

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

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A presentation to the Joint Legislative Program Evaluation  
Oversight Committee

January 29, 2019

Sara Nienow, Principal Program Evaluator




# Handouts

Full Report

Slides

Today's Handout

The EDPNC Needs to Increase Private Fundraising and Improve Coordination and Communication with the Department of Commerce



Final Report to the Joint Legislative Program Evaluation Oversight Committee

Report Number 2019-02

January 29, 2019

Joint Legislative Program Evaluation Oversight Committee  
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Economic Development Partnership

States Use a Variety of Organizational Structures for Economic Development

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

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



# Our Charge

- Directive: 2018 Work Plan
- Objective: Examine the Economic Development Partnership of North Carolina (EDPNC) to determine efficiency and effectiveness
- Team
  - Sara Nienow, Evaluation Lead
  - Joanne Brosh, Program Evaluator
  - Emily McCarthy, Program Evaluator



# Overview: Findings

1. The EDPNC's ability to allocate resources is limited by restricted appropriations and private fundraising totals lower than those of comparable organizations
2. Little formal coordination exists between the EDPNC and the Department of Commerce
3. Tourism activities have limited synergy with other EDPNC functions
4. EDPNC base salaries are below market value yet bonus compensation practices are generous



## Overview: Findings (cont.)

5. The current systems for economic development strategic planning and oversight lack coordination
6. The EDPNC's management of federal grant programs violates the intent of state law
7. Improvements to the buildings and sites database and more nuanced performance measures would improve North Carolina's economic development efforts



# Overview: Recommendations

- Adjust fundraising rules and requirements
- Clarify roles and responsibilities to improve communication between the EDPNC and the Department of Commerce
- Take measures to improve the EDPNC's tools and performance measures



# Background



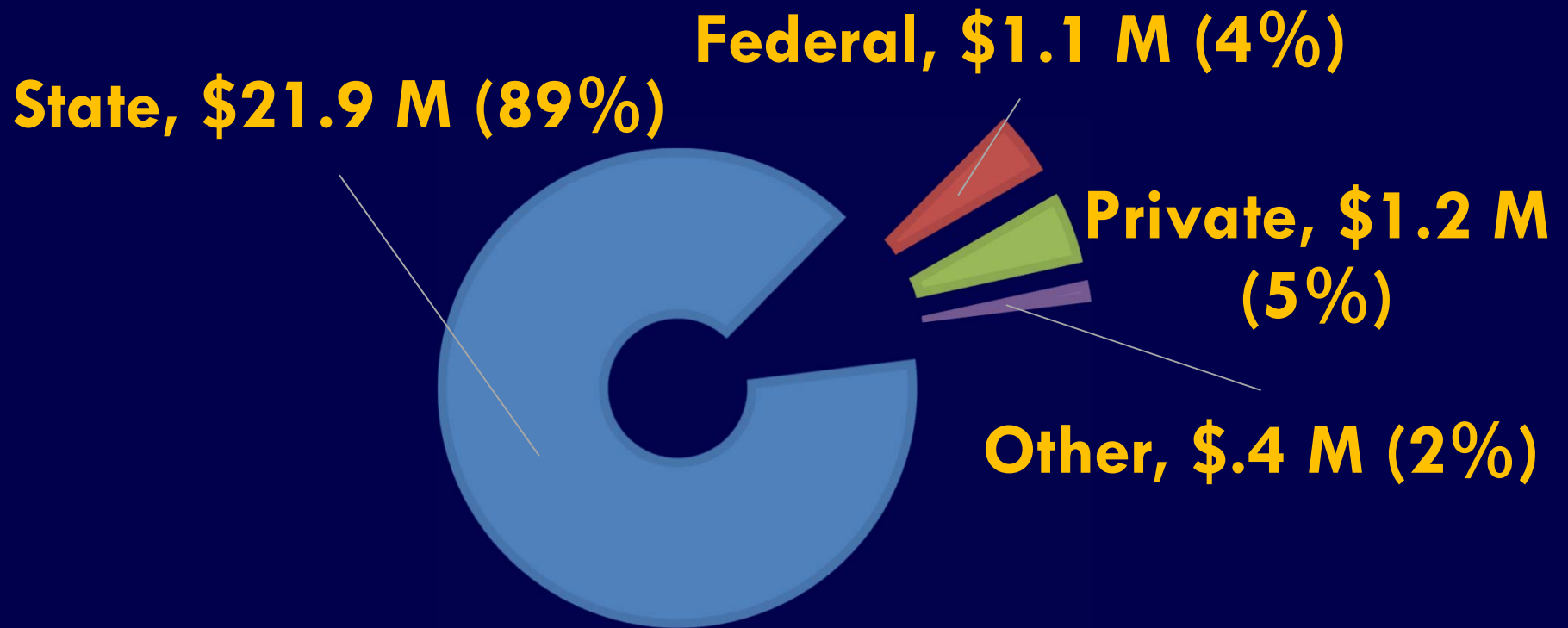
# The Economic Development Partnership of North Carolina

- Founded in 2014
  - Created after a period of weak economic performance and declining state funding
- Serves as the sales and marketing arm for the State's economic development programs
- S.L. 2014-18 authorized contracting with the EDPNC, stipulated Board of Directors membership, formed Accountability and Standards Committee to oversee contract





# Sources of the EDPNC's \$24.5 Million in Revenue



# Responsibilities by Agency

<b>Department of Commerce</b>	<b>Economic Development Partnership of North Carolina</b>
<b>Commerce Finance</b>	<b>Business Lead Development</b>
<b>Rural Economic Development</b>	<b>Business Marketing and Research</b>
<b>Employment Services</b>	<b>Business Recruitment</b>
<b>Labor and Economic Analysis</b>	<b>International Trade and Export Assistance</b>
<b>Science, Technology, and Innovation</b>	<b>Small Business and Existing Industry Support</b>
<b>Welcome Centers, call center</b>	<b>Tourism, except for Welcome Centers and call center</b>
<b>Workforce Solutions</b>	

# The EDPNC is a Public-Private Partnership (PPP)

<b>Potential Advantages</b>	<b>Potential Disadvantages</b>
<b>Reduce or supplement state funding</b>	<b>Lack of transparency</b>
<b>Strong culture of performance</b>	<b>Excessive executive pay</b>
<b>Flexibility with staffing and program expenditures</b>	<b>Conflicts of interest</b>
<b>Continuity of operations outside of political framework</b>	<b>Misuse of public funds</b>



# Economic Development Organizations Used by States

- Economic Development Agencies
  - 29 State Departments
  - 8 State Authorities
  - 13 Nonprofits (including NC)
- Large variation among state authorities and non-profits
  - Entirely public, entirely private, everything in between



# EDPNC Compared to Other Economic Development Nonprofits

- Larger range of functions
  - 10 functions as opposed to 4-8 functions
- Larger staff with 68 positions
  - 90 in Ohio
  - Between 6-18 for all others
- No public official on its board



# Findings



## Finding 1

The EDPNC's ability to allocate resources to vital activities is limited by restricted appropriations and private fundraising totals lower than those of comparable organizations



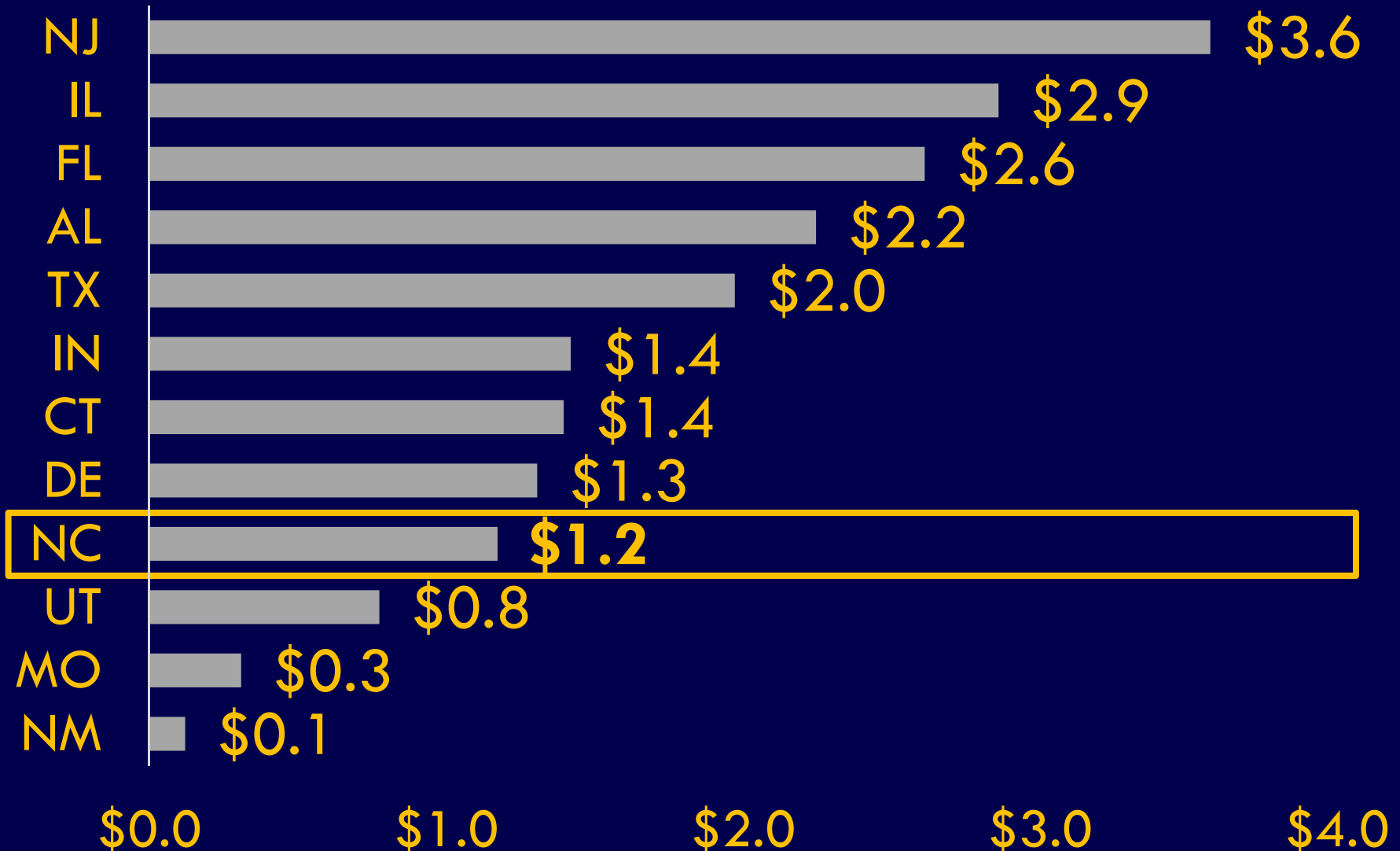
# EDPNC Fundraising

- Met legislative fundraising requirements of \$1.25 million per year,  $\approx 5\%$  of revenue
  - Annual goal was lowered to \$500,000 in 2017
  - The EDPNC was allowed to carry over funds to 2018
- Current statute disincentivizes the EDPNC from attempting to exceed legislative fundraising targets





# Private Support By State (Millions)



# Restricted Funding Limits Flexibility

- Recent legislative increases in appropriations to the EDPNC have tied funds to specific projects, limiting managerial flexibility
  - Specifying creation of position for outdoor recreation
  - Restricted funding may not be used to address emerging needs or opportunities



## Finding 2

Little formal coordination exists between the EDPNC and the Department of Commerce



# Lack of Coordination Detracts from State's Economic Development Reputation

- No formal protocol exists between two agencies to delineate communication and coordination
- Developers and site selectors think process has become more bureaucratic and slow; confusion about who to contact for specific issues
- Little long-term research being performed



## Finding 3

There is limited synergy between tourism activities and other EDPNC functions



# Tourism Division

- Part of tourism division was transferred to the EDPNC in 2014
  - Welcome Centers and VisitNC call center remain in Commerce
- NC is only nonprofit economic development PPP to combine tourism with economic development
  - Florida has its own PPP for tourism
- Staff earn bonuses like other EDPNC staff
  - May be unusual among state tourism agencies



# Tourism Marketing Funds

- Tourism marketing program funds may only be used for a research-based marketing program
  - \$12.9 million of the EDPNC's \$24.5 million total budget
- Funds may not be used for business development marketing, state branding, or other ancillary activities
- Limits the EDPNC's ability to use funds for other priorities and limits coordination between divisions



## Finding 4

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





# Salary and Pay for Performance Bonus

- EDPNC median salary = \$58,841
- Industry median salary = \$82,800
- Employees may earn up to 18.75% of their salary as a performance bonus
  - State appropriations fund base salaries, private donations fund bonuses
  - 46% of all private funds were used to pay staff bonuses
  - In three years, only one instance in which an employee didn't receive a performance bonus



## Finding 5

Current systems for economic development strategic planning and oversight lack coordination



# 2014 Legislative Changes

- Secretary of Commerce does all strategic planning for statewide economic development
- Neither the Secretary of Commerce nor the EDPNC is required to include the other for strategic planning purposes
  - Enabling legislation did not require the EDPNC Board of Directors to produce a strategic plan
- Created Accountability and Standards Committee



## Finding 6

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



# Only the Department of Commerce Has Authority to Grant Incentives

- The EDPNC grants STEP and MEP business awards to incentivize participation in export events
- State law forbids Commerce from contracting with the EDPNC to administer federal funds
  - Done to avoid giving grants to companies that donate
- Also violates contract between agencies



## Finding 7

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



# North Carolina's Buildings and Sites Database Needs Improvement

- Lacks important information about available buildings and sites
- No buildings under 10,000 sq. ft. or sites under 1 acre
  - No surrounding states limit listings by size
- Technical limitations: long load times, low picture quality, etc.



# Performance Measures Lack Ability to Quantify Effort and Service Quality

- Required reporting does not gauge the EDPNC's level of involvement in a project
  - Level of effort varies substantially by project
  - Value is contributed by a number of agencies
- Additional measures needed to consider geographic impact
  - Business leads directed to specific counties and number of site visits
- Service quality measures are not required by statute but are measured





# Recommendations



# Recommendation 1

Amend legislative language to spur increased private fundraising by the EDPNC

- Allow private funds to carry over for one year
- Increase fundraising requirement from \$1.25 million to \$2 million



## Recommendation 2

Direct the EDPNC and the Department of Commerce to contract with a facilitator to improve communication and coordination



## Recommendation 3

Form a commission tasked with determining whether to consolidate state-level tourism functions

- EDPNC
- Department of Commerce
- New 501(c) nonprofit



## Recommendation 4

Repeal the statute that created the Economic Development Accountability and Standards Committee and entrust the Secretary of Commerce with these responsibilities



## Recommendation 5

- Make the Secretary of Commerce a voting, ex-officio member of the EDPNC Board of Directors
- Require Secretary of Commerce to consult with additional state agencies and stakeholders during the department's strategic planning process
- Prohibit the Secretary of Commerce from fundraising for the EDPNC
- Direct Commerce to create two new positions with existing funds to
  - Support strategic planning
  - Produce long-range economic development research to inform strategic plan



## Recommendation 6

Direct the EDPNC Board of Directors to create a long-range strategic plan for the organization



## Recommendation 7

Clarify that the EDPNC is able to receive and administer federal funds for the State Trade and Export Promotion and the Manufacturing Extension Partnership Programs





## Recommendation 8

Direct the EDPNC to make improvements to the buildings and sites database and website



## Recommendation 9

Direct the EDPNC to work with an outside entity to make suggestions for additional or different performance measures



## Summary: Findings

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# Summary: Recommendations

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## Summary: Response

Responses from the Economic Development Partnership of North Carolina and the Department of Commerce are at the end of this report



Report available online at  
[www.ncleg.net/PED/Reports/reports.html](http://www.ncleg.net/PED/Reports/reports.html)

