

MINUTES
NORTH CAROLINA ECONOMIC DEVELOPMENT BOARD
Legislative Office Building
Raleigh, North Carolina
June 3, 2005

On Friday, June 3, 2005, the North Carolina Economic Development Board met in the Legislative Office Building Room 643 in Raleigh.

Chairman Jordy Whichard called the meeting to order at 8:15 a.m. He welcomed members and guests to the meeting and extended a special welcome to the General Assembly members who also serve on the Economic Development Board.

After Chairman Whichard reviewed the agenda, he called on William Neal, Chairman of the North Carolina Innovative Development for Economic Advancement (NC IDEA) Board of Directors.

Mr. Neal spoke about economic development efforts of NC IDEA. He began by stating that the Micro-Electronics Center of North Carolina (MCNC), which was founded in 1980, recently separated its operations into two entities. The Supercomputing and Networking operations became one entity and Research and Economic Development became the other entity and was named NC IDEA. NC IDEA provides early and seed stage venture funding and grants for the purpose of creating a robust economic development engine for North Carolina.

Dr. Margaret Dardess, Interim Dean of the UNC School of Public Health, Economic Development Board member and current Chair of the Board of Science and Technology, spoke about the current efforts and priorities of the Board of Science and Technology. She said that the Board was established in the 1960's to encourage, promote, and support scientific, engineering, and industrial research applications in North Carolina and is focused on accelerating North Carolina's next generation of technology and technology companies. She further stated that the Science and Technology Board crafted Goal 2 of the Economic Development Board's Strategic Plan for North Carolina, which is to establish an aggressive and coordinated state agenda of investment in research and support for technology development, transfer, and University outreach while increasing the understanding among all North Carolinians of the importance of science and technology to the state's economic growth and prosperity. The Science and Technology Board conducts studies on the competitiveness of state industry and research institutions in the fields of science and technology and is also working to identify and capitalize on emerging technologies, such as nonwoven textiles, grid computing, fuel cells, and advanced materials/manufacturing, including nanotechnology.

There was some discussion regarding the efforts being made by the University System to recruit, train and retain scientists in the United States. Dr. Robert McMahan pointed out that if you look at the relative proportion of educated scientists and engineers in the US vs China, ten years ago the ratio was approximately five to one in favor of the US and today that ratio is six to one in favor of China.

Dr. Robert McMahan, Executive Director of the North Carolina Board of Science and Technology, and a Research Professor of Physics and Astronomy at the University of North Carolina at Chapel Hill, presented information about biotechnology's impact on the state and how it is affecting the state's industries. He discussed nanotechnology and said that with the diversity nanotechnology provides, it is poised to become a critical driver of economic growth and development for the first half of the 21st Century. He further explained that nanotechnology is the ability to do things such as measure, see, predict and make, on the scale of atoms and molecules and that the process can be applied in most industries to manufacture any number of products including those produced by textile manufacturers. He said that nanotechnology processes will affect almost every aspect of our lives and could revolutionize current manufacturing processes. He said it is important to determine the need for a nanotechnology initiative to promote successful nanotech-based commercialization and economic development and to develop Legislation in support of a broad technology and entrepreneurial economy.

Lieutenant Governor Beverly Perdue spoke to the Board about the military base realignment and closure recommendations for North Carolina. She said that 18 months ago two goals were established:

- Focus on BRAC and how to keep and grow the military bases in North Carolina (\$18 billion, 350,000 jobs, 100,000 active military)
- How North Carolina could build a first tier military defense business cluster in North Carolina for private sector R&D and procurement

She said that after much work within North Carolina, visits to Washington and assistance from the North Carolina General Assembly, on May 13, the day the Department of Defense made recommendations to the BRAC Commission, North Carolina came out very well. She said the BRAC Commission will be in Charlotte on June 28 for hearings on North and South Carolina bases. After the regional hearings are conducted throughout the US, which should be by September 8, the findings and suggestions will be sent to the President and he will send the report to Congress for approval or rejection. The recommendations at that point cannot be modified. She said we are moving forward and will make every effort to monitor the hearings to be sure North Carolina is seen in a positive light.

She said the second goal - to build a military defense business cluster – was embraced quickly when it was realized that North Carolina has huge potential in the defense industry-related business clusters. She said leaders decided that it was time for North Carolina to build a military procurement and DOD economy that links businesses to the military and DOD as well as sophisticated R&D and entrepreneurship. The first step in efforts to build that economy was the establishment last year of the Military Business Center, the first in the nation to bring together small businesses, offering direction in how to do business with the military. She said another step will be the establishment of the Defense Technology Innovation Center, funds for which have been proposed by Senator Rand in SB 1067 (H910). She said that by moving forward on these initiatives sends a message that North Carolina is open and alive and intends to become open to do business with the military.

Mr. Scott Dorney, Executive Director of the North Carolina Military Business Center and AngelouEconomics, said that last year the Department of Defense spent approximately \$230 billion on procurement and just over \$2 billion of purchases occurred in North Carolina, which was less than one percent of DOD procurement nationwide. He said the mission of the Military Business Center is to narrow the gap, which offers tremendous opportunity across the state. He said the three goals of the center are:

- Increase military business for existing North Carolina companies
- Integrate transitioning military people and family members into the workforce
- Support the recruitment and development of defense-related businesses in North Carolina

Mr. Dorney introduced Daniel Kah, Research Director, AngelouEconomics, who conducted the North Carolina Military Business & Resource Gap Analysis, to examine the future of the defense industry and the resources available in North Carolina for defense companies. Mr. Kah said that specific sectors within defense were identified as North Carolina's best expansion and recruitment targets, and recommendations were developed to help the state pursue these opportunities. AngelouEconomics recommended that North Carolina pursue the target industries such as defense technologies, defense consumables, base construction and base support services and to concentrate on the following key areas:

1. **Information** – the state should provide more information to North Carolina companies on defense contracting by developing an information portal on DoD, creating a defense enterprise team, establishing an annual defense contracting conference, and maintaining a state defense asset inventory.
2. **Marketing** – the state should expand external marketing campaigns through an improved defense-oriented website, attending national defense conferences, visiting with the state's existing defense contractors, and organizing missions to defense regions and companies.
3. **Entrepreneurship & Research** – the state should expand startup and research activities in the state by launching an annual statewide SBIR conference, creating research matching funds for entrepreneurs and universities, and creating a commercialization fellowship program.
4. **Infrastructure** – the state should continue to support its unique physical assets for defense companies, including the army Research Office, Centennial Campus, and Global TransPark.

5. **Organization** – The state should focus its organizations on defense opportunities by designating “Defense” as a target industry, establishing a defense industry specialist, coordinating with local economic development efforts, creating targeted industry incentives for defense companies, expanding marketing fund for defense, and expanding federal lobbying efforts.

Mr. Robert Stolz made a motion that the Board recommend to the Department of Commerce that an enterprise team be established to focus on the military through participation in the Military Business Center’s initiatives. The motion was seconded and it carried without opposition.

Ms. Joan P. H. Myers, President and CEO of the North Carolina Technology Association (NCTA), spoke to the Board regarding the proposed Defense Technology Innovation Center which would facilitate the creation of new technology businesses, knowledge-based jobs, and commercialized technology in Fayetteville by assisting entrepreneurs and innovators with developing new businesses and technologies focused on both military and commercial needs. Ms. Myers provided copies of the Business Plan for the Center and outlined the course of action for the creation of the incubator. She said that if the General Assembly approves the Plan and decides to move forward with the creation of the Center, the Cumberland County Business Council, with the support of NCEITA and MCNC, will seek funding of approximately \$5 million for a three year period to subsidize the Center’s development and early operations.

Representative and Vice Chair Bill Owens provided an update on Bills regarding economic development issues that are proceeding through the House and Senate. He said that he and other Legislators on the Board have sponsored a number of economic development bills this year. He commended the work of the Senate in their consideration of economic development issues in their budget and praised both Speaker Black and Senator Basnight for their role in support of economic development. He also thanked Phil Kirk and NCCBI for working for the economic development effort and thanked Secretary Fain and his staff -- Don Hobart and Alice Garland – for doing a good job keeping them apprised of legislation that is needed to enhance economic development.

Representative Bill Daughtridge discussed other Legislation before the General Assembly in the area of economic development. He said also that he and other Legislators had worked to successfully stop other bills and amendments that they believed would hinder economic development in North Carolina.

Secretary Jim Fain commended the Legislators who also serve on the Board for sponsoring Legislation and for remaining diligent on behalf of economic development.

Mr. Don Hobart, General Counsel and Liaison in the North Carolina Department of Commerce, reported on economic development legislation making its way through the General Assembly. He also discussed the Senate and House proposals and the difference in the two budgets’ impact on economic development. Primary Department of Commerce active bills are as follows:

- HB947 and S1149 – The major elements of the proposed revisions to the Bill Lee Act are to extend credits beyond 2005, collapse tiers to three, collapse the number of credits to three (jobs, machinery and equipment and real property), reduce wage standard, and broaden eligible industry classifications.
- S967 - One NC Small Business Fund/JDIG – Flexibility within the fund for monies to be used for the North Carolina SBIR/STTR Matching Funds Program. In addition, the bill extends the authority of the JDIG Committee to enter into new agreements to January 1, 2008.
- Film Incentives – continuing to work on options regarding incentives for the Film Industry

Don discussed numerous other bills that, if passed, would have an impact on economic development in North Carolina.

Watts Carr commented on HB947, Business Growth and Investment Act of 2005, and stated that NCCBI and NCEDA had expressed concern about some of the language in the proposed Bill Lee Act changes. The concerns of the organizations are as follows:

- Weakening of incentives in the new Tier three counties will have a negative impact on non-urban surrounding counties which historically have benefited from proximity to successful urban growth engines.
- Both for existing and new industry, the wage standard continues to be a challenge to North Carolina's competitiveness.
- The proposed job creation tax credit is insufficient.
- The investment and job creation thresholds are too high for small business and entrepreneurial development. The higher thresholds are prohibitive for this type of job creation.
- The proposed elimination of the Central Administrative Office credit will have a chilling effect on North Carolina's ability to attract corporate headquarters where key business expansion decisions are made in the private sector.

Secretary Fain introduced Lynn Minges, Executive Director of the Division of Tourism, Film and Sports Development of the North Carolina Department of Commerce, to provide an overview of the activities in that Division. She said that one of the Board's goals recommended that Tourism provide better research capabilities and to do a better job of tracking the impact of Tourism on North Carolina's economy. She described the method by which they now gather data to measure Tourism and its impact on the state. She provided numerous statistics regarding the Tourism industry and its economic value to North Carolina.

Chairman Whichard again thanked former Chair Robert Stolz and Duke Power Company for commissioning (and Duke for underwriting) the Tom Ticknor economic development report that was presented to the Board and adopted by the Board at its February meeting. He said that since February, Tom has presented the report to the General Assembly on two different occasions and will return to present to the NCEDA group next week.

Chairman Whichard also mentioned that the terms of the Governor's appointees to the Board would expire June 30, 2005. He thanked members for serving and invited all who have an interest in remaining on the Board to contact the Governor for reappointment.

He said that the next meetings of the Board will be September 13-14 and December 6-7. He said his goal is to continue meeting in different areas of the state and would appreciate any suggestions for agenda items or volunteers to host meetings.

A motion was made and seconded to approve the minutes of the February 2005 meeting as presented. The motion carried.

Secretary Fain and Chairman Whichard presented a Certificate of Appreciation to Robert Stolz for his service to the Board since June 1999 and as its chair since January 2003, and expressed their sincere thanks for his outstanding work with the Board.

As there was no further business to come before the Board, the meeting adjourned at 12:00 noon.