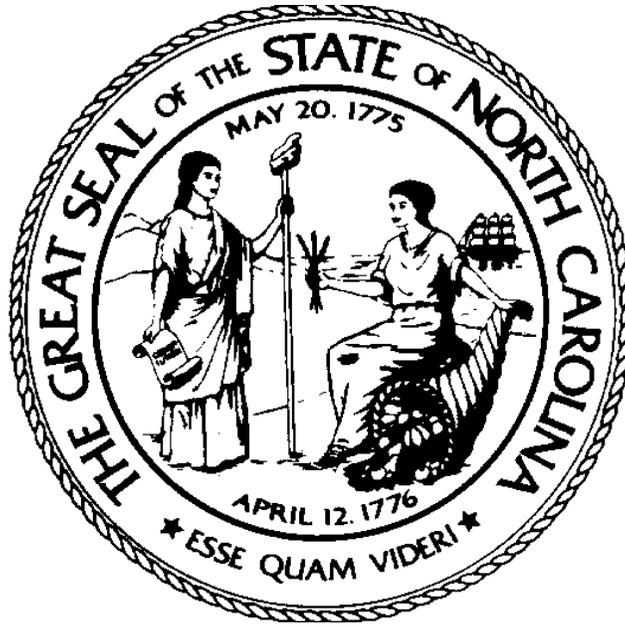


Economic Development Strategic Plan

A Retrospective: 2002 - 2008



June 2009

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Foreword

The Interagency Economic Development Group (IEDG) is a team composed of staff leads from state agencies and organizations charged with the duty of assisting the Economic Development Board (EDB) in implementing and annually updating the economic development strategic plan and providing policy recommendations for Board consideration. In accordance with General Statute 143B, as staff support lead, the Department of Commerce convenes the IEDG as needed to collect updates from the organizations that are responsible for implementing the goals of the strategic plan and/or to provide information as needed by the Board for future planning considerations.

Since its first policy roundtable discussion, the IEDG has worked to assess the status of the plan's goals and to begin developing recommendations for future policy steps. The Staff Lead of the North Carolina Economic Development Board and the Policy Team staff, in Commerce's Division of Policy, Research and Strategic Planning Division worked closely with IEDG members in preparing the Economic Development Strategic Plan reports. These reports were annually approved by the Economic Development Board and submitted to the Governor, and N.C. General Assembly in accordance with General Statute 143B.

Representatives from the following agencies and organizations offered their expertise and support in the preparation of the Economic Development Strategic Plan Updates:

- Department of Commerce
- Department of Cultural Resources
- Department of Environmental and Natural Resources
- Department of Transportation
- Employment Security Commission
- E-NC Authority
- North Carolina Association of County Commissioners
- North Carolina Board of Science and Technology
- North Carolina Community College System
- North Carolina League of Municipalities
- North Carolina Rural Center
- North Carolina Utilities Commission
- State Ports Authority
- School of Government at University of North Carolina, Chapel Hill
- Small Business & Technology Development Center (SBTDC)
- University of North Carolina System

Introduction

This report summarizes the actions taken on the North Carolina Economic Strategic Plan, *We Are Changing the Way We Do Business*, which the North Carolina Economic Development Board crafted and unveiled in October 2002 and updated in 2004. From then until the present, the 38 member Board worked diligently to oversee the implementation of the plan's goals and objections. Annual status reports were approved by the NC Economic Development Board members and submitted to the Governor and General Assembly.

The milestones met and successes realized are largely due to both the Board's advocacy and expectations of accountability, and through the support of the Interagency Economic Development Group (IEDG) - a multi-disciplined, interagency and organizational partnership that staffed the Economic Development Board and helped monitor and facilitate the activities called for in the Plan.

The original 2002, and updated 2004, North Carolina Economic Development Strategic Plan Board focused on seven major areas of economic development in North Carolina:

- *Workforce Development and Education*
- *Science, Technology and University Outreach*
- *Recruitment and Retention*
- *Community Readiness and Urban Development*
- *Rural Development Issues*
- *Infrastructure, Transportation and the Environment*
- *Tourism, Film, Sports, Arts and Cultural Resources*

The Economic Development Board, Department of Commerce, and economic development partners continued to work on those strategic objectives which had not been fully achieved.

The North Carolina Economic Development Board, having made a committed effort in 2008 to focus on the challenges of achieving greater shared prosperity across our state, partnered with the Department of Commerce to support a development hubs study that was conducted through a joint collaboration between North Carolina State University and the University of North Carolina - Chapel Hill.

This retrospective provides a measurement of progress on existing objectives, summarizes economic trends, and highlights accomplishments which have influenced the State's ability to fulfill economic development goals and objectives.

In 2008, the North Carolina Economic Development Board and its partners continued to make substantial progress and realize successes in implementing action steps from the Economic Development Strategic Plan. This update highlights this progress made on the goals, objectives and one hundred and one (101) priority action steps in the Plan during the past six years.

The report consists of three sections. First, it provides a general overview of the state's economy and provides demographic and macroeconomic trends impacting North Carolina from 2002-2008. Next it provides key highlights of activities undertaken during the past seven years that supported the objectives of the Economic Development Strategic Plan and economic growth of the state. The status of the Strategic Plan's one hundred and one (101) action steps is provided in an appendix.

An Economic Overview 2002-2008

In the year prior to the drafting of the North Carolina Economic Development Strategic Plan the state's economy and employment were severely affected by changes in global trade policy. Specifically China's accession to the World Trade Organization (WTO) severely impacted North Carolina manufacturing base, as jobs were 'off-shored' at an unprecedented rate. Concurrently the dot.com bust had dire impacts on the state's high technology and internet-based industries, and the terrorist attacks on September 11th caused emotional and economic impacts, furthering the economic decline of the state.

The state entered 2002 having lost 106,000 jobs and an unemployment rate that had risen from 4.4 percent to 6.8 percent. North Carolina lost 80,100 manufacturing jobs - a 10.7 percent decline. Employment continued to decline throughout 2002 and into 2003, reaching bottom in July 2003, when Kannapolis based Pillowtex, Inc., a textile manufacturing plant, closed and 4,600 workers lost their jobs. The plant's closure brought the state's total job loss to 180,000.¹

To combat this economic trend the Economic Development Board supported a number of actions to help boost the state's economy; such as continued funding for the Job Development Investment Grant (JDIG), creation of the One North Carolina fund (One NC), Amendment One - which allows local governments to issue self-financing bonds, creation of the Small Town Main Street Program in the Department of Commerce, and a 15% film industry tax credit incentive. Collectively these resources helped the state become more competitive in attracting and expanding its business and industry base in targeted industry sectors.

By 2005 the state had replaced the 180,000 job deficit and was transforming its traditional agricultural and manufacturing economy towards a higher skilled, higher waged knowledge-based economy. At the end of 2007 the growing economy had added an additional 244,000 jobs and the state was ranked fourth nationally in job growth, behind only Texas, Florida and California.² Over a seven-year period (2001-2008) the state replaced its declining manufacturing employment with higher paid jobs in the financial service and business and professional service sectors, and in health and education occupations. North Carolina's economy was more diversified.

Although the state maintained employment levels during the first half of 2008, signs that the nation was already in a recession were prevalent and North

¹ Building a 21st Century Economy in North Carolina, 2008 Annual Report and 2001-2008 Retrospective. NC Department of Commerce. January 9, 2009.

² Ibid.

Carolina, like its national counterparts, began experiencing the effects of the economic slowdown. During 2008 employment in the state declined by 84,800 jobs, although the state did fair better than most states due to the successes in diversifying its economy and transforming the employment base.³

According to Dr. Mike Walden, a William Neal Reynolds Professor and North Carolina Cooperative Extension economist in the Department of Agricultural and Resource Economics of N.C. State University's College of Agriculture and Life Sciences, not only has North Carolina's unemployment rate doubled over the past year, with 235,000 jobs in the state having been lost since December 2007, wages in the private sector are being cut and state employees are taking mandatory furloughs.⁴

In his May 2009 newsletter, Walden reported that although workers were still losing jobs, the speed at which these losses occurred had slowed down. He stated that housing sales appeared to have stabilized, both in North Carolina and nationally. National housing prices dropped at a slower rate and pending sales and foot traffic in homes for sale had risen. North Carolina home foreclosures were down appreciably in the first three months of 2009, when compared to the same period in 2008.⁵

Collectively economists around the nation are currently forecasting the beginning, of the end to the recession within the next year, and are now debating what kind of rebound will occur. According to an article in the News & Observer, employment in the Triangle may rebound in 2011, but depending upon the county, it may be 2014 or later before employment levels return to their pre-recession levels.⁶

A major role the Economic Development Board can play is in providing strategic leadership and coordination of state economic development activities.

³ Building a 21st Century Economy in North Carolina, 2008 Annual Report and 2001-2008 Retrospective. NC Department of Commerce. January 9, 2009.

⁴ "You Decide by Mike Walden". North Carolina State University, College of Agriculture and Life Science. May 2009. http://www.ncsu.edu/project/calcommblogs/news/archives/2009/05/you_decide_is_t_2.html

⁵ Ibid.

⁶ "Jobs recovery likely to lag", news article. The News and Observer. June 17, 2009.

Highlights of key Economic Development Strategic Plan Successes during 2002 - 2008

During the tenure of the North Carolina Economic Development Board, from 2001 through 2008, many successes were realized. Without question the Board was been instrumental in helping move North Carolina's economic development agenda forward.

Collective highlights include:

The total dollar amount of SBIR and STTR awards doubled and the annual number of the awards increased by more than 80% from 2002-2005.

In recognition of the potential of agriculture-based tourism in rural areas of the state, the Agriculture Department has maintained an agri-tourism office in Raleigh since 2003.

The Office of Urban Development, created in 2002, has worked continuously with other organizations and agencies to develop partnerships to better support economic development in distressed urban core areas.

Since 2005, the Department of Commerce has received funding to build and maintain the Economic Intelligence System (EDIS) - an online application that helps economic developers recruit and retain businesses.

Technology transfer services have been strengthened over the past five years on less research-intensive campuses through contracts with university-based spin-off companies.

From 2001-2008, the Business & Technology Telecenter program created 1,490 jobs, at a cost of \$4,049 per job. Collectively, the seven program sites had leveraged \$11.9 million in private financing.

Annual highlights of the programs and legislative action items the NC Economic Development Board championed from 2002 - 2008 are listed below:

2002

The ED Board worked with the General Assembly to create the Job Development Investment Grant (JDIG) program, a discretionary grant program that has enabled the Department of Commerce (DOC) to bring quality companies, with well-paying jobs and investment, to North Carolina.

The Office of Urban Development, created in 2002, has worked continuously with other organizations and agencies to develop partnerships that better support economic development in distressed urban cores.

The NC Rural Center has provided financial institution lending for local businesses. Since 2002, the Capital Access Program made over \$41M available in loans, to serve approximately 800 businesses and to create and maintain over 7,000 jobs.

2003

The ED Board passed a resolution of support for a comprehensive bio-manufacturing training and education program in North Carolina.

In support of Goal 5 of the ED Strategic Plan, the Small Town Main Street Program was initiated and became an official program of the Department of Commerce. This program targets towns with populations under 7,500, which are unlikely to pursue North Carolina Main Street designation.

2004

The One North Carolina Fund was created to help recruit and expand quality jobs in high value-added, knowledge-driven industries. One component of the Fund, the One North Carolina Small Business Account, is used for the North Carolina SBIR/STTR Incentive Program and the North Carolina SBIR/STTR Matching Funds Program.

The Board supported the Economic Development Financing tool, and on November 2, 2004, North Carolina citizens voted in favor of Amendment One. This amendment to the North Carolina constitution allows governments within the state to issue self-financing bonds.

2005

The Economic Development Board passed a resolution to support the formation of a military industry sector team within Commerce to maximize the potential to grow this industry in the state.

The General Assembly granted the film industry an incentive that provides qualified productions with up to a 15 percent rebate on purchases and expenses in North Carolina.

The Ticknor Report, a best practices study of other states' recruiting, retention and business relocation marketing programs, was endorsed by the Board through a formal resolution in February 2005. The Ticknor study recommended additional outlays for internal capacity building, such as Web site redesign, customer management sales management system development,

training and research/analysis staff expansion. In response to the findings of this study, the General Assembly approved funding in 2005 for:

- Design and launch of a new Commerce website,
- Implementation of a Client Relationship Management (CRM) system, to better manage business development leads,
- Development of marketing campaigns to promote the state as a business destination in national and international media,
- Addition of new positions to better support market research and strategic planning efforts within Commerce, and
- Support for the ongoing development of the Economic Development Intelligence System (EDIS), an information portal for economic developers and the general public.

The Small Business Technology Development Center (SBTDC) Procurement Technical Assistance Center Program, in 2005 helped clients secure \$1.4 billion in local, state and federal contract awards.

2006

The General Assembly appropriated \$5 million in a non-recurring fund to support the One North Carolina Small Business Fund. From April to July 2006, this Fund provided more than \$1M in matching awards to 24 companies.

The Department of Commerce received a \$10 million appropriation to create an economic development reserve fund for the purpose of awarding grants for site acquisition and economic development projects that promised to boost regional economies.

The University of North Carolina's Board of Governors added a seventh strategic directive to its long-range plan in 2006 to emphasize the university's role in transforming the state economy through "basic and applied research, innovation and creativity, transfer of knowledge, application of best practices, and high quality degree programs." In May 2006, the Board of Governors adopted a report by the Special Committee on 'Economic Development and the Role of The University'. This report provided a framework for economic and community development activities on university campuses.

Film incentives were revised in 2006 to provide qualified productions with up to a full 15 percent rebate on purchases and expenses in North Carolina.

The General Assembly provided additional support for growing industries through biotech programs, motorsports incentives and expanded the One North Carolina Fund by \$15 million.

The Job Development Investment Grant (JDIG) program received \$30 million, double the previous year's \$15 million appropriation.

The William S. Lee Business Tax Credit program was restructured to simplify the tier structure, provide a lower, fairer wage standard and provide expanded industry categories.

The Small Cities CDBG program was granted \$1.75 million for FY 06-07 to help support the construction and expansion of entrepreneurial incubator facilities in small cities and towns.

The N.C. General Assembly appropriated the amount of \$244,699 for the 21st Century Communities program to employ three full-time staff for the Raleigh, Washington, and Asheville offices, to provide planning and technical assistance to current and future program participants.

2007

The Economic Development Board sent a letter of support for the formation of the Southeast Crescent Authority to the state's legislative delegation.

The North Carolina Economic Development Board supported the 2007 Article 3J Tax Credits legislation that offers several types of tax credits to eligible taxpayers that undertake qualifying initiatives. Article 3J Tax Credits replaced the William S. Lee Tax Credits. The new tax credit program created urban progress zones to encourage businesses to locate in urban cores and agrarian zones.

The General Assembly approved an extension of the Job Development Investment Grant (JDIG) program until 2010. In 2007, this discretionary grant program awarded fourteen grants to new and existing companies. If performing as expected, these companies will create 5,574 new jobs, retain 3,653 existing jobs, and invest \$525 million in North Carolina.

The General Assembly approved the creation of the Job Maintenance and Capital Development (JMAC) grant program. This program assists expanding businesses with substantial capital improvements and maintenance of high-quality jobs.

The Department of Commerce launched its newly designed website in 2007. This comprehensive redesign provides a new platform to build the state's brand among business audiences, communicate news to relevant stakeholders, and explain in-depth the wide spectrum of economic development programs underway in the state. The website features the Economic Development Intelligence System (EDIS) as a method of collecting a wide variety of information about counties, Economic Development Partnerships, and the state as a whole.

Another significant undertaking by the Department of Commerce is the implementation of a Customer Relationship Management (CRM) system. This software will allow the department to keep track of and share information about new and expanding businesses internally, provide better customer service to existing business, and to customize and direct marketing activities.

The Economic Development Board approved a development hubs study. This study sought to define development hubs, examine North Carolina's resources, and identify best practices around the nation.

The North Carolina Community College System (NCCCS) enrollment growth was fully funded (\$8.8 million) by the General Assembly in 2007, facilitating the accommodation of 2,296 additional full-time students. An additional \$2 million was appropriated to an enrollment growth reserve for colleges that experienced growth greater than five percent.

In December 2007 a memorandum of agreement was signed between the University of North Carolina and the Department of Commerce, aimed to increase the connectivity of campuses to regional development infrastructures.

The state's Film Office reported that spending by film, television and commercial production companies increased to \$160.2 million in North Carolina in 2007, a sixty-one percent increase from 2006. This figure includes wages, and goods and services used by commercial production companies.

During the 2007 legislative session, the e-NC Authority received an appropriation of \$1.21 million for the expansion of high-speed Internet service in the four least-connected counties in the state - Gates, Greene, Jones and Warren counties, where less than fifty percent of households had access to high-speed Internet service. After this deployment, only seventeen counties in North Carolina had connectivity levels below seventy percent.

Community Development Block Grant (CDBG) funds provided 54,504 linear feet of water and sewer improvements to eligible local governments and assisted 286 households in those communities.

The Department of Commerce's Small Cities Community Development Block Grant (CDGB) program set aside \$1,000,000 in funds for fiscal year 2007 and 2008 to help implement the Small Business Entrepreneurial Assistance Program to help create and retain jobs within our state's most distressed communities.

The Office of Urban Development has successfully expanded the small town downtown revitalization initiative statewide. In 2007, the General Assembly funded a Small Town Main Street staff position for western North Carolina, enabling the program to provide downtown development assistance to smaller

communities all across the state. The Small Town Main Street program now has four staff positions - two in the west and two in the east - and continues to add new towns annually. In August 2007, six towns were selected to participate in the program, and an additional six communities were designated in September 2008.

2008

The Economic Development Board signed two resolutions - one in support of One North Carolina Small Business and the other in support of The North Carolina Green Business Fund. These resolutions encouraged the support of Governor Easley's recommendation for funding during the 2008 legislative session.

The Economic Development Board partnered with the Department of Commerce to contract with North Carolina State University (NCSU) and the University of North Carolina at Chapel Hill (UNC-CH) to conduct the Development Hub Study, approved in 2007.

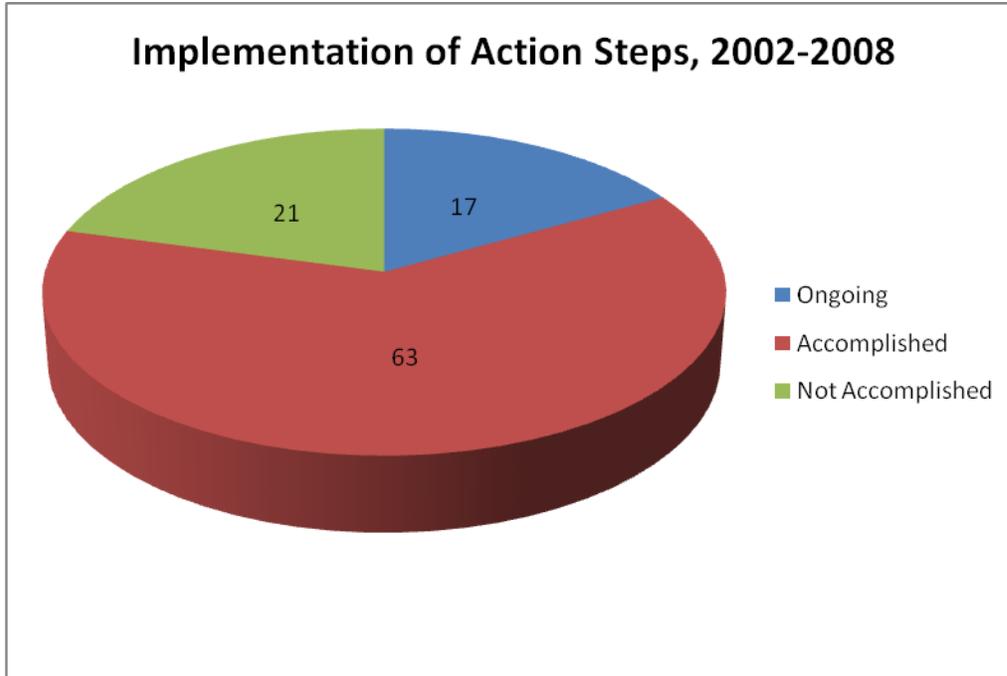
The Green Business Fund allocated \$1 million for the first round of grants. Eighty-five (85) small businesses filed applications, seeking nearly \$7 million in funds. Thirteen (13) businesses from across North Carolina received awards, totaling \$950,000. The N.C. Department of Commerce's Board of Science and Technology administers this program.

Strategic Plan Progress Summary from 2002 to 2008

The North Carolina Economic Development Board and its statewide partners made excellent progress in accomplishing the action steps laid out in the Economic Development Strategic Plan. Since the Plan's drafting in 2002 and update in 2004, the Economic Develop Board worked hard to lead the effort in addressing the one hundred and one (101) original action steps. As a result, only twenty-one of the one hundred and one actions steps that failed to see some activity, in part due to modifications in policy priorities.

Of the remaining eighty action steps in the Economic Development Strategic Plan, there were only seventeen (17) action steps that had not yet been fully accomplished by the end of 2008. Inactivity on these action steps was largely due to the complexity of the recommended actions - for example, request for the designation of recurring or additional funding and staffing for university, community college and agency programs and research efforts.

The table below illustrates the overall success of the Economic Development Board's strategic plan.



Conclusion

North Carolina's economy faced many challenges during the past eight years, yet the state continued its tenure as one of the best places to do business. Under the Economic Development Board's guidance, economic development objectives were outlined and strategies were put into place that helped the state continue its successful transition in a changing 21st century economy by creating high skilled, high wage jobs, and remaining competitive in an evolving global marketplace.

January 2009 welcomed a new Governor and Administration. In July 2009 a newly appointed Economic Development Board will take the helm in guiding the course of North Carolina's economic development and craft the state's new Economic Development Strategic Plan.

With the help of continued legislative support and innovative economic policies and strategies; such as strengthening the green economy, providing increased support for the development of military and defense industries, and continuing to build a vibrant aerospace industry presence, North Carolina will ensure its competitive position both nationally and globally and will continue to celebrate many critical successes in economic and workforce development.