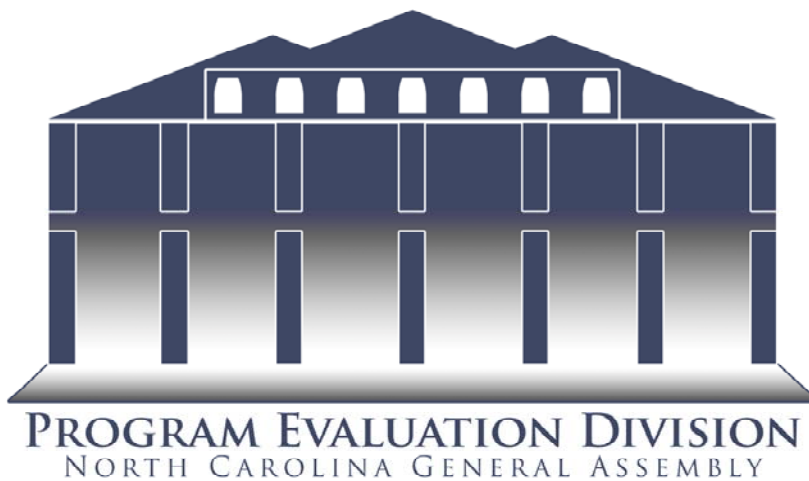


**Improving Regional Economic Development  
through Structural Changes and Performance  
Measurement Incentives**



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

**Report Number 2008-05-2**

**May 8, 2008**



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**NORTH CAROLINA GENERAL ASSEMBLY**  
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*John W. Turcotte*  
Director

May 1, 2008

Representative Mary E. McAllister, Co-Chair, House Appropriations Subcommittee on Natural and Economic Resources  
Representative Edith D. Warren, Co-Chair, House Appropriations Subcommittee on Natural and Economic Resources  
Senator David F. Weinstein, Chairman, Senate Appropriations Subcommittee on Natural and Economic Resources  
North Carolina General Assembly  
Legislative Building  
16 West Jones Street  
Raleigh, NC 27601

Honorable Ladies and Gentleman:

The Current Operations and Capital Improvements Appropriations Act of 2007, HB 1473, S.L. 2007-323, Section 13.7.(f) directed the Program Evaluation Division to evaluate the structure and funding of the seven economic development partnerships and commissions. The Act directed our Division to consider the availability and utilization of non-State funding sources and to make recommendations concerning the commissions' funding, including whether State funding should be recurring or nonrecurring.

Evaluation findings and recommendations contained in this report will be presented to the Joint Legislative Program Evaluation Oversight Committee on May 8, 2008.

On behalf of the Program Evaluation Division staff, I would like to thank the Board of Directors' and staff of the regional partnerships and commissions as well as the Department of Commerce for their cooperation and many courtesies shown our evaluators during the evaluation.

Sincerely,

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

John W. Turcotte  
Director

cc: Lynn Muchmore, Director of Fiscal Research Division





# PROGRAM EVALUATION DIVISION

## NORTH CAROLINA GENERAL ASSEMBLY

May 2008

Report No. 2008-05-2

# Improving Regional Economic Development through Structural Changes and Performance Measurement Incentives

## Summary

The NC General Assembly directed the Program Evaluation Division to evaluate the structure and funding of the seven regional economic development organizations. The regions focus their efforts on local needs—an approach that is vital for North Carolina, especially in rural areas of the state.

However, the inconsistent structure, governance, and statutory authority of regional entities impede coordination of local efforts to improve North Carolina's economy. The NC Economic Development Board is not including contributions of the regional organizations in the board's statewide strategic plan.

Although the General Assembly's appropriation of recurring state funds to regional entities has provided regions leverage for attracting non-state funds, the General Assembly has not required regional entities to demonstrate performance and return on investment. There are no requirements for regions to maintain standardized performance measures for gauging regional services as well as results attributable to those services—client satisfaction, more and better jobs, and increased personal income.

The General Assembly should consider legislation to:

- provide statutory consistency for the three regional economic development commissions that are state agencies by making them all non-profit 501(c)3 organizations as a condition for receiving state funds;
- make statutory responsibilities identical for the commissions and partnerships;
- provide the Economic Development Board statutory authority to oversee regional entities and to develop a standardized and uniform performance measurement system for regions;
- give equal representation of regions on the Economic Development Board; and
- allocate recurring funding for the seven regions, with 15% of the existing state appropriation directed to performance-based funding and receipt conditional on certification of willingness to participate in the performance measurement system developed by the Economic Development Board. Future regional shares of performance funding would be conditional on complete and accurate performance reporting to the General Assembly.

## Scope

The NC General Assembly directed the Program Evaluation Division to evaluate the structure and funding of the seven regional economic development partnerships and commissions.<sup>1</sup> The legislation required the Program Evaluation Division to consider the availability and use of non-state funding sources and to make recommendations about the commissions' funding, including whether state funding should be recurring or nonrecurring. Based on the mandate, this evaluation addressed three questions:

- What effect do these partnerships and commissions have on economic development in North Carolina?
- How essential are recurring state funds to the operation of the partnerships and commissions?
- What is the most effective governance structure for the partnerships and commissions?

During the evaluation, the Program Evaluation Division

- interviewed seven state-level stakeholders;
- visited the seven regional partnerships and commissions;
- interviewed staff and board chairpersons of all regional partnerships and commissions (50 participants);
- conducted focus groups with 82 private sector representatives and 148 other stakeholders, including board members;
- surveyed 69 business clients of the regional organizations;
- reviewed 2002-2007 financial statements and budgets;
- reviewed other technical reports of the regional economic organizations in North Carolina;
- reviewed professional literature on economic development theory; and
- reviewed other state models for economic development.

## Background

Economic development has been defined as the creation of jobs and wealth and the improvement of quality of life for a community. Furthermore, it has been described as a *process* rather than an *event* and “where public policy and free enterprise intersect.”<sup>2</sup>

North Carolina is a major contender for business development in the United States. For six of the past seven years (consecutively from 2005 to 2007), *Site Selection* magazine has ranked North Carolina first in the country for business development.

Other research confirms sub-state regionalism is an effective delivery method to address today's increased globalization and technology-driven economies. The latest wave of economic development is most reliant on regional vision and cluster identification with an emphasis on higher education, science and technology, entrepreneurial assistance, and up-skilling the workforce.<sup>3</sup> Sub-state regionalism provides more relevant

<sup>1</sup> 2007 NC Sess. Laws, 2007-323, Section 13.7(f).

<sup>2</sup> Holladay, J. M. (2007, August). *35<sup>th</sup> Annual Basic Economic Development Course*. Course conducted at the University of North Carolina at Chapel Hill, School of Government, Chapel Hill, NC.

<sup>3</sup> Plosila, W.H. (2004). State science- and technology-based economic development policy: History, trends and developments, and future directions. *Economic Development Quarterly*, 18, 113-126.

boundaries of interest instead of unrelated political boundaries and provides economy of scale, flexibility, and reduced competition.<sup>4</sup> This notion is not new to North Carolina, since the state established a regional approach to economic development in the early 1990s.

**Creation of Economic Development Regions.** North Carolina has seven regional economic development organizations: four commissions and three partnerships that are public-private entities and part of an economic development network in North Carolina (hereafter collectively referred to as “regions”). Initially, three regions formed as multi-county partnerships to combine growth efforts around the three largest metropolitan areas in North Carolina. In 1993, the NC General Assembly created four additional regions to market the rural areas of the state.<sup>5</sup> In addition, counties were added to the existing partnerships so that all counties were represented by one of these organizations. The regions are presently designated as follows:

- Original Partnerships:
  - Charlotte Regional Partnership
  - Research Triangle Regional Partnership
  - Piedmont Triad Partnership
- State-Formed Commissions:
  - AdvantageWest Economic Development Group
  - North Carolina’s Northeast Commission
  - North Carolina’s Eastern Region
  - North Carolina’s Southeast

Exhibit 1 summarizes the following characteristics of each region: location and county composition, date established, unique features, 2006-07 state appropriation, percentage funded by state for past five years, staffing level, board composition, and county urban or rural designation.

**State Finances.** To aid in the success of regional economic development, the General Assembly appropriated recurring funds to the regions. The NC Department of Commerce (DOC) distributes funds to the regions based on a formula that incorporates tier county rankings. Tier ranks are based on unemployment, population growth, median household income, and property value per capita, with the 40 least prosperous counties designated as Tier 1 counties. The Charlotte, Research Triangle, and Piedmont Triad Partnerships expanded their territories to ensure all 100 counties were included in a region. Appendix A displays a map of the tier county rankings and territories for regions.<sup>6</sup>





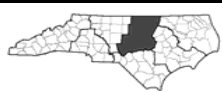







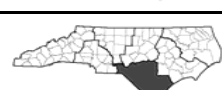



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<sup>4</sup> Holladay, J.M. (2007, August). See footnote 2.

<sup>5</sup> NC Gen. Stat. §158 (2007).

<sup>6</sup> Charlotte Regional Partnership’s territory includes four counties in South Carolina.

# Exhibit 1: A Snapshot of Information on the Economic Development Organizations in North Carolina

North Carolina Economic Development Organizations	Date Est.	Distinctive Features	2006-07 State Funds	% State Funds Past 5 Years	Staff	Board Members		Total NC Counties	Rural Counties	Urban Counties	% Rural	
						State Appointed	Local/Reg					
<b>Partnerships Established Prior to 1993</b>												
Charlotte Regional Partnership		1991	Contains a strong film component, sends weekly memos on regional matters to supporters, and includes four counties in South Carolina.	\$ 686,618		17	6	17	12	7	5	58%
Piedmont Triad Partnership		1991	Received a national four-year, \$15 million Workforce Innovation in Regional Economic Development (WIRED) grant to transform its regional economy.	828,127		18*		6	12	8	4	67%
Research Triangle Regional Partnership		1990	Includes the World Trade Center North Carolina, a business-led and funded program that promotes the region's global competitiveness.	691,623		7		33	13	10	3	77%
			Subtotal	\$ 2,206,368					37	25	12	68%
<b>Commissions Established by Statute</b>												
AdvantageWest		1993	Includes the Blue Ridge Advanced Manufacturing Initiative Food Ventures, Entrepreneurial Council, WNC Film Commission, and MountainSouth USA.	\$1,674,910		12	19		23	22	1	96%
Eastern		1993	Includes the Military Growth Task Force established to plan for the impact of a 11,477 increase in force strength of Marine Corps in North Carolina.	780,632		10**	6	13	13	13	0	100%
Northeast		1993	Has a long-term hub and spoke marketing initiative with four cities designated as hubs for tourists to see and experience the region.	1,300,888		5	19		16	16	0	100%
Southeast		1993	Creates an annual Regional Data Book to provide information about southeast North Carolina as their regional economic development marketing organization.	812,202		6	15		11	9	2	82%
			Subtotal	\$4,568,632					63	60	3	95%
			All Regions	\$6,775,000					100	85	15	85%
<b>Other Economic Development Agencies</b>												
Department of Commerce			Executive branch agency directly involved with building the foundation for economic development in North Carolina.	\$73,095,748		389***						
Economic Development Board			Appointed Board statutorily charged to provide economic and community development planning for the state.									
Counties/ Municipalities			Local governments vary in the amount of staff dedicated to economic development.									
<p>* Piedmont Triad Partnership added nine positions with the WIRED grant.</p> <p>** North Carolina's Eastern Region added three positions with the Military Growth Task Force, through a grant from the US Department of Defense.</p> <p>*** Total full-time equivalent positions as of April 2008.</p>												

Source: Program Evaluation Division based on data from the partnerships and commissions, DOC, and Fiscal Research Division.



**North Carolina’s Urban and Rural Areas.** Rural areas in North Carolina do not fare as well as their urban counterparts as gauged by a variety of economic indicators. For example, unemployment rates have declined over the past three years in North Carolina; however, rural counties have had consistently higher levels of unemployment than urban counties (5.2% versus 4.4% in 2006).

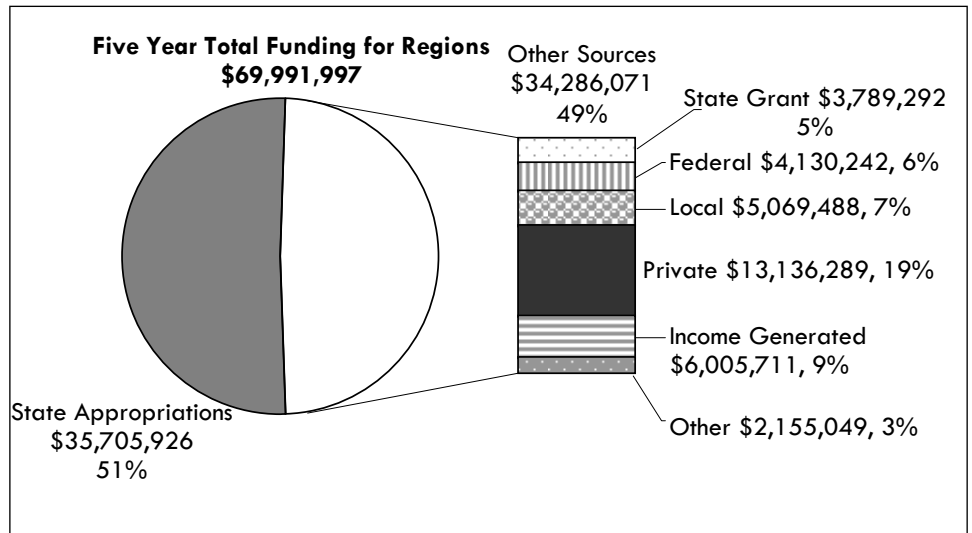
The 1993 statute that established the four regional economic development commissions intended to replicate the economic development successes of the urban partnerships in rural areas. Commissions established by statute have a greater number of rural counties than the partnerships established prior to 1993. In addition, the rural counties served by these four commissions make up approximately 70% of all rural counties in North Carolina (60 out of 85).

The rural counties have fewer resources available for economic development, such as staff and funds for economic development efforts at the county level. The partnerships and commissions are a regional effort that provides an economy of scale for these smaller, poorer, rural counties.

**State Funding and Leveraging Activities.** The General Assembly appropriated \$6,775,000 to the regions for Fiscal Year 2007-08, the same as in Fiscal Year 2006-07, for a total of \$35,705,926 over the last five years. This amounted to only 51% of the regions total budgets for the five-year period. Regions use funding from their state appropriations as an operational platform and leverage to secure funding from other sources as portrayed in Exhibit 2.

**Exhibit 2**

51% of Funding for Regions Comes from State Appropriations



Source: Program Evaluation Division based on fiscal data from Fiscal Year 2002-03 through 2006-07 from the partnerships and commissions.

The following are examples of the regional leveraging efforts:

- Charlotte raises \$500,000 or more annually from private sector investors, where a \$25,000 investment assures membership on their Board of Directors.
- AdvantageWest successfully obtained \$2.7 million from five different federal agencies over the past five years.

- Piedmont Triad was awarded a federal Workforce Innovation in Regional Economic Development (WIRED) grant worth \$14,875,000 over four years.
- Eastern earns in excess of \$1 million in interest annually on a \$22 million investment from collection of a limited-time \$5 NC Department of Motor Vehicles tag tax and an initial state appropriation of \$7.5 million in the early 1990s.
- Northeast has raised \$623,332 over 10 years through individual contributions of \$1,000 each. Funding is used for marketing activities, meetings, and special projects.
- Research Triangle raised over \$683,000 from private investors in Fiscal Year 2006-07 and averages an investment of \$324,111 annually from counties in their region by requesting a 15 cents per capita investment from its three urban counties and 5 cents per capita from its rural counties.
- Southeast has raised over \$1,678,000 in the past 10 years by soliciting private sector contributions for business recruiting and technology upgrades.

To improve coordination among the regions and the NC Department of Commerce (DOC), the NC Partnership for Economic Development was established in 1997. Its mission is to promote economic development and encourage information sharing among regions to enhance their overall effectiveness. The regions are the members, and the DOC participates in the quarterly meetings, with monthly meetings convened for the regional presidents and a DOC executive. There also is a Marketing Council, comprised of state-level DOC staff and the regions' marketing staff that meet quarterly to plan and share best practices. Also, there are frequent project-based collaborations among the regions and the DOC.

**Economic Development Activities.** Most regions work to improve all aspects of economic development within their part of the state. Local knowledge of the region and an ability to convene the necessary members in the community uniquely positions the regions to effectively address local needs. This vantage point sets their abilities apart from that of the DOC. Examples of the activities each region engages in are presented in Exhibit 3.

## Exhibit 3: Regions Partner with Different Organizations to Address an Array of Issues

Region	Examples of Regional Activities
<b>AdvantageWest</b>	<ul style="list-style-type: none"> <li>• Awarded grants to local Economic Development Commissions and non-profit economic development corporations; a leveraging study reports \$302 million of resources and economic impact from the first 200 grant awards.</li> <li>• Hosted 15 Networking Forums in the region, providing a venue for mentoring, networking, and educational opportunities for both new and existing entrepreneurs/small business owners to learn through shared experiences how to grow/sustain their businesses.</li> </ul>
<b>Charlotte Regional Partnership</b>	<ul style="list-style-type: none"> <li>• Conducted a study of marketable real estate in the region and held a Product Development Forum with 75 attendees to discuss potential opportunities.</li> <li>• Convened 100 regional workforce professionals to discuss common interests and develop viable solutions to obstacles.</li> </ul>
<b>NC's Eastern Region</b>	<ul style="list-style-type: none"> <li>• Established the Bio-East Alliance, a five-county partnership (Edgecombe, Nash, Pitt, Wayne, and Wilson) focused on biotechnology.</li> <li>• Partners with Chamber of Commerce, Councils of Government, Workforce Development Boards, Environmental Advisory Council, universities, community colleges, and tourism groups on regional issues; staff involved in over 200 meetings during FY 2006-07.</li> </ul>
<b>NC's Northeast Commission</b>	<ul style="list-style-type: none"> <li>• Established an ongoing collaborative partnership between plant researchers, farmers, private industries, educators, county developers, and public resources to focus on the commercialization of bio-plants, bio-fuels, and new bio-mass technologies.</li> <li>• Co-sponsored the region's first economic development summit with Elizabeth City State University (200 professionals attended), which resulted in additional meetings regarding curriculum changes, aviation program expansion, video production assistance, and potential grant opportunities.</li> </ul>
<b>NC's Southeast</b>	<ul style="list-style-type: none"> <li>• Concentrated on recruitment activities by participating in visits from 37 individual companies, including consideration of 101 buildings or sites, and generated eight projects that closed in FY 2006-07.</li> <li>• Participated in seven trade shows in identified regional industry cluster areas: poultry, builders, metal, logistics, woodworking, automotive, and textiles.</li> </ul>
<b>Piedmont Triad Partnership</b>	<ul style="list-style-type: none"> <li>• Regularly hosts meetings of local, regional, state, and federal workforce development professionals to implement a regional demand-driven workforce training system.</li> <li>• Coordinates regional recruitment of life sciences companies, including attendance at trade shows and site location events in Boston, Toronto, Chicago, and Atlanta; also obtained a grant to evaluate industrial biotechnology opportunities in the region and hosted journalists to promote the region as a location for life sciences companies.</li> </ul>
<b>Research Triangle Regional Partnership</b>	<ul style="list-style-type: none"> <li>• Developed a new CEO leadership program with Leadership Triangle that graduated its first class in 2006. The program is designed to engage new CEOs in regional issues and encourage civic engagement among corporate leaders.</li> <li>• Completed a comprehensive study of the region's life sciences industry including developing strategies and action steps for the life sciences infrastructure, increasing intellectual capacity, consistently engaging all participants in the industry, and focusing on the emerging intersections of innovation.</li> </ul>

Source: Program Evaluation Division based on data from the partnerships and commissions.

**Development of Region-Specific Industry Clusters.** As part of the strategic planning process, each region identified industries on which to focus their economic development efforts based on regional assets and strengths. Industry sectors or clusters are geographic concentrations of interconnected companies. Identification of these unique, emerging, or growing industries within a geographic region guides or targets effective marketing efforts.<sup>7</sup>

Though the methods used by the regions to identify these clusters varied greatly, DOC is attempting to use the work of the regions at the state-level. These regional plans have been used by the DOC to determine which clusters are best suited for a statewide marketing plan. Criteria to determine which clusters should be included in the state plan were selected based on their consistency with overall state priorities, desirability of the cluster in the state, and feasibility of success of the cluster in North Carolina. The recommended clusters are higher education and hospitals; pharmaceuticals; information services; financial services and insurance; aerospace; motor vehicles; and arts and media.<sup>8</sup>

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## Findings

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### **Finding 1. The regions' inconsistent structure, governance, and statutory responsibilities hinder the regional contribution to economic development.**

Lack of consistency in the structure, governance, and statutory responsibilities for the seven regional partnerships or commissions are an impediment to the effectiveness of regional economic development efforts. There are four different structures among the seven regions. The three partnerships that began prior to the statutorily-created commissions are all non-profit entities. Among the four created by statute, two are commissions (NC Northeast and NC Southeast), one is a non-profit (AdvantageWest), and one is a municipality (NC Eastern). The governing boards of each region are also different. The four created by statute all have appointed boards but with different configurations, whereas only one of the three partnerships has any state-appointed members. Exhibit 4 shows the composition of all of the regional boards.

Although each region performs various functions with the partners in their area, consistent organizational specifications would eliminate confusion in their roles and responsibilities. State funds are appropriated to organizations that vary so widely there is no assurance of consistent and logical governance and managerial controls to ensure prudent, equitable, and effective use of state funds. The variation also hinders relative performance comparisons among the regions should the NC General Assembly wish to optimize state funding by investing in activities that generate more and better paying jobs.

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<sup>7</sup> Porter, M.E. (1990). *Competitive Advantages of Nations*. NY, NY: Free Press.

<sup>8</sup> Goldstein, H., Jolley, J., Miller, J., Pearlman, J. (2007) *Regional Vision Plan Integration and Implementation—Phase I Final Report: A report for the North Carolina Department of Commerce*. Unpublished manuscript, University of North Carolina at Chapel Hill.

## Exhibit 4: Board Membership Varies in Size and Composition

Appointment Authority	Created Prior to 1993			Created by Statute in 1993			
	Charlotte	Piedmont Triad	Research Triangle	Advantage West	Northeast	Eastern	Southeast
Governor				3	6	2	3
Lt Governor				2			2
House	3			7	6	2	5
Senate	3			7	6	2	5
NC Commerce					1		
County	13	3	33			13	
City/Municipality	2	3					
Chamber of Com./ Economic Dev.	2	2	20				
Private (\$10K)		8					
Private (\$20K)	32						
Board/Chairman	25	2					
Existing Officers		4	3				
Region CEO	1		1				
Other			2				
<b>Total</b>	<b>88</b>	<b>22</b>	<b>59</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>15</b>

Source: Program Evaluation Division based on the partnerships' by-laws and the commissions' statutes.

**Statutory differences have allowed the regions to approach economic development in different ways.** 2007 North Carolina General Statutes, Chapter §158, Articles 2 and 4 outline the purpose and authority for the four statutorily-created regions. The legislation specifies similar powers and duties for the four regions but also includes unnecessary differences. The statutes charge all four regional commissions to

- survey their region to determine assets, liabilities, and resources;
- develop and evaluate alternatives for economic development;
- develop and implement a strategic plan; and
- coordinate activities with non-profits to carry out its powers and duties.

In addition to the four duties specified above, Northeast has the following duties:

- enhance economic development activities that use the area's natural resources; and
- conduct feasibility studies of economic developments for maximum impact.

North Carolina's Eastern Region has 16 duties and power, which include the 4 that are common to the other commissions. Some of its additional duties and powers include

- providing employee training for workers in the region;
- gathering and maintaining economic, business, or commercial information;
- preparing site studies for use or development of businesses;
- planning for and assisting in the extension of natural gas in the region; and
- assisting in the placement of an information highway in the region.

The complete statutes outlining the purpose and authority for the four statutorily-created regions are found in Appendix B.

Despite these statutory differences, regions recently initiated an effort to increase consistency. Working through the NC Partnership for Economic Development, the regions have developed Uniform Accountability Standards. These standards address issues regarding personnel, contracts, purchasing and procurement with state funds, accounting, integrity, and ethics. The standards have been approved by the board of that organization but are voluntary until the Partnership for Economic Development completes a compliance assurance process.

**Finding 2. Regional organizations contribute to economic development in North Carolina, but their inclusion in the statewide strategic planning process has been limited.**

The regional organizations have limited participation in the NC Economic Development Board's strategic planning. The Economic Development Board is statutorily responsible for developing the statewide strategic plan for economic development. This 37-member board was created within the DOC and is charged with statewide planning of economic development efforts and recommending policies to the Secretary of Commerce, the General Assembly, and the Governor. Membership includes representation from the House of Representatives, Senate, University of North Carolina, NC Community College System, and Secretary of State and appointees of the Governor. The Economic Development Board created the statewide economic development plan entitled, "We Are Changing the Way We Do Business" in 2002, and updated it in 2004, 2006, and 2007. The Interagency Economic Development Group is charged with assisting the Economic Development Board with implementation of this plan and annual updates. North Carolina state agencies represented in the Interagency Economic Development Group include the Departments of Commerce, Transportation, Revenue, Environmental and Natural Resources, Cultural Resources, and Public Instruction; Community College System; University of North Carolina; State Ports; Board of Science and Technology; and Rural Economic Development Center.

Regions have very limited interaction with the Economic Development Board. One regional president has been appointed to the board by the Governor; however, there is no guarantee of regional representation at the state level. Furthermore, the statewide strategic plan provides little direction to the regions on how their efforts contribute to the economic development goals and activities of the state.

The DOC and the regions work toward the same overall objective—"improve the economic well being and quality of life for all citizens"<sup>9</sup> in North Carolina—but with no overarching plan. The DOC's marketing and other development efforts are directed at the state level, whereas the regions' efforts are directed at the county level. The regions provide a local focus that represents the business opportunities within the region. Stakeholders at both the state and regional levels contend regions have detailed knowledge about their areas that Commerce does not and the

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<sup>9</sup> The DOC's mission statement. Retrieved from <http://www.nccommerce.com>.

regions engage in efforts that Commerce could not subsume without a substantial increase in funding. The regions and the DOC have a role in economic development in the state, but these roles need to be clearly specified as part of a comprehensive vision for North Carolina. Including all regions in the Economic Development Board's planning effort would clarify these roles and potentially limit duplication of effort.

**Regions play an important role in economic development but could be more effective as part of statewide efforts.** The regions serve as a catalyst for collaboration across local entities to address economic development needs. In interviews and focus groups, this fostering of collaboration was attributed to a reduction in intraregional competition in the business of economic development. Through the regions, neighboring counties have found a unifying voice. Without such efforts, all 100 counties would essentially be competing for projects in the state. Counties have come to understand "a win for one county is a win for all counties" due to the labor shed for businesses. In other words, the labor force for businesses is attracted from multiple counties, particularly in the less urban areas.

A client survey conducted by the Program Evaluation Division asked for a description of how the regions' efforts compared to assistance provided by the DOC and local economic development agencies. Thirty-four of the 42 survey participants provided a response to this question. There were no negative comments about the regions or the local agencies and three negative responses about the work of the DOC. The most commonly mentioned types of assistance from the regions were

- identified and connected the company with other key players (e.g., local economic development contacts, DOC, other business services), coordinated efforts between the company and other key players, and served as the point of contact for clients;
- identified specific properties to meet company needs;
- provided research and information, such as economic studies and industry information;
- provided tours of the area and participated in the initial visit;
- identified funding sources and provided technical assistance for incentive and tax assistance applications; and
- connected company to training and workforce development services.

Further, many of the rural stakeholders expressed concern that if the regional organizations were not in place, they would have no voice in economic development in the state. Marketing by the regions highlights the attributes that attract businesses in their clusters with rural needs. This marketing is often the only way prospective businesses learn of rural areas because some counties do not have a staff dedicated to economic development. However, without inclusion of the region in statewide planning, there is no way to assure service to all areas of the state.

**Finding 3. There are no standardized performance measures to evaluate the efforts of the regional organizations or link funding to results.**

In 2004, each region received \$250,000 from the General Assembly to develop a strategic economic development plan. The legislation directed the regions to

- perform a comprehensive study of resources and existing businesses and identify industry clusters;
- ensure the plan provides real opportunities in rural, urban, and suburban areas;
- develop focused initiatives for business recruitment and retention;
- provide a mechanism for continuous monitoring of the regional economy and competitiveness indicators and update the plan in light of changing economic conditions;
- recommend infrastructure investments to meet regional needs;
- integrate the NC Community College System and The University of North Carolina into economic development efforts and planning; and
- create leadership networks that span the public and private sectors.<sup>10</sup>

As a result, the process for creating these plans varied greatly among the regions, as did the end product. Each region used different strategies in their plans to achieve their economic goals. Although the specific objectives vary, there are common themes and areas of concentration across the plans for the regions. However, there are no consistent means to measure progress toward these objectives or the effectiveness of the regions on economic development in North Carolina.

**Currently no way exists to assess the return on investment of state funds for the regions in terms of outputs, outcomes, or client satisfaction.** *Outputs* simply document activities of the organization by means of counting what was accomplished or the processes carried out to achieve goals. Examples of outputs include the number of meetings held, contacts made, and trade shows attended and other similar measures.

*Outcomes* are the results or consequences that are produced by the outputs. Outcomes may include immediate, intermediate, or long-term measures; each plays a role in assessing the effectiveness of an organization.

One example of a way to measure immediate outcomes is a client satisfaction survey, which can provide valuable feedback as to the quality and effectiveness of the organization. The Program Evaluation Division conducted a client survey to ascertain the involvement of different economic development entities, satisfaction with their services, and a description of the services provided by the regional partnerships/commissions (Appendix C). Each region provided contact information for clients they worked with in the past year as the sample for

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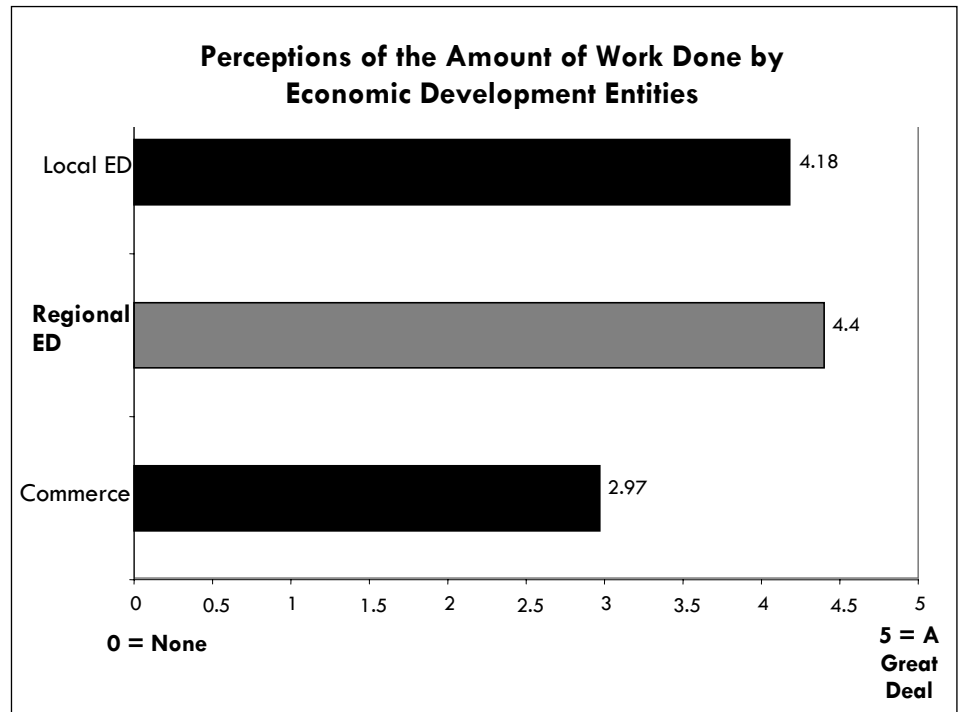
<sup>10</sup> 2004 NC Sess. Laws, 2004-124, Section 13.6.



the survey.<sup>11</sup> A total of 69 clients were emailed a survey, and non-responders received phone calls, resulting in a 60% response rate. The majority (78%) reported working with a region and at least one other economic developer: the DOC, a local agency (city or county), or both. Clients rated, on a scale from 1 to 5, how much work different economic development entities did for them and their satisfaction with that work. As seen in Exhibit 5, clients reported, on average, the regions did the most work for them, followed by local organizations and then the DOC. On average, clients were satisfied with all of the organizations, with local organizations receiving a 4.8, regions a 4.7, and the DOC a 4.0.

### Exhibit 5

Businesses Report More Regional and Local Help on Their Behalf



Source: Program Evaluation Division’s Economic Development Client Survey.

**Comprehensive State Planning for Economic Development.** The political appointment of the four commissions’ boards of directors provides some level of oversight at the state level, but there is no entity to consider the collective efforts of all the regions. The Economic Development Board is statutorily charged with providing a comprehensive economic development plan for the state, but there is no specific guidance for the regions.

The Economic Development Board has identified seven areas of concentration for economic development in North Carolina:

- Workforce Development and Education;
- Science, Technology, and University Outreach;
- Recruitment and Retention;
- Urban Development;
- Rural Development;
- Infrastructure, Transportation, and Environment; and

<sup>11</sup> The Program Evaluation Division intended to use data from the DOC’s client information system as an independent source of client contacts. However, DOC’s contact information was not in a usable format. Instead, each region provided contact for the clients they worked with in Fiscal Year 2006-07.

- Tourism, Film, Sports, Arts, and Cultural Resources.

Even though the primary focus of the partnerships and commissions is to market their counties, most participate in activities that support overall economic development in their region.

Each region engages in activities directed toward the Recruitment and Retention area identified by the Economic Development Board. These activities include marketing and direct lead generation by each region, including trade show and industry calls. Client handling varies somewhat by region, but in general the regions work with clients during the initial phase through the first visit and then the client primarily works with a local or state economic developer. In addition, the regional staff provides product information and works to meet the research needs of the client. Despite these efforts, there is no consistent measurement across the regions for assessment of effort. The absence of such measures means there is no way to track return on investment of state funds or the success of organizational strategies. Standardized performance measures in each of the seven areas of economic development in the Economic Development Board's plan will assist in measuring the effectiveness of regional efforts.

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## Recommendations

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### **Recommendation 1. The NC General Assembly should require uniform non-profit status for regions and involve regions in strategic planning for economic development in North Carolina.**

**1-A. Require Non-Profit Tax-Exempt Status.** The General Assembly should consider making three of the commissions—AdvantageWest, North Carolina's Northeast, and North Carolina's Southeast—non-profits and making all statutory responsibilities uniform. As a condition of receiving state funding, the General Assembly should require the commissions to be 501(c)3 organizations. Converting the commissions from state entities into non-profits would make the annual reporting requirements consistent for all seven regions.

Changing the commissions to non-profit organizations would reduce state liability<sup>12</sup> and increase the ability of the regions to combine current non-profit business elements. With a non-profit, tax-exempt status, each region would be able to accept contributions from any type of private, public, or foundation economic development partner. A non-profit, tax-exempt status would allow the organizations the flexibility to carry out their missions while making the financial aspects of the organizations more transparent.

The other statutorily-created commission, North Carolina's Eastern Region, is a municipality, which separates it from the other commissions. This unique structure already serves to reduce state liability, allows the organization to accept private investor contributions, and increases accountability through adherence to open meeting laws and other regulations. In addition, there are funds from a levied tax that would revert to the region's counties upon dissolution of the municipality.

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<sup>12</sup> The state is currently liable for actions taken by the three commissions that were created by statute because they are state agencies and the state has waived sovereign immunity through the State Tort Claims Act. As non-profits, these organizations would no longer be state agencies, and thus the state would not be liable for their actions.

**1-B. Expand Regional Membership Representation on the NC Economic Development Board.** The regional partnerships and commissions should have an increased presence on the Economic Development Board. Currently, Dale Carroll, AdvantageWest's president, serves on the board as an appointee of the Governor, not specifically as a representative of the regional economic development organizations. The General Assembly should consider amending the Economic Development Board statute to require that each region appoint one representative to the board or, as an alternative, specify that the number of members appointed to represent regions at large should be increased to at least three. This change will ensure the Economic Development Board understands the scope of work of each region.

**1-C. Require Performance Measurement and Reporting.** The General Assembly should consider authorizing the Economic Development Board, with support from DOC staff, to establish a measurement and reporting system for monitoring performance of the regional entities. The Economic Development Board is statutorily charged with developing a comprehensive economic development plan for the state.<sup>13</sup> Measuring and monitoring performance of the regional partnerships and commissions falls logically within this existing authorization. Furthermore, a performance measurement and reporting system for the regional entities would be consistent with the Office of State Budget and Management's Results-Based Budgeting effort for North Carolina government.<sup>14</sup>

**1-D. Require Comprehensive and Consistent Reporting.** The General Assembly should require the Economic Development Board in consultation with the regions, Office of the State Auditor, and Office of State Budget and Management to develop a performance measurement and reporting system for the regional organizations on or before July 1, 2009. As a concept model for the type of information and reports expected from the regions, the board should consider the *Service Efforts and Accomplishment Reporting* concept statement developed by the Governmental Accounting Standards Board.<sup>15</sup> The Office of State Budget and Management can provide guidance in the development of appropriate and reliable measures and standards for these measures. In addition, legislation should be considered to assure the report format meets oversight requirements for all agencies so a single report could be submitted to each to assure efficient, consistent reporting.

Consistent measures should be developed within each of the seven areas of economic development in the Economic Development Board's plan:

- Workforce Development and Education;
- Science, Technology, and University Outreach;
- Recruitment and Retention;
- Urban Development;
- Rural Development;
- Infrastructure, Transportation, and Environment; and

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<sup>13</sup> NC Gen. Stat. §143B-434 (2007).

<sup>14</sup> NC Office of State Budget and Management. (2007, November 16). *Results-Based Budgeting Instructions for 2009-20011 Budget*. Retrieved April 5, 2008, from [http://www.osbm.state.nc.us/files/pdf\\_files/memo1116RBBInstructionsforFY2009-11BudgetPreparation.pdf](http://www.osbm.state.nc.us/files/pdf_files/memo1116RBBInstructionsforFY2009-11BudgetPreparation.pdf).

<sup>15</sup> Government Accounting Standards Board, Concepts Statement No. 2 (n.d.). *Service Efforts and Accomplishments Reporting*. Retrieved April 5, 2008, from <http://www.seagov.org>.

- Tourism, Film, Sports, Arts, and Cultural Resources.

Each region may not report activities in all areas. Variation in activities among the regions should be expected due to different local needs. For consistency, regions reporting on the same areas should track the same measures to allow for cross-regional comparisons.

**1-E. Regions Should Set Performance Targets.** Each region should set performance targets for outputs and outcomes deemed strategically important to the region and for outcomes linked to the statewide strategic plans of the Economic Development Board. Each region may choose to establish additional measures for internal management use.

**1-F. Use Existing State Agency Resources and Web-Based Off-the-Shelf Technology for Measurement and Reporting.** Measuring performance is neither difficult nor novel. The Program Evaluation Division is not recommending the Economic Development Board or regions develop an elaborate or expensive computerized system, nor is the Division recommending the board or regions hire consultants to do so. The Economic Development Board does not need a system in exact conformity with the concept proposed by the Government Accounting Standards Board described above. The expertise for developing a performance measurement system is readily available within North Carolina state government, specifically within the Office of State Budget and Management and the Office of the State Auditor's Performance Audit Division. Furthermore, off-the-shelf web-survey and reporting software should be adequate for both conducting client surveys and reporting performance to the Economic Development Board and the public.

**1-G. Must Be Standardized and Uniform.** The essential element of the proposed performance measurement system is standardized and uniform reporting by regions. Performance measures for regions should gauge the type and level of services produced (outputs) and identify immediate, intermediate, and long-term outcomes for each of the seven areas of economic development specified above as well as any additional areas deemed strategically important by a region or by the Economic Development Board.

**1-H. Must Measure Outcomes.** Having standardized performance measures will enable the Legislature to evaluate whether the collective efforts of the regions are improving economic well-being and quality of life of residents in the counties they serve. In other words, the General Assembly can determine if it is getting the desired return on investment.

While measuring outputs (e.g., number of client services) is important, no measurement system is worthwhile without gauging results attributable to outputs (i.e., immediate, intermediate, and long-term outcomes). One immediate outcome measure that can be readily implemented is a client satisfaction survey, similar to the one used by the Program Evaluation Division for this evaluation. This type of survey should be standardized by the Economic Development Board for use by regions and administered on an annual basis by regions to assess their role in economic development efforts in the state. Intermediate outcome measures should gauge the number of new jobs and additional personal income attributable to services in region-specific industry clusters. Long-term outcome measures

should gauge retention of those jobs and income after longer periods of time, such as one year and three years.

**Recommendation 2: The NC General Assembly should consider recurring funding for the regional partnerships and commissions, with 15% of existing state appropriations directed toward performance-based funding.**

**2-A. Provide Incentives.** Currently, the regions have no incentive to measure and report service efforts and accomplishments, although some regions do so voluntarily. No organization on the state level is monitoring performance or return on investment of state funds within each regional organization. The General Assembly should provide recurring funding for the partnerships and commissions with incentives to develop a system for measuring regional economic development performance.

**2-B. Create a Performance Measurement Incentive Fund.** The General Assembly should amend the state budget and direct 15% of the existing state appropriation to the regions for a performance-based incentive fund. Each of the seven regions would be eligible to receive a share of the 15% proportionate to their current appropriation. Exhibit 6 shows the implementation schedule for performance-based funding as outlined in Recommendations 2-C through 2-E.

**2-C. First-Year Incentive.** During Fiscal Year 2008-09, a region should receive its share of the 15% after the governing board of the region certifies to the Economic Development Board, and the DOC staff supporting them, the region's intent to comply with the Economic Development Board's performance measurement and reporting system, which will be in operation beginning July 1, 2009. The certification also should state the region consents to verification of any supporting accounting or statistical data at the discretion of the Office of the State Auditor, the Economic Development Board, or the General Assembly. The data also must be subject to the same statutory audit requirements that apply to the region's financial statements.

**2-D. Second-Year Incentive.** For Fiscal Year 2009-10, as a condition for receiving its share of performance funds, each region's governing board must demonstrate implementation by submitting a compliance certificate as specified by the Economic Development Board. Upon determination by the Economic Development Board that a region is complying with complete and accurate performance reporting, the board would authorize the region to receive its share of performance funding.

**2-E. Future-Year Incentive.** For each succeeding fiscal period, each region will receive its share of performance funds if the region's governing board submits an approved annual performance report of activities to the Economic Development Board. The first report will cover accomplishments from July 1, 2009 to June 30, 2010.

**Exhibit 6**

Implementation Schedule  
for Performance-Based  
Funding

Fiscal Year	Requirement	Due Date	Consultation and Oversight Organizations
2008-09	The Economic Development Board will develop a standardized performance measurement and reporting system. As a condition for receiving its share of performance funds, each region's governing board must certify intent to comply with the system and acceptance of verification and audit requirements.	Before June 30, 2009	Office of State Budget and Management and Office of the State Auditor
2009-10	Each region will demonstrate implementation of the performance measurement and reporting system. As a condition for receiving its share of performance funds, each region's governing board must demonstrate implementation action by submitting a compliance certificate as specified by the Economic Development Board.	Before June 30, 2010	Economic Development Board, Office of State Budget and Management, and Office of the State Auditor
2010-11 & forward	Each region will receive its share of performance funds on October 1 if the region's governing board submits an approved standardized annual performance report for the fiscal year to the Economic Development Board by September 1. The first report will cover accomplishments from July 1, 2009 to June 30, 2010.	September 1, 2010 and each succeeding September 1	Economic Development Board

Source: Program Evaluation Division.

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**Appendixes**

**Appendix A: Map of Regional Economic Development Organizations with Tier County Designations**

**Appendix B: NC General Statutes Creating the Regional Commissions**

**Appendix C: Economic Development Client Survey**

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**Agency Response**

A draft of our report was submitted to the seven Regional Economic Development Partnerships and Commissions and the NC Department of Commerce for review and response. Their responses are provided following the appendixes.

## **PED Contact and Staff Acknowledgments:**

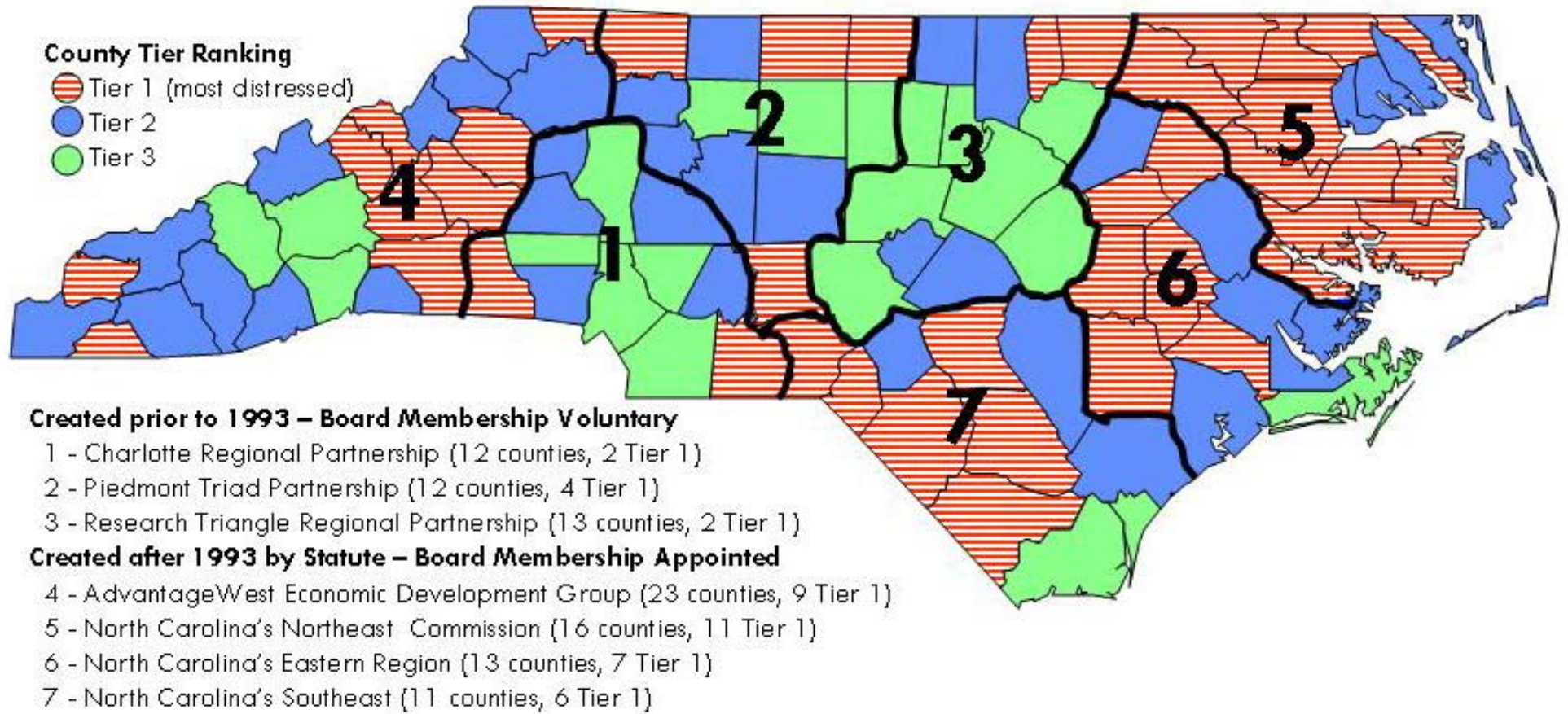
For more information on this report, please contact the lead evaluator, Michelle R. Beck, at [michelleb@ncleg.net](mailto:michelleb@ncleg.net).

Staff members who made key contributions to this report include Abby Parcell and Pamela L. Taylor. John W. Turcotte is the director of the Program Evaluation Division.





## Appendix A: Map of Regional Economic Development Organizations with Tier County Designations



Source: Program Evaluation Division based on data from the partnerships and commissions and DOC.

## Appendix B: NC General Statutes Creating the Regional Commissions

<b>§ 158-13. Powers and duties. Western/Northeast/Southeast</b>	<b>§ 158-8.1. Western</b>	<b>§ 158-8.2. Northeast</b>	<b>§ 158-8.3. Southeast</b>	<b>§ 158-37. Eastern</b>
Receive from any municipal, county, joint, or regional planning board or commission with jurisdiction within its area an economic development program for part or all of the area.	Develop and evaluate alternatives for western North Carolina economic development.	Develop and evaluate alternatives for northeastern North Carolina economic development.	Develop and evaluate alternatives for southeastern North Carolina economic development.	To levy a temporary annual motor vehicle registration tax on vehicles with a tax situs within the Region, as provided in G.S. 158-42.
Formulate projects for carrying out such economic development program, through attraction of new industries, encouragement of existing industries, encouragement of agricultural development, encouragement of new business and industrial ventures by local as well as foreign capital, and other activities of a similar nature.	Develop a preferred economic development plan for the region and establish strategies for implementing the plan.	Develop a preferred economic development plan for the region and establish strategies for implementing the plan.	Develop a preferred economic development plan for the region and establish strategies for implementing the plan.	To acquire, construct, improve, maintain, repair, operate, or administer any component part of a public infrastructure system or facility within the Region, directly or by contract with a third party.
Conduct industrial surveys as needed, advertise in periodicals or other communications media, furnish advice and assistance to business and industrial prospects which may locate in its area, furnish advice and assistance to existing businesses and industries, furnish advice and assistance to persons seeking to establish new businesses or industries, and engage in related activities.	Coordinate activities with and enter into contracts with any nonprofit corporation created to assist the Commission in carrying out its powers and duties.	Coordinate activities with and enter into contracts with any nonprofit corporation created to assist the Commission in carrying out its powers and duties.	Coordinate activities with and enter into contracts with any nonprofit corporation created to assist the Commission in carrying out its powers and duties.	Except as otherwise provided in this Article, to exercise the powers granted to a local government for development by G.S. 158-7.1, except the power to levy a property tax.
Encourage the formation of private business development corporations or associations which may carry out such projects as securing and preparing sites for industrial development, constructing industrial buildings, or rendering financial or managerial assistance to businesses and industries; furnish advice and assistance to such corporations or associations.	Survey western North Carolina and determine the assets, liabilities, and resources that the region contributes to the economic development process.	Survey northeastern North Carolina and determine the assets, liabilities, and resources that the region contributes to the economic development process.	Survey southeastern North Carolina and determine the assets, liabilities, and resources that the region contributes to the economic development process.	To prepare specific site studies to assess the appropriateness of any area within the Region for use or development by a business and to provide opportunities for businesses to examine sites.
Use grant funds to make loans for purposes permitted by the federal government, by the grant agreement and in furtherance of economic development; the economic development commission may delegate to another organization or agency the implementation of the grant's purposes, subject to approval by the federal agency involved and the commission's board of directors.		Enhance economic development activities that use the area's natural resources.		To make grants and loans to support economic development projects authorized by this Article within the Region.
		Conduct feasibility studies to determine the nature and placement of economic developments for maximum economic impact.		To gather and maintain information of an economic, a business, or a commercial character that would be useful to businesses within the Region.
		Identify potential sites for economic development.		To promote travel and tourism, and natural resource-based attractions, within the Region.

		Carry out other activities to develop and promote economic development.		To provide employee training programs to prepare workers for employment in the Region.
				To enter in a reasonable manner land, water, or premises within the Region to make surveys, soundings, drillings, or examinations. Such an entry shall not constitute trespass, but the Region shall be liable for actual damages resulting from such an entry.
				To contract with units of local government within the Region to administer the issuance of permits and approvals required of businesses.
				To monitor and encourage the use of utility corridors adjacent to intrastate and interstate highways within the Region that are four-lane, divided, limited-access highways.
				To plan for and assist in the extension of natural gas within the Region.
				To assist in the placement of an information highway within the Region.
				§ 153A-395. Prepare and amend regional development plans, which may include recommendations for land use within the region, recommendations concerning the need for and general location of public works of regional concern, recommendations for economic development of the region, and any other relevant matters.
				§ 153A-395. Cooperate with and provide assistance to federal, State, other regional, and local planning activities within the region.
				§ 153A-395. Encourage local efforts toward economic development.

Source: Program Evaluation Division.



NORTH CAROLINA GENERAL ASSEMBLY
Legislative Services Office

George R. Hall, Legislative Services Officer

Program Evaluation Division
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Raleigh, NC 27603-5925
Tel. 919-301-1404 Fax 919-301-1406

John W. Turcotte
Director

March 6, 2008

Dear New/Expanded Business:

The Program Evaluation Division of the General Assembly has been charged with studying economic development efforts in North Carolina. We are contacting you about services provided for you in the recent relocation or expansion of a business in the state. As a reported client of the economic development organizations in North Carolina, your input is critically important for this evaluation.

Please complete this survey by Wednesday, March 19, 2008. We are under a strict reporting deadline and cannot accept responses after this date.

Thank you very much for your response. If you have any questions, please contact the evaluation manager, Michelle Beck, at (919)301-1392 or Dr. Pam Taylor at (919)301-1429.

Handwritten signature of John W. Turcotte

John Turcotte
Director

1. Which organizations played a role in the process of your business relocation/expansion in NC? (MARK ALL THAT APPLY)

- North Carolina Department of Commerce
Regional Partnership (please specify)
AdvantageWest (Asheville Regional Airport, NC)
Charlotte Regional Partnership (Charlotte, NC)
North Carolina's Eastern Region (Kinston, NC)
North Carolina's Northeast Commission (Edenton, NC)
North Carolina's Southeast (Elizabethtown, NC)
Piedmont Triad Partnership (Greensboro, NC)
Research Triangle Regional Partnership (RDU International Airport)
Local (county or city) Economic Development Agency
Other (specify)

For the questions below, please show your response by circling ONE of the options following each item.

2. How much work did the following organizations do on your behalf when you relocated or expanded in North Carolina?

North Carolina Department of Commerce including the regional offices

- 1 None 2 3 4 5 A Great Deal





April 29, 2008

John W. Turcotte, Director  
Program Evaluation Division  
North Carolina General Assembly  
300 N. Salisbury Street, Suite 100  
Raleigh, NC 27603-5925

RE: Response to: "Improving Regional Economic Development through Structural Changes and Performance Measurement Incentives"

Dear Mr. Turcotte:

Pursuant to my role as chairman of the North Carolina Partnership for Economic Development (NCPED), I am offering a response to your organization's recent report, "Improving Regional Economic Development through Structural Changes and Performance Measurement Incentives" (the "Report"), on behalf of the chairs and presidents of all seven regional partnerships and commissions. Our unified response represents the unanimous view of NCPED and its seven member organizations.

We appreciate the opportunity to respond to the Report, which reflects positively on North Carolina's innovative regional economic development network and how it fits into the state's overall job growth and success in economic development. While NCPED generally supports many of the findings and recommendations contained in the Report, we nonetheless have provided additional context and suggestions that might be beneficial to you and your staff, as well as the Joint Legislative Program Evaluation Oversight Committee and North Carolina General Assembly as they develop policies and legislation to improve North Carolina's economic development framework. The Report acknowledges that regional partnerships are essential in order to provide all counties with an opportunity to participate in a formal economic development program, and its findings reflect the fact that regional partnerships are appropriate economic development entities and highly rated economic development service providers. These facts are indicated by clients and stakeholders surveyed in North Carolina by the Program Evaluation Division.

## Background

Regions are now widely recognized as the most important economic geography in the global economy. The federal government has embraced regional innovation as a key to U.S. competitiveness due to the economic nature and geography of today's markets. North Carolina is recognized as a leader in regional economic development, having been among the first states to develop a statewide framework for the delivery of regional economic development services, an approach now viewed as a model for other states and nations. This recognition has come from leaders of such organizations as the International Economic Development Council, the Southern Growth Policies Board and the Urban Land Institute.

Regional approaches to economic development benefit both rural and urban counties and provide the necessary scale to allow North Carolina's regions, and hence the state, to compete globally. The Report makes a distinction between urban and rural regions, but it is important to note that over half the counties in every North Carolina region are rural. Each of the state's 100 counties derives significant scale benefits from being part of a region, regardless of whether the region includes urban counties. Size and scale are critical differentiators when it comes to winners and losers in the global economy. Cities and counties reflect political, not economic, boundaries, and they are too small to create the necessary innovation networks required to compete globally. On the other hand, nations and states are too large; consider the fact that North Carolina is not a single economy, but a blend of multiple regional economies, each varying significantly in terms of structure, assets, needs and performance. As the Report correctly points out, regional organizations provide a platform for competitiveness that cannot be replicated by any local or state entity.

Geographically, economically and in many other ways, North Carolina is a state rich in diversity. Regional organizations must thus customize their programs of work around unique needs and opportunities each region faces. The partnerships address job creation and investment through a broad menu of activities, including entrepreneurial development programs, support systems for existing and targeted industry clusters, tourism marketing initiatives, and globally oriented recruitment of new investment and jobs to the state. In all instances, the objective of these activities is the expansion of employment opportunities, the creation of new revenues for state and local governments, and the improvement of quality of life. Though the Report chronicles a number of regional initiatives making a difference to the economy of North Carolina, the examples cited do not reflect the many activities being undertaken by the regional partnerships that are making a profound and positive difference to citizens and communities in our state. The responses from the focus group interviews and surveys undertaken by your staff underscore the positive impact the regional partnerships are making.

Finding 1. The inconsistent structure, governance, and statutory responsibilities hinder the regional contribution to economic development.

Recommendation 1-A. Require Non-Profit Tax Exempt Status.

The Report describes the differences in the structure and governance of the seven regional partnerships, three of which were created as non-profit corporations by local leaders and

four others established by the General Assembly. The Report further describes material differences among the four legislatively created commissions, which vary both structurally and programmatically as a result of their authorizing legislation. The Report takes the position that these differences in organization, structure and funding have made it difficult to create a system of performance metrics and benchmarks that can be uniformly applied across all seven organizations.

The NCPED agrees with the findings of the Report regarding the fact that the partnerships lack uniformity in structure, but not that this lack of uniformity in structure hinders their ability to most effectively deliver economic development services. It is important to note that the different corporate forms and programs of work reflect in part the differences in funding, governance and regional priorities from region to region. The difference in state funding for each individual partnership is not impacted by the corporate form, but by the economic prosperity of the region itself. Some regional partnerships rely almost entirely on their state appropriations and have little access to private and local government funding, while others raise significant funds from private investors and local governments, which often requires that those investors be represented on the partnership's board.

The Report recommends that the General Assembly require that each regional partnership become a 501(c)(3) organization as a prerequisite to receiving state funds. Even if all the partnerships operated as 501(c)(3) corporations, that alone would not assure uniformity in structure and governance, which would be determined by each organization's corporate bylaws. Among the three organizations currently operating as private non-profit corporations, for instance, there are significant differences in terms of size and appointment structures of boards, as well as other operating policies, procedures and programs. All the partnerships currently have as their primary or an affiliated corporate entity a private non-profit organization that serves as a receptacle for private contributions, most of which come from business entities which benefit equally from contributions to any 501(c) organization.

Moreover, state-created regional commissions in the Northeast, Southeast and West have long relied on a system of board members appointed by government officials as a critical part of their leadership structure. The system has served to keep those organizations closely linked to the state, which provides the bulk of their funding. The partnerships believe that all the objectives the state may have involving transparency and public accountability can be achieved without absolute uniformity in the corporate form of the operating entity of every partnership organization.

The Report acknowledges that, under the auspices of NCPED, the seven regional partnerships have recently committed themselves to a comprehensive set of uniform administrative standards, as directed by the General Assembly. These uniform standards were designed in collaboration with the Secretary of Commerce, and the partnerships are now working to ensure each organization is in full compliance. Application of these standards will go far in achieving uniformity in the operational and administrative aspects of all the partnerships. It is not necessary to change corporate structure to apply these uniform standards or any newly developed uniform performance measures.



Finding 2. Regional organizations contribute to economic development in North Carolina, but their inclusion in the statewide strategic planning process has been limited.

Recommendation 1-B. Expand Regional Membership Representation on the State Economic Development Board.

The Report correctly identifies a gap between the important role of regionalism in economic development and the statewide economic development strategic plan developed by the North Carolina Economic Development Board. While the state's strategic plan references regional economic development, the partnerships have not been participants in the process by which the Board has designed its plan. In an era when regional approaches to economic development are acknowledged as paramount, the active participation by representatives of each regional partnership in honing North Carolina's Economic Development Strategic Plan would doubtless improve the plan's overall quality.

NCPED thus agrees with the recommendation of the Report that membership of the Economic Development Board include representatives of each regional partnership. In addition to ensuring regional programs are integrated into the state's strategic economic development plan, such a course would enhance knowledge-sharing among the government, business, academic and non-profit leaders serving on the Board.

Finding 3. There are no standardized performance measures to evaluate the efforts of the regional organizations or link funding to results.

Recommendation 1-C. Provide for Performance Measurement and Reporting.

Recommendation 1-D. Require Comprehensive and Consistent Reporting.

Recommendation 1-E. Regions Should Set Performance Targets.

Recommendation 1-F. Use Existing State Agency Resources and Web-Based Off-the-Shelf Technology for Measurement and Reporting.

Recommendation 1-G. Must Be Standardized and Uniform.

Recommendation 1-H. Must Measure Outcomes.

There is ambiguity in the General Statutes regarding the missions of the regional partnerships and their use of state funds. The original authorizing legislation gave broad authority to the partnerships to expend state appropriations for economic development, and the legislation directing the regional partnerships to develop five-year economic development vision plans further extended the purposes for which state funds could be used. In the absence of clear and specific direction from the General Assembly regarding the use of state funds, the partnerships have applied their state appropriations in a variety of strategies and programs of work—most of which align neatly with the primary goals of the statewide economic development plan described in the Report: Workforce Development and Education; Science and Technology; Recruitment and Retention; Urban Development; Rural Development; Infrastructure; and Tourism, Film, and Cultural Resources.

We understand that variations in spending and programming among regional partnerships make it difficult to compare activities and calculate a return-on-investment of state funds. From

our perspective, that difficulty manifests itself in a complex and costly array of redundant reporting requirements with which the partnerships must comply. The partnerships are currently subject to oversight by numerous state agencies, including the North Carolina Department of Commerce, the North Carolina General Assembly, the North Carolina Office of the State Auditor and the Office of State Budget and Management. Those regions that receive funding from local and federal government entities also are subject to additional layers of reporting requirements and oversight. We similarly file exhaustive reports with our private funding sources, which are equally eager to see credible evidence that their investments in regional development efforts are yielding a satisfactory return.

We understand the distinction in your Report between measuring outputs and outcomes related to performance in economic development. It is important to note that all seven regional partnerships already measure outcomes, in addition to outputs. Examples include economic indexes, Report Cards and employment tracking by independent third parties like economists, the Employment Security Commission (ESC) and universities.

As the Report indicates and this letter discusses on page 3, the regional partnerships and Department of Commerce have also adopted a set of Uniform Accountability Standards for the regional partnerships. These minimum standards cover the following areas: Personnel; Contracts, Purchasing and Procurement; Accounting; and Board Governance, Integrity and Ethics. Each regional partnership is currently in the process of implementing these new standards, and their compliance will be certified by outside auditors. Additionally, all the partnerships set internal performance targets for their various programs of work and quantifiable criteria by which their progress can be assessed.

Currently, the regional partnerships are not subject to direct oversight by the North Carolina Economic Development Board—nor is any economic development entity. As it is now constituted, the Economic Development Board is an advisory panel to the Governor and the Secretary of Commerce. Its only staffing comes courtesy of Department of Commerce personnel, and it lacks the administrative infrastructure or budgeting needed to adequately provide oversight or develop performance measures for outside organizations. Should the Economic Development Board be given responsibility for developing and monitoring performance standards, the General Assembly must act to provide independent staffing for the Board and vest it with the capacity to hire qualified performance measurement and compliance personnel. This change would have consequences for other state-funded economic development organizations and should be carefully evaluated. The partnerships support efforts to improve the quality and accountability of North Carolina's economic development delivery system.

The Report suggests potential performance measures would evaluate job creation, job retention and income growth. Progress on those measures comes as a result of many forces, including economic policy (e.g., taxation and business-related tort issues), global macroeconomic trends and the overall performance of the state's economic development delivery system, of which regional partnerships are components. The partnerships support performance measures that result in an accurate, useful assessment that can be used as a guide for improvement. More specific and relevant performance measures might include all of the

major elements of the state strategic economic development plan that form a significant portion of the regional partnerships' programs of work.

To the extent the General Assembly enacts the Report's recommendations regarding performance oversight by the Economic Development Board, it is our view that the law should at that time be modified as to consolidate our reporting requirements under a single statute requiring a single annual report be submitted to all agencies having oversight responsibility, including the Economic Development Board. This arrangement would produce efficiencies and cost savings for both the regional partnerships and the state, streamlining the overlapping reporting regimes under which our partnerships currently operate.

Recommendation 2: The General Assembly should consider directing fifteen percent of existing state appropriations toward performance-based funding.

2-A. Provide Incentives.

2-B. Create a Performance Measurement Incentive Fund.

2-C. First Year Incentive.

2-D. Second Year Incentive.

2-E. Future Year Incentive.

The Report recommends that 15 percent of the partnerships' annual state appropriations be administered through an incentive program that would be implemented over a phased, three-year implementation period. If the state oversight entity is funded to hire the necessary staff to oversee the Performance Measurement Incentive Fund, and the performance measures include all regionally relevant elements of the state strategic economic development plan, properly structured and implemented, this recommendation could help ensure that boards of the regional partnerships are aware of and committed to the goals and objectives of the statewide economic development plan. The partnerships strongly support the concept of an incentive program calculated to reward organizations that exceed expectations. Continuity of state funding is essential to the effective operations of the partnerships.

Thank you again for the opportunity to offer this additional perspective. We hope our input helps clarify these issues as North Carolina continues honing its economic development policies and programs.

Yours sincerely,



Steve Luquire  
Chairman

# North Carolina Department of Commerce

Michael F. Easley, Governor

James T. Fain III, Secretary

April 29, 2008

John W. Turcotte, Director  
Program Evaluation Division  
North Carolina General Assembly  
300 North Salisbury Street, Suite 100  
Raleigh, N.C. 27603-5925

Dear Mr. Turcotte:

Thank you for the opportunity to offer comments on the draft of your Division's evaluation of the structure and funding of the seven regional economic development organizations. Your document provides useful background about the creation of the regions, the differentiation of their programming, their board structure and their funding sources. I commend you and your team for that helpful research.

With regard to your Findings, on behalf of the Department of Commerce, I offer the following thoughts:

- More consistency of structure, governance and statutory responsibility would be useful as the state continues to fund the regional organizations.
- The fact that three of the organizations are state agencies limits their flexibility in discharging their mission within their region.
- The regional organizations have had substantial inclusion and involvement in the statewide strategic planning process, contrary to your Finding #2. The chair of the state's Economic Development Board from 2001- 2004, while the strategic economic development plan was rewritten, was Gordon Myers. At the time, Mr. Myers also served as chair of Advantage West and co-chair of the North Carolina Partnership for Economic Development, composed of the state's seven regional economic development organizations. Watts Carr has been a member of the board since 2001 and served as chair of the Piedmont Triad Partnership while serving on the board. Since 2004, Dale Carroll, President of Advantage West, has served on the Board, and Charles Hayes, President of the Research Triangle Regional Partnership, has served as a liaison to the Board. During the plan's update in 2002, a number of partnership representatives participated on the teams that developed the components of the plan. Officers of the partnerships regularly attend the Board's quarterly meetings and have extensive interaction with the Economic Development Board.

## **North Carolina: The State of Minds**

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Mr. Turcotte  
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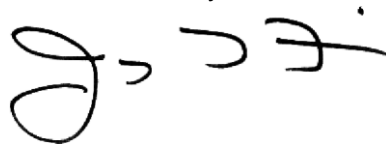
- As your report notes, the seven regions used different approaches resulting in different end products for the General Assembly-funded development of their strategic plans. Our department has engaged the University of North Carolina-Chapel Hill to review those plans, identify common elements and develop proposal for a state-wide strategy for integrating the efforts of the regional organizations, the Department of Commerce and other state agencies into a coordinated economic development action plan. The plan would be built around and monitored using a uniform set of cluster analysis techniques.

With regard to the Recommendations of your study, we would offer the following observations:

- We concur that the three commissions would be well-served by legislation converting them from state agencies to not-for-profit organizations. We believe this would enhance the organizational flexibility and efficiency.
- We would support changing the statutory composition of the Economic Development Board to formalize the recent practice of having one member appointed to represent the seven regional organizations. The board is already large, with 38 members including a number of ex-officio members; accordingly, we do not recommend expanding the size of the board. Further, it is already challenging to ensure geographic, demographic, industry sector and organizational representation with the 23 appointments available exclusive of ex-officio members and the eight members appointed by the leadership of the General Assembly. Because of this challenge and the fact that there has been consistent representation on the board by partnership officers and directors, our department would not recommend adding additional members to the board representing the regional organizations.
- With regard to Recommendation #2, to the extent that the funding for the regional organizations is recast as a Performance Measurement Incentive Fund, we recommend, as a practical matter, that Department of Commerce staff undertake the responsibility for determining how the regions are complying with performance expectations. This step would be consistent with and could be integrated into the current responsibility of the department to provide Office of State Budget-required oversight associated with Commerce's pass-through funding of the partnerships. It also would avoid any potential conflict of interest that could result from the board approving 15% of the partnerships' funding.

I hope these thoughts are useful to your agency and the Legislative Oversight Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Fain". The signature is stylized and cursive, with a large initial "J" and "F".

Jim Fain