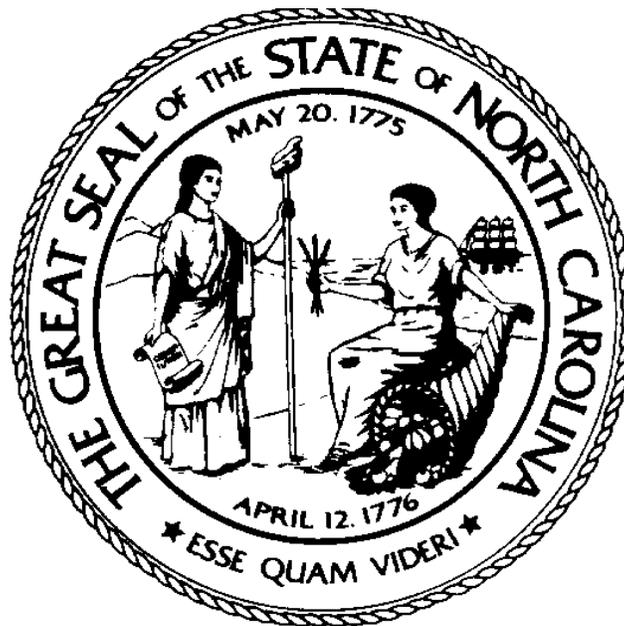


Economic Development Strategic Plan

2006 Update of Actions and Accomplishments

An Executive Summary



August 3, 2006

Prepared by the
Interagency Economic Development Group

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I. 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 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. In 2006, the IEDG met on the dates of April 17, May 25, and July 17 to assist in the preparation of the annual Strategic Plan Update Executive Summary for presentation at the EDB meeting in early August.

The following IEDG representatives offered their expertise and support in the preparation of this executive summary:

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- Department of the Secretary of State (*Michael Peeler*)
- Department of Transportation (*Alpesh Patel, Steve Varnedoe*)
- Department of Agriculture & Customer Service (*Ron Fish*)
- Department of State Treasurer (*Jennifer Cohen*)
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- Department of Environmental and Natural Resources (*Jimmy Carter, Gary Hunt*)
- Department of Cultural Resources (*Jeffrey Crow, Maryanne Friend*)
- Department of Public Instruction (*Rebecca Payne*)
- Employment Security Commission (*Lane Dyer*)
- North Carolina Community College System (*Larry Keen*)
- University of North Carolina System (*Leslie Boney*)
- State Ports Authority (*Tom Eagar, Jimmy Yokeley*)
- Small Business and Technology Development Center (*Scott Daugherty*)
- North Carolina Board of Science and Technology (*John Hardin, Bob McMahan*)
- North Carolina Rural Center (*Billy Ray Hall, Leslie Scott*)
- North Carolina Advisory Commission on Military Affairs (*Gene Byrd, John Berndt*)

II. Strategic Plan Background

In 2001, Governor Easley charged the Economic Development Board with the task of developing a new comprehensive strategic economic development plan that takes innovative and strategic approaches to such issues as incentives, workforce development, and the development of science and future technologies. The Board unveiled its plan, entitled "We Are Changing the Way We Do Business" in October 2002 and is working to implement the plan, along with staff and advisors, through advocacy and ongoing accountability reviews with the state's economic development agencies. The strategic plan was updated 2004 and presented to the Economic Development Board during the November meeting.

As North Carolina encounters promising new opportunities for economic growth it has become increasingly necessary to tailor the strategic plan to the needs of a dynamic modern economy. It is imperative that the Board continue to support the policy implementation of the plan's objectives and evaluate the progress of the organizations charged with carrying out the objectives. The following pages detail recent actions that have been taken toward the plan's seven major goals and lays out some preliminary economic trends and observations for future consideration.

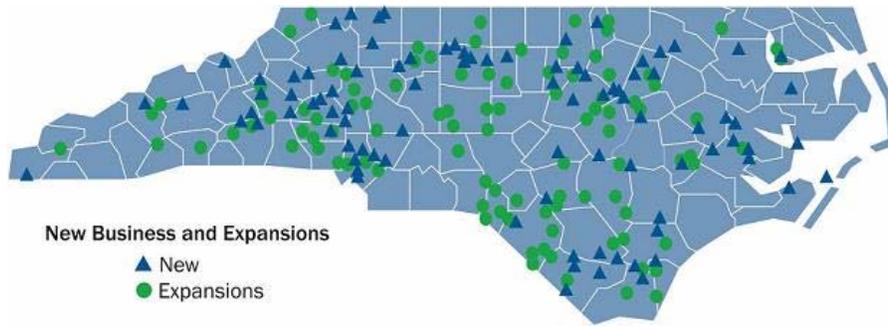
III. An Economic Snapshot of North Carolina

As North Carolina advances toward a position of economic distinction, state organizations and community development leaders have demonstrated remarkable skill in helping the state successfully adapt to the 21st century economy. In a dynamic economic environment North Carolina's economic development agencies have taken steps to create high-quality jobs that will boost incomes and enhance the quality of life for all North Carolinians.

Having lost 184,700 manufacturing jobs since January 2001, North Carolina's diverse economy - supported by continuing investments in education and workforce development - has managed to replace those industrial positions with gains in financial services (17,100), professional and business services (15,600), education and health services (90,900) and government (64,000). Non-farm employment declined from January 2001 levels until again turning positive in February 2006. Through June employment had increased by 30,000 jobs over the January 2001 level and had grown by 100,000 since June 2005 - the third largest job increase in the nation during that twelve month period.

Fostering knowledge-based growth has become increasingly necessary as North Carolina strives to position itself strategically in the extremely competitive global marketplace. The state must work to accelerate the competitive position of its existing industries with innovative new technologies and strategic planning policies. In order to make the necessary adjustments, all sectors of state government must engage in a common economic planning vision that will spur development and ensure sustained industry growth.

To adapt to the modern economy, North Carolina must examine the unique characteristics of its workforce. It is predicted that the number of employed North Carolinians will increase by nearly 700,000 from 2002 to 2012 at a rate of 17 percent, or 1.58 percent annually. This rate is slightly higher than that of the nation. However the growth of employment within the state is not geographically homogenous due to the tremendous economic diversity among the various regions of North Carolina. For example, agricultural production predominates in the Coastal Plain while manufacturing is concentrated in the Piedmont area of the state. As a result, different areas of the state possess different economic assets that must be taken into consideration by development planners.



Source: Department of Commerce 2005 Annual Report

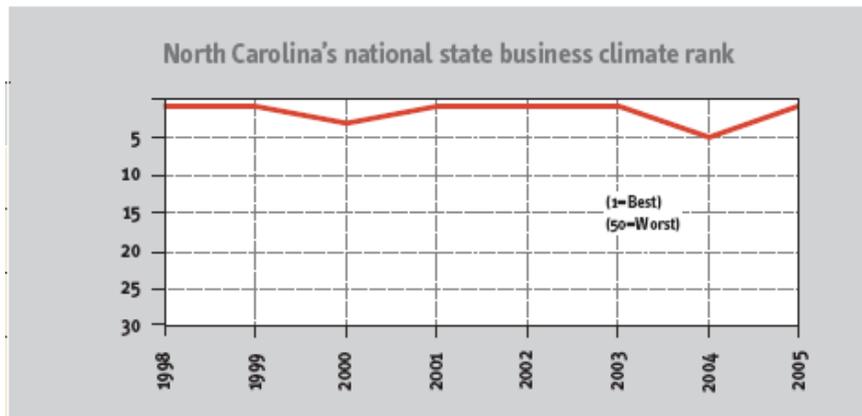
North Carolina's changing role in the world economy has created a need to cultivate worker skills and attract new industries. Specialized training and retraining is becoming an integral part of making North Carolina's economy more adaptive to the needs of businesses. In particular, healthcare and education are predicted to be the fastest-growing industries in North Carolina. Healthcare-related occupations, such as medical records and health information technicians are the fastest-growing occupations in the state - generating many jobs and taking advantage of the growth of new research and technology tools.

North Carolina has also taken significant measures to enhance the information technology environment of the state. In 2004 the Center for Digital Government ranked North Carolina 10th in the nation and 3rd in the Southeast region in the use of digital technologies to streamline operations and serve citizens. In 2004, North Carolina was ranked 36th in the nation in the ratio of instructional computers to students. These rankings show the improved climate for science and technology that has been fostered by state agencies and organizations.

North Carolina's natural and cultural assets have been another main driver of economic development in the state. Tourists spend more than \$14 billion annually in the state, contributing significantly to regional economies. In 2004, the state also achieved \$235 million in estimated revenues from film production that took advantage of North Carolina's natural and cultural assets. As a result of several film incentive packages passed by the General Assembly, the state now ranks third in the nation in revenues from film, television and commercial production.

North Carolina continues to provide visionary leadership to help North Carolina businesses compete in the global economy. The business environment in North Carolina is one of the state's most outstanding successes. In 2005, an Ernst and Young study for the Council on State Taxation determined that North Carolina and Delaware had the nation's lowest all-in business taxes as a percentage of private gross state product (GSP). Also, in 2005, North Carolina was ranked 1st in the US and Southeast in overall state business climate

according to Site Selection Magazine. North Carolina has ranked among the national and regional leaders in state business climate for new and expanding business during most of the last eight years and earned the top national position in 2001, 2002, 2003 and 2005.



Source: *Insight: North Carolina's Labor and Economic Outlook*, April 2006

In early July, Governor Mike Easley signed the budget agreement passed by the General Assembly for fiscal years 2006-2007. The budget contains many adjustments favoring K-12 and higher education and several allocations for technology-based growth initiatives.

Economic development programs received some increased financial support in the 2006 budget. The General Assembly provided additional support for growing industries through biotechnology programs and motorsports incentives and expanded the One North Carolina Fund by \$15 million. The One North Carolina Fund was established in 1993 to assist companies with the costs of new equipment and repairs. The fund's associated Small Business Innovation Research (SBIR) program was given \$5 million by the General Assembly in 2006 to reimburse entrepreneurs for the costs of preparing SBIR proposals and to match federal awards for creating new businesses. The Job Development Investment Grant (JDIG) Program, which provides grants to new and expanding businesses, was given legislative approval to expand its financial capacity from its current \$15 million to \$30 million in calendar year 2006. The change came at the request of the Department of Commerce to provide more flexibility in competing for a cyclically large number of economic development projects.

The new budget also invests in research initiatives at state universities. The medical school at the University of North Carolina at Chapel Hill will use \$2.5 million to expand its translational medicine program, which connects basic research with applied pharmaceutical development. Biotechnology programs at North Carolina Central University and North Carolina State University will receive \$4.5 million, and the North Carolina Biotechnology Center and its regional offices will receive a \$2.5 million budget increase.

UNC and Rowan-Cabarrus Community College Training Center and Greenhouse will receive \$6.7 million to partner with the new NC Research Campus in Kannapolis and Fayetteville State University intends to begin capital planning on a new science and technology complex with a \$1 million allocation. The budget also provides \$20 million for a new competitive grant program for state universities that can be used to attract faculty, purchase equipment and undertake allied health projects.¹

¹ From *SSTI Weekly Digest*, A Publication of the State Science and Technology Institute (2006 report)

IV. Status Report

Goal 1:

DEVELOP AN OUTSTANDING EDUCATION SYSTEM AND A HIGHLY QUALIFIED WORKFORCE.

The key to implementing the education agenda of the strategic plan is executive branch leadership and legislative support in funding strategic initiatives. To this end, a number of the Governor's proposals in support of this goal have been adopted by the General Assembly.

In 2005, the legislature appropriated \$2 million for the Community College Enrollment Reserve fund, which will aid the community colleges in providing technical training for regional job development. During the 2006 legislative session, the General Assembly outlined the goals of the community college system in HB 583 - which identified the community college system as the lead state agency for workforce development training, literacy, and adult education.

The North Carolina Community College System (NCCCS) has worked steadily to support and expand various work-based learning opportunities that complement curriculum objectives. Several occupational training programs are provided on site at regional community colleges, such as the New and Expanding Industry Training Program, Focused Industrial Programs, and Occupational Continuing Education Programs. The Customized Industry Training Program was added in fiscal year 2006 to provide a level of flexibility for the NCCCS that will enhance the training process and stimulate additional capital investment, growth, and retention of jobs in North Carolina. A host of other curriculum programs have been created by the NCCCS to reflect the occupational needs in North Carolina's communities and to provide educational programs required for transfer to institutions in the University of North Carolina System.

In early 2006, the NCCCS began meeting with the North Carolina Department of Labor to enhance an apprenticeship program run by regional community colleges. The NCCCS has also collaborated with the Commission on Workforce Development and local development boards to coordinate worker-training efforts. Also in 2006, the NCCCS began cultivating relationships with various businesses for the purpose of creating an internship program that would enhance opportunities for work-based learning. As part of an ongoing effort, the NCCCS continues to work with development consultants to analyze and prioritize course offerings and training programs based on local, regional, and statewide industry needs.

To accommodate technology-oriented training the NCCCS has taken significant measures to fast track the development of critically needed skilled workers. Improvements to the workforce training process at regional community colleges have been supported by a variety of public and private sector organizations. Contributions by the Golden Leaf Foundation, the Duke Energy Foundation, the State and others provided community colleges with needed state-of-the-art technology and additional resources to enhance and revitalize training programs with advanced machinery and equipment necessary for improvements.

In particular the NCCCS BioNetwork Program was established in 2004 to provide training at community colleges for workers in the pharmaceutical and biotechnology fields. Because of generous funding by the Golden Leaf Foundation the program was initially able to purchase training equipment and to offer both online and hands-on training to its students. In 2006, the General Assembly appropriated recurring funds of \$7.1 million to provide the program with further resources to expand.

NCCCS' Small Business Center (SBC) Network delivers numerous worker and business owner training programs for small businesses and aspiring entrepreneurs at each community college. The SBC Network has collaborated with North Carolina REAL (Rural Entrepreneurship through Action Learning) Enterprises and the N. C. Rural Center in the New Opportunities for Workers program - which trains dislocated workers in business development.

In place of implementing a regional skills alliance plan the Commission on Workforce Development leveraged its resources to help the Piedmont Triad Regional Partnership secure a federal WIRED grant in the winter of 2005. The Piedmont Triad Partnership was awarded one of thirteen national WIRED projects from the Department of Labor, February 1, 2006.

The Commission on Workforce Development, in partnership with several other entities, is working on related initiatives for North Carolina to support regional economic sectors. As part of an integrated development strategy, the community college system has actively engaged with local development boards to improve the quality of regional skills implementation plans.

The Department of Public Instruction (DPI) created an implementation plan in 2006 for the recommendations of the Advisory Commission on Raising Achievement and Closing Gaps. To promote its objectives DPI hosts an annual conference for approximately 3,500 public school personnel. The Raising Achievement and Closing Gaps Conference was held March 27-29, 2006 to help local school systems develop strategies and identify programs that would address the achievement gap. The conference continues to reflect the goals of the department in improving the quality of public education for all children in North Carolina.

Goal 2:
INVEST IN SCIENCE, TECHNOLOGY, AND UNIVERSITY OUTREACH.

Science and technology-based innovation fuels a knowledge-based economy; it creates new industries, makes existing ones globally competitive, and drives future economic growth. Over the coming decades North Carolina can produce more new jobs for its citizens from the effective use of science and technology economic development policy than from any other source. Reaching top tier status in science and technology is a priority that requires increased focus on regional innovation and research and development.

Several proposals have passed during the 2006 legislative session that aim to boost North Carolina's position in science and technology. Specifically, the 2006 General Assembly included a provision in its budget to reduce the sales tax on R&D equipment to promote technology-based growth in North Carolina.

As a marker of progress in the science and technology sector, the total dollar amount of SBIR and STTR awards has doubled and the annual number of these awards has increased by more than 80% from 2002 to 2005. The Small Business Innovation Research (SBIR) Program provides competitive grants to entrepreneurs to help finance R&D, start-up, and the commercialization of innovative business. Its counterpart, the Small Business Technology Transfer (STTR) Program, promotes collaboration between small businesses and non-profit research institutions - such as universities. The amount of STTR funding in a state reflects the degree to which partnerships of small companies and non-profit research institutions are participating in funded R&D. Together, SBIR/STTR awards are primary indicators of economic growth centered on emerging technology.

The Small Business and Technology Development Center (SBTDC) is the state's lead organization for the promotion and support of small business access to SBIR and STTR programs. It provides a robust range of services to entrepreneurs and university researchers aimed at increasing awareness of these programs and boosting the number of successful applications for awards. Examples of the SBTDC's services include major statewide conferences, numerous workshops, and individualized proposal assistance. Combined, these steps have raised awareness of SBIR and STTR awards throughout the state and increased the application success of regional entrepreneurs.

Even with these gains North Carolina small businesses need additional assistance to win a proportionate share of SBIR and STTR awards. To increase the number of these awards as well as the competitiveness of North Carolina businesses in receiving them, the One North Carolina Small Business Fund, created in 2005 by the Board of Science and Technology and Commerce, has

provided more than \$1 million in matching awards to twenty-four companies from April to July 2006. During the 2006 legislative session the General Assembly appropriated \$5 million in non-recurring funds on the Governor's recommendation to support the One North Carolina Small Business Fund. With these funds, the Department of Commerce will offer grants under the North Carolina SBIR/STTR Incentive Program and matching grants under the North Carolina SBIR/STTR Matching Funds Program for fiscal year 2006-2007.

The SBTDC has invested significant efforts into preparing emerging technology firms for equity investment consideration. Activities include offering "Are You Investor Ready?" programs for owners who are seeking external investments and one-on-one coaching on successful venture presentations. As a result, SBTDC clients attracted \$100 million in equity investment funds in 2005.

North Carolina universities are also emerging as centers of regional entrepreneurship. 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 provides a framework for economic and community development activities on university campuses.

Technology transfer services have been strengthened on less research-intensive campuses through contracts with university-based spin-off companies. These initiatives were implemented based on discussions with the Council of Research Administrators, a group comprised of representatives from the various university campuses, and convened by the Vice President of Research. These measures aim to increase the amount of university innovation through technology transfer and commercialization and to promote economic development activities.

In the spring of 2005 the Board of Science and Technology formed the Governor's Task Force on Nanotechnology and North Carolina's 21st Century Economy. The task force issued its first report in April 2006 and is working to implement a series action steps that will improve the environment for technological innovation and the application of nanotechnology in North Carolina.

During the 2005 legislative session the General Assembly voted to amend the Umstead Act with HB 1539. This bill authorized the Board of Governors of the University of North Carolina to establish a panel to determine whether the university system has the authority to undertake an

activity in competition with a nongovernmental entity. This measure aims to improve the ability of the University of North Carolina to commercialize its technologies while protecting private enterprises from unfair competition.

***Goal 3:
ENSURE A COMPETITIVE ENVIRONMENT FOR THE RECRUITMENT
AND RETENTION OF BUSINESS, CAPITAL INVESTMENT, AND JOBS
CREATION.***

Significant steps have been taken towards providing a competitive business environment for industries locating in North Carolina. The 2006 General Assembly presented the Department of Commerce with \$10 million to create a “economic development reserve” fund for the purpose of awarding grants for “site acquisition and economic development projects” that promise to boost regional economies. The SBTDC was allocated funding by the General Assembly in 2006 to start a business services project in five western North Carolina counties.

North Carolina’s JDIG (Job Development Investment Grant) program was designed to attract jobs and business by providing financial incentives to companies that, because of the JDIG, elect to locate and grow in the state. During the 2004 short session, the General Assembly increased the maximum number of JDIG grants from fifteen to twenty-five per year and increased the maximum annual liability for the grants from \$10 million to \$15 million (HB 1414). During the 2005 legislative session, the General Assembly acted to extend the JDIG program to January 1, 2008. The program was given legislative approval to expand its financial capacity from its current \$15 million to \$30 million in calendar year 2006. The change came at the request of the Department of Commerce to provide more flexibility in recruiting a large number of economic development projects. The JDIG program continues to ensure that North Carolina can successfully compete against other states for jobs and business.

The Business ServiCenter in the Department of Commerce received full funding in 2004 to implement a marketing strategy that would advertise its resources to business clients. By 2006 the Business ServiCenter was fully staffed and actively promoting its services to communities across the state. This service has continued to attract clients through regional trade shows, magazine ads, brochures, presentations to community development groups, and meetings with regional chambers of commerce. To increase its accessibility the Business ServiCenter allows anyone in North Carolina to make a toll-free call to a customer representative - including one Spanish speaking representative - who can address the needs of information startups and small business owners. Six business counselors are assigned to each of the state’s economic development regions to make field visits and speak with economic development officials in local communities. As of 2006, the Business ServiCenter received 3,000 to 3,500 contacts from local businesses per month.

The Department of Commerce, in fiscal year 2004-2005, received funds to build the first version of its Economic Development Intelligence System (EDIS) - an online application that will help economic and community development professionals recruit and retain businesses around the state. The Department was provided \$375,000 from the General Fund to build EDIS for fiscal year 2004-2005 and received \$297,898 in recurring funds to support and maintain the system. This recurring money includes the establishment a database management professional to assist in the maintenance of the system. The remaining funds will be used to host the system, maintain the data and enhance the system's functionality. The estimated economic impact of EDIS over the next five years is approximately \$6,076,000. The Department of Commerce aims to launch the first version of the system by October 2006.

The Department of Commerce has continued to offer recommendations and financial estimates for the William S. Lee Quality Jobs and Business Expansion Act (Bill Lee Act). In accordance with a biennial statutory requirement, findings from the Department of Commerce's evaluation of the Lee Act were submitted to the General Assembly for the 2005 legislative session and the act was extended.

Prior to the 2006 legislative session, the House Select Committee on Economic Development, chaired by Representative Jim Harrell and Representative Bill Daughtridge, met to assess the outcomes of the existing Act's credit structure and propose revisions intended to better address the current economic climate. The Committee formally made a recommendation to the 2006 General Assembly for changes to the Bill Lee Act - which led to the introduction of HB 2170 and SB 1553. Recommended legislative changes included; converting to a three tier approach, revising job credit and investment tax credit rates, thresholds, and qualification requirements, and abolishing certain provisions in the original act. These changes aim to enhance North Carolina's economic competitiveness by helping the state attract new businesses and continue the state's economic growth. The bill was approved on July 25, 2006.

In 2004 the Economic Development Board sponsored a best practices study of other states' recruiting, retention and business relocation marketing programs in order to develop recommendations for North Carolina's economic development. Entitled the Ticknor Report, this study was endorsed by the Board through a formal resolution in February 2005. Conducted by Tom Ticknor & Associates and generously funded by Duke Energy, the study's primary conclusion was that North Carolina could achieve significant economic development benefits from relatively small incremental investments. Specifically, the Ticknor study recommended additional outlays for internal capacity building, such as Web site redesign, sales management system development, training and research/analysis staff expansion. Ticknor also proposed new or additional appropriations for marketing the state as a

business destination through advertising and public relations campaigns. In response to the compelling findings of the study, the General Assembly approved new funding in July of \$1.5 million for Web site, systems and marketing enhancements and indicated an openness to additional investments in 2006.² As further evidence of the state's commitment to economic development, the Department of Commerce placed first in the nation in Site Selection's 2005 Competitiveness Award, fulfilling a progress measure that the Board had previously specified in Objective 3.1.

To encourage regional growth, the General Assembly passed a special provision in 2006, which includes a proposal developed by the Department of Commerce and the Rural Center to earmark \$1 million of CDGB funds for entrepreneurial and small business assistance grants. This measure promises to enhance the quality of North Carolina's business environment and further the development goals of the strategic plan.

As an additional development stimulus, the 2006 General Assembly passed several pieces of legislation to provide special incentives to local manufacturers. For example, a tax reduction on electricity purchased by manufacturers and the small business health insurance tax credit both hold the potential to stimulate corporate growth. Several tax reductions passed by the General Assembly in 2006 also promise to foster economic development and expansion. The reduction of the sales tax from 4.5% to 4.25% and the reduction of the top personal income tax rate from 8.25% to 8.0% will allow state businesses and individuals to spend and invest more heavily in the North Carolina economy.

Many developments have occurred toward the goal of supporting and quantifying the impact of the military in North Carolina's economy. The North Carolina Military Business Center, in concert with the NCCCS Small Business Center Network, has continued to promote the development of industries that are related to the needs of the military community since its opening in 2004. In addition to funding of \$1.8 million that was allocated in 2004, the center received an additional \$1 million from the General Assembly in 2006 to facilitate contracts with the Department of Defense. Their efforts have expanded the availability and communications necessary for additional contracts with North Carolina's small business communities. The Small Business and Technology Development Center's (SBTDC's) Procurement Technical Assistance Center Program helped clients secure \$1.4 billion in local, state and federal contract awards in 2005 for a second consecutive year. During the period from 2003-2005, the number of awards secured exceeded \$3.3 billion.

² From the North Carolina Department of Commerce 2005 Annual Report

According to a 2003 report prepared for the North Carolina Advisory Commission on Military Affairs, the military contributed \$18 billion to the state economy and was responsible for 7% of North Carolina's gross state product. In May 2006, the Advisory Commission on Military Affairs completed an update of their strategic plan, which highlights economic development as a critical component of the commission's future goals.

***Goal 4:
CREATE STRONG METROPOLITAN GROWTH CENTERS THAT
GENERATE REGIONAL BUSINESS DEVELOPMENT, SHARED
PROSPERITY, AND A HIGH QUALITY OF LIFE, IN PARTNERSHIP
WITH SURROUNDING AREAS.***

The Small Town Main Street program does not yet have the resources to expand its town improvement program statewide. As of 2006, the program operated in seven officially designated towns and worked with nearly forty others on small town development issues. Due to a steady rise in the number of towns seeking assistance, the Small Town Main Street program sought additional funding during the 2006 legislative session. The program was granted the funds to establish one additional community development planner position in western North Carolina.

During the 2006 legislative session a proposal was introduced as part of the Lee Act re-write to modify State Development Zones (renamed Urban Progress Zones) and to tighten potential target areas - which gives businesses within the zone benefits that are comparable to the benefits associated with development zones in the Lee Act. This change has allowed the state to implement a more streamlined set of development zone measures.

A significant step to improve metropolitan growth centers was taken in 2004 with the passage of an amendment to the state constitution that allows the use of self-financing bonds. This amendment has been the most significant finance tool to emerge from the General Assembly in several years. It lets local governments finance development projects through alternative revenue-producing methods and will therefore enhance North Carolina's competitiveness with neighboring states.

Finally, the Division of Community Assistance in the Department of Commerce has begun collecting investment data from large cities to document and quantify their financial impact. This project should allow the department to evaluate the economic profile of North Carolina's metropolitan areas.

Goal 5:
DEVELOP THRIVING RURAL AREAS THAT MAINTAIN A HIGH QUALITY OF LIFE; ACHIEVE ONE NORTH CAROLINA BY MOBILIZING THE STATE'S RESOURCES TO CREATE STRONG REGIONAL PARTNERSHIPS AND PROGRAMS THAT FOSTER BROADER ECONOMIC DEVELOPMENT OPPORTUNITIES IN RURAL NORTH CAROLINA.

Rural development has been well represented in the economic development agenda. In particular, tremendous progress has been made with the Strategic Highway Corridors Initiative, adopted by the Department of Transportation as part of their 2004 Statewide Transportation Plan. The project is an ongoing effort to improve fifty-five critical highway facilities and efficiently transport people and goods across the state. This program will allow rural counties to become economically integrated with the rest of the state. The initiative will also work to ensure a seamless transition into the 21st century economy by providing access to industrial products and facilitating a statewide market for rural goods and services.

As of 2006, the Department of Commerce's successful 21st Century Communities program assisted twenty counties across North Carolina. Additional funds of \$244,699 were granted in 2006 to hire three full time community planners and to expand this development program across the state.

The Small Cities Community Development Block Grant (CDGB) program, another project run through the Department of Commerce, was granted \$1,750,000 in funds for fiscal year 2006/2007 to help support the construction and expansion of entrepreneurial incubator facilities in small cities and towns.

The North Carolina Small Town Main Street program, an offshoot of the Main Street program, provides market analysis to rural communities and gives small businesses the resources to evaluate their market opportunities. In addition, the North Carolina Rural Center Small Towns Economic Prosperity (STEP) program provides grants and technical assistance to small towns through the Economic Infrastructure Fund - authorized by the General Assembly in 2005.

The North Carolina Rural Center has taken measures to provide financial institution lending for local businesses. As part of an ongoing effort, the Rural Center runs the Capital Access Program - which has made over \$41 million available in covered loans to serve approximately 800 businesses and to create and retain over 7,000 jobs since its inception in October 2002.

Economic growth in traditionally agrarian industries is another critical goal of the strategic plan. The North Carolina Department of Agriculture is currently working with the North Carolina Rural Center through the North Carolina Business Resource Alliance to encourage regional entrepreneurship.

As an additional resource for regional entrepreneurs, the N.C. Rural Center's Institute for Rural Entrepreneurship established the North Carolina Business Resource Alliance - a comprehensive network of business services initially tailored to the needs of small businesses.

In recognition of the importance of entrepreneurship to North Carolina's economy, the first annual Entrepreneurship Policy Summit was held April 2006 in Chapel Hill to explore the role of entrepreneurship in state and local economies and to initiate the process of developing state policies that would help cultivate entrepreneurship as an economic development strategy.

In 2006 the Department of Agriculture along with other state agencies hosted a series of entrepreneurial and business development training sessions for agribusiness service providers. These training sessions, entitled "Creating Business Opportunities," drew approximately ninety individuals from various regions around the state. A web site (<http://www.ces.ncsu.edu/cbo/>) was developed as a training tool and resource guide for future agribusiness entrepreneurs.

In collaboration with other agencies, the Department of Agriculture and the Department of Commerce continue to provide assistance to agricultural products processors in rural North Carolina. The 2006 General Assembly approved a special provision that directs the Department of Commerce to study and report on agribusiness funding and programs as a means of assessing the economic potential of agriculture-based industry in North Carolina. In recognition of the potential of agriculture-based tourism in rural areas of North Carolina, the Department of Agriculture has maintained an agritourism office in Raleigh since 2003.

As an emerging catalyst for rural economies, agriproduct incubators continue to be developed and supported at North Carolina's community colleges. In 2006 the Department of Agriculture, working primarily with Advantage West, established a value-added food business incubator in Asheville. As a result of this project more small food business incubators are being planned and have opened throughout North Carolina. The Department of Commerce, through the Community Development Block Grant program, is supporting a kitchen incubator in Ashe County and another incubator in Pender County.

In an effort to promote environmental sustainability, the Department of Agriculture continues to offer a variety of programs that support alternatives

for farm families who wish to practice farmland preservation. Agriculture Commissioner Steve Troxler has identified himself as an advocate of federal and state incentive programs targeted at farm operators who conserve and restore wildlife habitats, streams and rural landscapes.

***Goal 6:
DEVELOP A COMPETITIVE REGIONALLY BASED INFRASTRUCTURE
AND PROMOTE SUSTAINABLE ECONOMIC DEVELOPMENT.***

As North Carolina emerges into a competitive global market, the need for sustainable economic growth has increased. The Department of Transportation's Office of Environmental Quality has outlined six goals (<http://www.ncdot.org/programs/environment/oeq/goalsPlan>) aimed at promoting greater environmental stewardship in the planning and implementation of transportation services.

To meet these emerging needs the Interagency Leadership Team (ILT), a consortium of state and federal agencies, has met quarterly since 2004 to discuss ways to align the goals of economic development and environmental sustainability. In 2005 the ILT issued a strategic plan - its mission statement stating that the state transportation system "should be planned hand-in-hand with economic development and the protection and enhancement of our State's cultural and natural resources".

North Carolina's regional infrastructure has been strengthened by the growth of the state port system. Ongoing construction and redevelopment projects managed by the North Carolina Ports Authority promise to deliver a statewide economic impact of \$14.4 billion in jobs, taxes and industry over the span of ten years - beginning in 2006. These projects include the expansion and development of the Port of Wilmington and the Port of Morehead City Radio Island. Planning is also underway on the North Carolina International Port - a major international port container terminal.

The environmental permitting process in North Carolina has also undergone a significant expansion. Under the direction of the Customer Service Center, the One-Stop Permit Program and the Express Permit Program are operating in each region designated by the Department of Environmental and Natural Resources. One Stop Permit Coordinators serve as a single point of contact to help businesses, local governments, citizens and others identify potential environmental requirements and guide applicants through the permitting process. The Express Permit Program offers quicker permit decisions and certification than the standard program and provides consultation to help clients identify necessary environmental requirements. Over 1,500 permits have been issued through the Express Permit Program since the program was piloted in 2004.

The promotion of sustainable businesses that use industrially generated by-products in manufacturing is another successful effort run jointly by the Department of Commerce and the Department of Environmental and Natural Resources. Through the Recycling Business Assistance Center (RBAC), these two departments have actively recruited by-product recycling industries to

the state. Since 2004, RBAC has awarded grant funding totaling \$1.06 million to recycling companies operating in North Carolina. This investment has leveraged an additional \$13.3 million in matching funds from private sector recycling companies. As a result of this increased recycling capacity, recycling industries have created additional jobs and played a key role in stimulating regional economies.

North Carolina's "recycling economy" currently employs more than 14,000 people across the state and is one of the fastest growing job engines in the region. Recycling job growth rose sixty percent (60%) over the span of ten years, from 8,700 to approximately 14,000 jobs by 2004. Several local recycling companies have announced plans to expand regionally, including EcoResin, which plans to open a recycling facility in 2006, creating new jobs and investing \$4.2 million over the next three years. GEEP, an electronics recycler located in Durham announced the investment of \$8 million in their existing facility in 2006. Finally, ConverPro, a Canadian paper products company, announced in May 2006 that it plans to open a facility in Stanly County - creating new jobs and investing \$9 million over the following three years.

In a move that embraces the future of sustainable growth, the 2005 General Assembly approved a measure that would award tax credits to state ethanol production facilities. This measure will support ethanol-manufacturing businesses in the state, enhance jobs creation and promote a sustainable transition toward a future in alternative energy.

***Goal 7:
MAINTAIN AND STRENGTHEN TOURISM, FILM, AND SPORTS
INDUSTRIES; PRESERVE, PROTECT, AND PROMOTE OUR STATE'S
CULTURAL, NATURAL, AND HERITAGE ASSETS.***

With increased state revenues, legislative funds have been applied toward the repair and renovation of state historic sites. Through supportive legislation from the General Assembly, the Historic Preservation Office now charges a fee to process applications for state rehabilitation tax credits and uses the additional revenue to hire extra staff that will reduce backlogs and enable the office to work more efficiently. SB 352, a bill to offer income tax credits for the rehabilitation of historic mills, was approved by the 2006 General Assembly. New cultural centers have also opened, including the Museum of the Albemarle - which celebrated its grand opening in April 2006 in Elizabeth City. Combined, these measures will lead to significant progress in the continued preservation of North Carolina's unique cultural heritage.

In 2006 the General Assembly approved recurring funds of \$500,000 and non-recurring funds of \$500,000 to promote North Carolina as a tourist destination. An additional \$1 million in funding was allocated in 2006 to create a statewide "marketing reserve" and \$250,000 was provided in non-recurring funds to support the film industry in North Carolina. These resources will increase the economic impact of film and tourism activities in North Carolina.

In 2005 the North Carolina Civil War Trails Program was created to promote the state's historical heritage and generate tourism revenues. This marketing collaboration between the Department of Transportation, the Department of Cultural Resources and the Department of Commerce's Tourism, Film and Sports Development Division is an ongoing project that takes advantage of the common goals and shared resources of several state agencies. A second example of increased collaboration among different departments occurs during the annual Department of Cultural Resource's Cultural Forum, which promotes teamwork and cooperation among various state agencies to achieve the goals of cultural education and economic development.

With the help of data derived from the North Carolina Tourism Satellite Account, the Department of Commerce completed a project in 2005 to analyze different state industries and to make informed decisions about future strategies for development. In 2006 the department contracted for an update of the Tourism Satellite Account with new data that will allow the state to forecast business trends with increased accuracy.

Since 2004 a number of publications have been issued by the Department of Cultural Resources to evaluate North Carolina's cultural resources in comparison to other states and to examine them as economic assets. Among these, the report entitled "Just the Ticket! The Arts Make Money in North Carolina" details the economic impact of the non-profit creative sector in North Carolina. According to the study, the financial contribution of the non-profit creative sector to the state economy is approximately \$723 million. A second report entitled "The Artful Traveler" explores the impact of cultural tourism in North Carolina. Issued by the North Carolina Arts Council, this study shows that cultural travelers to the state spend nearly a third more than the national average and almost twice the daily amount of general travelers to the state. A final report entitled "Clusters of Creativity: Arts in North Carolina's Economy" is scheduled to be released in September 2006.

V. Preliminary Economic Trends and Observations

1. Entrepreneurship

Entrepreneurship has increasingly become a significant source of regionally based economic growth. As such, entrepreneurship requires a modern infrastructure as well as appropriate training and education systems that can sustain its growth.

In particular, entrepreneurship education and training are making their appearance on university and community college campuses. In June 2006 the Ewing Marion Kauffman Foundation announced its plans to donate \$5 million to the University of North Carolina system over the span of five years as part of its Kauffman Campuses Initiative in support of entrepreneurship education.

These developments highlight the increasing significance of entrepreneurship as a catalyst for economic growth. In 2006, Department of Commerce Secretary Jim Fain declared the mission “to develop an entrepreneurship development system that...will work in a seamless fashion to make North Carolina the best place to start and operate a business.” With the support of the economic development community this goal will become reality.

2. State Ports

North Carolina’s port system continues to wield a significant economic impact on the state economy. As an integral part of the state’s infrastructure, the ports facilitate access to important overseas and national markets. As North Carolina strengthens its presence on the international stage, the state ports system will play a key role in ensuring that North Carolina remains economically competitive in the global business environment whether through attracting new companies or lowering shipping costs and increasing profit margins.

Over ninety percent (90%) of the world’s goods are shipped via ocean transport. Given this statistic, improving the quality of the ports system will not only help enhance the state’s infrastructure as highlighted in Goal 6 but also create a complete business environment as specified under Goal 3 of the strategic plan. As the ports become a more critical component of North Carolina’s economy they can be utilized to enable the

effective recruitment of both new economy and enduring traditional companies to North Carolina.

3. Military Industrial Complex

The growth of the military-industrial complex in North Carolina has rendered it an integral part of the state economy. As such, the strategic plan should incorporate a more targeted focus on the ways in which the military can contribute to North Carolina's economic future. According to the North Carolina Military Affairs Commission the role of the military could be accentuated in each of the strategic plan's seven goals.

The specialized skills of service members who leave active duty or retire can contribute to local economies as a significant business recruitment tool for the state - especially in the areas of high-tech business and industry. Technical skills in fields such as computers, electronics and aircraft maintenance can be taken into account as part of regional skills alliances in the regions surrounding military bases.

As an emerging growth industry, defense technologies and defense consumables can drive economic development by providing business through government military contracts.

The North Carolina Military Business Center completed a "Gap Analysis" in 2005 (available at <http://www.ncmbc.us/gap1.php>) that recommends specific military related business and industry groups for recruitment by local development organizations and the Department of Commerce. These industries should be promoted and integrated into state and local recruiting strategies.

Increased awareness of the regional impact of military bases should also factor into a future revision of the strategic plan. In particular, the Ft. Bragg/Pope Air Force Base has a large regional economic impact - which will increase over the next few years with two relocated headquarters organizations and additional troop units. Several thousand new residents are expected to settle in North Carolina and a multi-county organization has been formed to plan for the impact of this growth. This expansion will also be a good opportunity to learn about accommodating rapid economic growth while maintaining environmental quality in the surrounding region. Military installations in North Carolina have protected hundreds of acres of open space to support tourism and livability.

4. Sustainable Economic Development

At the Department of Commerce's Sustainable Business Forum on June 23, 2006 departmental leaders discussed with industry and non-profit groups the viability of sustainable economic growth in North Carolina. It was agreed that the Department of Commerce is in the position to lead an effort to promote development that is both sustainable and economically viable. Business leaders noted that environmentally sustainable growth will not only protect North Carolina's natural assets but boost global competitiveness, increase recruiting potential, and stimulate regional economic growth.

VI. Conclusion

North Carolina continues to celebrate many critical successes in economic development. With the help of legislative victories and innovative economic policies, the strategic plan will chart a path of immense promise for North Carolina's future.

The complete realization of North Carolina's economic potential can be accomplished by aligning economic development tools with state policies, tailoring the objectives of the strategic plan to new economic trends and improving communication in the economic development community with the support of government agencies, educational institutions, private sector organizations and non-profit agencies.

As North Carolina maintains to its position as a leader of regional innovation and development it is imperative that our state and local leaders continually forecast future business trends and cultivate the skills that will ensure the state a competitive position in the 21st century economy.

As Governor Mike Easley announced in 2006; "The economy is changing rapidly and in North Carolina we are determined to build a future of growth industries based on knowledge and talent. We are building the workforce and pursuing the right jobs to transition our economy into the best in the world."

Appendix

VIII. Appendix: Strategic Plan Progress at a Glance

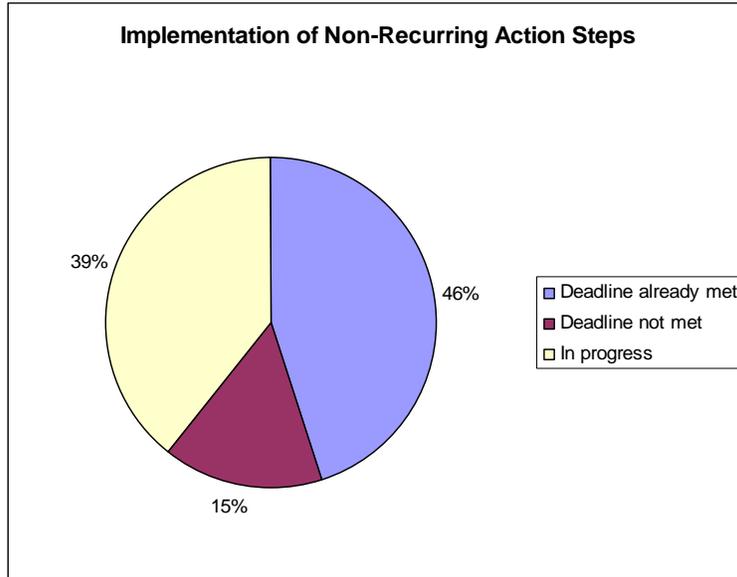


Figure 1: Non-recurring action steps include those with specific deadlines. The pie chart is divided categorically to track the progress of deadlines that have already passed as of July 2006 and those that have completion dates after July 2006.



Figure 2: Recurring action steps indicate projects that are ongoing with no specific completion date. Those recurring projects labeled "Unsatisfactory progress" have not been substantively acted upon by the corresponding agencies (in some cases due to lack of funding and other external factors), whereas projects labeled "Satisfactory progress" have demonstrated at least some attempted effort or progress toward completing the action step.³

³ Despite good faith efforts, some agencies have not been provided the resources to fully execute these projects. Likewise, those agencies that have achieved greater completion rates need to be continuously funded and monitored. As a caveat, these percentages are estimated figures whose meaning must be examined in the full context of current events and those accomplishments summarized in the text of the executive summary.

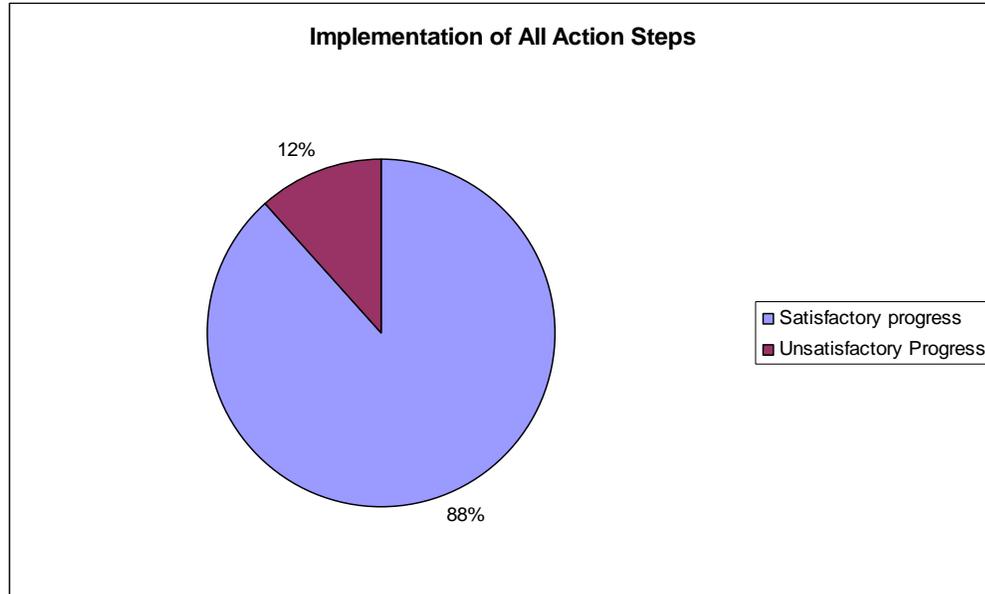


Figure 3: Of all 101 recurring and non-recurring action steps, the vast majority, 88%, have achieved satisfactory evaluations as of July 2006. This pie chart merges the data from both pie charts above. Those projects that have met deadlines, are in progress, or demonstrate satisfactory progress have been grouped under the label "Satisfactory progress," whereas those projects that failed to meet deadlines or demonstrate little activity have been labeled as "Unsatisfactory progress."

Data for Assessment of Strategic Plan Implementation

I. Recurring Project Data

Goal	<i>Recurring Projects</i>		Total
	Satisfactory Progress	Unsatisfactory Progress	
1: Workforce and Education	4	0	4
2: Science and Technology	2	0	2
3: Recruitment and Retention	6	0	6
4: Urban Development	3	1	4
5: Rural Development	10	0	10
6: Infrastructure	4	0	4
7: Tourism, Film and Cultural Resources	1	0	1
Total	30	1	31

<i>Recurring Projects</i>		
Goal	Percent Satisfactory Progress	Percent Unsatisfactory Progress
1: Workforce and Education	100%	0%
2: Science and Technology	100%	0%
3: Recruitment and Retention	100%	0%
4: Urban Development	75%	25%
5: Rural Development	100%	0%
6: Infrastructure	100%	0%
7: Tourism, Film and Cultural Resources	100%	0%
Total	97%	3%

II. Non-Recurring Project Data

<i>Non-recurring Projects</i>				
Goal	In progress	Deadline already met	Deadline not met	Total
1: Workforce and Education	2	4	4	10
2: Science and Technology	4	5	3	12
3: Recruitment and Retention	5	5	0	10
4: Urban Development	3	4	1	8
5: Rural Development	8	5	1	14
6: Infrastructure	2	2	0	4
7: Tourism, Film and Cultural Resources	3	7	2	12
Total	27	32	11	70

<i>Non-recurring Projects</i>			
Goal	Percent in progress	Percent deadline already met	Percent deadline not met
1: Workforce and Education	20%	40%	40%
2: Science and Technology	33%	42%	25%
3: Recruitment and Retention	50%	50%	0%
4: Urban Development	37.5%	30%	12.5%
5: Rural Development	79%	21%	0%
6: Infrastructure	57%	36%	7%
7: Tourism, Film and Cultural Resources	25%	58%	17%
Total	39%	46%	15%

