

**REPORT OF THE
JOINT SUBCOMMITTEE STUDYING**

**THE DEVELOPMENT OF
A RURAL VIRGINIA
DEVELOPMENT FOUNDATION**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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Report of the Joint Subcommittee

Studying the Development of a Rural Virginia

**Development Foundation
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
January, 1984**

To: The Honorable Charles S. Robb, Governor of Virginia
and
The General Assembly of Virginia

I. INTRODUCTION

This joint subcommittee was formed to study the feasibility of establishing a Rural Virginia Development Foundation pursuant to a senate joint resolution of 1983. Its attention has been centered on the creation of the Rural Virginia Development Foundation (RVDF), a vehicle that would encourage and assist economic development in rural areas.

II. 1983 DELIBERATIONS

The Subcommittee met for the first time on June 20, 1983, and on four other occasions thereafter. Discussions focused on the need for and purposes of the RVDF as well as legal and financial implications relating to its creation.

Through preliminary work by the Rural Development Authority Task Force and staff input from the Department of Agriculture and Consumer Services and the Department of Agricultural Economics at VPI & SU, the organizational structure was proposed.

The RVDF would be created as a private foundation and governed by a seventeen-member board of trustees appointed by the Governor, subject to confirmation by the General Assembly. The Foundation's primary function would be to develop, coordinate, and promote programs of economic growth specifically for rural Virginia. Its objectives would include the promotion of small industry and business development compatible with the needs of rural Virginia as well as the coordination of leadership, manpower training, and new approaches to economic development in the rural communities.

Staff research of similar programs in other states revealed a variety of plans that would assist new business development targeted towards a wide range of enterprises from high technology companies to small home businesses. The methods of assistance for the funding of these enterprises are also diverse and include loans, tax credits, grants, bond issues, and stock corporations. Government participation ranges from extensive state assistance and endowments to little or no government participation.

In the effort to determine the need for and feasibility of a rural development foundation in Virginia, a survey was mailed to over 400 persons in rural communities throughout the Commonwealth in August of 1983. The survey, conducted by the Department of Agriculture and Consumer Services, indicated that ninety-seven percent of those persons responding felt a need for new businesses and industries in their localities. Approximately eighty-five to ninety percent of the responses supported the idea of a rural development foundation or a financial corporation to help establish these new businesses.

Upon review of the various programs established in other states, and considering the particular needs of rural Virginia, the subcommittee supported the concept of the creation of the RVDF as a vehicle that would enable small-business development in rural Virginia. The

subcommittee was concerned, however, about government financing of the foundation and took the position that no state endowment or funding should be appropriated toward the establishment and operation of the RVDF.

The concept of creating a for-profit financing corporation, the Virginia Economic Development Corporation (VEDCORP), evolved from the subcommittee discussions as a corporate subsidiary of the RVDF. This corporation would provide loans, engage in equity financing, and guarantee loans to firms in rural areas of the Commonwealth. VEDCORP would function as a stock corporation, operating under a board of directors and following general corporate guidelines.

In determining the structure of such a corporation, the research staff reviewed other state models including the Kentucky Highlands Investment Corporation, the Louisiana Small Business Equity Corporation, the Florida Industrial Development Corporation, the Development Credit Corporation of Maryland, and the Business Development Corporation of Georgia. The Virginia equivalent to these organizations would be VEDCORP and primary objectives of the corporation would include equity financing, providing loans and guaranteeing loans to firms in rural areas of the Commonwealth.

Since sources of funding and financial implications are of primary importance in the establishment of the RVDF and VEDCORP, a good deal of time was spent focusing on the best arrangement of monetary sources for these programs. The review of financial aspects of the proposals resulted in discussions involving the legal and political implications and complications which may result.

Of the financial sources considered, the Virginia Industrial Development Corporation (VIDC) was carefully considered. This corporation was created back in the early 1960's as a private stock corporation and consists of a group of Virginia banks. Its stated purpose is to "stimulate and promote the business prosperity and economic welfare of this State and its citizens; to encourage and assist through financial aid, advice, technical assistance and other appropriate means the location of new businesses and industries and the rehabilitation, improvement, and expansion of existing businesses and industries through the State..."

In the past, the VIDC has provided long-term loans at attractive rates while commercial banks did not offer long-term loans. Now that commercial banks do provide long-term loan services, the purpose of VIDC has been largely diminished. Though the VIDC is fairly inactive at this time, meetings with that organization indicated the VIDC funds would not be available as a source for funding the RVDF.

Inquiries were also made regarding potential conflicts between the RVDF and other organizations that perform similar functions. Contacts with the Division of Industrial Development and studies of the Agricultural Development Authority and the VIDC showed no substantial overlap in the services that would be provided.

After reviewing the information that had been presented, the subcommittee, at its last meeting, reviewed proposed draft legislation that would allow the creation of the RVDF. The subcommittee specifically requested that language be included in the draft legislation which would state that the Commonwealth would not be liable for any financing and that state support be limited to participation in the Foundation's establishment by land grant universities and appropriate state agencies. The subcommittee wanted to make it clear it was not recommending any appropriations or commitments on behalf of the Commonwealth.

The draft legislation which was reviewed also contained provisions for the establishment of subsidiary corporations (VEDCORP). While the subcommittee supported the concepts presented by the draft proposal, it emphasized that funding for the Foundation and any subsidiary corporation would probably come from private grants or the Division of Industrial Development.

III. SUBCOMMITTEE RECOMMENDATIONS

The subcommittee finds that the creation of a Rural Virginia Development Corporation, along with a financial subsidiary corporation, can be a worthwhile undertaking in the effort to promote

the general welfare of the Commonwealth. Through use of this targeted economic development program for rural communities in Virginia, private enterprise and initiative can be encouraged in areas that can derive needed benefits from their establishment.

The subcommittee recommends the adoption of draft legislation enabling the creation of the Rural Virginia Development Foundation under which subsidiary corporations may be formed to accomplish the Foundation's objectives.

The subcommittee also recommends that no appropriations be forthcoming from the Commonwealth for the endowment or funding for the establishment and operation of the RVDF. The subcommittee further recommends that the Commonwealth not be liable for the activities, operations and services provided by the RVDF or any subsidiary corporations thereunder.

Respectfully submitted,

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Appendix A

A BILL to amend the Code of Virginia by adding in Title 3.1 a chapter numbered 5.2, consisting of sections numbered 3.1-27.37 through 3.1-27.50, to establish the Rural Virginia Development Foundation.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Title 3.1 a chapter numbered 5.2, consisting of section numbered 3.1-27.37 through 3.1-27.50 as follows:

CHAPTER 5.2.

Rural Virginia Development Foundation.

§ 3.1-27.37. Short Title.—This chapter shall be known and may be cited as the “Rural Virginia Development Foundation Act.”

§ 3.1-27.38. Legislative findings, purpose of chapter.—The General Assembly finds that there exists a need for diversified economic opportunity in many rural areas of the Commonwealth. Many rural communities face poor economic conditions manifested by high unemployment, underemployment and low farm income. Such problems can be alleviated by economic growth and employment opportunities provided by small businesses. Creation of a Rural Virginia Development Foundation is within the public interest to promote small industry, improve management development and labor productivity, and to identify, encourage, and coordinate new approaches to economic development in rural communities of the Commonwealth.

§ 3.1-27.39. Definitions.—As used in this chapter:

“Board of trustees” means the board of trustees of the Rural Virginia Development Foundation.

“Economic development corporation” means an enterprise incorporated pursuant to the provisions of this chapter with the authority to promote and assist the growth and development of small business concerns.

“Foundation” means the Rural Virginia Development Foundation.

“Local government” means the governing body of any county, city or town in the Commonwealth.

§ 3.1-27.40. Foundation created.—The Rural Virginia Development Foundation is created to be organized and to have the powers set forth in this chapter.

§ 3.1-27.41. Creation of the board of trustees, membership.—A. The Rural Virginia Development Foundation shall be governed and administered by a board of trustees consisting of seventeen members. Members of the board shall be appointed by the Governor, subject to confirmation by the General Assembly. The board of trustees shall consist of the Secretary of Commerce and Resources and the following individuals appointed by the Governor: two department heads of state government, two representatives of the financial community, four members of the business community, four members of the education community, and four members who are elected local officials. Initially the trustees shall be appointed for the following terms: six for a term of four years, six for a term of three years, and two for a term of two years. Thereafter, successors to trustees whose terms expire shall be appointed for terms of four years. The Secretary of Commerce and Resources and the two department heads of state government shall serve at the pleasure of the Governor. All trustees may be reappointed.

B. Trustees of the Foundation shall be reimbursed from Foundation funds for their actual traveling expenses incurred in the performance of their duties on behalf of the Foundation.

C. The board shall elect from its membership a chairman, vice-chairman, and other officers as it deems appropriate.

D. The chairman of the board, the treasurer, and any other person designated by the board to handle the funds of the Foundation shall give bond, with corporate surety, in such penalty as is fixed by the State Treasurer, conditioned upon the faithful discharge of their duties. The premium on the bonds shall be paid from funds available to the Foundation.

E. A majority of the members of the board serving at any one time shall constitute a quorum for the transaction of business.

§ 3.1-27.42. Purpose of Foundation; objectives.—The Foundation will have the following objectives:

1. To develop and promote programs of economic growth in rural Virginia that are compatible with its cultural, resource and economic environment. The Foundation will encourage entrepreneurial efforts to increase value-added production, processing and marketing activities in rural Virginia.

2. To pursue programs that ensure the delivery of coordinated leadership and manpower training activities and efforts.

3. To identify emerging needs and technological changes that generate products which can be produced by rural enterprises.

§ 3.1-27.43. Committees.—The board shall appoint standing committees which will constitute the basic structure and provide leadership for the Foundation's principal objectives.

§ 3.1-27.44. Meetings, staff, etc.—The Foundation's board shall meet at least twice annually to conduct the duties assigned to it under this chapter. The board shall appoint an Executive Director who shall supervise the activities of the Foundation on a day-to-day basis. The Executive Director may request assistance from state agencies and institutions, and the board may hire additional staff as needed.

§ 3.1-27.45. Annual reports.—The Executive Director shall provide annual reports to the Governor summarizing the activities of the Foundation.

§ 3.1-27.46. Powers of the Foundation.—To enable it to carry out its functions, the Foundation shall have the following general powers:

1. To sue and be sued in contractual matters in its own name;

2. To adopt all procedural and substantive rules necessary for the administration of this chapter;

3. To make contracts and agreements, and execute other instruments necessary or appropriate to carry out its purposes;

4. To enter into agreement with, and accept grants from, any governmental agency in furtherance of this chapter;

5. To accept services, gifts, grants, and any property of any character, and to utilize or dispose of them for the purposes for which the Foundation is created;

6. To acquire by gift, devise, purchase, or otherwise, absolutely or in trust, and to hold and, unless otherwise restricted by the terms of the gift or devise, to encumber, convey, or otherwise dispose of, any real property, or any estate or interest therein, as may be necessary and proper in carrying into effect the purposes of the Foundation;

7. To appoint and prescribe the duties of officers, agents, and employees as necessary to carry out its functions, and to fix and pay compensation to them as determined by the board;

8. To coordinate the formation of any economic development corporation as defined in this chapter and to own stock in such a corporation; and

9. Generally to do all lawful acts necessary or appropriate to carry out the purposes for which the Foundation is created.

§ 3.1-27.47. *Subsidiary corporations.—Economic development corporations may be incorporated in this Commonwealth pursuant to the provisions of Chapter 1, Article 3, (§ 13.1-48 et seq.) of Title 13.1 of the Code of Virginia, and all the provisions of Chapter 1 of Title 13.1 of the Code not in conflict with or inconsistent with the provisions of this chapter shall apply to such corporations. The purpose clause of the articles of incorporation shall recite that the purpose for which the corporation is formed is to stimulate and promote the economic prosperity of the Commonwealth and its citizens and to encourage and assist through equity investments, loans, loan guarantees, advice, technical assistance and other appropriate means, the creation and location of new businesses and industries and the expansion of existing businesses and industry, in the rural areas of the Commonwealth. In furtherance of these purposes, economic development corporations shall coordinate their activities with the Virginia Division of Industrial Development, the Virginia Department of Agriculture and Consumer Services and other organizations, public and private.*

§ 3.1-27.48. *Limitations, subsidiary corporations.—A. Any economic development corporation formed pursuant to this chapter shall restrict its equity investments and related business dealings to Virginia business firms which, for the purposes of this chapter, shall be defined as persons, firms, corporations or subsidiaries which are doing business primarily in Virginia or have substantially all of their production in Virginia. Consistent with the purpose for which an economic development corporation may be formed, funds invested in Virginia business firms by purchase of stock or otherwise shall be used by the firms solely for the purpose of enhancing their productive capacities or ability to do business within the Commonwealth, or to facilitate their ability to add value within the Commonwealth to goods or services for export to out-of-state markets.*

B. No person, firm or corporation other than the Foundation shall subscribe for, own or hold directly or indirectly more than twenty-five percent of the issued shares of the common stock of any economic development corporation at any time.

C. Any local government may in accordance with present law, participate or invest in the funding or operation of any economic development corporation formed pursuant to this chapter.

§ 3.1-27.49. *Federal Small Business Investment Act; applicability.—Any corporation organized under the provisions of this chapter shall be a state development company, as defined in the Small Business Investment Act of 1958, Public Law 85-699, or any other federal legislation, and shall be authorized to operate on a statewide basis.*

§ 3.1-27.50. *Credit of the Commonwealth not pledged.—Under no circumstances is the credit of the Commonwealth pledged herein.*