted	1,566,170 546,063	866,170 546,063	17,833,229 1,833,229	8,324,048 824,048
International Trade	2,572,831	2,572,831	2,466,868	2,417,361
LEAD (Policy & Research)	1,195,303	1,195,303	1,138,261	1,029,177
Local Planning & Management	2,893,510	2,902,674	0	0
Management Info Services	912,391	912,391	704,309	690,175
Marketing & Customer Service	1,380,702	1,176,817	1,169,814	1,146,338
Office of Small Business	0	0	555,359	544,214
Science & Technology	361,946	361,946	215,599	211,272
Tourism, Film & Sports	10,146,699	10,146,698	10,056,078	9,614,301
Wanchese Seafood Park	433,639	433,639	140,193	137,380
Marketing & Customer Service	1,380,702	1,176,817	1,169,814	1,146,338

*Adjusted figures exclude OneNC Fund and JMAC Fund expenses and adjustments

Source: NC Office of State Budget and Management, Certified Budget

This change in North Carolina's public economic development expenditures is in line with the national trend of shrinking state budgets for economic development.

Figure 1.1.3. Total U.S. States' Economic Development Expenditures, 2011-2013



Source: Ken Poole, presentation at National Institute of Standards and Technology Manufacturing Extension Partnership Program Annual Meeting, Orlando, Florida, May 7, 2012.

In addition, as is more fully described below, the North Carolina Department of Commerce budget is funded nearly 4:1 in federal to State dollars. As the federal budget for economic recovery winds down and the fiscal cliff approaches, the availability of future federal funds to support North Carolina economic development programs is uncertain.

In short, North Carolina needs to do more with less. The stagnant and reactionary nature of traditional government economic development efforts provides a unique opportunity for North Carolina to gain competitive advantage by developing a model that adapts to anticipate and meet the demands of the changing corporate landscape. In addition, in the face of shrinking budgets and the uncertain future of federal funding support, the State must find a way to leverage its existing funds and programs in order to engage private sectors funds and resources in the economic development process.

2. **Cheaper, Better and Hassle-Free**. Just as in any competitive sales market, a state should constantly strive to develop a quality product that is cheaper, better and hassle-free. From a business perspective, a state could achieve success in all three areas by providing stability and consistency in the legal, financial and regulatory framework. While the country continues to hold business growth and entrepreneurship hostage with political volatility and uncertainty in the regulatory and tax system, North Carolina could identify itself as a leader for businesses by moving in the opposite direction, shifting its economic development efforts outside of the political framework and providing reliable continuity for businesses support and development, even during election cycles.

3. **Consistent Quality Customer Service**. In addition to identifying strategies to leverage existing resources and develop a better product, the State must also focus on improving its skills and success in marketing and selling the vast array of resources that North Carolina has to offer. North Carolina has been blessed with a uniquely impressive multitude of tangible and intangible qualities attractive to businesses and executives. However, in order to ensure the customer is aware of all of the benefits and resources the state has to offer – particularly those resources outside of the State coffers – business recruitment efforts must be standardized and focused on effective sales and customer satisfaction. In order to achieve a consistent, high quality customer service experience, the state should strive to create a systems model for business recruitment interactions focused on customer intimacy and custom-tailored interactions with highly trained specialists that ensures every potential customer enjoy a high quality, personalized and effective customer experience every time they interact with the state. Incorporating techniques to standardize training and interactions with customer service specialists could provide another low-cost approach to leveraging existing stage resources to see a higher return.

4. **Hire Top Talent and Create a Performance-Driven Culture.** Any effort to build an organization that fosters innovation, quality products and great customer service will require two crucial ingredients: strong, effective leadership and the ability to hire and retain top talent. In order to create the strong culture of performance imperative for any sales organization, the state and its agency leaders should thoughtfully and strategically structure job functions, success metrics and compensation with an eye on developing this culture. Traditional public sector employee job descriptions, training programs, compensation models and success metrics frequently not only fail to meet standard market rates in terms of salary, they are fraught with inadequate training and administrative support, unclear or unrealistic job functions and successful metrics, and frustrating and inefficiency bureaucracy that stands in the way of achieving success. Employing private sector strategies to adequately train and support staff and provide them a meaningful opportunity to measurably grow and succeed is foundationally necessary; to financially compensate employees based on performance is not only a meaningful and common sense motivational technique and in line with market demand, it is economically responsible and efficient.

II. Public Private Partnerships: An Overview

A public-private partnership is a contractual agreement between a public agency and a private sector entity. Although similar to other fee-for-service government contracts with private business, a public-private partnership is generally established in order to perform an essential state function, and therefore the public agency frequently retains greater oversight, control and accountability than in certain other government contractor relationships.

Through this partnership, the skills and resources of both the public and private sector are shared in order to provide a service for use by the general public. In addition to sharing resources, each party also shares in the risks and potential rewards related to delivery of the service.

In the case of state economic development agencies, a public-private partnership may be structured in a variety of ways with respect to funding, governance, scope of agency functions delegated, government oversight and authority to pay out economic development incentives. In addition, there are several options regarding the legal and tax structure based on the funding and operations of the new entity. In general, all of these factors are set forth in the new entity's enabling statute approved by the legislature.

Funding. The public-private partnership may be funded entirely by public dollars or through a combination of public and private funds. Typically, public dollars are provided from state general fund appropriations, and private dollars are generated through private memberships, similar to a chamber of commerce. Some states have tried creative funding alternatives, which are described in more detail below.

Governance. Typically the governance structure will include members, a board of directors and a chief executive office. Governance must be structured in order to ensure maximum transparency to the public, accountability for both public and private leadership, strict adherence to conflict of interest rules, and removal of undue influence from the state's largest businesses, particularly in terms of setting policy.

Delegated Functions: Wholesale vs. Partial Model. In terms of delegating functions to the new public-private entity, various states have tried both a wholesale model, where the new entity performs all functions of the former state commerce department (other than the employment security and community assistance), and a partial model, where the new entity is only responsible for business recruitment functions of commerce.

Incentives. While most states require final State approval for any economic development financial incentive package provided to a client, some states have either drafted statutes or designed private funding of the partnership in a way that permits the public-private partnership to unilaterally award incentives packages.

II. Other States' Public-Private Partnership Models for Economic Development

The use of public-private partnership models for state and local economic development efforts is far from new. Within the last two years, at least 12 states have reorganized their approach to economic development.[1] Currently, at least eleven states use a form of public-private partnership to operate state economic development agency functions: Arizona, Florida, Indiana, Iowa, Michigan, Missouri, Rhode Island, Pennsylvania, Utah, Virginia, and Wyoming. Two additional states are actively and publicly pursuing the creation of a public-private economic development entity: Wisconsin and Ohio.

Benefits enjoyed by states that have adopted this model have included cutting government spending, raising new private funds, engaging private sector resources in economic development, hiring top talent, establishing a strong culture of performance, and enjoying the business flexibility, efficiency and continuity created by working in an agency outside of the traditional political framework.

That said, some of these new entities have been met with various public relations and other issues, primarily related to the funding, governance and oversight structure established at the time the entity was created. Thus, in connection with forming any new public-private partnership for economic development, a state must carefully analyze other states' public-private partnership models and the economic and other impacts on their respective states.

1. **Florida**. Enterprise Florida, Inc. (EFI) was established in 1996 by the Florida Legislature and serves as the state's primary organization devoted to statewide economic development. The entity is funded through a mix of state appropriations and paid memberships to sit on the board of directors and performs economic development functions pursuant to a contract with the state. In addition to paying members, the board of directors consists of several political appointees from the executive and legislative branch that work to establish policy and performance metrics for the entity. Management of specific economic development projects remains outside of the board's purview, and final state approval from the Office of Tourism, Trade and Economic Development is required for economic development incentive awards.

Figure 3.1. Enterprise Florida, Inc. Snapshot

Enterprise Florida, Inc.	
Structure	A 501(c)(3) created by Fla. Stat. § 288.901 et seq. receiving state funds via contract with the State
Functions	Wholesale model; Tourism is administered through two public-private partnerships: (1) Florida Commission on Tourism and (2) Florida Sports Foundation
Funding	Public/Private – Public: State General Fund; Private: Board membership (minimum of $50k/year)
Board	Board Members: Chaired by Governor, currently 54 members Appointments: Governor (4), Senate President (2), House Speaker (2), Comr of Agriculture (4) Paid Memberships: Remainder are private paid memberships
Executive	CEO paid out of private sector superfund; sits on Cabinet; CFO: State Treasurer
Incentives	State approval required – EF Business Development Team owns relationship and assists in preparing proposal; state entity approves, delivers package and administers oversight
Staffing	All private sector employees
Venture Fund	Florida Opportunity Fund

[1] "Redesigning State Economic Development Agencies," National Governors Association. (Sept.12, 2012).

2. **Indiana.** The Indiana Economic Development Corporation (IEDC) was established by the Indiana Legislature in 2005 to lead the state's economic development efforts and engage private sector business in the policy and management of the entity's functions. The IEDC governance structure vests more control with the Governor's Office than certain other models, with the Governor directed to both chair and appoint all of the members of the IEDC board of directors. Strong, directed leadership roles can provide the opportunity for nimble and effective action, but such concentrated influence can also present challenges without a strong and principled leadership team.

Since its founding by the Indiana Legislature in 2005, IEDC has established an array of initiatives to support existing industry, such as a Small Business Development Center, which offers free and low-cost information, management, counseling and education services to small business owners and entrepreneurs, and Elevate Ventures, Inc., which is designed to assist in raising and matching private venture capital dollars in the state. Other specialized initiatives instituted by IEDC include INDURE, which provides a database of expertise, intellectual property, technology and research projects to support innovation, the Young Entrepreneurs Program, the Indiana Shovel Ready Program, and Indiana Supplier Insight, which connects businesses with local suppliers.

Figure 3.2. Indiana Economic Development Corporation Snapshot

Indiana Economic Development Corporation	
Structure	An independent instrumentality organized as an IRC § 115 political subdivision authorized by Ind. Code Ann. Title 5 Article 28 to receive state and federal funds in order to exercise essential public functions
Functions	Wholesale model Existing industry supported through a network of private industry associations, many of which were established through IEDC initiatives
Funding	Public/Private Public (70%): State general fund; covers administration and payroll costs Private (30%): Corporate contributions to a private foundation; covers business client development expenses and travel
Board	Chairman: Governor Members of the Board of Directors (11) are appointed by the Governor
Executive	CEO appointed by Governor and also serves as the state's Secretary of Commerce
Incentives	State approval required for incentives rewards
Staffing	Less than 50 employees
Public/Private Venture Fund	21 Century Research and Technology Fund Elevate Venutres, Inc.

3. **Michigan.** The Michigan Economic Development Corporation (MEDC) is a private non-profit corporation founded in 1999 that serves as the state's marketing arm and lead agency for business, talent and jobs, tourism, film and digital incentives, cultural grants, and overall economic growth. As opposed to the traditional funding model, the majority of MEDC's funding is provided by the state's casino revenue. This separate dedicated funding source provides MEDC freedom from the uncertainties of the state budget process, and the set-aside funds also allows MEDC to provide economic development incentives to private companies directly out of the casino fund without requiring final state approval.

   Pure Michigan Business Connect (PMBC) is another public-private initiative, which has developed by MEDC to support existing industry, small business and entrepreneurs by organizing and engaging a network of businesses across the state. PMBC aims to provide connections and resources that assist its member companies in finding new business opportunities, identifying local procurement resources to expand supply chain, accessing a business-to-business network portal, and receiving small business assistance at little to no cost for legal, accounting and other services.

Figure 3.3. Michigan Economic Development Corporation Snapshot

Michigan Economic Development Corporation	
Structure	A 501(c)(6) authorized by Mich. Comp. Laws § 125.1301 et seq. receiving funds via State and local contracts
Functions	Wholesale model Existing industry support through Pure Michigan Business Connect public-private initiative
Funding	Public/Private Public: Casino revenue (majority), State General Fund, Interlocal Partnership contracts, Fed workforce grants Private: Corporate partnership (pays for Gov.'s travel)
Board	MDEC Board (Policy): City managers and officers of local economic development agencies Executive Committee (authority over MEDC): 20 members, All appointed by Gov.
Executive	CEO hired by Corporate Board in consultation with the Gov.
Incentives	State involvement not required – Incentives operated directly out of MEDC through casino revenues; tax credits go through State committee
Staffing	1,200 total staff; 700 related to State and Federal Program, remain civil service employees
Public/Private Venture Fund	21 Century Jobs Fund

4. **Missouri**. Unlike other states' economic development partnerships, the Missouri Partnership was initially established by the private sector. In 2004, members of a private 501(c)(3) called the Hawthorn Foundation – a 26-year old consortium of Missouri businesses dedicated to supporting the state's economic development efforts – met with business leaders across the Southeast and commissioned a private consulting group to evaluate how various states, including Missouri, competed for business investment. After Missouri established its flagship economic development incentives program in 2005, the Hawthorn Foundation undertook an statewide membership drive in order to support a new public-private initiative for statewide economic development. The Missouri Partnership was incorporated in 2006 and began actively working with the Missouri Department of Commerce in 2008.

   Today, the Missouri Partnership is an example of the "partial model" approach to contracting economic development functions. Unlike some states that are tasked with performing nearly all functions of the state commerce department [other than employment security and community assistance], the Missouri Partnership is tasked only with the marketing and business recruitment activities for the state. Funding for these services is provided 80% by the state general fund (administered through the Missouri Economic Development Office), and 20% of the funding is provided by the Hawthorne Foundation. Unlike public funds, support provided by the Hawthorn Foundation can be used to support various business development initiatives, including travel and entertainment expenses to scout and engage new customers.

Figure 3.4. Missouri Partnership Snapshot

Missouri Partnership	
Structure	A 501(c)(6) permitted under Mo. Rev. Stat. 620.647 to contract with the state commerce department to provide economic development services
Functions	Partial model – Business recruitment and marketing only
Funding	Public/Private Public (80%): State general fund administered through the state commerce department Private (20%): Private donations provided by the Hawthorne Foundation
Board	12 Board Members: Hawthorn Foundation appointments (9), the Director of the Missouri Dept. of Economic Development, (1) state trade counsel, (1) member of the regional economic development advisory counsel
Executive	President hired by the board
Incentives	Missouri Dept. of Economic Development determines and administers incentives
Staffing	11 private sector employees; able to pay market rates for top talent; frequently hire top developers in competing states

5. **Utah**. The Economic Development Corporation of Utah (EDCUtah) was established in 1987 with the goal of creating an non-government entity that served the private sector economic development interests of the entire state, separate and apart from inefficient political agendas and campaign seasons. The focus on statewide efforts led to a model funded 20% by the state, 40% by private investment, and 40% by local government. The Board of Directors is comprised of 100 members: Each of the state's 50 mayors and commissioners, and 50 private sector business members from across the state.

   Despite the fact that EDUtah employs the wholesale model, tasked with administering all of the functions of the state's traditional commerce department, EDCUtah has a total staff of only 16 people. Also compelling is EDCUtah's impressive array of funding institutions that engage private sector resources in order to provide access to capital to underserved communities, small business and entrepreneurs. Two of these capital-focused initiatives include the Opportunity Finance Network, which includes more than 1,200 mission-driven Community Development Financial Institution members and provides capital and financial services to bridge market gaps and help mainstream financial institutes connect to underserved business sectors, and the Utah Microenterprise Loan Fund, which works together with the private sector to offer an array of financing options for start-up businesses. Other EDCUtah programs focused on providing specific market sectors with access to capital include Utah Technology Finance Corporation Funding Solutions, LLC, Utah Angel Network and Grow Utah Ventures.

Figure 3.5. Economic Development Corporation of Utah Snapshot

Economic Development Corporation of Utah	
Structure	A private 501(c)(6) receiving state funds via contract with the state commerce department
Functions	Wholesale
Funding	Public / Private 20% State funds / 40% Private Investment / 40% Local Government Investment
Board	Chairman: Rotates among the 5 founding entities; 2-year terms 100 Member Board of Directors: Mayors and commissioners (50); private sector members from across the state (50)
Executive	CEO hired by Board of Directors
Incentives	Managed by state commerce department
Staffing	16 total staff
Public/Private Venture Fund	Opportunity Finance Network Utah Microenterprise Loan Fund Utah Technology Finance Corporation Financing Solutions, LLC Utah Angel Network Grow Utah Ventures

6. **Virginia**. The Virginia Economic Development Partnership (VEDP) was established in 1995 by the Virginia Legislature to better serve and support state business recruitment and retention efforts by engaging private individuals from across the state willing to serve on VEDP's board of directors and accept responsibility and accountability for the state economic development efforts. Though VEDP is classified as a political subdivision of the state and receives essentially all of its funds through the state's general fund appropriations, the entity is largely governed by private sector business executives on the Board of Directors and administered by at-will employees compensated with performance-based salaries and state benefits. VEDP has been particularly successful in partnering with the state to create a Business One Stop portal that provides businesses with access to all resources provided by VEDP and the state.

Figure 3.6. Virginia Economic Development Partnership Snapshot

Virginia Economic Development Partnership	
Structure	An IRC § 115 political subdivision of the state established under Va. Code Ann. § 2.2-2233 et seq.
Functions	Wholesale model Virginia Tourism Corporation established as a separate public-private partnership
Funding	100% Public State General Fund dollars; some fee-for-service programs
Board	Ex Officio Voting Members (6): Lt. Governor, Sec. of Agriculture, Sec. of Commerce, Sec. of Finance, Sec. of Technology, Chancellor of the Community College System Appointed Members (18): Governor appointments subject to G.A. confirmation (6), House Speaker appointments (4), Senate Committee appointments (2), General Assembly appointments from areas with threshold levels of unemployment (6)
Executive	CEO: hired by Board of Directors; does not sit on Governor's Cabinet
Incentives	State final approval required; VEDP manages business development, sales and projects
Staffing	At-will employees; compensation include performance-based salaries and state benefits

IV. North Carolina Economic Development

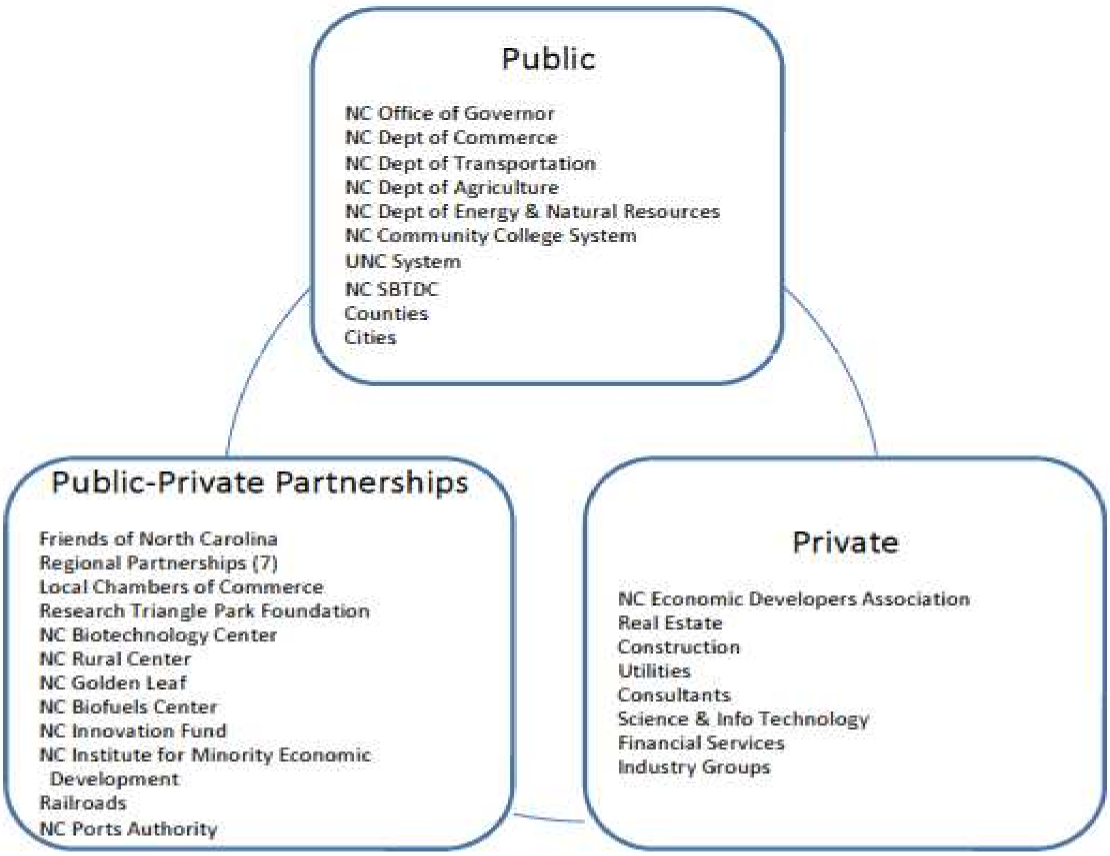
In order to analyze the potential structure of a North Carolina public-private partnership for economic development, we must first survey the landscape of the State's current economic development efforts.

1. North Carolina Economic Developers

In North Carolina, economic development is actively administered by a wide range of developers In the public and private sector. In addition, as shown below in Figure 4.1, public-private partnerships already play a crucial role in North Carolina economic development on the state, regional, and local levels.

For example, on the state level, Friends of North Carolina is a 501(c)(6) administered through the North Carolina Department of Commerce and supported by membership fees paid by private companies, usually in the business of economic development and assisting companies with corporate relocation and expansion. Through this private support, Friends of North Carolina is able to host quarterly business development events to bring national and international site consultants to visit North Carolina, form relationships with economic developers, and learn about the benefits of living and doing business in the State.

Figure 4.1. Major Active North Carolina Economic Developers



2. North Carolina Department of Commerce

The North Carolina Department of Commerce is the state's leading public economic development organization. The Department is structured as an executive branch agency under the Office of the Governor and administered by a Secretary of Commerce appointed by the Governor. The Office of the Secretary of Commerce is responsible for 16 Departmental Divisions; 3052 employees; 9 boards and commissions*, and a 2012-2013 budget of $695,032,775 (comprised of $112,495,138 in State appropriations, $526,803,982 in receipts, and $55,733,635 in other federal funds).

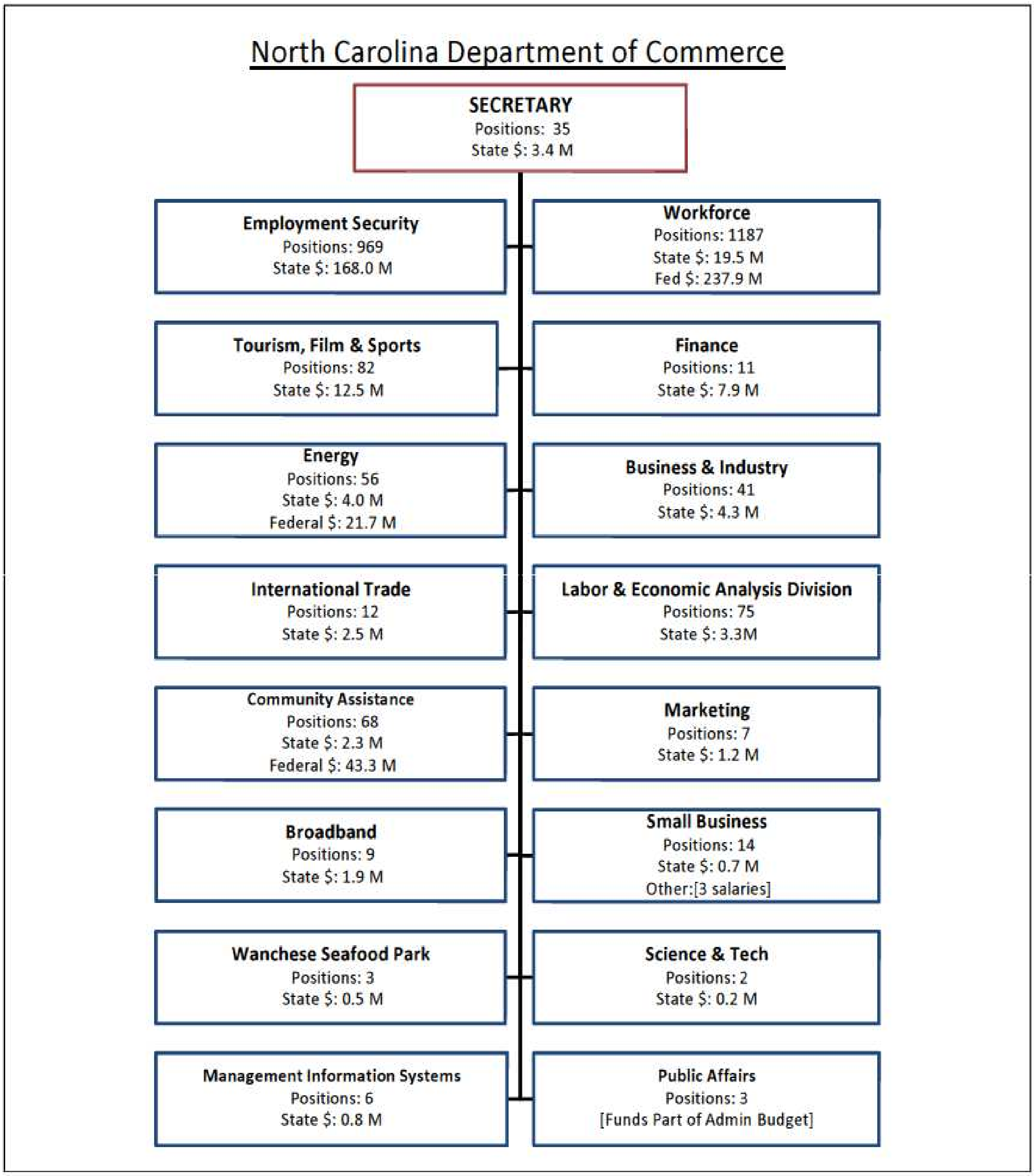
	Office	Employee Positions	State Budget FY2013	Federal Budget FY2013
	Office of Secretary of Commerce	35	3,419,875	

	Departmental Division	Employee Positions	State Budget FY2013	Federal Budget FY2013
1.	Broadband	9	1,928,037	
2.	Business & Industry	41	4,276,548	
3.	Community Assistance	68	2,343,055	43,308,953
4.	Employment Security	969	168,075,000	
5.	Energy	56	4,002,713	21,838,415
6.	Finance	11	7,947,171	
7.	International Trade	12	2,471,641	
8.	Labor & Economic Analysis	75	3,334,865	
9.	Management Information Systems	6	773,165	
10.	Marketing	7	1,183,382	
11.	Office of Small Business Commissioner	11	†662,217	
12.	Public Affairs	3	††N/A	
13.	Science & Technology	2	213,269	
14.	Tourism, Film & Sports	82	10,637,694	1,910,564
15.	Wanchese Seafood Industrial Park	3	525,581	
16.	Workforce	1,187	19,500,000	237,942,401

† Cost of the Commissioner, Asst. Commissioner and Program Manager are not born by the Department
†† Cost included as part of Administration budget

	Boards & Commissions	Members	Appointments
1.	N.C. Economic Development Board	39	Gov: 23; House: 4; Senate: 4; Ex Off: 8
2.	N.C. Commission on Workforce Development	33	Gov: 32; Ex Off: 6
3.	N.C. Board of Science & Technology	19	Gov: 14; Senate: 1 House: 1; Ex Off: 2
4.	N.C. Travel & Tourism Board	29	Gov: 3; Senate: 5; House: 5; Ex Off: 5 Elected: 1; Board of Directors: 10
5.	N.C. Film Council	≥ 25	Gov: All
6.	Energy Policy Council	16	Gov: 12; Senate: 2; House: 2
7.	N.C. Advisory Board	16	Gov: 5; Senate: 5; House: 5
8.	Board of Review	3	Gov (subject to G.A. confirmation): 3
9.	Uwharrie Regional Resources Commission	12	Gov: 4; Senate: 1; House: 1; Ex-off: 2; Misc: 2

Figure 4.2. Organizational Chart for the North Carolina Department of Commerce



V. North Carolina Economic Development Partnership

Upon analyzing North Carolina and other states' economic development strategies in the context of the growing competitive landscape, the evolution of companies' needs, the shrinking state budget, and the importance of creating a stable, consistent, and high quality customer service and support system, strong leaders must be readily prepared to analyze both existing and new business strategies in an effort meet the changing demands and limitations facing states today.

Just as 12 other states have done in the past 2 years,[2] a natural next step for North Carolina in evaluating its economic development initiatives is to investigate and evaluate the potential creation of a public-private partnership to engage the private sector in the state's economic development mission – a North Carolina Economic Development Partnership.

1. Goals

In analyzing the potential structure of a North Carolina Economic Development Partnership (NCEDP), dual emphasis should be placed on both the goals and functions of the entity and on avoiding potential issues encountered by other states that have tried similar models. Accordingly, the proposed structure of NCEDP, described below, was strategically designed with the following goals in mind:

- Provide a flexible, efficient, innovation and strategic economic development tool that supports all industries across the state
- Leverage state resources to raise private funds
- Engage and organize private entities in the economic development process
- Attract, train and retain top talent and create a strong culture of performance
- Standardized procedures for recruitment projects
- Provide maximum transparency relating to the incentives decision-making process and the use of public funds
- Keep private dollars separate and apart from the policymaking process
- Incorporate rigorous disclosure and accounting practices at all levels and ensure public and private accountability for all state funds
- Create a customer service center where the public can access specially trained service representatives, information, and other resources designed to actively assist customers in the following areas:
    - Incentives and relocation;
    - Permitting and regulatory issues;
    - Real estate, construction and infrastructure;
    - Existing industry companies and contacts; and
    - Public disclosure and transparency.

[2] "Redesigning State Economic Development Agencies," National Governors Association. (Sept.12, 2012).

2. Structure and Implementation

Much like traditional public-private partnership models, the North Carolina Economic Development Partnership would be structured as a private nonprofit entity that enters into a contract with the State of North Carolina to provide services similar to those provided by the existing Department of Commerce in exchange for State appropriated funds.

Rules regarding the structure, governance, operations and oversight of NCEDP would be set forth in a new state statute, and the existing statute[3] delegating those economic development duties to the Department of Commerce would be amended.

Figure 5.2. Business, Legal and Tax Structure of NCEDP

Business

- A private non-profit organization that acts as an independent contractor to the State

Legal

- Direct Support Organization: A private entity permitted to receive State funds and perform State functions, whose creation, rights, duties and contract with the State are defined by statute
  - Implementation: Draft new enabling statute and amend N.C.G.S. § 143B Article 10

Tax

- Entity funded by Public Funds + General Membership: 501(c)(3) or 115
  - Federal tax classification dependent on final structure of operations and public/private funding ratios
- Entity funded by Friends Membership: 501(c)(6)*
  - Any employee bonus or commission compensation may require reclassification of the Friends Membership entity

*The existing Friends of North Carolina 501(c)(6) would continue to operations within the purview of the NCEDP.

[3] N.C. Gen. Stat. § 145B Article 10.

3. **Funding**

Figure 5.3. NCEDP Funding Sources

Public **NC General Fund**	Private **Investor Membership**	Private **Board Membership**	Private **Friends Membership**
• Authorized via contract with the State	• Local chamber of commerce model • Membership costs based on size of business	• Michigan and Charlotte Regional Partnership model • Membership costs based on standard donations	• Friends of North Carolina model • Membership costs are tiered based on site consultant event attendance

In order to maintain adequate financial support while avoiding disproportionate reliance on funds from large businesses, a significant portion of the entity's funds would continue to come from the State's General Fund appropriations.

In addition, private funding would be provided through the sale of general investor memberships to private entities based on the size of the business, and through Board of Director memberships based on a standard donation (i.e. a standard $25,000 donation). Additional private funds would also be raised through the existing Friends of North Carolina entity, described infra. General members would be able to purchase Friends memberships in much the same way as they to do today, where the cost of membership is based on the number of site consultant and other events the member wishes to attend. The Friends of North Carolina program could also be extended to include support for existing industries, much like Michigan's PMBC partnership.

4. Governance

NCEDP general investor members will be engaged and organized to create a statewide community of thoughtful and strategic economic development allies focused on a common mission to grow the state's businesses and economy. As the public investor, the state should continue to provide a significant portion of NCEDP's funding in order to avoid issues related to undue influence by a small handful of large corporate investors.

A Board of Directors, consisting of executive and bicameral appointments, private sectors businesses, and local economic developers from across the state, would ensure that NCEDP economic development policies and procedures address the needs and market demands of the private sector.

In order to avoid conflicts of interest related to managing projects, determining strategic direction, and hiring and supervising executive officers, an Executive Committee would consist only of appointed positions. A smaller Executive Committee would also allow NCEDP flexibility and efficiency in managing day-to-day operations, and the bicameral appointments would ensure representative and meaningful public oversight and accountability.

The Executive Officer positions should be strategically designed in order to ensure strong leadership, accountability, transparency, independence, and public access to customer service.

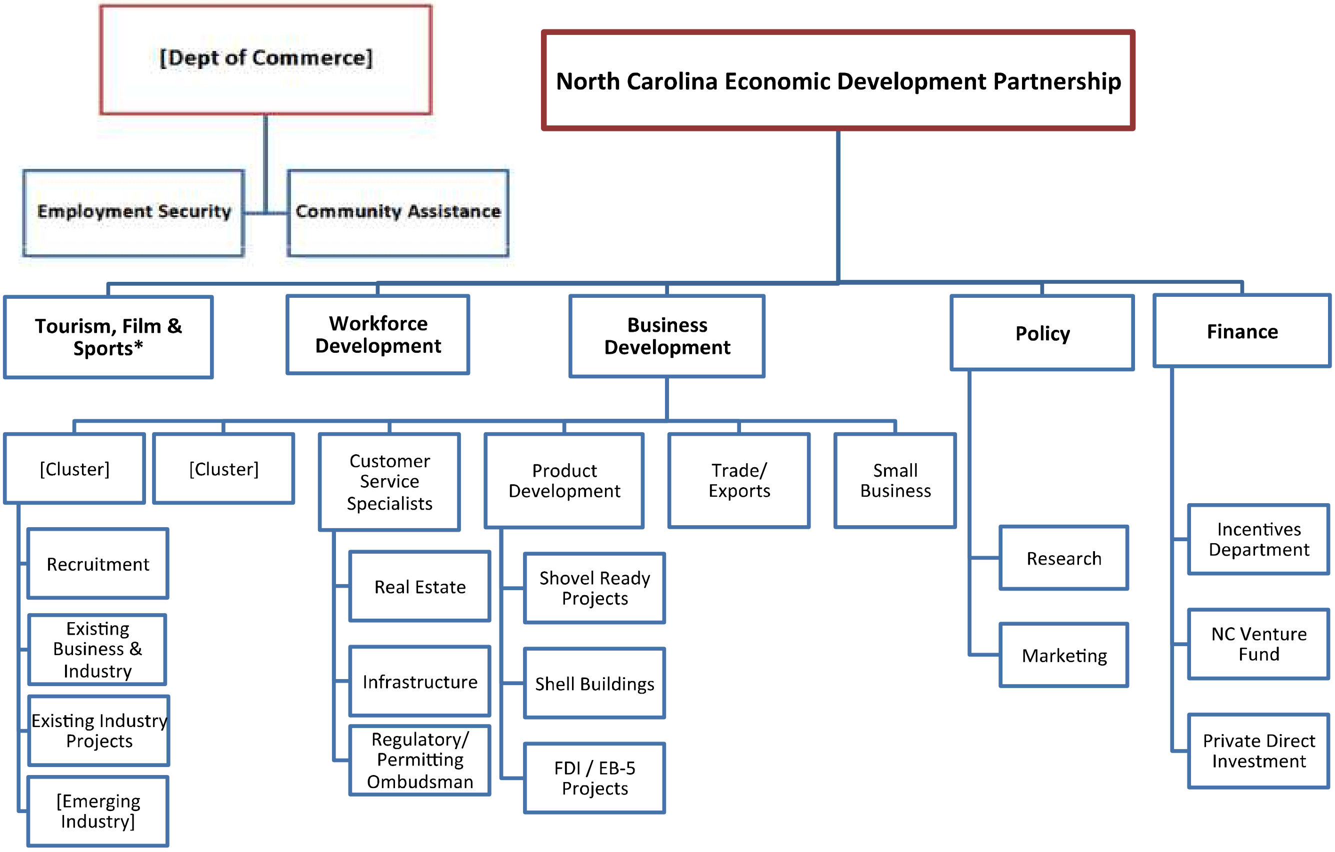
Figure 5.4. NCEDP Governance Structure

*Tourism, Film & Sports may be organized as a separate public-private partnership

5. **Functions**.

i. Wholesale Model. In the Wholesale Model approach, NCEDP would perform all of the functions of the current Department of Commerce except for Employment Security and Community Assistance. In addition, in order to improve upon the existing model for effective sales and high quality customer service, the new model would be restructured into five primary departments: Tourism,* Film and Sports; Workforce Development; Business Development; Policy; and Finance.

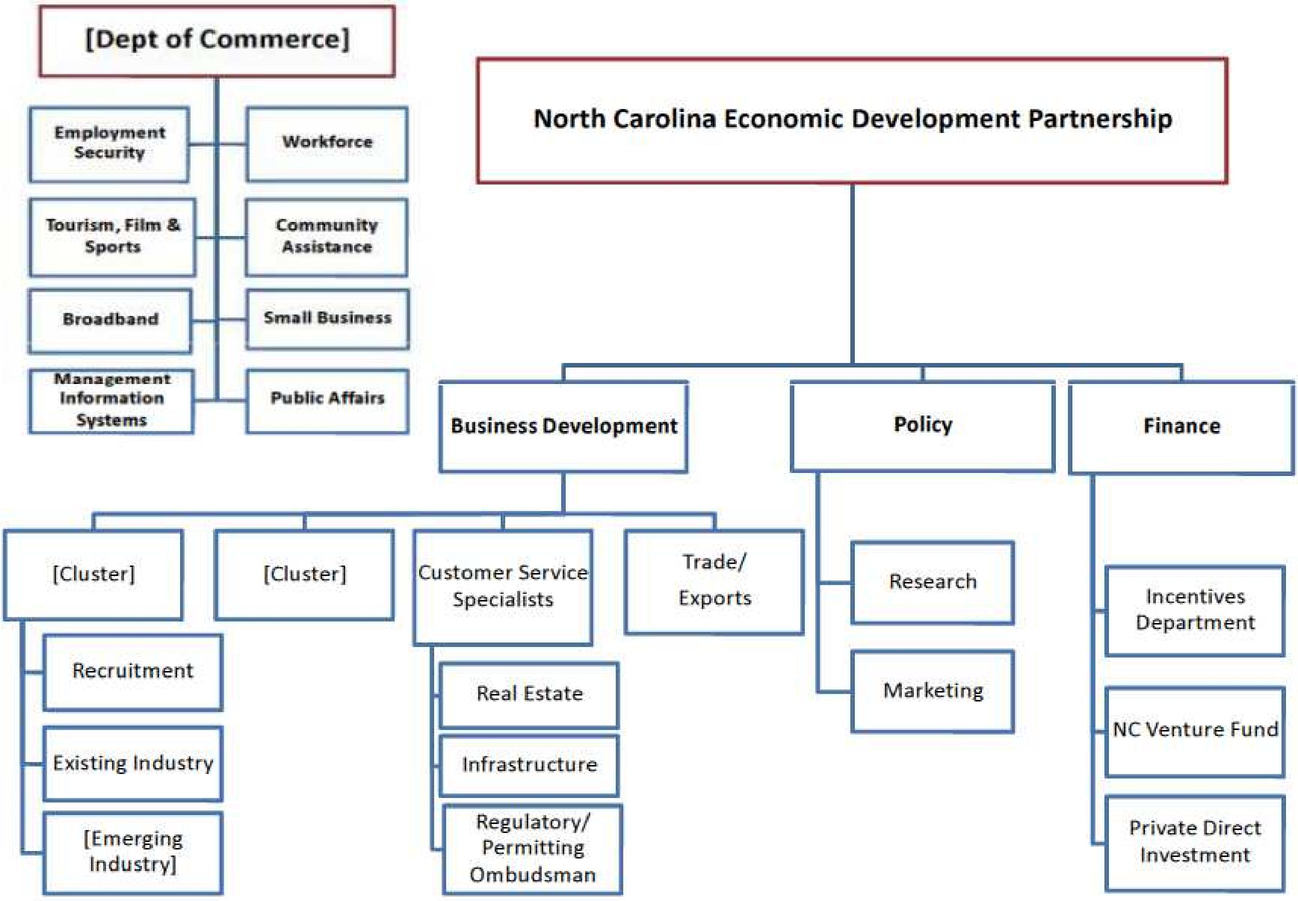
Figure 5.5.1. NCEDP Wholesale Model



*Tourism, Film & Sports may be organized as a separate public-private partnership

ii. **Partial Model.** In the Partial Model approach, NCEDP would only perform functions related to business recruitment and development. In addition to Employment Security and Community Assistance, the Department of Commerce would retain all of the functions related to Tourism, Film and Sports; Workforce Development; Broadband; Small Business; Management Information Systems; and Public Affairs.

Figure 5.5.2. NCEDP Partial Model



6. Operations

The new NCEDP model would create separate positions for lead generators, project managers, and customer service specialists. Once a company is identified as interested in moving to North Carolina, a single project manager would lead the customer through a custom-tailored process of consultations with customer service specialists in workforce development, existing industry, real estate, infrastructure, permitting, and financial services, ideally co-located in the same building. The creation of these new specialist positions would increase the quality of the information provided, support the project manager's functions, and standardize the customer service experience.

For economic development incentives, the customer would work with the project manager and the finance specialist in order to create a package proposal for review by the general counsel, who sits in the NCEDP Executive Office. The general counsel would then analyze the proposal and any potential conflicts of interest and wors with the project manager until the package meets the general counsel's standards of approval. The proposal would then be sent to the public North Carolina Economic Investment Committee,[4] which will continue to sit within State government, for final review and approval.

Figure 6.2. NCEDP Business Recruitment Operations

[4] The Economic Investment Committee consists of the Secretary of Commerce, the Secretary of Revenue, the Director of the Office of State Budget and Management, one member appointed by the Speaker of the House, and one member appointed by the President Pro Tempore of the Senate. N.C. Gen. Stat. § 143B-437.54.

VI. Conclusion

Based on the intense rise in international competition, the evolving demands of customer companies and the decreasing state budget, North Carolina must take active steps to leverage its existing resources and engage private sector involvement in economic development initiatives. In addition, the State should be focused on establishing a stable and consistent legal and regulatory environment where business can thrive, and on standardizing the sales process to ensure a customized and consistently high quality customer service experience that effectively markets and sells everything North Carolina has to offer.

A North Carolina Economic Development Partnership, carefully and strategically structured based the unique needs of the state and the lessons learned from other states' experiences, and championed with strong, principled vision and leadership, could provide a powerful and effective strategy to address the evolving economic development demands of North Carolina.