Redesigning State Economic Development Agencies

Executive Summary

Policies to boost innovation, competitiveness and job creation are top priorities for the nation's governors. State economic development agencies play a large role in making and implementing those policies and, accordingly, how states will rebound from the recession that ended in 2009. State leaders seeking to lay the foundation for renewed economic prosperity should try to ensure that such agencies function as effectively and efficiently as possible, so that the economic recovery brings with it strong growth and high-paying jobs.

The fact that states are now facing daunting economic challenges makes it easier to muster broad support for transforming their economic development agencies. Governors have a unique opportunity to review the economic landscape and to propose critical changes that would not have been feasible in the past. Within the past two years, at least 12 states have created new entities focused on economic development or have consolidated existing agencies to streamline their approach to economic development.

The creation of effective and efficient state economic development agencies is no easy task. Governors and policymakers eyeing the opportunities for economic development reform should be cognizant of three considerable challenges:

- **Rise of global competition**. Businesses from China, India, Singapore, and Eastern Europe have established themselves as competitors in the global economy. Those rising competitors will test the sophistication of state economic development strategies and agencies as never before. In a globalized economy, state efforts to support businesses that create high-wage jobs are essential. The links between innovation and growth suggest that strategic support for key innovation-based industries helps create the environment for quality job creation. The provision of strategic support for innovation-based industries—and the well-paying jobs they bring—requires going beyond the traditional state commerce department's practice of marketing a state and using tax credits to close business investment deals. States are now actively engaged in providing support to innovation-based industries by supporting research and development (R&D), developing and funding education and training programs that improve workforce skills, focusing on technology development and transfer systems, and strengthening the links between businesses, investors and universities in regional industry clusters.

- **Structural inefficiencies in state economic development agencies**. According to business leaders and others, some of the most common difficulties associated with the traditional model of economic development in state commerce departments are (1) a cumbersome agency design that constrains flexibility and responsiveness; (2) insufficient professional experience with economic development among agency leaders and staff; and (3) an inability to connect busi-

nesses to key support systems such as sector-based workforce training, R&D infrastructure, and early-stage business development assistance.

- **The state fiscal crunch**. A slow economic recovery will leave economic development leaders in the United States working with constrained budgets for some years. Funding for economic development support will have to compete with other state priorities, such as growing Medicaid costs. At the same time, new global players have emerged, often granting government a larger role in supporting industry through government investments and tax credits than the U.S. does. States will find matching these investments difficult, so they will have to do a better job of linking businesses to needed supports such as training, education, and early-stage financial support.

This white paper focuses on what states are doing—and can do—to redesign their economic development agencies so that they are more effective. The changes implemented in states' economic development agencies should be designed to increase the productivity and sharpen the focus of those agencies and be evaluated against the growth of state economies.

The NGA Center for Best Practices' review of current practices and conversations with business leaders and government officials reveals that there are three foundational strategies that can greatly increase the effectiveness of economic development agencies:

- **Engage and sustain private sector involvement.** Engaging local businesses through the use of public-private development boards and other cooperative endeavors can bring useful expertise and perspective to the development process. In **Oregon**, for example, the private sector has become a central actor in the economic development process through an independent organization called the Oregon Business Council (OBC) that is run entirely by a collective of supporting businesses.

- **Create mechanisms to encourage collaboration.** Collaboration among businesses, academic institutions, and government agencies is one of the most important characteristics of effective economic development infrastructures. **North Carolina** spurs collaboration through a 37-member economic development board made up of representatives from government agencies, nonprofit organizations, private businesses, and the state legislature. Collaboration between states and regions is becoming increasingly important, as well. **Colorado**, **New York**, and **Tennessee** have all recently completed regional plans that have been rolled up into a statewide economic development plan.

- **Institute a quantitative evaluation system.** Economic development agencies that use metrics for evaluation such as return on investment and job creation have the statistical information they need to target areas for focused policy and to ensure that state funds are being channeled to the most productive uses possible. **Maine**, **Massachusetts**, **Mississippi**, and **Oregon** benchmark specific indicators related to the innovation economy and the contribution of those indicators to state economic growth.

Introduction

State commerce departments were not designed for current economic realities—global, entrepreneurial, rooted in information technologies, and driven by innovation. The traditional model of economic development in most state commerce departments has not kept up with the latest understanding of the nature and trajectory of economic growth.

Traditionally, state economic development agencies focused on attracting investments from larger firms and often competed with one another in offering incentive packages. In recent years and particularly before the recent recession, however, it has been newer firms that have accounted for the majority of economic growth and new jobs. According to the Kauffman Foundation, new firms added an average of 3 million new jobs per year between 2000 and 2007. Following the recent recession the number of jobs created by startups fell to fewer than 2.5 million by 2010.[1] Generating new jobs from the fast growing firms that created jobs in the 2000s will be key to restoring employment to the levels recorded before the recession.

A new understanding of how young and fast-growing businesses fuel economic growth has led to an approach to economic development that focuses on fostering a pro-business *environment* rather than ad hoc deal making. A state with a favorable taxation system, predictable regulation, a good education system, skilled workers, modern infrastructure, and adequate access to capital is more likely to attract investment and cultivate entrepreneurship than a state that offers a raft of specific programs and incentives.[2] The traditional and new models for state economic development agencies are highlighted in Figure 1.

Figure 1: The Changing Model for a State Economic Development Agency

Area	Traditional Model	New Model
Geographic focus	• Locally focused clusters drive regional competition	• Global competition and globally focused clusters require regional collaboration
Economic development priorities	• Attract large companies • Create more jobs • Support all small business startups • Monitor business costs and regulations	• Grow and retain existing businesses • Create better jobs, higher incomes • Support high-growth small businesses • Foster an entrepreneurial environment
Workforce development priorities	• Provide "one size fits all" job training funding across industries • Focus on entry occupations	• Public-Private Partnerships to engage industry • Target specific industries • Focus on career ladders
Marketing approach	• Use conventional means to market state domestically • State employees lead business recruitment	• Use online and social media and other means to market state internationally • Private sector and governors lead business recruitment and global connections/networks

Source: Adapted from Sara Dial & Associates' presentation at the June 2010 experts roundtable[3] and Washington Economic Development Commission.[4]

The Challenges Facing States

New organizational models are emerging in both the private and public sector to meet the demands of the global, entrepreneurial, digital, and innovation-based economy. Private sector companies are experimenting with business models that improve their access to ideas, knowledge, and technology and that enable them to be fast and flexible in a dynamic economy.

States are experimenting with new organizational models, as well. Within the past two years, at least 12 states have reorganized their approach to economic development—either by creating new entities or by consolidating existing agencies for a more streamlined approach to economic development. The states are not only experimenting with new organizational models; they are also responding to three pressing challenges: (1) the rise of intense global competition; (2) structural inefficiencies in economic development agencies; and (3) the state fiscal crunch.

Rise of Intense Global Competition

Global trends now affect state economic activity more profoundly than ever before. U.S. firms face constant challenges from foreign companies with ready access to skilled labor, support for advanced manufacturing, linkages to university R&D, and early-stage investments. As a result, maintaining global competitiveness is becoming an important new objective of state economic development policies.

Because the fortunes of states and regions are tied to the fortunes of their firms and industries, vigilance in fostering good-paying jobs—not just any jobs—is essential in a globalized economy. The links between innovation and growth suggest that strategic support for key innovation-based industries such as life sciences and information technology helps create the environment for high-quality job creation.

Effective strategic support for innovation-based industries and jobs goes beyond the traditional practice of marketing a state and using tax credits to close business investment deals. Other key levers of strategic support for such industries and jobs include support for research and development, the ability to provide a skilled workforce, linkages to robust regional industry clusters, and a proven technology development and transfer system—all things that typically lie outside traditional economic development agencies. New global players are becoming increasingly sophisticated in their use of those key levers and government investments in research, talent, and innovation to encourage economic development activity in their countries.

Achieving growth and prosperity in a world where businesses and states can lose their competitive edges almost overnight requires that states' economic development agencies be able to provide the linkages to research, talent, and other innovative companies that companies need. Although the challenges of globalization may not seem as immediate as the fiscal and structural problems currently facing state leaders, those challenges will almost certainly have the greatest impact on states' long-term economic viability.

Structural Inefficiencies in State Economic Development Agencies

Underlying many states' efforts to redesign their state economic development agencies is a growing concern that traditional entities for economic development in state commerce departments are not effective. The NGA Center for Best Practices hosted an Experts Roundtable on Redesigning State Economic Development to better understand emerging issues and opportunities in the redesign of state economic development agencies. Participants at the Experts Roundtable on Redesigning State Economic Development discussed how states could organize their economic development agencies to respond to new fiscal constraints and global competition while also meeting the public policy, service delivery and investment challenges associated with maintaining economic competitiveness. This white paper outlines key agency design elements and priorities that were identified.

Although the problems with the traditional model of economic development vary from state to state, participants at the experts roundtable identified three of the most common: (1) a cumbersome agency design that constrains flexibility and responsiveness; (2) a lack of professional staff with deep knowledge of the private sector; and (3) a lack of metrics for evaluating the impact of state economic development programs.

Cumbersome Agency Design

Commerce departments often become host to a variety of programs that play little role in fulfilling economic development agendas.

A recent study of the **Arizona** Department of Commerce emphasizes the effect of organizational clutter on the agency's economic development activities:

> The Arizona Department of Commerce is currently charged with 57 statutorily mandated initiatives and 16 executive order assignments, backed by minimal state funding support. The agency's focus on economic development matters has been diluted and its ability to maximize economic development opportunities in today's global business environment has been weakened.[5]

A recent study of **Wisconsin's** economic competitiveness similarly found that the former Wisconsin Department of Commerce was charged with overseeing such varied activities as business development, housing, environmental regulations and building inspections. That study concluded that having a cohesive, coordinated state economic development strategy depends on creating a "more nimble and effective" entity.[6]

Limited Professional Experience

Qualified management of state economic development agencies is essential for agencies to succeed. In many cases, however, the individuals selected to head state departments of commerce are political appointees with limited professional experience in economic development. Appointing individuals without much experience to head these entities can inject rapidly-shifting priorities into the economic development process, as well as instability, policy reversals, and an overall lack of focused continuity.

Although governors should be able to appoint individuals who share their vision to run state commerce department agencies, it is important that appointees have a deep knowledge of private sector needs and perspectives. Moreover, it is important that the state's economic development agency maintain continuity through a professional staff that possesses strong institutional knowledge about state assets valuable to the private sector and how those assets can be used to support business development. Such institutional knowledge is key to recognizing and aiding the growth of new business clusters.

Lack of a Quantitative Evaluation System

Many state commerce departments lack quantitative systems for evaluating programs and the return on their investments. If states do not measure the effects of their economic development programs, they cannot be sure that their resources are being deployed as effectively as possible. Moreover, the absence of a quantitative evaluation system imposes limitations on an agency's credibility and transparency—two qualities necessary for maintaining the support of government leaders and private businesses.

Though many states are still working to develop methods to accurately measure return on investment, there are two important ways that states are tracking the performance of their economies. Some states have developed web-based monitoring system to track a range of information about the economic development agency's mission, including data on business climate, business startups, employment growth, and workforce quality. Other states have developed benchmark indicators related to the innovation economy and measure the contribution of these indicators to the state's economic growth, tracking the state's annual progress.

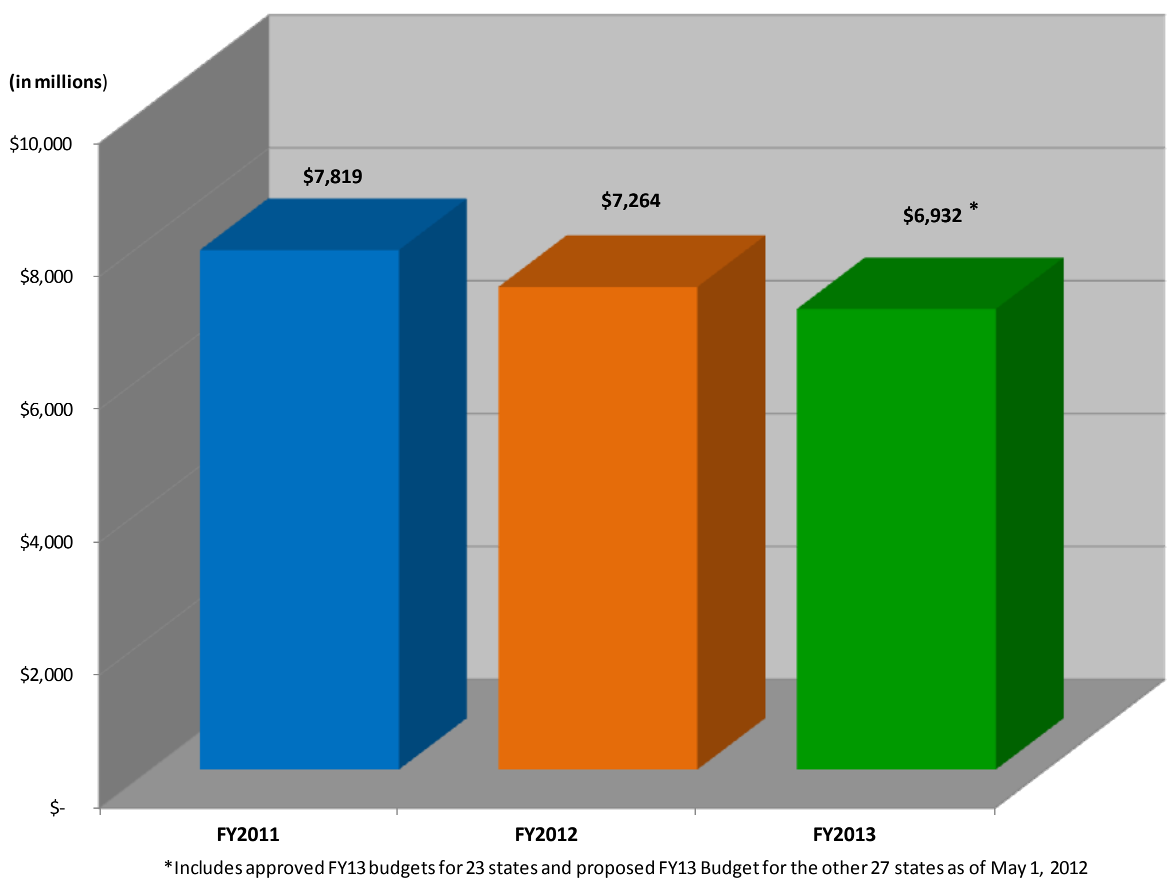
State Fiscal Crunch

Historically, state revenues have lagged behind any national economic recovery. The U.S. economic recovery itself has been slow to develop, and state revenues have remained below their prerecession peak for some time. Both fiscal 2009 and fiscal 2010 saw nominal declines in state spending.[7] Though state finances began to improve a bit in 2011, 29 states will still have lower general fund spending in fiscal 2012 than in prerecession 2008.[8] General fund revenues are forecast to increase in fiscal year 2013, but even with the increase, general fund expenditures are expected to be slightly below prerecession expenditures.[9] A number of states have had to reduce economic development budgets and reduce spending on specific initiatives, such as tax credits for high-tech businesses (see Figure 2).[10]

The state fiscal crunch has prompted state leaders to search for ways to organize government more efficiently. Organizing government more efficiently in the area of economic development has proven particularly difficult. At a time when economic growth is of paramount concern, states are finding that they have fewer resources to invest in critical areas such as infrastructure modernization, workforce training, and innovation. Moreover, states must ensure that the investments they do make in those critical areas—which are often spread across siloed government agencies—are connected to a comprehensive economic growth agenda and yield a tangible return.

The need to reconcile conflicting objectives—the ob-

Figure 2. Total State Economic Development Expenditures, 2011-2013



Source: Ken Poole, presentation at National Institute of Standards and Technology Manufacturing Extension Partnership Program Annual Meeting, Orlando, Florida, May 7, 2012.

jective of meeting short-term fiscal challenges and the objective of ensuring sufficient investment for long-term economic growth—is one of the primary factors motivating state leaders to consider new models for their economic development agencies. The changing fiscal dynamics require states to be more sophisticated in the ways they leverage all of the resources in the state that have an effect on economic development.

Strategies for Creating Successful Economic Development Agencies

Creating a state economic development agency that is capable of both overcoming the aforementioned challenges and rising to meet new economic opportunities is a daunting task. Nevertheless, a number of states have already started experimenting with new organizational models. Their experience can provide useful guidance for other governors who are interested in redesigning economic policy in their states as well.

When redesigning their economic development agencies to respond to pressing challenges and to adapt to a new understanding of economic growth, states can pursue three fundamental strategies to ensure success: (1) engage and sustain private sector involvement; (2) create mechanisms to encourage collaboration among businesses, government agencies, and other stakeholders; and (3) institute an evaluation system to ensure transparency and to help channel state funds to the most productive uses. Some of the ways that specific states have applied those strategies are discussed below.

Engage and Sustain Private Sector Involvement

Engaging the private sector in a long-term, focused partnership for state economic development is essential to increasing the effectiveness of state economic development agencies and helping them adjust to the new role that they are called upon to play. Engaging and sustaining private sector involvement is especially important as states redirect economic development policies to serve the needs of high-growth firms within their state. Business executives can offer valuable insights and speak authoritatively about the needs of local industry sectors. State official can use that input to help reign in unfocused spending where it occurs.

States are finding that economic development agencies with flat structures are often more nimble and responsive. They are also finding that effective agencies often have mechanisms for streamlining investments in innovation and strong leadership that is capable of driving alignment and decisively closing business deals. Among the many ways to create a nimble agency that leverages the private sector's experience and perspective, three general models particularly worth considering are (1) a public-private partnership; (2) a semi-state agency; and (3) an independent business association.

Public-Private Partnership

A number of states have recently reorganized their economic development agencies to either be replaced by or supplemented with a public-private partnership. The new **Wisconsin** Economic Development Corporation (WEDC) was created in 2011 and replaced the Wisconsin Department of Commerce. The new public-private partnership focuses exclusively on job creation. Other Commerce Department responsibilities have been redistributed among other state agencies **Iowa's** Economic Progress Partnership, established in 2011, is an eleven member advisory board appointed by the governor to develop a comprehensive economic development strategy for the state.[11] The partnership provides strategic direction for the cooperation between the state's Economic Development Authority and the Iowa Innovation Corporation, a registered nonprofit organization. The Economic Development Authority performs all the economic development duties of the state's Department of Economic Development that it replaced and can contract with the Iowa Innovation Corporation for performance of assigned duties. The Iowa Innovation Corporation receives no appropriations from the general fund and must find funding from the federal government and the private sector.[12] (See text box, "Iowa's Innovation Corporation Connects Businesses to State Resources".) Similarly, in 2010 **New Jersey** established a new state agency, the New Jersey Partnership for Action, which consists of three interconnected organizations, each with a unique organizational mission. One of the three organizations, Choose New Jersey, is a public-private partnership that serves as lead marketing organization for the state and provides recommendations on economic development strategy. Choose New Jersey is governed by a board of 16 private sector members representing 16 founding New Jersey businesses which each committed $150,000 per year for three years.[13]

Many of the states that have recently established public-private partnerships or that are in the process of establishing them have looked to successful state economic development public partnerships that were established in the 1990s. Michigan and Florida provide two such examples.

Michigan's lead economic development agency, the Michigan Economic Development Corporation (MEDC), is a public-private partnership that was created in 1999 to coordinate business delivery across state government and to make this delivery as seamless and non-bureaucratic as possible. MEDC's leadership structure demonstrates its commitment to private sector involvement. The 20-member executive com-

Iowa's Innovation Corporation Connects Businesses to State Resources

The primary activity of the Iowa Innovation Corporation is to connect new and existing businesses with the research and development, expertise and financing to promote growth and innovation in the state. It is an independent organization with a CEO and a seven member board that acts as the operating arm of the Iowa Innovation Council.[14] The Iowa Innovation Council (IIC) was formed in 2010 to advise the Department of Economic Development (now the Economic Development Authority) on policies that specifically promote innovation and entrepreneurship.

The Iowa Innovation Council was developed with the assistance of industry leaders from the bioscience, advanced manufacturing, and information technology industries.[15] When it was created, it absorbed three of the state's innovation councils, the Bioscience Alliance, Advanced Manufacturing Council, and Information Technology Council. The council has 29 voting members from targeted industries, government, and state colleges, and four ex-officio members that meet quarterly to advance policy ideas.[16]

The council is developing an "innovation roadmap" as a long-term strategy for innovative growth. The plan includes asset mapping of the state's capabilities including innovation clusters. The roadmap also includes the *Iowa Innovation Index*, a study benchmarking Iowa to other states on innovation indicators such as research, capital, and economic impact.[17] Once the current economic climate is analyzed, the IIC will determine the gap between the current situation and future goals. The IIC will then propose solutions and tools for expansion. For example, the Council's Guide to the Iowa Innovators Resource Network can serve as a guide for entrepreneurs searching for financing and other assistance.[18]

mittee is comprised of business leaders, government representatives and economic developers. The executive committee is appointed and chaired by the governor. An additional oversight and performance board consists of nearly 90 private sector leaders.

Under Governor Rick Synder's direction, MEDC is strategically focused on meeting four statewide goals. Those goals are an unemployment rate that is ranked with the lowest ten states, GDP growth ranked with the top ten states, real personal income per capita ranked with the top ten states, and a population increase of people aged 25 to 34. To achieve those goals, MED's core mission is focused on six key areas, including entrepreneurship, access to capital, business growth, vibrant cities, talent enhancement, and image.[19]

MEDC is funded by a combination of state general fund appropriations and dedicated funding sources, such as tobacco settlement funds and casino revenue. Most of MEDC's funding comes from public sources. In fiscal year 2011, $155 million of MEDC's $195 million in funding came from state appropriations through the general fund ($23 million), federal funds allocated by the state ($57 million), and tobacco settlement funds ($75 million). The tobacco settlement funds are distributed through the 21st Century Jobs Fund, which provides funding to promote commercialization, venture capital and private equity, increased commercial lending, and industry clusters. The remainder of MEDC's funding is provided through corporate revenues, including casino revenue, investment income, and fee income.[20]

MEDC hires both public and "corporate" employees. Having a corporate employee category allows MEDC to attract and retain highly-qualified employees who have extensive experience in the private sector.[21]

With an aim to be responsive to business needs, the MEDC has established regional mechanisms for interacting with businesses. MEDC account managers are located throughout the state and tasked with periodically interviewing the CEOs of every major

Michigan Economic Development Corporation—Quick Facts

- The Michigan Economic Development Corporation (MEDC) is a public-private partnership that was created in 1999 to coordinate business delivery across state government and to make this delivery as seamless and non-bureaucratic as possible.
- The 20-member executive committee is appointed by the governor and comprised of business leaders, government representatives and economic developers. The executive committee is also chaired by the governor.
- MEDC hires both public and "corporate" employees. Having a corporate employee category allows MEDC to attract and retain highly-qualified employees who have extensive experience in the private sector
- MEDC has established strong regional mechanisms for interacting with businesses, including regional account managers, a Collaborative Development Council, and 10 regional alliances.

(Endnotes)

1 http://www.michiganadvantage.org/cm/Files/Collaborative_Development_Council/Meetings_Material/20110606/Strategic_Plan_Overview.pdf

2 http://www.michiganadvantage.org/cm/Files/Collaborative_Development_Council/20110411-CEO-Update.pdf

3 http://www.michiganadvantage.org/cm/Files/Public-Notices-Requests-for-Proposals/MEDC-Corporate-Compensation-Strategy-Q-and-A.pdf

private employer in their region. That information informs MEDC's programs and services and allows for a quick response when a firm is considering closing, relocating, or expanding. In addition, the MEDC maintains relationships with regional economic development agencies through its Collaborative Development Council. The council provides a forum for local and regional development agencies to provide input. Further, MEDC has divided the 83 counties in the state into 10 regional alliances in order to streamline the assistance MEDC provides. Regions will help communities assess priority needs, help the state align resources and help MEDC respond faster to regional needs.

Florida's lead economic development agency is a privately managed organization supported by public and private funding called Enterprise Florida, Inc. It exists alongside a second, fully public Department of Economic Opportunity, which administers other economic development programs in Florida. Governor Rick Scott created the Department of Economic Opportunity in 2011 in order to further consolidate the state's economic development functions — the Office of Tourism, Trade and Economic Development and the Department of Education's Ready to Work program have been fully transferred to the new department, along with portions of the Department of Community Affairs and the Agency for Workforce Innovation. The Department of Economic Opportunity coordinates services and programs related to economic development, workforce development, community planning and affordable housing, while Enterprise Florida leads the state's efforts to recruit and expand businesses.

Enterprise Florida is overseen by a 62-member board of directors that includes representatives from local businesses. The board's chairman is the governor; however, the board's vice-chairman and the president are elected by board members—an arrangement that gives businesses considerable leeway to influence the organization's strategic outlook. The president and chief executive officer of Enterprise Florida are hired by the board and serve under a long-term contract, which helps prevent political influence from disrupting the state's economic development policy.

Funding sources for Enterprise Florida are a combination of corporate support, state general revenue funds, state trust funds, and program revenues. The bulk of the organization's operating budget comes from state funds, but about 11 percent is raised from corporate contributions.[22] Local businesses stand to profit from the state's marketing efforts, so it is reasonable to turn to them for partial funding support. Moreover, when businesses are financially invested in Enterprise Florida, the business representatives on the board have an incentive to manage the organization as efficiently as possible.

Enterprise Florida undertakes activities in three main areas: business retention and recruitment, international trade, and marketing. The organization's business retention and recruitment efforts are focused on the state's target sectors, which include clean energy, manufacturing, and financial services, among others. In the area of international trade and marketing, between 2009 and 2010, Enterprise Florida helped companies in the state to generate more than $538 million in actual and expected export sales through export development programs. More than $499 million of that total fell within the state's targeted industries for economic development.[23]

Enterprise Florida's business partners are satisfied with their interaction with the organization, but there has been concern that operating two separate economic development agencies—Enterprise Florida and what was formerly the Office of Tourism, Trade and Economic Development (now, the Department of Economic Opportunity)—will eventually create confusion about each group's responsibilities.[24] Governor Rick Scott recently made changes to address this particular challenge by further consolidating the state's economic development and workforce functions into the Department of Economic Opportunity and by designating the president of Enterprise Florida as Florida's Secretary of Commerce.[25]

In addition to consolidating state economic development functions, Governor Scott introduced two mechanisms to increase flexibility and enhance the state's ability to quickly react to business development opportunities. First, the required time to approve or deny requests for state incentive funds has been reduced to 10 days; previously, this process could take up to 42 days. Secondly, the Governor is now authorized to approve incentive awards under $2 million without legislative approval or consultation, and for awards from $2 million to $5 million, the Governor must simply notify the chairs and vice chairs of the Legislative Budget Commission (LBC). Awards that exceed $5 million require LBC approval.[26]

Semi-State Agency

Arizona is bolstering its efforts to engage the private sector in economic development through a quasi-public agency called the Arizona Commerce Authority (ACA). A quasi-public agency is an independent agency created and funded by the government to perform a specific set of functions under private management. ACA is a quasi-public authority that includes dedicated roles for business representatives.[27] Governor Jan Brewer spearheaded the transition of the old Arizona Department of Commerce into the new, quasi-public ACA by executive order in June 2010 and in February 2011, the department of commerce was officially eliminated and replaced completely with ACA.

Enterprise Florida, Inc.—Quick Facts

- Enterprise Florida is a privately managed organization supported by public and private funding. It exists alongside a second, fully public agency in Florida, the Department of Economic Opportunity.
- The organization's 62-member board of directors is chaired by the governor and some of the seats are held by state officials, but the board elects the vice-chairman. The board consists largely of representatives of businesses and educational institutions. Board members are subject to confirmation by the state senate.
- The board of directors hires Enterprise Florida's president and chief executive officer on a long-term contract, which helps prevent political influence from disrupting economic development policy.

(Endnotes)

1 Enterprise Florida, Inc.

2 Enterprise Florida, Inc.

3 Enterprise Florida, Inc.

4 Florida Office of the Governor. "Governor Rick Scott Signs Bill to Speed Up Job Creation." Press release, Orlando, FL. June 14, 2011 [online] [cited 21 June 2011]. Available at: <http://www.flgov.com/2011/06/14/bill-signing>.

5 Florida Office of the Governor.

The Arizona Commerce Authority—Quick Facts

- The Arizona Commerce Authority (ACA) is a public organization with dedicated roles for private businesses.
- The governor chairs ACA's board of directors, but ACA's daily affairs are managed by the vice-chairman and the president, both of whom are elected by the board.
- ACA's operations are publicly funded, with one exception—marketing operations, which will be financed by the private sector.
- Unlike traditional commerce departments, ACA will be devoted exclusively to economic development; any unrelated programs are being shifted to other agencies.

(Endnotes)

1 Arizona Office of the Governor, "Governor Jan Brewer Establishes New Arizona Commerce Authority—Significant Economic Development Measures on the Horizon," press release, Phoenix, AZ, June 29, 2010 [online] [cited 24 March 2011]. Available at: <http://www.azgovernor.gov/dms/upload/ PR_062910_BrewerEstablishesNewAZCommerceAuthority.pdf>.

2 Arizona Governor's Commerce Advisory Council, *Governor's Commerce Advisory Council Report* (Phoenix, AZ: State of Arizona, March 2010) [online] [cited 24 March 2011]. Available at: <http://azgovernor.gov/documents/ACA/PR_GovernorsCommerceAdvisoryCouncilReport.pdf>.

3 Arizona Office of the Governor, "Governor Jan Brewer Signs Landmark Economic Legislation—Arizona Competitiveness Package to Usher in New Era of Economic Growth," press release, Phoenix, AZ, Feb. 17, 2010 [online] [cited 24 March 2011]. Available at: <http://azgovernor.gov/dms/upload/ PR_021711_BrewerSignsLandmarkEconomicLegislation.pdf>.

ACA is governed by a board of directors that is chaired by the governor and comprised of chief executive officer-level business, education, and community leaders.[28] The board of directors will elect a vice-chairman and hire ACA's president under a long-term contract. Jointly, those two leaders will handle ACA's day-to-day affairs. ACA draws upon direct appropriations and user fees to finance its operations, but it will also levy a small fee to pay for marketing campaigns.

ACA has four specific functions: business retention and recruitment, strategic planning, managing financial programs, and marketing. Its main focus is the retention and recruitment of high-quality jobs in Arizona through a $25 million deal-closing fund. The deal-closing fund is structured so that no dollars will be awarded before performance. Performance will be evaluated based on measures such as the average employee wage being higher than the county's average wage. Moreover, "claw-back provisions" and an independent, third-party economic analysis will ensure that companies awarded public funds meet their promised obligations.[29] All other programs not directly related to economic development in Arizona are being transferred to other government agencies. The result is that a single organization with substantial private sector representation is responsible for all of Arizona's economic development activities.

Independent Business Association

In **Oregon,** the private sector has become a central actor in the economic development policy process through an independent organization called the Oregon Business Council (OBC). OBC is run by a collective of supporting businesses; it has no organizational ties to state agencies. OBC's mission is to encourage business leaders in Oregon to contribute to the state's long-term social and economic well-being.

The rigors of running a business sometimes make it difficult to maintain private sector interest in economic development organizations, particularly when an economic development organization operates without the support of dedicated government funding and employees. Over the years, however, OBC has produced numerous policy papers and research reports covering a variety of issues ranging from education to innovation to global competitiveness. Moreover, despite being an independent entity, OBC has been able to partner with other organizations to shape policy in Oregon:

> [The OBC] often works closely with other business organizations, nonprofits, and government agencies to promote policies that improve Oregon life. The OBC works frequently with Oregon's U.S. senators, the governor, and the legislative leadership in Salem, as well as with leaders among city and county governments, school districts, and colleges and universities.[30]

In 2002, OBC launched the Oregon Business Plan to provide a strategic framework for Oregon's business and elected leaders, working together, to build a stronger, more competitive state economy.[31] Many of the initiatives introduced at the first Leadership Summit in 2002 have already been achieved—among them, key investments in innovative microtechnology and nanotechnology research, road and bridge improvements, a federal forest health bill, expansion of development-ready industrial lands, and a coordinated state branding campaign.

In addition, OBC's influence is evident in Oregon's recent efforts to increase postsecondary attainment in the state. The Oregon Business Plan goal for education attainment—namely, that 40 percent of Oregonians have at least a bachelor's degree, 40 percent at least an associate's or technical degree, and 20 percent at least a rigorous high school diploma by 2025—has been widely embraced by Oregon's political and education leaders. In 2007, Oregon's legislature passed HB 3141 that establishes the 40-40-20 goals in statute, Governor Ted Kulongoski organized his budget around those goals, and many of Oregon's top higher education and K-12 leaders are focused on the goals.

Continuing the focus on educational attainment, in 2011, the Oregon Business Council worked with leg-

Oregon Business Council—Quick Facts

- The Oregon Business Council (OBC) is an independent, privately run organization. Its board of directors is made up of representatives from Oregon's largest employers.
- OBC is organized into a number of standing committees that focus on specific issues. Generally, each standing committee is responsible for researching and taking positions on policies that fall within its specific issue portfolio.
- OBC is very active and has produced a number of policy papers, competitiveness assessments, and strategic economic plans.
- OBC maintains a small staff that helps conduct research. Outside consultants are brought in whenever additional help is required.

(Endnotes)

1 Oregon Business Council, "About OBC," Portland, OR [online] [cited 24 March 2011]. Available at: <http://www.orbusinesscouncil.org/about.html>.

2 Oregon Business Council, "Oregon Business Plan," Portland, OR [online] [cited 24 March 2011]. Available at: <http://www.orbusinesscouncil.org/obp.html>.

3 Oregon Business Council, "SB 909, Other Education Bills Clear House," Portland, OR [online] [cited 22 June 2011]. Available at: < http://www.oregonbusinessplan.org/Connect/Latest-News-and-Blog/PostID/84.aspx>.

islators and Governor John Kitzhaber to create the Oregon Education Investment Board (OEIB), through legislation introduced by the governor and passed by the legislature. The Oregon Education Investment Board will streamline Oregon's system of education funding and policy-making from early childhood and K-12 through postsecondary education.[32] The Board will be appointed and chaired by the Governor.

Finally, OBC has proven sustainable. Although OBC's dependence on private funding and leadership may make it relatively more vulnerable to economic downturns than organizations with public funding, OBC's sustained commitment to advancing state competitiveness suggests that OBC holds promise for maintaining private sector involvement in Oregon's economic development in the long run.

The fact that OBC was formed without any government prompting does not preclude efforts by governors in other states to organize similar entities in their own states. Oregon's use of the independent business association model may be especially useful to governors looking for low-cost ways to take advantage of the private sector's experience and perspective.

Create Mechanisms to Encourage Collaboration

It is essential that state governments and businesses work together to develop and execute economic development strategies, and it is equally important that government agencies collaborate with one another. The role of a modern economic development agency is to create an ecosystem that supports business and innovation—and accomplishing this task will require a concerted effort from a number of different state institutions. The mechanisms used by a few states to encourage collaboration in economic development are discussed below.

Collaboration across State Agencies, Industry, and Universities

North Carolina improves collaboration through the use of an economic development board that is made up of representatives from government agencies, nonprofit organizations, private businesses, and the state legislature. The 37-member North Carolina Economic Development Board is charged with a number of responsibilities, among them the following:

- Providing economic and community development planning;
- Recommending economic development policy to the state secretary of commerce, the general assembly, and the governor;
- Recommending annual appropriations for economic development programs; and
- Coordinating agencies, foundations, and boards involved in economic development.

Because the North Carolina Economic Development Board brings government and community leaders together, agency directors in the state have a better understanding of how their specific services fit into the larger role of economic development within the state. The board has been particularly effective at making economic growth a key objective of education policy. Consider the following excerpt from North Carolina's most recent strategic economic plan for example:

> Providing support to industry and statewide economic development is a core mission of North Carolina's education and workforce development entities…North Carolina's education and workforce development system must be further strengthened in order to build a workforce with the skills necessary to train for highly skilled occupations, to obtain livable wages, and to attract and retrain workers for high-growth industries in the new economy.[33]

Other recommendations in the strategic plan included improving science, technology, engineering, and mathematics education in public schools, customizing curriculum to meet the training needs of businesses, and investing in state-of-the-art classroom technology so that students will be prepared for employment in a technology-driven economy.

Most important, however, is the fact that the collaborative efforts encouraged by the North Carolina Economic Development Board have yielded tangible results in terms of policy. Of the 101 "action steps" for generating economic growth recommended by the economic development board between 2002 and 2008, all but 21 steps were implemented.[34] The commitment of board members is central to this level of success, as is the format of the action steps within the strategic plan: each action step includes in addition to a recommendation information about which agency or institution is responsible, the deadline for implementation, a source of funding, and the expected outcome or return on investment.

In addition to the Economic Development Board, North Carolina has also established the North Carolina Innovation Council, which, like the Economic Development Board, is made up of representatives from government agencies, nonprofit organizations, private businesses, and the state legislature. The Innovation Council advises the Governor specifically on issues related to innovation and how the state can aggressively pursue and leverage innovation, the creation of new ideas and the translation of those new ideas into products, processes and services with economic value, as a means to grow and diversify its economy through the 21st century.[35]

Like North Carolina, **Washington** uses a government-created entity, the Washington Economic De-

North Carolina Economic Development Board—Quick Facts

- The North Carolina Economic Development Board is a 37-member group with representatives from government agencies, private businesses, nonprofit organizations, and the state legislature.
- The board produces strategic economic plans that offer detailed recommendations on how the state can encourage economic growth.
- The board leverages the diverse perspectives of its members, which results in a comprehensive set of policy recommendations that coordinate elements such as education, infrastructure, research, and culture.
- The board releases regular progress reports that encourage the adoption of its policy recommendations.

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velopment Commission (WEDC), to foster collaboration. The body consists of leaders representing the interests of businesses, the workforce, academic institutions, and government agencies. WEDC provides the following main services in carrying out its legislative mandate to create a comprehensive economic development strategy:

- Provides leadership and guidance to the governor and legislature on a long-term and systematic approach to economic development;
- Formulates a common set of outcomes and benchmarks for the economic development system as a whole and measures the state's economic vitality;
- Defines public, private, and philanthropic sector roles in accordance with best practices to ensure that Washington captures the next generation of technology investment and global market opportunities; and
- Provides a forum for geographic and industry cluster institutions for collaboration to build stronger partnerships.[36]

In 2003, Washington's state legislature gave WEDC the mission of creating a comprehensive statewide strategy to guide investments in economic development, infrastructure, workforce training, small business assistance, technology transfer and export assistance. The state legislature provided that revised focus for WEDC to foster better coordination among the existing network of economic development organizations and the many other institutions that help drive the state's economy. WEDC's statewide strategic plan is meant to provide a statewide framework for local economic development plans.

WEDC is comprised of four working groups organized around the themes of strategy and collaboration, innovation and investment, talent and workforce, and infrastructure. Each working group is chartered to develop action recommendations for WEDC's Economic Development Strategy for presentation to the governor and state legislature of Washington.

WEDC, through its action recommendations and through the actors it brings together, is helping Washington to create a new dynamic of relationships—an

Washington Economic Development Commission—Quick Facts

- The Washington Economic Development Commission (WEDC) is an independent, nonpartisan commission composed of representatives of private businesses, workforce organizations, academic institutions, and government agencies.
- WEDC was created by Washington's state legislature and charged with the mission of creating a comprehensive statewide strategy to guide investments in economic development, infrastructure, workforce training, small business assistance, technology transfer, and export assistance.
- WEDC is organized into four working groups: strategy and collaboration, innovation and investment, talent and workforce, and infrastructure.

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1 Washington Economic Development Commission, "Washington Economic Development Commission," Fact Sheet v.1.2, Olympia, WA, September 2010 [online] [cited 24 March 2011]. Available at: <http://www.wedc.wa.gov/ Download%20files/WEDC%20Fact%20Sheet%20v1.2.pdf>.

"innovation ecosystem"—that can link all the capabilities of the state to generate new knowledge, start new businesses, and transform existing businesses.

Collaboration between States and Regions

Collaboration between states and their regions is becoming increasingly important, as well. **Colorado**, **New York**, and **Tennessee** have all recently completed regional plans that have been rolled up into a statewide economic development plan. In 2011, **Colorado** released the *Colorado Blueprint: A Bottom-up Approach to Economic Development*, a state economic development plan that was created through a regional, "bottom-up approach" by reaching out to citizens across the state to provide their input into shaping Colorado's economy. **Tennessee's** Jobs4TN plan was released in 2011 and focuses on creating high-quality jobs through a regional approach to economic development. One of the elements of the plan is the Jobs4TN Regional Accelerators program, which awarded a $250,000 competitive grant to entrepreneurial accelerators in each of the state's nine economic development regions.

In 2011, **New York** established 10 regional public-private partnerships (Regional Councils) composed of local experts and stakeholders from business, academia, local government, and non-governmental organizations. The councils were tasked with developing strategic plans that emphasize each region's strengths and unique assets. In addition to tasking the Regional Councils with strategy development, New York consolidated the application process for regional economic development grants. The new Consolidated Funding Application (CFA) creates a single application that provides access to grant funding and tax credits from multiple state funding sources. In 2011, regional economic development councils completed one application, based on their regional strategy, to access multiple funding sources. The four winning councils were announced in December 2011 and will receive $40 million each to support their plans, with the other six councils splitting the remaining $40 million. An additional $800 million in tax incentives and existing grants will also be available to support strategies in all ten regions.

As the regional councils begin to implement their strategies, **New York's** state economic development agency, Empire State Development (ESD), is producing an annual economic report to the governor with sections on statewide business climate and progress reports on the work of the councils. These reports will track two sets of metrics by region. The first is a set of standard elements that will be measured and benchmarked across all regions and will include labor force indicators, educational measures, business starts, and minority and women business enterprise certifications. The second set will be specific to each council and will track metrics linked to each region's unique set of goals.[37]

New York continues to direct funding to the regional councils through competitions. A second round of funding was announced in 2012. Regional Councils will compete for an additional $150 million in capital funds and $70 million in tax credits for projects identified as priorities in their regions. Five awards of $25 million will be made and the balance of the $25 million in capital funds will be divided among the remaining regions.[38]

Institute a Quantitative Evaluation System

When states are redesigning their economic development agencies, it is important that they institute a quantitative system for evaluating the effectiveness of state economic development efforts. A quantitative evaluation system is important because it can be used to ensure that state funds are being channeled to the most productive uses possible. It is also important because it can help build confidence that the state economic development agency is spending its money prudently. Building such confidence is essential if the private sector is to remain involved in the state's economic development process.

Virginia Performs

Virginia uses a detailed, web-based system for monitoring the effectiveness of most state agencies, including its economic development agency.[40] Called Virginia Performs, the system provides a range of information about each state agency's mission, its most recent strategic plan, its budget, and its performance against a set of evaluation measures.

Virginia Performs is designed to align specific outcomes achieved with larger statewide goals for the economy and other important areas identified through a consensus development process led by the Council on Virginia's Future in 2004. That process involved the state executive, legislators from the state senate and house of delegates, and citizen and business leaders. The Virginia business community, in particular, wanted state government and policy to focus on longer-term state goals.[41]

For the state's economy, Virginia Performs tracks a wide range of data, including data on economic development indicators of business climate, business startups, employment growth, and workforce quality—all connected to the overarching goals of preserving and enhancing Virginia's economy (Figure 3). Each indicator is presented in comparison to data from top-performing states, national ranking, the indicator's performance trend (improving, maintaining, or worsening), state influence (significant or limited), related agency measures, and related state programs and initiatives.

Beyond tracking data related to Virginia's long-term goals, Virginia Performs tracks data related to each state agency's key objectives and metrics (to determine whether the state is getting results on its highest priorities) and performance, productivity, and administrative outcomes (to gauge whether state programs and services are producing the desired results and whether agency operations are well managed. Performance data are presented for each of Virginia's economic-related agencies, including the Department

Figure 3: Key Indicators of Virginia's Economy Used in Virginia Performs

Source: Council on Virginia's Future.[39]

of Business Assistance, the Virginia Economic Development Partnership, and the Innovation and Entrepreneurship Investment Authority.

Massachusetts Innovation Economy Index

Several states—among them **Maine**, **Massachusetts**, **Mississippi**, and **Oregon—**benchmark indicators related to the innovation economy and measure the contribution of these indicators to the state's economic growth.

In **Massachusetts**, for example, the Index of the Massachusetts Innovation Economy, published annually since 1997, measures the performance of the knowledge economy in the state through a set of indicators that also show where the state stands in relation to other "Leading Technology States."[42] The Index of the Massachusetts Innovation Economy is produced by the John Adams Innovation Institute, a division of the Massachusetts Technology Collaborative, which is a quasi-public agency created to advance the growth of the technology sector of the Massachusetts economy through collaborative activities among industry, universities and state government.

The Massachusetts index presents a detailed overview of 25 indicators that cover several dimensions of the state's innovation ecosystem across three main categories: economic impact, innovation activities, and innovation capacity. The economic impact category includes, for example, indicators such as percentage of employment in key clusters, gross domestic product (GDP) per employee, and manufacturing exports as percent of GDP. The innovation activity category includes indicators such as corporate R&D intensity and the number of new high-tech business startups. By revealing how specific indicators in Massachusetts have changed over time and how Massachusetts compares to other states with respect to the indicators, the Index of the Massachusetts Innovation Economy highlights both areas of strength and areas of weakness that suggest avenues for improving performance.[43]

Conclusion

States that want to increase the effectiveness of their state economic development agencies can employ three foundational strategies to ensure their success—engaging the private sector in partnership in the economic development process, creating mechanisms to encourage collaboration among industry clusters and government agencies, and instituting a system of quantitative measures to evaluate the state's return on investments in economic development.

To ensure that state economic development agencies have the greatest impact, states involved in creating or redesigning such agencies should consider the structure of the agency, the core mission of the agency, and the governor's role in the economic development process:

- **Structure of the economic development agency.** The most effective economic development agencies have flat structures making them nimble and responsive. They have mechanisms for streamlining investments in innovation and strong leadership that is capable of driving alignment and decisively closing business deals. Among the many ways to create a nimble agency that leverages the private sector's experience and perspective, three general models particularly worth considering are (1) a public-private partnership; (2) a semi-state agency; and (3) an independent business association.

- **Core mission of the economic development agency.** To ensure that economic development agencies do not become cluttered with unrelated programs, states should decide on a core set of economic objectives and services and stick with them. These economic objectives should be informed by a new understanding of economic growth and linked to a statewide innovation strategy that aligns policies around key industry clusters in the state.

- **Governor's role in economic development.** Governors play a critical role in their state's economic development process—from designing strategy to promoting agency collaboration to being the deal closer in business attraction efforts. Governors also play an important role by interacting with private sector leaders on a regular basis to better understand and address the needs of business. Effective economic development agencies will position the governor as the state's "CEO for economic development."

The economic realities of the recession and recovery and complex challenges like innovation that require multidimensional and integrated solutions make finding effective models for economic development and appropriate reform of economic development agencies a high priority for states. Just as importantly, governors can provide their state's economic development agencies with a core mission that reflects a new understanding of economic growth and promotes the drivers of America's economy—innovation, entrepreneurship, and the generation of new ideas.

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