



North Carolina Department of Commerce

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MEMORANDUM

To: House Appropriations Subcommittee on Natural and Economic Resources
Senate Appropriations Committee on Natural and Economic Resources
N.C. General Assembly – Fiscal Research Division

From: A. John Hoomani, N.C. Department of Commerce

Date: December 12, 2014

Re: Report on N.C. Department of Commerce Reorganizations

Pursuant to N.C. Session Law 2014-100, s. 14.2A.(a), attached you will find a report outlining reorganizations, modifications to assignments or duties, or transfers of departmental functions or positions between fund codes undergone by the N.C. Department of Commerce during the 2013-15 Biennium.

During the biennium, there have been some major changes to the Department, and some lesser changes. We will attempt to detail each below.

I. The Rural Economic Development Division (REDD)

A. Creation of Rural Economic Development Division:

The first major change to the Department during this biennium was the creation of the Rural Economic Development Division (“REDD”) by the N.C. General Assembly during the 2013 long session. *See* N.C. Session Law 2013-360, s. 15.10(a). REDD is responsible for administering programs whereby economic development grants or loans are awarded by the Rural Infrastructure Authority (“RIA”) to local government units. In awarding economic development grants or loans, the RIA must give priority to local government units of the counties that have one of the 80 highest rankings under N.C. Gen. Stat. § 143B-437.08. The funds that are available for grants or loans under this program may be used as follows:

- (1) Construct critical water and wastewater facilities or to provide other infrastructure needs, including but not limited to, natural gas, broadband, and rail to sites where these facilities will generate private job-creating investment.

- (2) Provide matching grants or loans to local government units in an economically distressed county that will productively reuse buildings and properties or construct or expand rural health care facilities with priority given to towns or communities with populations of less than 5,000.

REDD is also responsible for administering the program whereby local government units are awarded funds by the RIA from the Utility Account under N.C. Gen. Stat. § 143B-437.01, and administering the program whereby local government units are awarded funds by the RIA for economic development projects from community development block grants funds.

Budget Code 1534 – Rural Economic Development Division was established as a vehicle that contains an approved certified budget and as a collection point for expenditures to be collected and used as a reporting mechanism. The initial certified budget for REDD for FY 2013-14 was \$11,347,414, with no more than five percent of the total budget available to be used to fund the administrative operations of REDD. The FY 2014-15 budget increased the REDD budget to \$12,971,898 for the rural grants programs, with no more than five percent of the total budget available to be used to fund the administrative operations of REDD. In addition, a number of other recurring and non-recurring items were added to the REDD budget, including an expansion of the rural grants programs (\$1,250,000 in non-recurring funds) and a new grant program to assist communities that are underserved or otherwise have limited resources (\$1,250,000 in recurring funds and \$500,000 in non-recurring funds). REDD is not allowed to charge these additional programs for their administrative costs. These additional programs increase the total budget for REDD for FY 2014-15 to approximately \$16,300,000.

Shortly after the creation of REDD, three positions (an Assistant Secretary, an Operations Manager and an Administrative Assistant) were authorized and budgeted for in Budget Code 1534 with the responsibility of accomplishing the administration requirements of the Division. In the future, REDD anticipates it will transfer positions from the Rural Grants Program Special Fund (“RPSF”) organization. The RPSF was created to administer rural grants programs that were previously administered by the Rural Development Center, Inc. (“Rural Center”), a North Carolina non-profit. This transfer is discussed below.

B. Funds and Personnel Transfer from the North Carolina Rural Center:

At the same time it created REDD, the N.C. General Assembly also ceased funding for the Rural Development Center, Inc. (“Rural Center”), a North Carolina non-profit. As a result, the Department entered into negotiations with the Rural Center, and ultimately amended the contract between the Department and the Rural Center involving the distribution of funds appropriated by the N.C. General Assembly.

The amendment required the transfer of \$72,368,305.14 in funds obligated to 421 grants to the Department of Commerce. An additional five percent of the obligated balance was allocated for administration of the grants. The amendment also instructed the transfer of all historical grant

files including paper and electronic files for active grants that were completed or terminated in the past five years.

The Department hired nine Rural Center personnel on a time-limited basis to administer the grants transferred and to develop and administer the grant programs created by the Department's Rural Division. In December 2013, two of these personnel moved to the N.C. Department of Environment and Natural Resources ("DENR") to administer the CDBG Infrastructure program (see more information on this transfer below). Budget Code 2538 – Rural Grants Program Special Fund ("RPSF") was established to handle these transferred grants, and to pay these new employees. Administration funding for the rural grants programs will be exhausted in the next two to three years and any future associated operational cost will be absorbed in Budget Code 1534. A minimum of two positions will be transferred in FY 2014-15, with subsequent transfers occurring in future years.

Budget Impact: Budget Code 2538 was established with \$72,368,305.14 obligated for transferred grants and \$3,469,365 for Administration.

C. Transfer of Positions and Operational Funds to DENR:

Also in 2013, the N.C. General Assembly transferred a portion of the Community Development Block Grant ("CDBG") program to DENR. Session Law 2013-363, s. 5.3, allocated CDBG infrastructure funds from the Department to DENR. In addition, Session Law 2013-360, s. 15.23, instructed the Department to collaborate with DENR "to determine a way in which to equitably distribute the employees . . . responsible for the CDBG program." As a result, the Department transferred positions and operational funds to DENR to administer grants for the Community Development Block Grant Infrastructure program. Four positions were transferred from the Federal CDBG allocation (Fund Code 1631) and three were transferred from the Division of Community Assistance (Fund Code 1620). The Department of Commerce will retain responsibility for the financial, administrative and reporting requirements of the State's CDBG program. Below are the position numbers and classifications for the transferred positions.

<u>Fund Code</u>	<u>Position Number</u>	<u>Classification</u>
1631	60081217	Community Planner II
1631	60081232	Community Development Planner I
1631	60081224	Office Assistant IV
1631	60081018	Financial Specialist
1620	60081199	Community Development Planner I
1620	60081185	Community Development Planner II
1620	60081204	Community Development Planner I

Budget Impact: The total Commerce budget reduction to implement the DENR transfer is \$600,000 which includes: \$300,000 from the federal CDBG administrative allocation (1631) and \$300,000 from the Economic Advancement and Planning ("DCA") appropriation (1620).

D. Reorganization of Economic Advancement and Planning Office (formerly Division of Community Assistance):

The Department reorganized and renamed the Division of Community Assistance as the Economic Advancement and Planning Office. The new office includes two sections formerly in the Division of Community Assistance (State CDBG and Planning) and the office has been developed to administer the new Rural Division grants and those transferred from the Rural Center (Rural Grants/Programs). The Economic Advancement and Planning Office provides centralized support in Raleigh and “boots on the ground support” to local communities to support economic development activities, build capacity, and support the acquisition of funds for identified projects. The Department has realized cost savings by placing the three programs under one director, and the sharing of other personnel and technical resources. The Department will also realize improved efficiency and effectiveness through the sharing of a single grants management software program for its CDBG and Rural Grants programs as well as the DENR CDBG program.

The Department is in the process of redefining the planning service offerings of the Economic Advancement and Planning regional offices located in Washington, Winston Salem, and Asheville. The Department has promoted the Chief Planner in the Winston Salem office to oversee and coordinate the transition. The offices will take an active role in supporting local and regional economic development by adding value to economic and community development projects through planning, analysis, and resource identification. The regional offices will also provide informational and technical support to local governments seeking grants from the Department of Commerce and other agencies and will support the acquisition and administration of CDBG grants. One CDBG grant advisor has been placed in the Washington office and a CDBG grant advisor will be placed in the Winston Salem and Asheville offices in 2015.

In addition, the Department implemented a reduction-in-force (“RIF”) initiative to cut eight positions from the Economic Advancement and Planning Office to fulfill the legislative mandated reduction and a portion of Commerce’s management flex cut. The cuts included the permanent closure of planning offices in Fayetteville and Raleigh and the RIF of the following positions.

<u>Position Number</u>	<u>Classification</u>
60081190	Community Development Planner III
60081230	Office Assistant IV
60081181	Community Development Planner II
60081169	Administrative Assistant II
60081183	Community Development Planner I
60081186	Community Development Planner I
60081196	Community Development Planner I
60081203	Community Development Planner I

Budget Impact: The total Economic Advancement and Planning Office (“DCA”) budget reduction to implement the required cuts is \$524,546 and includes: \$318,750 in mandated cuts and \$205,796 toward the Department’s Management Flex Cut.

E. Transfer Request for Economic Advancement and Planning (DCA) Operational Expenses

The Department requested permission from OSBM to permanently abolish three vacant positions from Fund Code 1620 and transfer the funds to support operational costs for the Economic Advancement and Planning and Main Street offices. The request to OSBM will enable the Department to correct longstanding budget deficiencies in the program’s operational budget. The request for FY 2014-15 has been approved but not on a recurring basis. If the request is not approved on a recurring basis REDD will again be faced with the longstanding budget deficiencies. OSBM is currently considering the recurring funding request. Following are the positions to be abolished:

<u>Position Number</u>	<u>Classification</u>
60081187	Community Development Planner I
60081196	Community Development Planner I
60081168	Assistant Director-Community

Budget Impact: The total requested transfer is \$210,042.

F. Miscellaneous

In addition to the above, there have been a few other changes within the REDD structure that have been implemented since REDD’s creation. The former Office of Urban Development is being rebranded to facilitate an increased focus on North Carolina Main Street programs predominately serving rural areas of the state. The organization will continue to provide limited assistance in qualified urban areas. The new organization will be named the North Carolina Main Street Center. In addition, there have been two personnel reductions in this organization. One employee was selected to be terminated as a result of a RIF, including elimination of the position and funding. In addition, another employee in this organization retired. The position will not be filled and the position funds are being utilized in another area of REDD to support a funding shortfall.

II. Creation of Public-Private Partnership

The next major change that occurred during the 2013-15 Biennium was the decision to eliminate five divisions within the Department and contract with a North Carolina non-profit corporation to perform those functions. Pursuant to N.C. Session Law 2014-18, s. 1.1.(a), the Department contracted with the Economic Development Partnership of North Carolina, Inc. (“EDPNC”), a North Carolina nonprofit corporation in accordance with N.C. Gen. Stat. § 143B-431A(b). The

contract entered into between the Department and the EDPNC on October 6, 2014, provided that the EDPNC would perform the following scope of services:

The Contractor will operate as the sales and marketing arm of the State, responsible for: business recruitment, existing industry and small business support, import and export assistance, marketing, tourism, film and sports development. All responsibilities for making grants, loans or other discretionary incentives will remain public with the Department of Commerce.

The mission of the Contractor is to guide the State's economic development efforts toward the creation and retention of high-quality jobs through new business attraction, existing business support and the cultivation of the tourism and film industries. It is the goal of the Contractor to be a statewide, collaborative organization that engages the business sector, economic development partners and community representatives at the local and regional levels to foster economic growth across the entire state.

As a result of this contract, the Department eliminated five divisions – Business and Industry, Marketing, Small Business and Entrepreneurship, International Trade and Investment, and Travel and Tourism (excluding Welcome Center operations, but including Film and Sports Development). When the original plan was approved by OSBM in March 2014, it was contemplated that 67 positions would be affected by the proposed reorganization.¹ However, some of those positions were vacant, some left prior to the elimination of the divisions, and some ended up staying at the Department in other positions. As a result, there were only 51 positions (52 employees) affected. Thereafter, 30 people accepted positions at the EDPNC, and 22 people (21 positions) were subject to a Reduction in Force. However, except for two positions that will remain in our Labor and Economic Analysis Division, all of the positions (including the positions that were already vacant, as well as the positions that were vacated when employees accepted other positions with the Department) are in the process of being eliminated (this includes 65 positions). The following are the positions that will be eliminated:

<u>Position Number</u>	<u>Classification</u>
60080980	Regional Assistant
60080872	Public Relations Program Assistant
60080965	Economic Developer
60080957	Existing Industry Specialist
60077184	Social Clinical Research Specialist
60080931	Development Officer
60081005	Business Development Manager
60080962	Existing Industry Specialist
60081009	Business Development Manager
60080928	Database/Web Manager

¹ NOTE: there were 67 positions, but 1 of those positions was shared by 2 employees, so there were actually 68 employees.

60080984	Economic Development Representative
60080848	Administrative Secretary II
60080981	Existing Industry Specialist
60081008	Business Development Manager
60080929	Office Assistant V
60080951	Client Services Manager
60080867	Tourist Information Specialist
60080959	Existing Industry Specialist
60077153	Executive Assistant to the Secretary
60080948	Senior Economic Development Manager
60080863	Publications Director
60080956	Economic Development Representative
60080970	Economic Development Representative
60080993	Business Counselor
60080939	Director of Research
65005907	Director of Marketing
60080868	Director of International Marketing
60081002	Business Development Manager
60080992	Business Counselor
60081194	Policy Analyst
60080975	Regional Assistant
60080947	Regional Manager
60081003	Business Development Manager
60080999	Division Director, International Trade
60080866	Manager of Group Travel
60080950	Project Manager
60080869	Tourist Information Specialist
60080969	European Project Manager
60080964	Senior Economic Development Representative
60080960	European Investment Director
60080996	Business Counselor
60080954	Economic Development Representative
60080978	Western Regional Manager
60080990	Business Counselor
60080958	Program Assistant IV
60080995	Business Counselor
60080961	Economic Development Representative
60080864	Photographer
60080976	Regional Assistant
60080938	Director, Film Industry Development
60080972	Business Counselor
60080952	Environmental Consultant
60081259	Administrative Assistant I
60081258	Director of Marketing

60080940	Receptionist
60080851	Business Manager
60081006	Economic Developer
60080968	Office Manager
60080966	Administrative Assistant
60080941	Marketing Specialist
60080989	Client Services Manager
60080994	Resource Manager
60081260	Economic Developer
60080865	Assistant to Tourism Marketing Director
60080847	Director of Economic Development

Budget Impact: The state appropriated budget for these divisions is \$18,423,003. The contract entered into between the Department and EDPNC is for \$17,501,988. As a result, the current savings that will be realized by this reorganization is \$921,015. Further, as EDPNC grows and continues its statutorily mandated fundraising activities, it is anticipated that the savings will grow over time.

III. Division of Employment Security (DES)

The Division of Employment Security (“DES”) focused mostly on the implementation of House Bill 4. The provisions of House Bill 4 represented a major reform of unemployment laws and required retraining the entire staff on how the laws would be implemented; therefore, the focus of DES has been on policy and process rather than structure.

There were several re-alignments that were implemented; however, these changes were not intended as a cost saving move, but rather merging units that have symbiotic relationships and would therefore improve efficiency and customer service. The best example of this was moving the Quality Control unit under the Office of Internal Audit. Quality Control provides assessment, consulting, and monitoring services to the Department’s managers and staff. Services are focused on strategic planning, performance measurement, continuous improvement, quality assurance/control, as well as risk management, compliance and internal audits. Quality Control also monitors the Division’s performance in meeting federal quality scores as well as identifying potential federal audit exceptions; therefore, the Office of Internal Audit and Quality Control work closely on these efforts.

Another process oriented alignment involved consolidating the efforts of the Public Information Office and Governmental Relations. Whereas these efforts had previously worked independently, both units were primary points of contact from the public as well as the legislature. The consolidation of these units provides better customer service to both the public and private sectors while ensuring consistent responses to questions and concerns. Furthermore it provides a repository for identifying and responding to issues that may be systemic and require immediate action.

IV. Division of Workforce Solutions (DWS)

Pursuant to N.C. Session Law 2013-330, s. 2.(a), all functions, powers, duties, obligations, resources, and appropriations vested in the Apprenticeship Program and the Apprenticeship Council were transferred from the N.C. Department of Labor to the Department as a Type I transfer, effective January 1, 2014. As a result, a new unit was created in the Division of Workforce Solutions (“DWS”) called NCWorks Apprenticeship. The following 19 positions were transferred over to the Department:

<u>Position Number</u>	<u>Classification</u>
60013013	Apprenticeship and Training Bureau Chief
60013014	Apprenticeship and Training Assistant Bureau Chief
60013030	Apprenticeship and Training Consultant
60013035	Apprenticeship and Training Consultant
60013033	Apprenticeship and Training Consultant
60013015	Apprenticeship and Training Consultant
60013026	Apprenticeship and Training Consultant
60013036	Apprenticeship and Training Consultant
60013065	Apprenticeship and Training Consultant
60013019	Apprenticeship and Training Consultant
60013022	Apprenticeship and Training Consultant
60013021	Apprenticeship Consultant Supervisor - East
60013039	Apprenticeship Consultant Supervisor - West
60013018	Apprenticeship Job Profiling Specialist
60013032	Apprenticeship Processing Assistant
60013040	Apprenticeship VA Specialist
60013034	Apprenticeship VA Specialist
60013024	Processing Assistant IV
60013042	Program Assistant IV

At this time no positions have been eliminated, however as we continue to explore efficiencies, some positions have not been refilled when staff have left/retired (a total of 5 vacancies currently exist). In addition, no organizational changes have been made at this time, but planning is underway to better integrate the apprenticeship program into all NCWorks programs to find efficiencies, better align programs, and provide better customer service.

Recommendations toward cost savings are being considered as we explore efficiency improvements associated with integration of Apprenticeship into all NCWorks programs. NCWorks will continue working to create efficiencies throughout North Carolina’s workforce development system. Currently, there are too many people that are meeting with businesses to talk about specific programs instead of services provided by the state across programs. One of the key goals of NCWorks is to create a more integrated and aligned system especially as it relates to business services. The NCWorks Commission has identified creating a more unified

system, where all workforce staff from across agencies are cross-trained and can talk about all programs to create a seamless system for businesses, as a key strategy.