

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

Recommendations

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

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

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

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

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

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

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

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

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

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

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

Outcomes from the facilitation should include a formal written protocol detailing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendices

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

Appendix B: Functions of State Economic Development Organizations

Appendix C: Governance Structures of State Economic Development Organizations

Appendix D: Personnel Information for State Economic Development Organizations

Agency Response

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

Program Evaluation Division Contact and Acknowledgments

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

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