

**INTERIM REPORT OF THE
JOINT SUBCOMMITTEE STUDYING**

Economic Development

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



House Document No. 42

**COMMONWEALTH OF VIRGINIA
RICHMOND
1987**

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**Interim Report of the
Joint Subcommittee Studying
Economic Development
(HJR No. 132)**

TO

**The Governor and the General Assembly of Virginia
Richmond, Virginia
March, 1987**

**TO: The Honorable Gerald L. Baliles, Governor of Virginia,
and
The General Assembly of Virginia**

INTRODUCTION

The following resolution, House Joint Resolution No. 132, agreed to during the 1986 Session of the General Assembly, requested that a joint subcommittee be established to conduct a two-year study on the economic development activities and needs of the Commonwealth.

HOUSE JOINT RESOLUTION NO. 132

Establishing a joint subcommittee to study the Commonwealth's spending and support for promoting tourism and economic development and to study the laws of the Commonwealth relating to economic development.

**Agreed to by the House of Delegates, March 7, 1986
Agreed to by the Senate, March 6, 1986**

**WHEREAS, economic development and expansion are of primary importance to all residents of the Commonwealth; and
WHEREAS, currently there exist many departments and divisions**

within the structure of state government that are charged with the responsibility of enhancing economic development and overseeing appropriate economic expansion; and

WHEREAS, these programs are meant to encourage, stimulate and support the development and growth of new industries in the Commonwealth, as well as the expansion of industries already existing in Virginia; and

WHEREAS, the laws governing economic growth and development are extensive and encompass a magnitude of issues affecting the future of the Commonwealth and its citizens; and

WHEREAS, tourism is the second largest industry in Virginia, generating over \$ billion in travel expenditures and providing direct employment for nearly 91,000 individuals; and

WHEREAS, Virginia's growth and the prosperity of her citizens has been achieved at least in part by the Commonwealth's economic development; and

WHEREAS, Virginia's tourism industry and economic development have been a result of Virginia's scenic beauty, historical significance, excellent transportation facilities and location, government philosophy, sound fiscal policies, and the education and character of her citizens; and

WHEREAS, the Commonwealth has encouraged tourism and economic development by promoting Virginia to individuals in other states as well as to economic development prospects through the world; and

WHEREAS, there has been an increasing amount of competition among the states for the tourism dollar and for attracting economic development to provide employment, higher incomes and an improved standard of living; and

WHEREAS, since tourism and economic development are vital to the growth of Virginia's economy, it is important to review and evaluate how much Virginia spends on promoting tourism and economic development to determine if the level of support is appropriate in today's environment; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint subcommittee is established to review the laws of the Commonwealth relating to economic development; to assist the Governor, regarding economic development activities and needs; to study the Commonwealth's spending and support for promoting tourism and economic development; and to oversee a study to be prepared by the Department of Planning and Budget that makes recommendations regarding but not limited to the following topics:

1. The promotion of expansion of existing Virginia businesses and industries, and recruitment of out-of-state businesses and industries to locate facilities in Virginia;
2. The means by which Virginia might expand markets, both domestic and international, for Virginia products and agricultural commodities;
3. The consolidation of export promotion responsibilities within state government;
4. The advisability of creation of additional foreign and domestic economic development offices for the Commonwealth;
5. The organization and expansion of trade missions;
6. The amount of funding the Commonwealth provides for tourism and economic development and the distribution of state funding between these

two areas; and

7. The establishment within the Department of Economic Development, of a federal procurement officer responsible for matching the purchasing needs of the federal government with appropriate Virginia vendors and suppliers.

The joint subcommittee shall be composed of eleven members, consisting of four members of the House of Delegates to be appointed by the Speaker, three members of the Senate, to be appointed by the Senate Committee on Privileges and Elections and four members to be appointed by the Governor. The joint subcommittee shall meet at such times as may be designated by the Chairman.

The joint subcommittee shall complete its work on or before November 15, 1987.

All direct and indirect costs of this study are estimated to be \$44,820.

The resolution provided that the subcommittee would be composed of four members of the House of Delegates, three members of the Senate and four citizen members. Legislative members appointed to serve on the subcommittee were: Delegate Alan A. Diamonstein, the sponsor of the resolution; Delegate Vincent F. Callahan, Jr.; Senator Elmo G. Cross, Jr.; Delegate Franklin P. Hall; Senator J. Granger Macfarlane; Senator Elliot S. Schewel; and Delegate Franklin M. Slayton. The Governor appointed Mr. C. Phillip Barger, Mr. James A. L. Daniel, Mr. Toy Dixon Savage and Mr. Brian J. Wishneff to serve as citizen members on the subcommittee. At its first meeting, the subcommittee elected Delegate Diamonstein to serve as Chairman and Senator Schewel to serve as Vice Chairman.

BACKGROUND

The General Assembly stressed the importance of economic development to Virginia by its passage of two study resolutions during the 1986 Session. This interim report of the subcommittee studying economic development pursuant to House Joint Resolution No. 132 will be followed by a final report upon the completion of the subcommittee's work. The subcommittee established pursuant to House Joint Resolution No. 13 has submitted its findings and recommendations on promotion of tourism and its relationship with economic development to the Governor and the 1987 General Assembly in House Document No. 21.

Economic development has become increasingly important not only throughout the Commonwealth of Virginia but also across the United States. States, and different localities within a state, often compete for the same industry. New industry promises increased revenue and job opportunities which enhance the economy of the area.

1986 FINDINGS AND ACTIVITIES

The subcommittee met four times during 1986. During the deliberations of its first meeting, the subcommittee agreed to concentrate on economic development and any improvements which may be needed to promote economic development in the Commonwealth. A comparison of Virginia and other states would be reviewed and the expansion of existing businesses, attraction of new industries and the needs of small businesses examined. The subcommittee also decided that tourism, the topic of a separate study pursuant to House Joint Resolution No. 13, would not be a focus of this study.

The Department of Economic Development briefed the subcommittee on various aspects of economic development in Virginia and responded with written materials and oral presentations to the questions of the members. In December, the subcommittee reviewed the results of a study by the Department of Information Technology on the organization and management of the Department of Economic Development and Phase I of a report by the Department of Planning and Budget on economic development activities in Virginia and other states. The report by the Department of Planning and Budget has been reproduced in its entirety as Appendix I.

A comparison by the Department of Economic Development of Virginia and the neighboring states of Maryland, North Carolina, South Carolina, Kentucky, Georgia and Tennessee concluded the following:

- Virginia's growth rate exceeded the growth rates of all other states except Georgia in total employment, manufacturing employment and service industry employment from 1979 to 1985.
- Virginia had the highest growth rate in per capita personal income from 1979 to 1985. Virginia's level of per capita personal income was second to Maryland in 1985.
- Virginia had the lowest unemployment rate over the period until 1985. Both Maryland and North Carolina had unemployment rates below Virginia's in 1985.

- Virginia's growth rate between 1979 and 1985 in total nonagricultural employment, including manufacturing, was 15.7%, the second highest in the region. This translates to 322,100 new jobs.
- In manufacturing employment, only Virginia, North Carolina, and Georgia registered positive growth rates. From 1979 to 1985, Virginia added 9,500 manufacturing jobs; North Carolina added only 700, while Georgia added 25,800.
- Virginia was second in the region in the creation of service sector jobs, adding 154,100 workers between 1979 and 1985. By comparison, Maryland created 129,300 jobs; North Carolina, 95,500. Georgia led all states with 223,800 new service jobs created.

Tables 1 through 6 illustrate this information through graphs prepared by the Department of Economic Development.

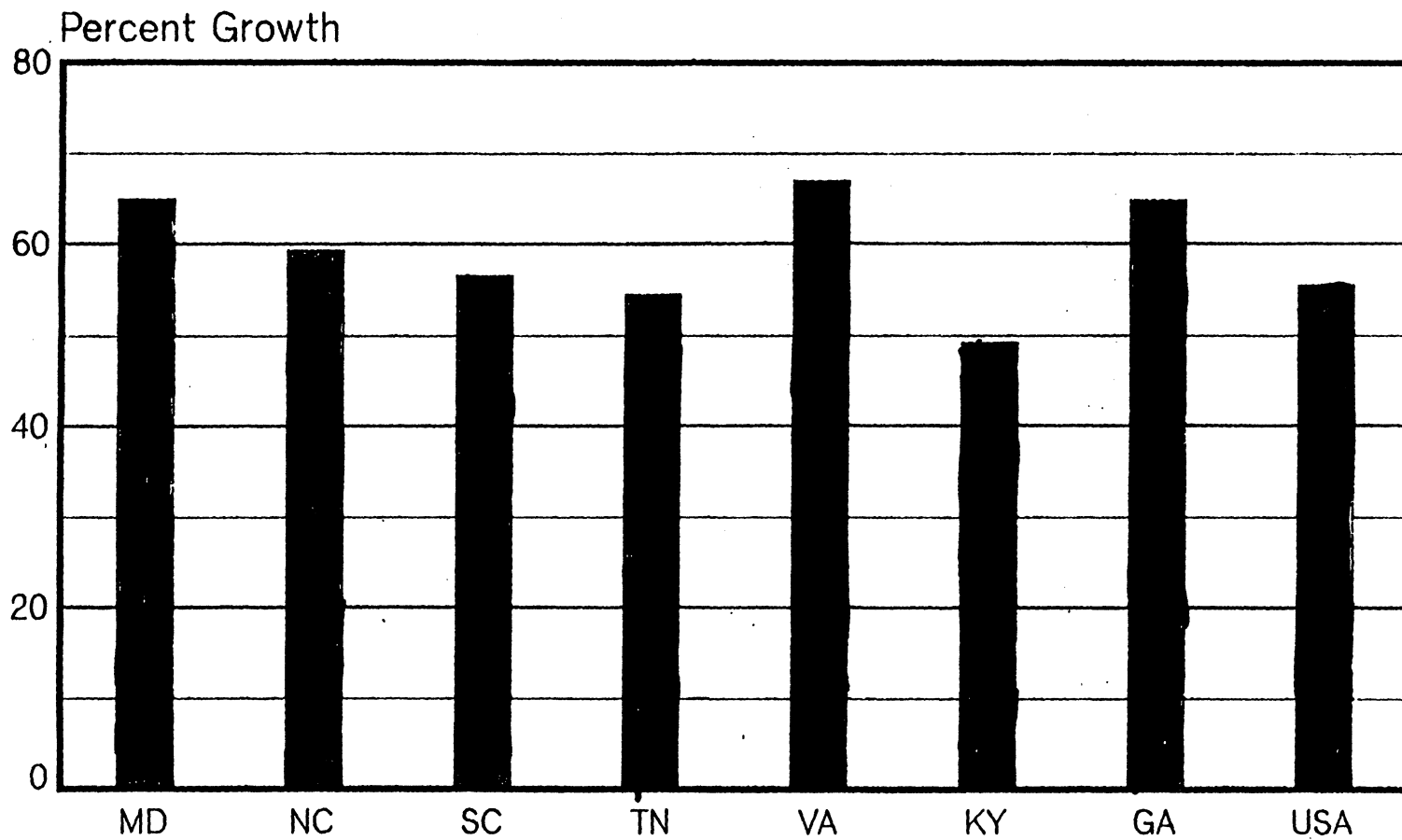
The Department also presented to the subcommittee an analysis of the marketing and business development staffs, the industrial development budgets and certain incentive programs of Virginia, Florida, Georgia, Kentucky, Maryland, North Carolina, South Carolina and Tennessee. The graphs and charts prepared by the Department of Economic Development in Tables 7 through 14 compare Virginia with these other states.

The Department of Economic Development and the Department of Information Technology both conducted an assessment of the personnel needs of the Department of Economic Development (DED). Both assessments concluded that DED needed additional staffing and funding.

The Department of Information Technology (DIT) found evidence of insufficient funding to effectively maintain service levels in certain programs. Other programs lacked funds to develop new initiatives or to expand. DIT suggested adjustments to the organizational structure and staffing level and recommended funding necessary to support these changes. Seven major issues where specific actions are needed to improve the effective and efficient functioning of the Department of Economic Development were identified. They were:

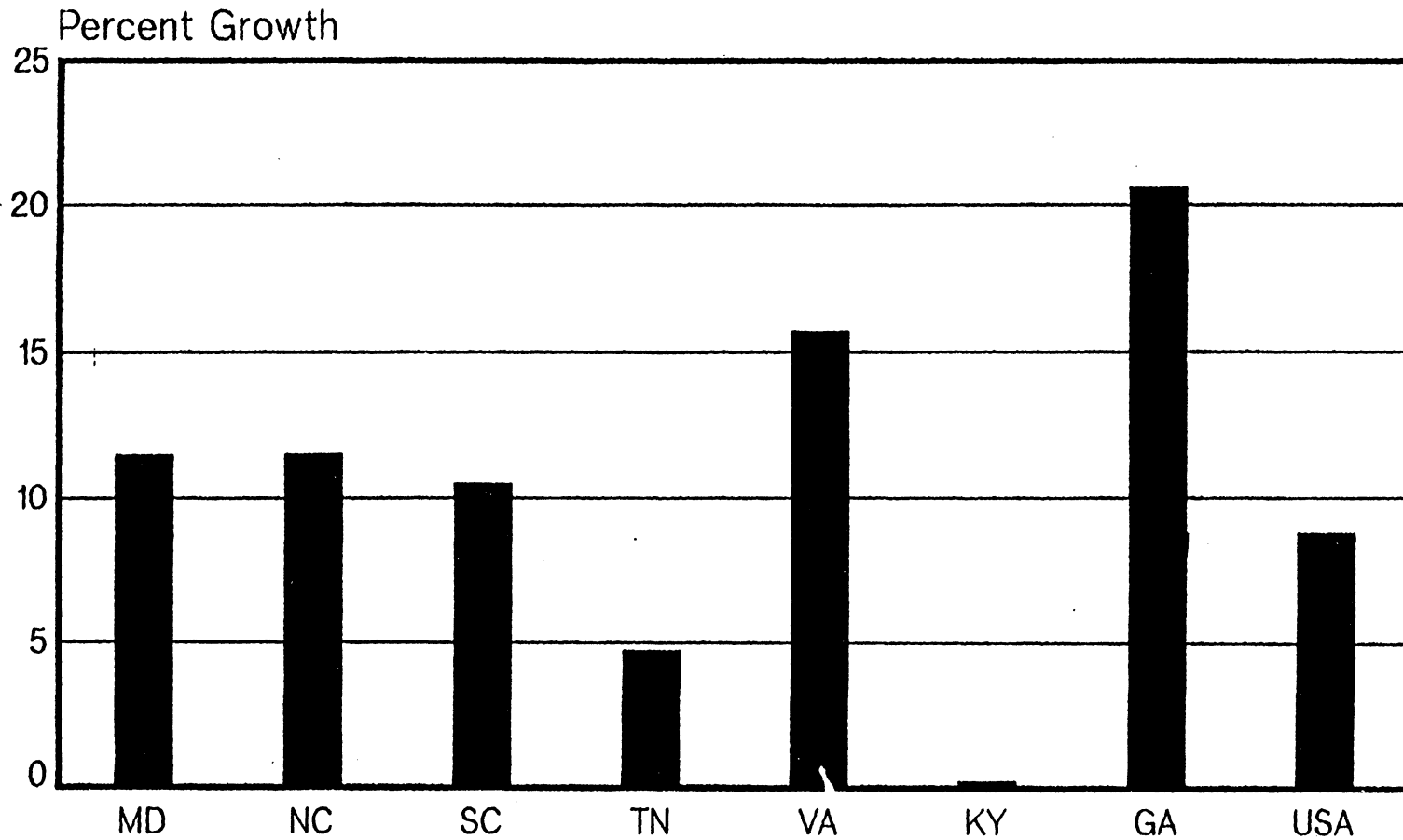
- Management -- A Deputy Director should be appointed to implement the major managerial functions for the entire Department. The Deputy Director would be responsible for the development and review of all internal policies and procedures as well as the review of all programmatic areas to ensure that programs are functioning effectively and are consistent with changing needs.
- Organizational Structure -- DED should be organizationally realigned into four major segments -- Director's office, administration division,

GROWTH IN PER CAPITA INCOME 1979 - 1985

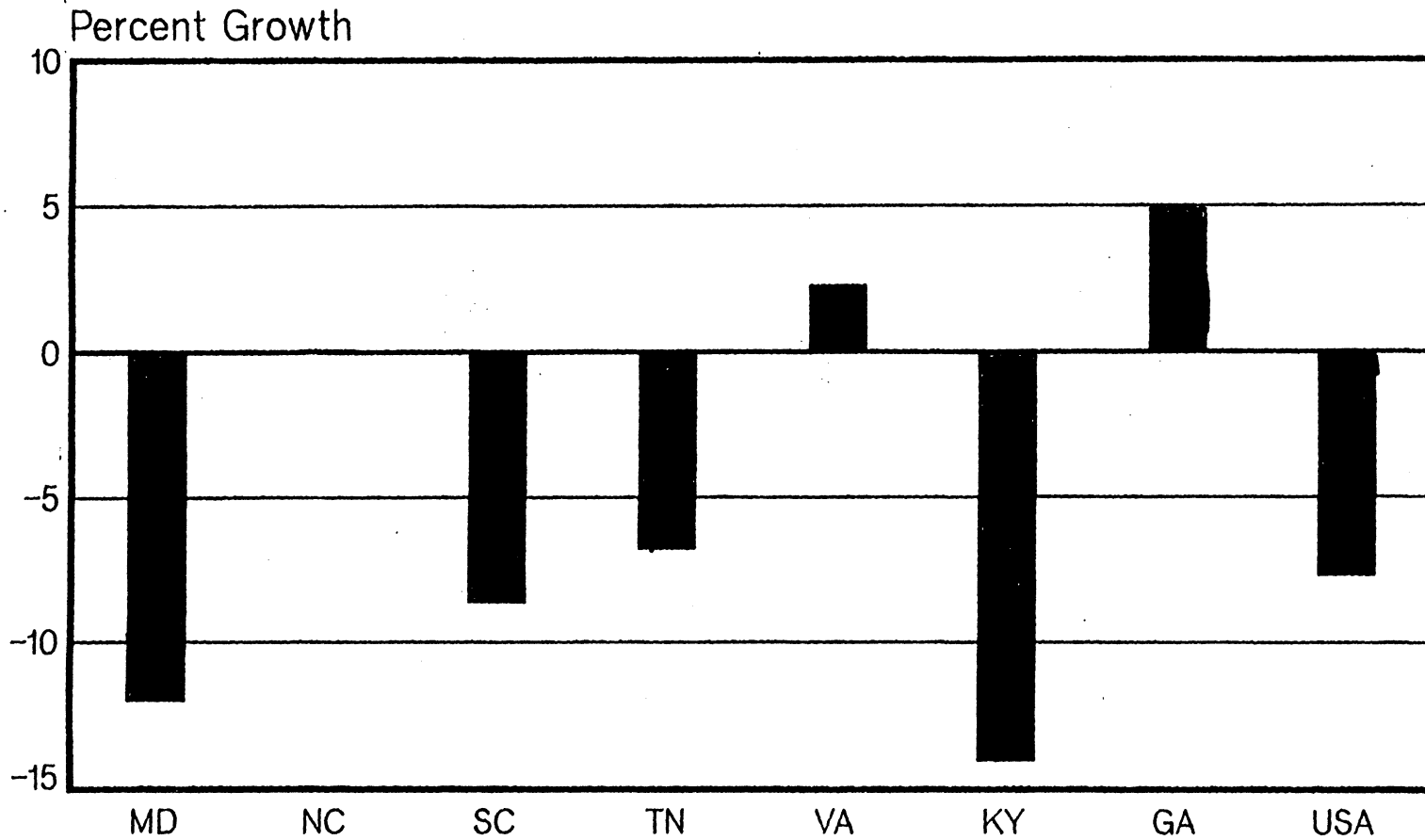


NONAGRICULTURAL EMPLOYMENT

Growth in Number Employed 1979-1985

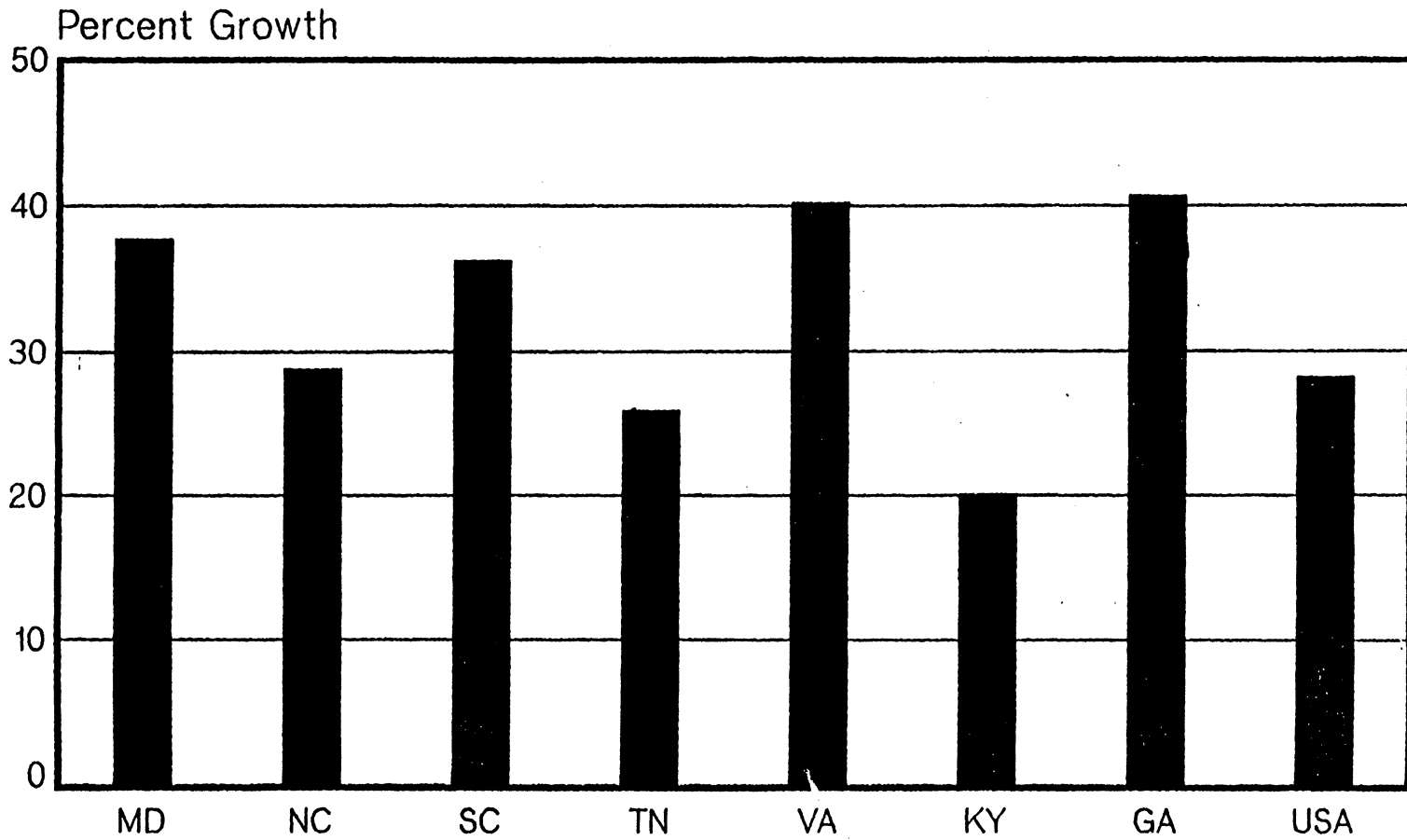


MANUFACTURING EMPLOYMENT Growth in Number Employed 1979-1985



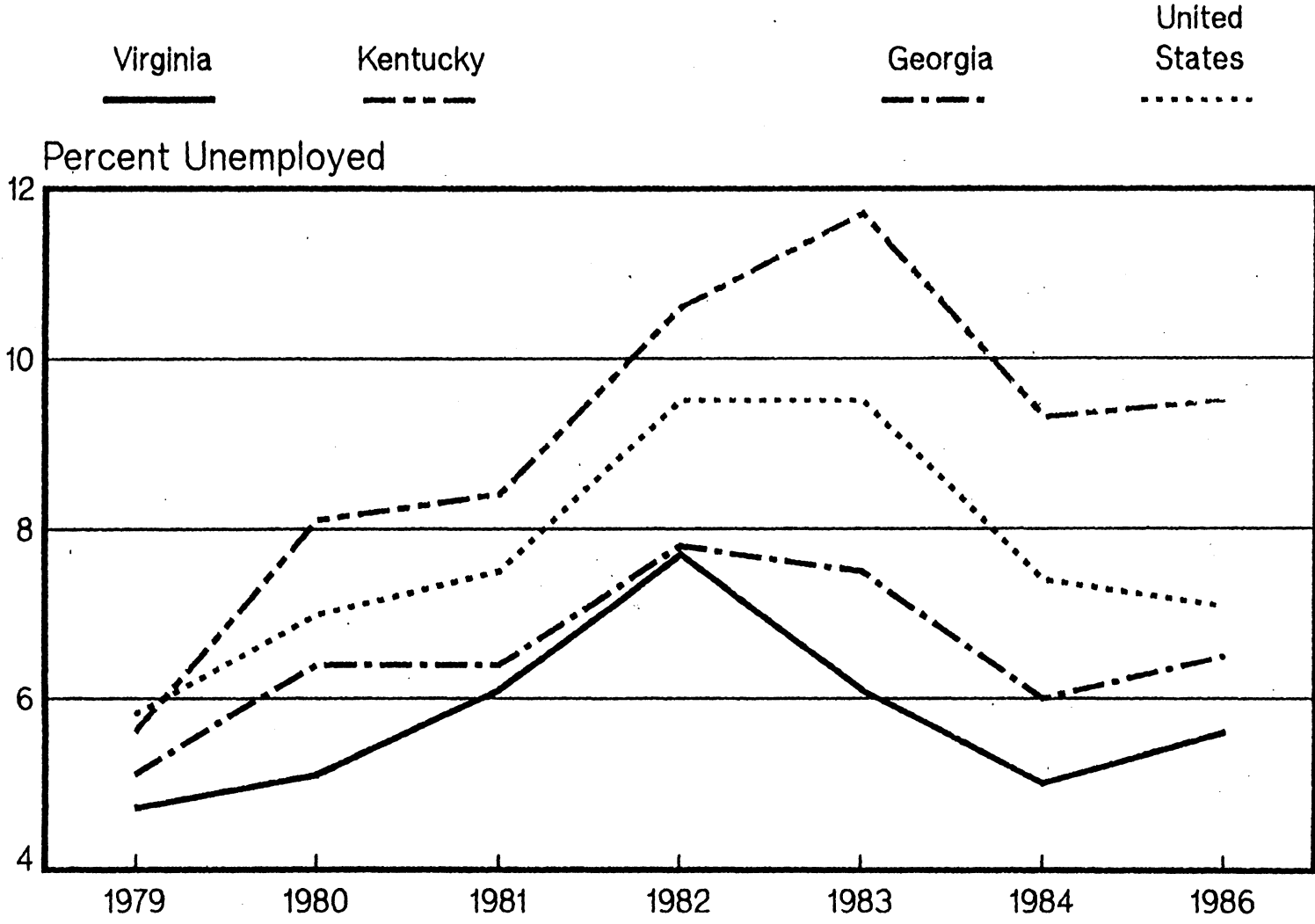
SERVICES EMPLOYMENT

Growth in Number Employed 1979-1985



UNEMPLOYMENT RATES

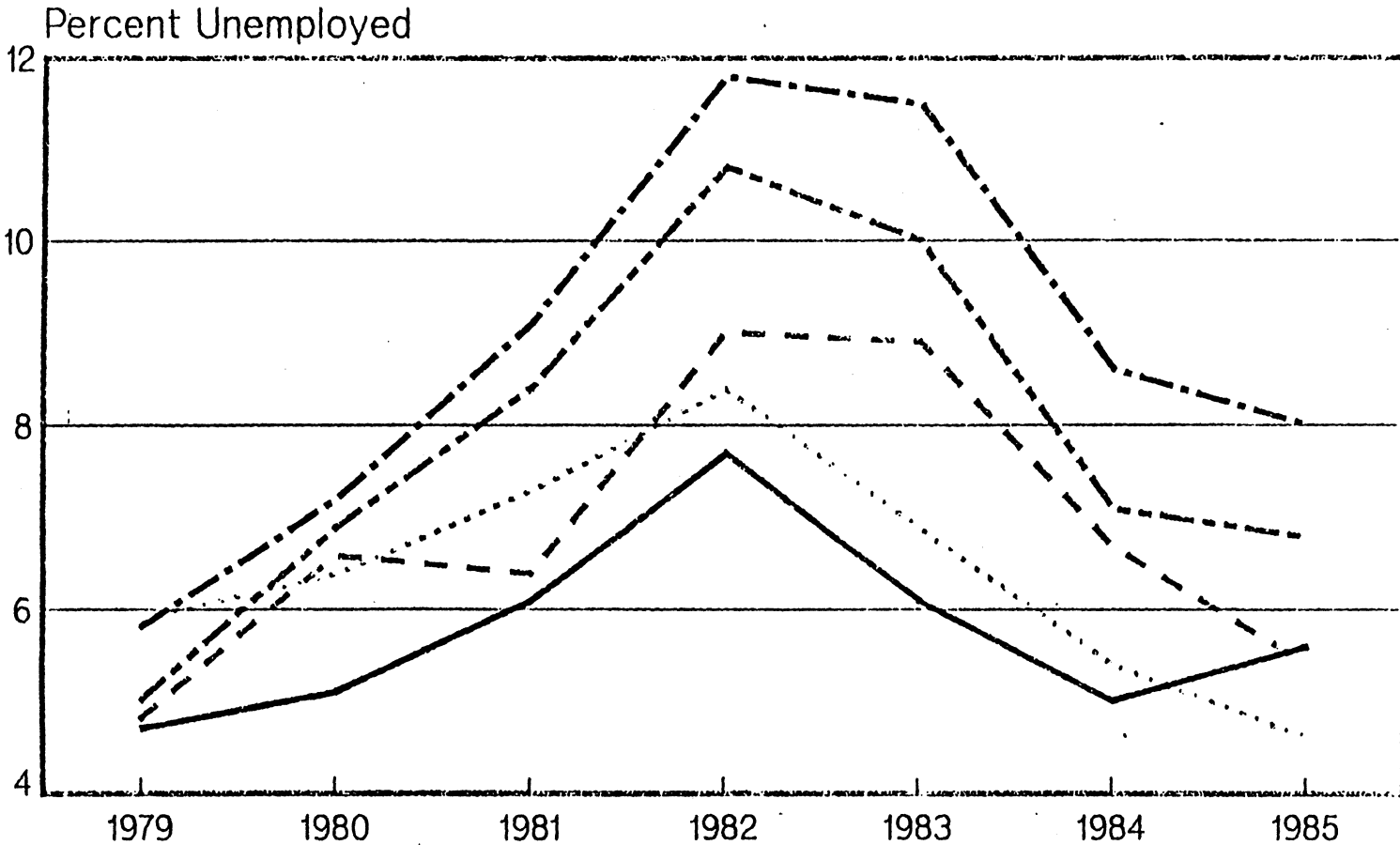
Average Annual Rates for 1979 - 1986



UNEMPLOYMENT RATES

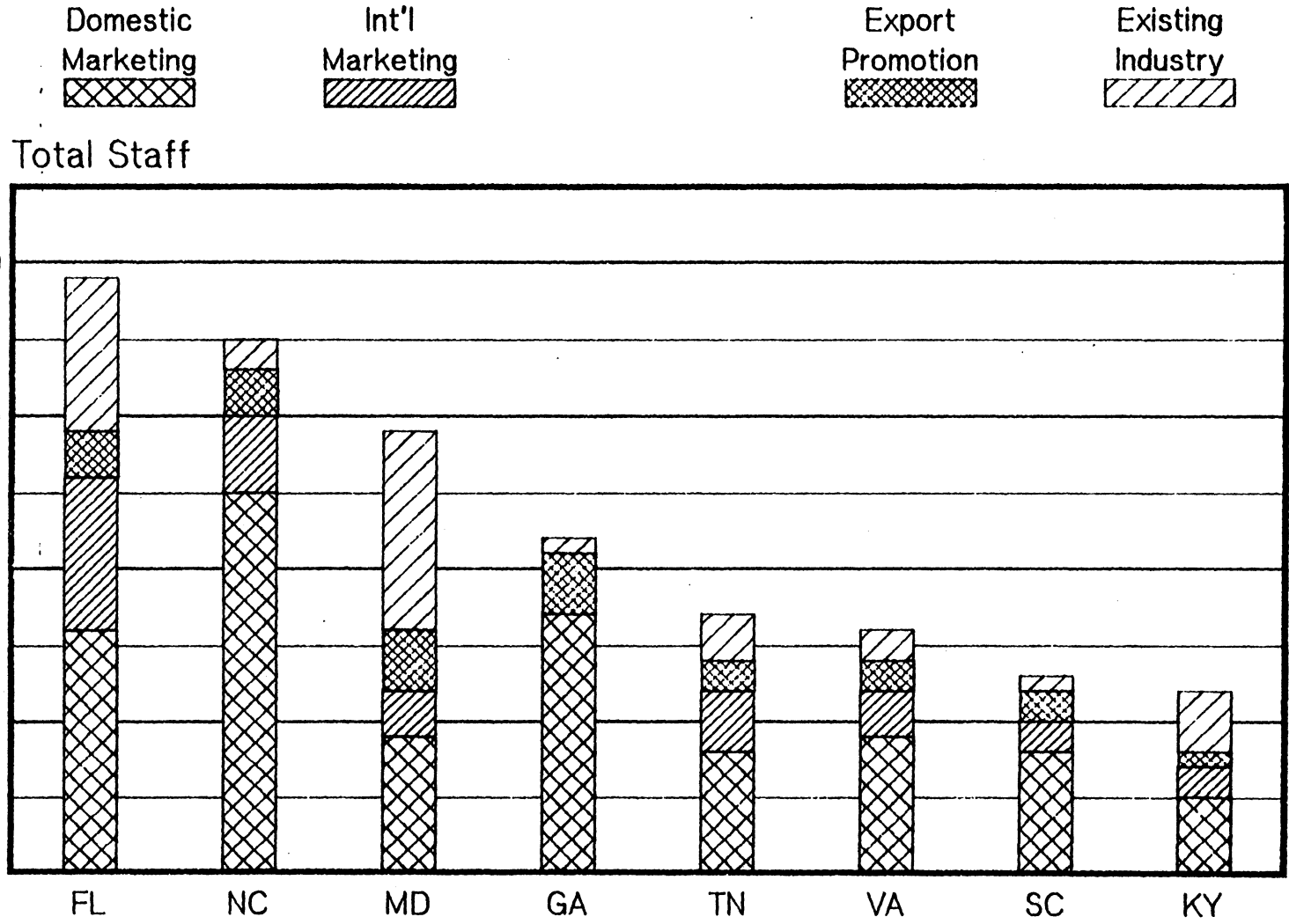
Average Annual Rates for 1979 - 1985

Maryland
North Carolina
South Carolina
Tennessee
Virginia



I.D. CENTRAL OFFICES

Marketing/Business Development Staff



Note: Georgia combines Domestic & Int'l marketing staffs

Table 7

Table 8

MARKETING/BUSINESS DEVELOPMENT STAFF COMMITMENT

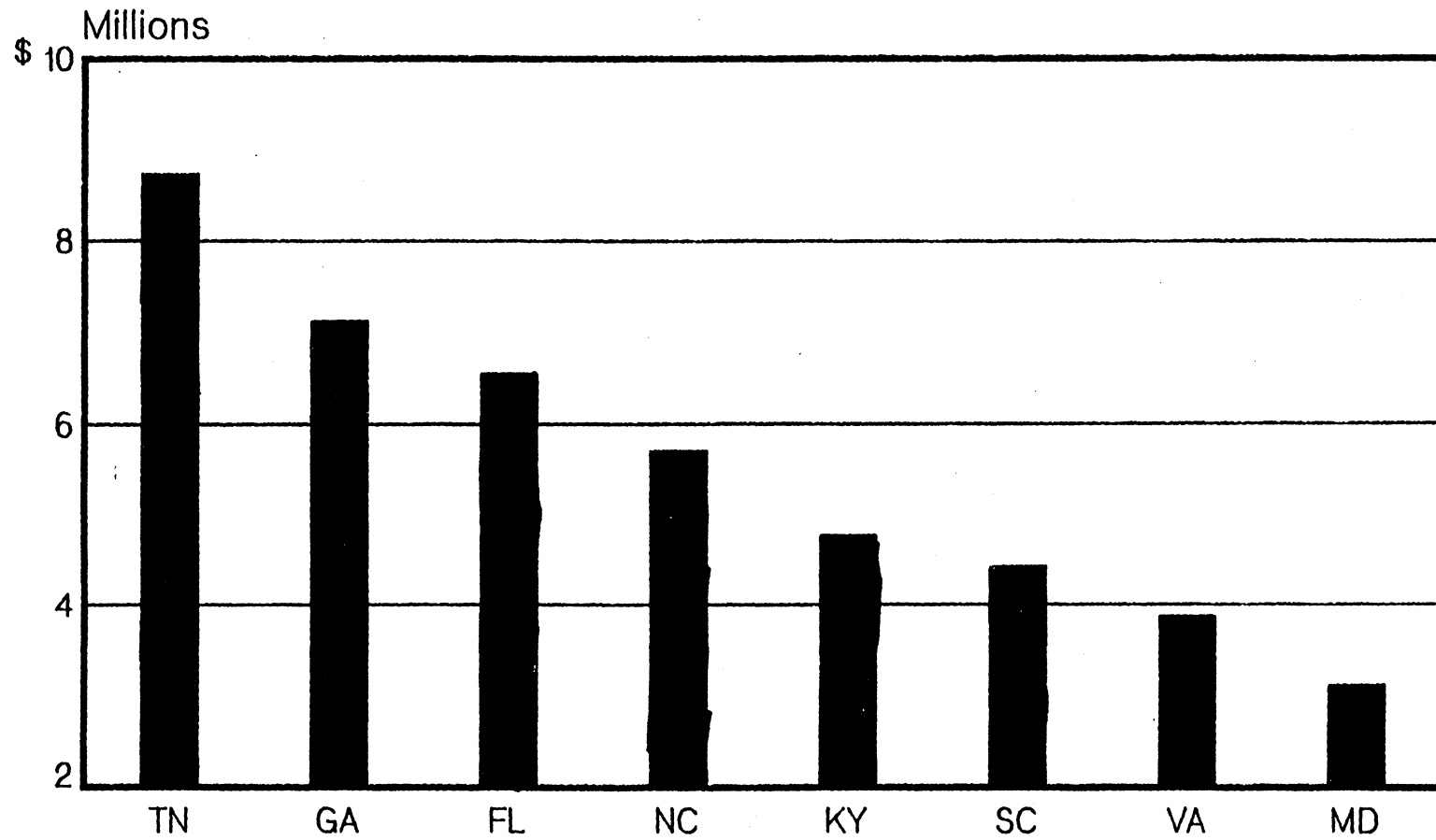
| | <u>STAFF</u> | <u>STAFF PER MILLION POP.</u> | <u>RANK</u> |
|----|--------------|-----------------------------------|-------------|
| VA | 19 | 3.3 | 8 |
| FL | 48 | 4.2 | 6 |
| GA | 28 | 4.7 | 4 |
| KY | 13 | 3.5 | 7 |
| MD | 34.5 | 7.9 | 1 |
| NC | 45 | 7.2 | 2 |
| SC | 15 | 4.5 | 5 |
| TN | 23 | 4.8 | 3 |

FOREIGN OFFICES

Table 9

| <u>CANADA</u> | <u>BELGIUM</u> | <u>GERMANY</u> | <u>GREAT BRITAIN</u> | <u>JAPAN</u> | <u>KOREA</u> |
|---------------|----------------|----------------|--------------------------|--------------|--------------|
| | VA | | | VA | |
| | | FL | FL | FL | |
| GA | GA | | | GA | GA |
| | | | | KY | |
| | MD | | | MD | |
| | | NC | | NC | |
| | SC | | | SC | |

I. D. BUDGETS FY 1986-87



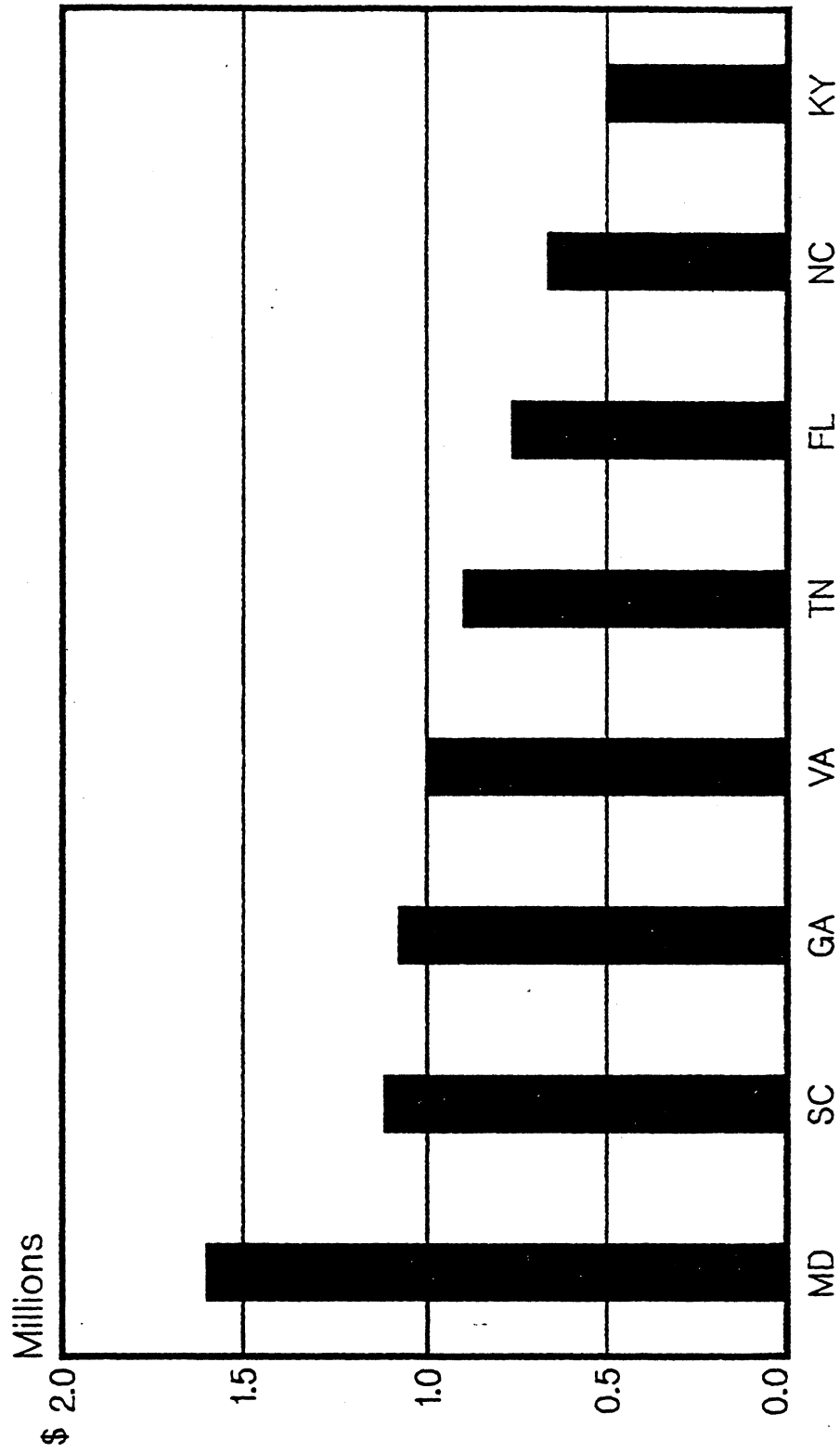
NOTE: Does not include Advertising & Industrial Training

Table 11

| | <u>ID BUDGET FY 1986-87*</u> (MILLIONS) | <u>ID BUDGET/PERSON</u> | <u>RANK</u> |
|----|--|-------------------------|-------------|
| VA | \$ 3.9 | \$.68 | 7 |
| FL | \$ 6.6 | \$.58 | 8 |
| GA | \$ 7.1 | \$1.19 | 4 |
| KY | \$ 4.8 | \$1.28 | 3 |
| MD | \$ 3.1 | \$.71 | 6 |
| NC | \$ 5.7 | \$.91 | 5 |
| SC | \$ 4.4 | \$1.33 | 2 |
| TN | \$ 8.7 | \$1.83 | 1 |

* Budget does not include advertising, industrial training or pass-through amounts.

I. D. ADVERTISING BUDGETS FY 1986-87



INDUSTRIAL TRAINING BUDGETS FY 1986-87



SPECIAL DISCRETIONARY FUND

| | |
|----|---|
| VA | No |
| FL | No |
| GA | Yes - \$ 2.5 million has not been used for economic development |
| KY | No |
| MD | No |
| NC | Yes - Several hundred thousand dollars |
| SC | Yes - \$250,000 CDBG funds + additional funds |
| TN | Yes - Has not been used for economic development |

tourism division and industrial development division.

- Administrative Support -- (i) A Division of Administration should be established. The Director of the Division would be responsible for directing and providing the following support functions: management information systems/computer services, budget and finance, media support services, mail/transportation services and facility and equipment maintenance. (ii) An Employee Relations Office should also be established and an Employee Relations Director appointed. (iii) A Budget and Finance Office should be established and charged with the responsibility of fiscal activities. The DIT report also recommended that duties among the budget manager, secretary and accountants be reassigned to balance the workload with critical requirements.
- Automation -- Computer programs should be developed to fully utilize the mini-computer system by automating departmental operations. In addition, the DIT report recommended that an information management plan encompassing all organizational entities be developed and that a systems engineer and a computer operator staff the management information system section.
- Public Affairs, Policy and Governmental Relations Office -- This Office should be established to handle the following functions: coordinate legislative activities; conduct economic policy analysis and prepare issue papers; disseminate economic statistics, public information and media news; coordinate speech writing assignments and special projects; plan and direct meeting planning and logistics for the Department; and manage the gift program.
- Resource Sharing -- Appropriate resources such as slide libraries, processing equipment, and vehicles should be combined and shared by all departmental programs. Graphic and audio-visual services should be combined into a media support section. Policies and procedures for resource sharing between programs should be developed and implemented. A comprehensive relocation plan including the steps for transition, renovation plans and fund resources for site preparation should be developed and implemented to fully prepare for the move to the Washington Building.
- Program Expansion -- (i) Two positions should be added to the proposed research section to improve the research provided to agency programs. Some activities currently housed in the marketing services section (i.e., graphics and print production, public relations, computer support) should be reassigned to more appropriate organizational units. (ii) An additional position should be added to the existing industry program. (iii) One position should be added to the industrial training section. (iv) If the Small Business Assistance Program develops an initiative to provide technical expertise through small business

assistance centers, a new position will be needed to coordinate this effort.

The Department of Information Technology included in its report the rationale for its recommendations and proposed staffing changes. Appendix II contains an outline prepared by DIT on the proposed organizational staffing functions of the Department of Economic Development.

The Department of Economic Development also presented to the subcommittee projections on staff and funding needs. DED requested twelve additional full-time employees for management and administrative support to implement recommendations of the DIT management study. The positions included a deputy director, a senior policy analyst, a legislative specialist, a public affairs specialist, a director of administration, a fiscal technician, a fiscal assistant, a director of media support, a graphic arts/photographer, a secretary senior and two executive secretaries. Anticipated results follow:

- Development of coordinated policy guidance and programmatic direction integrating both Tourism and Industrial Development
- Agency-wide program planning and legislative liaison
- Development of an agency-wide employee relations program, including employee development, new-employee orientation, internal policies and procedures, and an employee recruitment program
- Improved budgetary and financial support to program managers, including better fiscal control and internal audit compliance.

To improve management information support DED recommended the employment of an additional computer professional, a computer operator/programmer, and funding for the integration of Industrial Training and Tourism into the computer system. The proposal submitted to the subcommittee by DED anticipated that the computer operator/programmer would handle daily operation of the computer system and would be available to take care of routine problems, questions and requests for assistance from DED staff. This will enable the systems engineer to prepare an updated needs assessment and management plan for the entire agency, to eliminate backlogs and to oversee training for staff. Specific results should include:

- Training to maximize the ability to communicate via computer between the Richmond office and the regional offices
- Finalization of data entry for the Industrial Sites and Buildings System and training for appropriate staff in use of the system

- Development of applications on Virginia companies to support the existing industry program and the small business program
- Comprehensive needs assessment and plan to integrate Tourism and Industrial Training into the system
- Development of ongoing training for all staff.

To improve research services and to adequately meet research and information needs in all program areas, DED proposed the addition of two economists and one additional clerical position. DED expects the staff additions will enable research services to improve service to all program areas and specifically:

- To provide economic and statistical data on a regional basis for the regional offices and for analysis of the locational advantages of various areas of the state
- To develop and maintain data on Virginia businesses, specifically small businesses
- To increase DED's ability to identify high-growth industries and companies for targeted marketing programs
- To increase DED's ability to identify distressed industries and companies which could benefit from technology transfer or other forms of special assistance
- To answer requests for information from the export promotion, film development, and industrial training programs
- To provide more assistance to local economic developers
- To better analyze national and state economic issues and trends.

DED proposed the addition of two export development specialists to assist in identifying and attracting foreign investment to Virginia and to assist Virginia companies entering into or expanding exports of manufactured goods and services. It is anticipated that the additional staff will work with current export development staff to develop a strong team concept. The major thrust would be in overseas trade missions, participation in overseas trade exhibitions, organizing reverse buying missions, participation in the United States Government's "Matchmaker Promotions," expanded counseling of non-exporters and introduction of current exporters into new markets. Publications pertaining to exporting will be produced in cooperation with other private and public agencies. In addition, a comprehensive listing of current and potential exporters

will be compiled.

DED proposed the addition of three professionals and one secretary to the existing industry program in an effort to make timely industrial visits and to make reasonable responses to requests for assistance. The results anticipated include:

- The ability to call on 2,100 companies in a three-year cycle, rather than 1,600 on a five-year cycle
- Assistance to companies in a timely manner with problem and information needs. Experience has shown that DED receives a minimum of one request for assistance for every two visits that are made
- Development and maintenance of a directory of services for manufacturing companies
- Development and maintenance of internal support systems including existing industry reports, problem handling results, and computerized information
- Improvement and maintenance of external agency relations.

DED recommended the addition of four marketing assistants and two marketing managers to move Virginia's domestic marketing program to a new level of sophistication and to capitalize on the diverse resources of the Commonwealth. By the addition of marketing assistants the following improvements should occur:

- On-staff ability to prepare regional marketing strategies covering the entire state
- Targeted materials that will assist the marketing of rural as well as urban areas
- A better understanding of current conditions in different parts of the state
- Greater use of direct mail to support both state and regional marketing strategies
- Increased support to the marketing managers in preparing for marketing trips, responding to prospect inquiries, and conducting general follow-up
- 25% more contacts by the marketing managers

The additional marketing managers should provide:

- More complete territorial coverage:
 - Canada
 - major metropolitan areas (New York, Los Angeles, San Francisco)
- 50% more contacts (with two additional marketing managers as well as four requested marketing assistants)
- More frequent involvement with local economic development efforts

DED also proposed additional funding for the industrial development advertising budget which would result in:

- Increased awareness of the unique features of Virginia's colleges and universities
- Increased awareness of Virginia as an excellent location for business
- Ability to begin an international advertising program
- Improved attitudes among key decision-makers toward Virginia's educational and training resources
- Development of in-state advertising program to assist export promotion
- Strengthened overall attitudes toward Virginia as a business location.

The Department recommended the addition of one audio-visual specialist, one production control technician and one assistant director to the industrial training services unit of DED. The additional staff was anticipated to provide that:

- The Director would be able to devote time to coordinate a closer working relationship with community colleges, the vocational technical schools and the private industrial councils in the area of job training for new and expanding industries within the Commonwealth
- Budgetary and statistical information on all training projects would be computerized providing the basis for better planning and projections
- DED would be able to meet the projected demands of 270 programs without having to rely on temporary positions for project management

- Audio-visual programs would become more cost effective since less work would have to be farmed out to outside contractors
- Quality and quantity of audio-visual services would be improved since the projected work load is too great for one audio-visual specialist.

Funding for additional industrial training equipment was requested to meet the ever-changing technological needs. Results anticipated included the following:

- The Industrial Training Section would be equal to or better than those of our competitive states in having available the facilities and equipment necessary to meet all standard and high technology programs.
- Sophisticated high technology equipment required in our customized training programs would be available to the community colleges thereby allowing them to utilize state-of-the-art high tech equipment in their on-going programs.
- Mobile equipment would enable DED to take the program directly to the client's plant site. This would particularly be valuable in the rural areas where community colleges or vocational/technical schools either don't have necessary equipment or the equipment is being used in on-going programs.
- The latest state-of-the-art audio-visual equipment would enable DED to greatly improve the quality of its training programs by capturing the latest skills and techniques required in the fast moving high technology area.

DED proposed the addition of a small business services manager, a small business coordinator, a financial services assistant and a secretary to provide for the adequate identification, coordination, development and administration of programs and policies which promote small business development. The increase in staff would also increase the response to the businesses requesting assistance from the Small Business and Financial Services Office. Expected results include the following:

- Services provided by state agencies to small businesses will be identified and an ombudsman system to expedite the needs of new and expanding small businesses will be established.
- An inventory of local and state management/financial resources which service small businesses will be developed, published and disseminated to clients and local economic developers.
- The Interagency Task Force on Small Business will develop policies and coordinate programs which foster small business development, and will

provide a mechanism for resolving major problem areas which deter small business development.

- Increased capacity to disseminate information on financing to clients and local economic developers.
- Increased assistance to DED marketing managers with prospects who need financing.
- Increased opportunity to develop policy recommendations on financing and to implement new state financing programs, e.g. export financing.

DED proposed the establishment of a small business data base. One economist would be required to develop and manage the data base. Results would include:

- An Economic Development Data Base
- An Annual State of Small Business Report
- Detailed timely information to businesses concerning location, expansion or start-up in the Commonwealth
- A data base for DED to use in establishing policy and program priorities
- Increased ability to identify specific high-growth industries and companies and to study local economic growth
- Improved assistance to local economic developers.

Increased staffing (an administrative assistant) and funding for the Virginia Film Office was also recommended. Anticipated improvements include:

- More aggressive and thorough response to film prospects
- A 25% increase in direct call marketing by the staff
- An increase in commercial production activity
- A 100% increase in advertising placements
- A 50% increase in special events and expansion of events into new markets.

DED proposed the creation of a Marketing Director's position to adequately coordinate the entire marketing program. Results anticipated include:

- The development of a long-term strategic economic development marketing plan
- The coordination of marketing efforts for multi-national companies
- The development of marketing materials coordinated with the needs of our direct call marketing program
- Centralized responsibility for advertising which will ensure its compatibility with other marketing materials and DED's long-term strategy
- Implementation of an aggressive and consistent public information program.

One additional international marketing manager was recommended to assist in the international investment area. The additional position was expected to (i) result in a minimum increase of 20% in visits to Virginia by senior decision makers, and (ii) relieve other sections of DED from handling the overflow and conflicts in timing between scheduled and unannounced visits by executives of foreign firms.

DED recommended the addition of one community development representative to ensure that all Virginia communities receive timely and adequate attention as they prepare for economic development. The additional representative should result in:

- Increased assistance to communities with critical decisions of organizing, program approach, site development and leadership training
- Making rural and mid-sized communities throughout Virginia more competitive for economic development
- Improving the site and building data collection
- Improving the follow-up to the Community Certification Program and its re-certification efforts.

DED stressed the importance of the need of a shell building program and recommended one full-time employee position and the establishment of a revolving loan fund. The fund would provide money to construct shell buildings to less developed communities with potential. DED suggested that the Department of Housing and Community Development administer the program due to its expertise and experience in handling similar programs. The Shell Building Program was anticipated to result in:

- Construction of six or seven shell buildings in Virginia localities

- An on-going program to help ensure a continuing inventory of shell buildings
- An improved ability to meet the primary need of industrial prospects
- A significant increase in prospect visitation.

The final DED recommendation pertained to the establishment of a Governor's Economic Development Contingency Fund. The Fund would be restricted to meet requirements of uncontrollable economic factors or to assist in the recruitment of projects significant to the Commonwealth. Creation of the Fund was expected to result in an ability to react rapidly to the unusual needs of major economic development projects and establish a process to handle the recurring and unpredictable needs of industrial development due to currency fluctuations and changing economic activity.

Appendix III contains a resource summary of DED's staffing and funding recommendations. The proposals have been designated for implementation during the 1987-88 year or the 1988-90 biennium. Twenty-three full-time employees were recommended for 1987-88 and eighteen full-time employees for the 1988-90 biennium.

CONCLUSION

The subcommittee members considered all of the recommendations proposed by DIT and DED in addition to other information presented to it during the first year of the study. After deliberations, the subcommittee members agreed to the following recommendations:

1. Introduction of legislation to transfer the Virginia Port Authority from the authority of the Secretary of Transportation and Public Safety to the Secretary of Economic Development. See Appendix IV.
2. Introduction of legislation to increase the membership of the Industrial Development Services Advisory Board and to designate that members be appointed from each of the ten congressional districts. See Appendix V.
3. Consideration of tax increment financing as an economic development tool. The subcommittee would obtain additional information on tax increment financing and seek an opinion on its constitutionality from the Office of the Attorney General.
4. The subcommittee supported the establishment of a Governor's Economic

Development Discretionary Fund, the amount of the Fund would be set by the General Assembly.

5. The subcommittee supported the appropriation of \$1,195,000 for the twenty-three positions requested by the Department of Economic Development.
6. The extreme need of a Shell Building Program in Virginia was recognized by the subcommittee.
7. The subcommittee supported the appropriation of funds for the creation of a Small Business Development Center.

These recommendations result from the work of the subcommittee during the first year of its two-year study. Additional work of the subcommittee during 1987 will result in supplementary recommendations to the 1988 General Assembly.

Respectfully submitted,

Alan A. Diamonstein, Chairman

Elliot S. Schewel, Vice Chairman

Vincent F. Callahan, Jr.

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APPENDICES

APPENDIX I

ECONOMIC DEVELOPMENT ACTIVITIES IN VIRGINIA AND OTHER STATES

Department of Planning and Budget
December, 1986

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EXECUTIVE SUMMARY

This report identifies economic development activities in Virginia and other states. It contains an overview of state economic development activities nationally, an identification of state economic development activities in Virginia, and a description of innovative programs in other states. The findings are summarized below.

OVERVIEW

In recent years, the focus of state economic development programs has shifted from a primary reliance on domestic industrial recruitment to a broader perspective with more emphasis on:

- Assisting the growth and development of existing industries;
- International firms and markets;
- Non-manufacturing activities, such as trade, service, research and development and tourist related industries; and
- "Basic investments" to improve the climate for economic development, such as investing in the educational system, upgrading of the labor force, and improvements to the infrastructure and physical environment.

VIRGINIA ECONOMIC DEVELOPMENT ACTIVITIES

The goal of economic development agencies is to increase the growth in employment and/or income in the state. In Virginia, seven state agencies and one non-state agency pursue this goal. Three are considered primary agencies because this goal is their exclusive or primary mission. Four state agencies and one non-state agency are considered secondary economic development agencies because they lend significant support to the economic development goal but it is not their primary mission. Virginia's primary and secondary agencies are listed below.

Primary Agencies

Department of Agriculture and Consumer Services
Department of Economic Development
Virginia Port Authority

Secondary Agencies

Center for Innovative Technology (non-state agency)
Center for World Trade (Old Dominion University)
Department of Housing and Community Development
Department of Minority Business Enterprise
Virginia Agriculture Council

During fiscal year 1986-87, these agencies will spend approximately \$23.3 million in state funds on economic development activities and employ 159 individuals. The primary agencies will account for \$13.5 million and 143 employees.

INNOVATIVE STATE PROGRAMS

The "basic" economic development programs of the states are quite similar. However, state programs differ in the innovative approaches taken to assist entrepreneurs and small businesses.

The report describes six categories of innovative programs. The categories are: Innovative Financing, Fostering High Technology Development, New Business and New Product Development, Venture Capital, Public Pension Fund Investments, and Economic Adjustment.

INTRODUCTION

This report identifies economic development activities of Virginia and other states. It was prepared for the Joint Subcommittee Studying the Commonwealth's Economic Development Laws under House Joint Resolution 132 of the 1986 General Assembly.

The report is the first part of a two part study to be conducted for the Subcommittee. Part two will be completed prior to November 15, 1987, and will assess whether duplication, fragmentation or inadequacies exist in Virginia's state economic development activities. It will contain recommendations appropriate to its findings.

ECONOMIC DEVELOPMENT

Economic development is interrelated with many different state government activities including transportation, environmental protection, natural resource management, business and industry regulation, occupational regulation, job training and placement, minority business development, and taxation.

However, for purposes of this report, economic development is defined as those activities which directly contribute to overall growth in employment and/or income in the state, excluding tourism and tourist related activities. This includes only activities designed to enlarge the economy of the state.

STUDY PROCEDURE

The information on Virginia was obtained by a review of Virginia statutes, budget documents, and agency publications. Additional information was obtained through personal interviews with officials of the state agencies.

Information on activities of other states was obtained from national organizations, such as the National Governors' Association and the Council of State Governments, which have conducted recent surveys of state economic development programs.

REPORT STRUCTURE

Section One of the report identifies current trends in state economic development efforts. It highlights new directions taken by states across the nation.

Section Two is devoted to current economic development responsibilities of Virginia state agencies. It contains a classification of activities, an identification of agency participation in each activity category and a brief description of each activity.

Section Three identifies innovative approaches to economic development in other states.

The Appendix contains supplemental information on Virginia's economic development activities.

SECTION ONE -- STATE ECONOMIC DEVELOPMENT ACTIVITIES

This section provides an overview of state economic development efforts nationwide. It identifies how states are responding to the demands of a changing national and global economy.

CHANGES

The focus of state economic development activities has changed significantly over the last decade and especially in the 1980's. States have traditionally emphasized industrial recruitment or "smoke stack chasing" which is based on low-wage and low-tax advantages (particularly in the southeastern states) to attract businesses from other states. However, while industrial recruitment is still a major part of state economic development efforts, it is no longer the primary focus. Overseas competition, especially from "Third World" countries, has now lessened these tax and wage advantages and made domestic industrial recruitment much more difficult.

AREAS OF EMPHASIS

States have shifted the focus of their economic development programs to four general areas of emphasis. First, they are placing more emphasis on assisting the development and growth of existing industries to foster expansions or the spin-off of new firms.

Second, states have broadened their horizons geographically with more emphasis on international firms and markets. For example, they have increased: their efforts in export promotion, including the promotion of agricultural products and commodities; foreign industrial recruitment, including attempts to stimulate foreign investment in service and commercial enterprises; and promotion of overall trade through their ports regardless of product origination.

To facilitate this, states have significantly increased their foreign contacts and associations through frequent trade missions and the opening of offices in Europe, the Orient, and South America. Currently, more than half of the states operate offices in foreign countries and some have offices in major domestic trade and financial centers such as New York and San Francisco.

Third, states are focusing more on non-manufacturing activities, such as trade, service, research and development and tourist related industries which export their products and services to other states. For instance, states have increased emphasis on assisting the founding and development of new, high technology firms, most of which are small and often risky ventures. They have begun to provide financial and technical assistance to entrepreneurs and start-up firms. The more aggressive financial assistance programs have been located primarily in the northeast and midwest manufacturing belt where the declines in heavy industry have been most severe.

Fourth, states are "returning to the basics" to create a favorable environment for economic development. States are improving the "economic climate" by liberalizing state regulatory and tax policies. They are also making the economy more productive through investments to improve the educational system; to upgrade the labor force; to improve the infrastructure in such areas as transportation, and water and sewer services; and to improve the appearance of the physical environment and quality of life.

The next section describes current state economic development activities in Virginia.

SECTION TWO -- VIRGINIA ECONOMIC DEVELOPMENT ACTIVITIES

This section presents current economic development responsibilities of Virginia state agencies. It contains a classification of activities, an identification of agency participation in each activity category and a summary of each activity.

ECONOMIC DEVELOPMENT PARTICIPATION

In Virginia, seven state agencies are involved in economic development activities. In addition, there is one non-state agency, the Center for Innovative Technology, which is included because the state has recently made a sizable financial contribution to its efforts.

These agencies have been grouped into primary and secondary economic development agencies. Primary agencies have exclusive or primary missions to increase the overall growth in employment and/or income of the state. Secondary agencies provide significant support to this goal but it is not their exclusive or primary mission. Following is a list of Virginia's primary and secondary economic development agencies:^{1/}

Primary Agencies

Department of Agriculture and Consumer Services^{2/}
Department of Economic Development
Virginia Port Authority

Secondary Agencies

Center for Innovative Technology (non-state agency)
Center for World Trade (Old Dominion University)
Department of Housing and Community Development
Department of Minority Business Enterprise
Virginia Agricultural Council

During fiscal year 1986-87, these agencies will spend approximately \$23.3 million in state funds on economic development activities and employ 159 individuals. Of this total, primary agencies will account for \$13.5 million and 143 employees. However, these figures understate somewhat the commitment to economic development because some overhead costs could not be included. Appendix A provides greater detail on costs.

^{1/} In addition to the agencies included in this report, many of Virginia's higher education institutions contribute to the economic development of their areas through research, training, technical assistance and other activities.

^{2/} The Department of Agriculture and Consumer Services provides assistance to thirteen product commissions currently involved in economic development (see Appendix B).

The economic development activities of these agencies may be grouped into seven categories. The categories are not mutually exclusive and in some cases they may not include all agency activities. However, they are helpful in summarizing the many things agencies do to support the economic development of the Commonwealth. The categories are listed below. A chart showing agencies with activities in each category is located on Page 8.

ECONOMIC DEVELOPMENT ACTIVITY CATEGORIES

- Import/export services to increase port volume;
- Improving the workforce through training and information;
- Conducting research and providing information;
- Helping local governments attract businesses;
- Helping businesses survive and expand through domestic sales and international sales;
- Attracting businesses through domestic marketing and international marketing; and
- Promoting products through domestic marketing and international marketing.

Descriptions of the activities of each agency are presented below (see Appendix A).

DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

Virginia's first Department of Agriculture was created in 1877. The Department acquired its present name and mission in 1978. Its mission is to "promote the broad economic development of Virginia's agricultural industry and the welfare of all consumers in the use of goods and services."

The Department's economic development objectives are accomplished through its agricultural and seafood marketing, and trade development programs. A discussion of these programs follows.

Agricultural and Seafood Marketing: Both agricultural marketing and seafood marketing are directed at increasing sales by enhancing consumer awareness of foods and other agricultural products grown and/or processed within Virginia. Under these programs, the agency provides funding support for the following commodity boards: Bright Flue-Cured Tobacco Board, the Corn Board, the Dark-Fired Tobacco Board, the Egg Board, the Pork Industry Board, the Soybean

SUMMARY OF AGENCY ACTIVITIES ^{1/}

| <u>AGENCIES</u> | <u>CATEGORIES</u> | | | | | | |
|---|---|---|--|--|---|--|---|
| | Import/ Export Services To Increase Port Volume | Improving The Workforce Through Training & Information | Conducting Research & Providing Information | Helping Local Governments Attract Businesses | Helping Businesses Survive & Expand Through Sales | Attracting Businesses Through Marketing | Promoting Products Through Marketing |
| <u>Primary Agencies</u> | | | | | | | |
| Department of Agriculture & Consumer Services | | | Yes | | | | Yes |
| Department of Economic Development | | Yes | Yes | Yes | Yes | Yes | |
| Virginia Port Authority | Yes | | Yes | | Yes | Yes | |
| <u>Secondary Agencies</u> | | | | | | | |
| Center for Innovative Technology | | | Yes | | | | |
| Virginia Center for World Trade (ODU) | | | | | Yes | | |
| Department of Housing and Community Development | | | | Yes | | | |
| Department Of Minority Business Enterprise | | | | | Yes | | |
| Virginia Agriculture Council | | | Yes | | | | |

^{1/} Appendix A contains detailed information on agency activities and costs.

Board, the State Apple Board, the Peanut Board, the Sweet Potato Board, the Virginia Cattle Industry Board, the Virginia Farmers' Market Board, the Virginia Winegrowers' Advisory Board and the Virginia Marine Products Board. The commodity boards also receive funds from the excise taxes levied on their respective agricultural commodities, and the Marine Products Board is funded through license and permit fees.

The goal of each commodity board is to enhance and increase the sale and use of its products. Each board functions in much the same manner and activities include: trade show and convention demonstrations; radio and T.V. advertising; food shows and product sampling; research in disease and pest control and in production improvement; in-store promotional efforts; and tours of production facilities.

The Department of Agriculture and Consumer Services augments product promotion efforts of the various boards by conducting promotional projects benefiting many of the state's commodities at the same time.

Trade Development: The trade development program facilitates orderly marketing and stimulates increases in domestic and foreign demand for Virginia's agricultural and forestry products.^{3/} Activities include: providing market price information and other statistical data on crops; conducting official grading, sampling, weighing, inspection and certification of agricultural commodities; and carrying out various domestic and international marketing activities.

Several of the more important domestic marketing activities include: providing assistance in analyzing the marketing opportunities for existing, new or alternative agricultural commodities; developing and encouraging various forms of direct marketing; initiating and making sales development trips; and implementing electronic marketing technology.

The Virginia Department of Agriculture and Consumer Services maintains an international trade office in Richmond with a Director and five trade specialists. The Department also maintains a full-time person in both Brussels and Tokyo. The purpose of these offices is to assist Virginia agricultural producers with their export efforts through: on-site inspection of state producers to determine the exportability of their products; representation of Virginia producers at foreign trade shows; the organization of foreign trade missions; dissemination of trade leads to Virginia suppliers; a clearinghouse for foreign trade inquiries; and preparation of export directories, brochures, and newsletters for worldwide distribution.

^{3/} Forestry products are promoted and marketed by DACS instead of the Department of Forestry because lumber and wood products are considered agricultural products. The Department of Forestry has no marketing function.

DEPARTMENT OF ECONOMIC DEVELOPMENT

The Department of Economic Development (DED) was created in 1984 by consolidation of various state economic development activities. Its overall mission is to "encourage, stimulate and support the economic development of the Commonwealth by implementing an annual travel and tourism marketing campaign designed to heighten awareness of Virginia as a major tourism destination and maintaining and promoting an attractive business climate which will assist the expansion of the economy of Virginia." This summary focuses solely on activities within the Industrial Development Division of the Department.

Domestic Marketing: The Domestic Marketing Section is responsible for encouraging businesses to locate facilities in Virginia. Marketing efforts are designed to present Virginia's attributes to potential clients - in short, sell the state. Once a firm shows a definite interest in Virginia, a full range of site location consulting services is provided.

Specific activities of the Domestic Marketing Section include: making direct calls on companies throughout the United States and Canada; sending publications and promotional items to corporate executives; and arranging special events such as in-state tours and visits to communities for company representatives.

The Virginia Film Office is located within the Domestic Marketing Section. It performs similar activities to encourage film and television companies to film in Virginia. Once a company commits to film in Virginia, the Film Office makes many of the local arrangements, such as securing on-location sites, arranging for accommodations, and promoting the actual filming.

International Marketing: The International Marketing Section performs much the same selling and consulting services as does the Domestic Marketing Section. Offices are maintained in Brussels and Tokyo. Clients include foreign companies contemplating locating in the United States.

In addition, the International Marketing Section assists Virginia businesses with export development and promotion by: assisting companies to increase their export sales; showing them how to research the market and to select channels of distribution; conducting workshops on exporting topics; serving as a referral service for information on legal assistance, banking and other professional services necessary to conduct international trade; and scheduling foreign trade missions. To help increase export sales, the agency shows companies how to promote their products in international markets rather than advertising products for them.

Community and Business Services: Community and Business Services has two major functions: 1) helping Virginia localities prepare for and improve their

attractiveness for economic development (Community Certification Program); and 2) providing an ombudsman service for existing businesses. It operates regional offices in Abingdon, Staunton, and South Boston.

Participation in the Community Certification Program enables a locality to become more attractive for the location of industry and related economic development. To attain certification, a community must meet certain rigorous program requirements. Localities earning "Certification" are assigned a priority status for the marketing efforts of the Division of Industrial Development.

The industrial ombudsman program, or existing industry program, was initiated because a substantial part of new industrial jobs come from expansion of existing industry. Its primary activity is personal visits with chief executives of manufacturing companies throughout the Commonwealth. During these visits, problems are identified and executives are encouraged to suggest ways in which the community and the state can become more supportive. Where appropriate, information is provided and referrals are made.

Marketing Services: Marketing Services is primarily responsible for two major activities: 1) preparing research and economic development studies; and 2) industrial promotion (advertising), public relations and information. The industrial promotion objective is to acquaint domestic and foreign corporate executives with Virginia's attractiveness and receptivity to new businesses. Advertising includes such activities as regional, national and foreign advertising campaigns in selected business publications, direct mail campaigns to targeted corporate executives and broadcast media campaigns in selected markets.

Small Business and Financial Services: Small Business and Financial Services provides ombudsman and consulting services to small businesses and develops and administers financing programs in association with the Virginia Small Business Financing Authority.^{4/} Activities of the section include: identifying sources of management and technical assistance to small business; providing guidance in business plan development; directing small firms to private and government capital sources available in Virginia; and assisting in the preparation of applications to the Authority.

Industrial Training: The Industrial Training Services Section provides training and retraining assistance for specific jobs for new or expanding basic employers (businesses which bring new income into an area). The training is offered throughout the state at community colleges or other facilities. Upon request, the section will conduct job analysis to determine training needs, design training programs and material, assist in recruitment, and provide instruction for training programs. The section assists in recruiting by paying for classified advertisements to attract qualified employees or employees willing to be trained.

^{4/} The Virginia Small Business Financing Authority is a separate, non-state agency which guarantees loans to qualifying small businesses once the business has secured a lender. It also issues revenue bonds and taxable bonds.

VIRGINIA PORT AUTHORITY

The Virginia Port Authority was formerly a part of the Department of Conservation and Economic Development. It became a separate agency in 1952 and assumed responsibility for supervising port operations. Its mission is to "foster and stimulate shipment of waterborne commerce through Virginia ports through promotion, development, construction, maintenance, and operation of harbors, seaports and terminal facilities within the state; increase the maritime commerce, both foreign and domestic, through the ports; and protect, promote, maintain, and further develop Virginia ports." The Authority administers five state-owned marine terminal facilities which include Norfolk International Terminal, Portsmouth Marine Terminal, Newport News Marine Terminal, and Lambert's/Sewell's Point Terminals.

The Authority's economic development activities are described below.

Trade Services: The Authority trade development objective is to improve the Port of Hampton Roads' competitive position by increasing general cargo tonnage volume through the port. This is being accomplished, in part, through advertising (both foreign and domestic), trade seminars, and cargo solicitation. Targeted advertising campaigns are conducted at various locations. The marketing directors of each of the four foreign field offices (Brussels, Tokyo, Hong Kong, Sao Paulo) manage their own advertising programs. The Port Authority also has offices in New York, Winston-Salem and Chicago.

Agency representatives conduct approximately 60 international and 160 domestic trade solicitation calls per week to maritime industry and government agencies. They also identify and target commodities that are now being shipped through competitor ports and conduct seminars to promote specialized cargo, e.g. coal, tobacco, lumber. In addition, tailored package cargo rates are presented to potential shippers.

The Virginia Export Trading Company (VEXTRAC): VEXTRAC is a subsidiary of the Virginia Port Authority. The Company's objective is to increase tonnage through the Port by serving as the export department for Virginia businesses and by supplying marketing, financing, and transportation information to potential users. The Company maintains two persons at Port headquarters and makes use of their regional and foreign offices. They conduct workshops throughout Virginia to educate manufacturers about the export potential of their products and serve as a referral service for information on legal assistance, banking and other professional services. They are also involved in importing and provide the services necessary to consummate an international sale.

Foreign Trade Zones: A foreign trade zone or duty-free port located at Hampton Roads is sponsored by the Authority to promote international commerce. Such free ports are attractive to manufacturers who import components and then export assembled machinery, vehicles, or electronics because there are no export duties on items leaving such zones. Similar advantages exist for components shipped into a zone duty-free, assembled, and the final products shipped throughout the United States. The agency promotes the zone through literature, advertising, and personal contacts.

Two other Zones are being established in Virginia. The first will be located at Washington Dulles Airport and could receive approval from the U. S. Foreign Trade Zones Board by the end of 1986. It will be operated by a Virginia non-profit corporation. The second zone is under consideration for Hampton Roads and will be managed by the city of Newport News. The Virginia Port Authority sponsored Newport News' application for Zone designation.

CENTER FOR INNOVATIVE TECHNOLOGY

The Center for Innovative Technology was created in July, 1984, as a non-profit, non-stock corporation which seeks to enhance the state's research capabilities and to promote increased industry participation in university research. The Center funds research programs at Virginia universities and helps to develop emerging technology-based firms and to meet the part-time graduate needs of industry.

The Center has allocated \$12 million in grant awards to four campus-based institutes. These funds have supported a variety of research projects in biotechnology, computer-aided engineering, information technology, and materials science and engineering.

In addition, the Center and the Department of Economic Development have major cooperative efforts underway in the areas of marketing and consulting.

VIRGINIA CENTER FOR WORLD TRADE (OLD DOMINION UNIVERSITY)

The Virginia Center for World Trade was created in 1986 to promote international trade and a greater public awareness of the role of international trade in Virginia's economy. The Center is within Old Dominion University which works with the Virginia Port Authority and the Department of Economic Development to provide training and other services to businesses involved in international trade. In addition to conducting trade seminars, the Center tailors specific trade programs for individual businesses and industries; conducts foreign language training; and provides specialized program services for potential foreign investors and current foreign customers of Virginia businesses.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development was created in 1978. Its mission is to "assist local officials, community leaders, building professionals and property owners develop and preserve their communities and properties, in order to improve health conditions and the safety of the built-in environment, and provide economic and housing opportunities."

The Department conducts three economic development activities. These are: Virginia Urban Enterprise Zone Program; Economic Development Revolving Loan Fund; and the Community Development Block Grant Program.

Virginia Urban Enterprise Zone Program: The purpose of an enterprise zone is to stimulate business and industrial growth in economically distressed areas. An enterprise zone is an economically distressed area of a county, city or town which has been designated by the Governor for special tax incentives and regulatory relief to encourage new and expanded business.

Three state tax incentives are available within an Enterprise Zone:

- 1) a five-year decreasing (80%, 60%, 40%, 20%, 20%) general credit against state business income, franchise or license taxes;
- 2) a five-year decreasing (80%, 60%, 40%, 20%, 20%) credit against state business income, franchise or license tax equal to the amount of state unemployment tax liability; and
- 3) a five-year exemption from state sales tax on items purchased for the conduct of business within a zone.

In addition to the state tax incentives available in a zone, local incentives may include economic development loans, job training, employment services, and public improvements.

Enterprise zones have been designated in Danville, Lynchburg, Newport News, Norfolk-Portsmouth (a joint zone), Roanoke, Chesapeake, Hampton, Hopewell, Petersburg, Carroll and Wythe counties and the towns of Saltville and South Hill. With certain restrictions, both new and existing businesses in each of these zones are eligible for the various incentives.

Economic Development Revolving Fund: The purpose of the revolving fund is to improve the economic conditions of Virginia localities by assisting them with loans, and in some cases grants, to create or retain permanent jobs. The fund was initiated in 1977 with a one-time grant of \$6 million. All proceeds from revolving fund loans are to be reinvested in similar economic development projects within the Commonwealth.

Eligibility for loans is restricted to economically depressed areas. Counties, cities, towns, political subdivisions, state agencies, and public

non-profit corporations representing an eligible area may apply for: loans for fixed asset financing for manufacturing and related uses; or loans and limited grants for public facilities supporting manufacturing or related uses.

Loans are made in amounts between \$25,000 and \$250,000 to any one project. The interest rate cannot be lower than four percentage points below the current U. S. Treasury rate for loans of similar size and maturity.

Community Development Block Grant Program: The Department receives approximately \$20 million annually in federal Community Development Block Grant funds to assist localities with housing, community facility and/or economic development projects. Approximately 301 counties, cities and towns are eligible to submit applications for funds, and the Department selects projects based on a competitive selection process developed in consultation with local governments. Since the program is competitive, the amount of funds going to each category (housing, community facilities, or economic development) varies from year to year.

DEPARTMENT OF MINORITY BUSINESS ENTERPRISE

The State Office of Minority Business Enterprises was created by Executive Memorandum in 1972 and made a permanent agency by statute in 1975. The Department's mission is to "increase business development assistance for minority entrepreneurs through the initiation of new programs; and encourage, enlist and institute greater minority utilization in our free enterprise system by developing, coordinating and utilizing the resources in state government."

The Department's major economic development activities are management development and market development. The management development activity provides new and existing firms with direct management and technical services, including general business management counseling and assistance in obtaining bonding and financing. This activity also includes coordination and implementation of educational forums and training designed to improve the management and technical capabilities of minority-owned businesses.

The market development activity provides technical support to state and local governments and private corporations designed to increase purchases from minorities. It also assists minority firms in identifying and profiting by expanded market opportunities and stimulates financial support for minority business development and expansion.

VIRGINIA AGRICULTURAL COUNCIL

The Virginia Agricultural Council was created in 1966. Its mission is to "conduct research to find new uses for agricultural products, finance development of new markets and promote more efficient and economical methods of agricultural production which will be beneficial to the state as a whole."

The Council funds research and marketing development affecting agriculture in Virginia. Funds for research activities come from the Virginia Agricultural Council Fund. This nongeneral fund is made up of certain assessments on agricultural products, taxes, and a voluntary levy on gasoline sold for agricultural purposes.

The following section presents information on innovative programs in other states.

SECTION THREE -- STATE INNOVATIVE ECONOMIC DEVELOPMENT PROGRAMS

This section presents information on innovative approaches to economic development in other states.

All of the states operate similar basic economic development programs. These involve industrial recruitment and location, assistance to existing businesses and industries, advertising and product promotion, port development (where applicable), export promotion, industrial training, and foreign office programs. The areas where state programs differ widely and where a variety of innovative approaches have been taken are in the provision of financial and technical assistance to entrepreneurs and small businesses.

This section describes the major categories of innovative programs. The categories are: Innovative Financing, Fostering High Technology Development, New Business and New Product Development, Venture Capital, Public Pension Fund Investments and Economic Adjustment.

INNOVATIVE FINANCING

State development finance programs have become increasingly sophisticated and diverse. For years, states have provided low cost financing to business and industry through the issuance of tax-exempt bonds. Recently, states have moved into the provision of direct financing for small business and industry which often cannot secure adequate financing through normal channels.

The structure of financing programs varies depending on legal factors unique to a state. Bank and direct loan programs are described below.

Bank Loan Programs: Many states have created programs to encourage and facilitate bank loans to small businesses, often at below-market interest rates or favorable repayment terms. These programs offer a wide variety of incentives to both banks and borrowers. The programs include activities such as umbrella bonds,^{5/} bank pools, economic development time deposits, and loan guarantees.

The umbrella bond programs used in Connecticut and Montana are designed to allow small firms access to the tax-exempt bond market. The loans may be "bundled" as in Montana where the bonds are sold when a \$5 million limit is reached. Neither the Montana nor Connecticut programs provide construction financing or interim financing which comes from regular bank loans and the funds are not dispensed until completion of the project. The interest rate charged is equal to that charged on the sale of the bonds. The result is that borrowers pay below-market rates of interest on long term loans. Also, the state commitment that funding will be provided at project completion allows banks to participate in projects which they might otherwise consider too risky.

^{5/} The Virginia Small Business Financing Authority issues revenue bonds on an umbrella basis.

The bank pool program was developed in Texas, as part of the Main Street Project which is a public-private program to revitalize downtown areas of small cities. Local banks and thrift institutions have agreed to pool their funds at an agreed upon amount. These funds are used to provide low interest loans to businesses for facade rehabilitation. The lenders share their risks and also have the opportunity for additional conventional loans generated by the program.

In Missouri, Economic Development Time Deposits are used to encourage banks to make economic development loans. The state annually deposits \$15-\$20 million in Missouri banks with the stipulation that these funds be used for specified economic development loan purposes. The interest rate paid to the state is based on the Treasury-bill rate. Therefore, the banks have access to loan funds at a generally lower than average rate and are encouraged to make economic development loans.

California operates a loan guarantee program which is administered by non-profit corporations, across the state. The state guarantees up to 90% of small business loans and 100% in high risk areas. Banks charge the prevailing interest rate and are guaranteed repayment by the state in case of default.

Minnesota operates a loan guarantee program through its Export Finance Authority. This program is designed to provide small and medium-size firms access to export loans. The Authority guarantees up to 90% of loans used for working capital or shipment of exports for firms which have already made a sale. The program benefits both borrowers, who must have previously been denied a loan by a bank to be eligible and banks which charge prevailing interest rates and serve a new line of clients.

Direct Loan Programs: These programs provide loans directly to businesses and industries for all or part of project financing. Many of the programs operate through private or quasi-public intermediaries, such as development credit corporations, and most operate as revolving loan funds whose original capitalization might have come from a federal grant or a state appropriation. Examples of this type of innovative financing are the Development Credit Corporations in Kansas and Maryland and the Michigan Strategic Fund.

The Kansas and Maryland Development Credit Corporations are owned primarily by shareholders made up of the major corporations and utility companies in their respective states. The shareholder investments are used to form a reserve with which to cover losses. Banks make loans to the corporations at or near the prime interest rate and these funds are in turn loaned to eligible businesses and industries. The corporations make loans primarily to small businesses at interest rates set at fixed percentages above the corporations' bank loan costs. The result is that borrowers can generally obtain loans at rates that are lower than from other sources and with more favorable repayment terms.

The Michigan Strategic Fund was established in 1984 when a number of development financing programs were consolidated. The fund is authorized to

provide direct loans for both fixed assets and working capital, issue tax exempt revenue bonds, guarantee or insure loans, provide royalty based financing for product development, and provide financing for export transactions. It also is authorized to provide loans and loan guarantees to local governments for infrastructure projects.

FOSTERING HIGH TECHNOLOGY DEVELOPMENT

The states have begun to pay increasing attention to high technology firms and the role they play in economic development. State activities in this area include a variety of financial and non-financial assistance programs.

Financial assistance programs generally include such activities as the provision of equity-type financing or seed capital for emerging businesses and the support of research and development in partnership with universities, private companies and other investors. Support for research and development commonly involves funding university based research centers which are often called "centers of excellence" or "advanced technology centers." These "centers" would equate with the Center for Innovative Technology in Virginia.

Non-financial assistance includes such activities as commercialization programs which provide technical and management services as well as low cost incubator space and training or retraining programs for technology based firms.

Non-financial assistance also includes technology transfer programs. The primary benefits of technology development are not felt until introduced into the existing business sector, and technology transfer efforts seek to accelerate this process. This usually is done through a combination of information and field services.

Following are examples of state technology development programs which encompass the range of state activities described above.

The North Carolina New Technology Jobs Initiative started in 1983 represents a combination of financial and non-financial assistance to new and small businesses. The program has two components. One is an incubator facilities program which provides one-time grants to communities to establish incubator facilities. The incubators provide space, shared equipment and support services to new, small businesses. Communities must match the state grants and meet certain criteria, one of which is an arrangement with an institution of higher education to provide technical and management assistance for the tenants of the incubator facility.

The second component is the Innovation Research Fund which provides seed capital to new, small businesses. The fund will provide up to \$50,000 in equity financing for the research stage of development. It is limited to research only since the State Constitution prohibits direct investment in private businesses.

The Ben Franklin Partnership Program in Pennsylvania is an example of a university based research center which links higher education with the private

sector to foster technological development. The partnership provides grants for applied research and development and technical and financial assistance to entrepreneurs and existing businesses. With matching funds from the private sector, the partnership has established four Advanced Technology Centers. The centers represent a consortium of private sector, labor, research universities, other higher education institutions, and economic development groups. The centers conduct joint research and development projects, education and training activities, and provide assistance services to entrepreneurs.

The Maryland Technology Extension Service is an example of a technology transfer program. The state operates technology extension offices in conjunction with the Engineering Research Center at the University of Maryland. The offices are staffed by engineers with industrial experience who provide technical advice and problem solving services to companies at no charge.

NEW BUSINESS AND NEW PRODUCT DEVELOPMENT

A study by David Birch in the late 1970's entitled The Job Generation Process, found that small firms (20 employees or less) generated two-thirds of all the new jobs created in the United States in the early and mid-1970's and that more than half of these new jobs came from independent firms. More recent data has tempered these findings somewhat but the data still shows that half of all new jobs have been created by new and independent firms.

New and small businesses have needs different from older and larger businesses, particularly with regard to capital requirements and financing. They are also more likely to need management and technical assistance.

The states have begun to place increasing emphasis on new and small businesses with a variety of programs to assist in new business and new product development. One type of program is entrepreneurial assistance and training. Under this program, a wide range of support services are provided to the technological innovator or entrepreneur to assist in transforming ideas and inventions into products ready for marketing, manufacturing and distribution. The services provided generally include technical assistance, testing, market evaluation, and business and management advice. Specific examples of state programs in this area are the Institute for Ventures in New Technology in Texas and the Connecticut Product Development Corporation.

The Institute for Ventures in New Technology is operated out of Texas A&M University. It provides technical assistance in the evaluation and development of new products and processes for small businesses and individual entrepreneurs. The Institute draws on faculty and graduate students for product development and engineering, market analysis and planning, human resource analysis, financial planning and the creation of business plans.

The Connecticut Product Development Corporation which was chartered in 1972, is a quasi-public corporation which provides risk capital for the

development phase of a new product or process. It is designed to meet very specific capital needs which cannot be met in private capital markets. It was initially funded through a \$10 million general obligation bond issue by the State of Connecticut. The corporation will fund up to 60% of the development costs of a product to companies meeting eligibility and selection criteria. Payback to the corporation is on a royalty basis, normally 5% of net sales, up to a multiple of the corporation's original investment, which is determined by the payback period, with a smaller multiple for a shorter payback period.

VENTURE CAPITAL

It is difficult to draw a clear distinction between New Business/Product Development Programs and Venture Capital Programs. For example, a major part of the activities of the Connecticut Product Development Corporation, described above, might be considered as venture capital operations. However, venture capital programs provide capital for start-up and early stage or "seed" capital financing for new businesses rather than for research and product development. However, some state capital funding programs encompass the gamut of financing from research to product introduction and marketing.

With the increasing emphasis on small and new businesses, states have been supplementing the private venture capital markets and providing capital to high risk new business activities which might otherwise be unable to obtain necessary financing. The National Governors' Association estimates that 28 states currently support some type of venture capital program. State involvement in venture capital programs was much less frequent in past years because of the high-risk and concerns over the appropriateness of equity investments in the private sector. These concerns have been overcome by the establishment of quasi-public agencies to administer the venture financing programs. State venture capital programs differ widely from state to state, in terms of sources of initial capital, types of assistance provided, and administering bodies. Two examples of state venture capital programs are described below.

The Indiana Corporation for Innovation Development was established as a private, for profit corporation in 1981. The objective of the Corporation is to make equity-oriented direct investments in Indiana businesses. The Corporation makes several types of investments, which may include investing in Small Business Investment Companies, providing seed capital to entrepreneurs, and equity and loan financing to existing businesses. The Corporation is a private company and receives no public funds. However, purchasers of the Corporation's stock receive a tax credit of up to 30% of their total investment. Investors in the Corporation are predominantly Indiana corporations who view their investment as a community service rather than a profit making venture.

The Massachusetts Technology Development Corporation which began investment activities in 1979 was the nation's first venture capital firm financed entirely with public funds. The objective of the Corporation is to provide capital to start-up and early-stage, high risk, technology based

companies in Massachusetts. It focuses on companies which have the capacity to generate significant employment growth but which have been unable to secure sufficient financing from conventional sources. The Corporation provides a combination of debt and equity capital at below market rates in co-ventures with private venture capital firms. It also provides technical and management assistance to firms in which it invests. The Corporation was initially capitalized through a combination of federal (Economic Development Administration grant) and state monies totaling \$4 million.

PUBLIC PENSION FUND INVESTMENTS

Public pension funds can provide a potentially significant source of long-term and venture capital for small businesses. Between 1978 and 1984, twenty-five states took measures to liberalize the investment criteria of their pension funds to allow venture or small business type investments. The liberalization of investment criteria has taken three forms, "basket clauses," specifically authorized investments in venture limited partnerships, and use of the "Prudent Investor Standard."

The "basket clause" allows a certain percentage of pension fund assets to be invested in ways not otherwise permitted. Specifically authorized investments in venture capital limited partnerships allows discretion for investments in new and small businesses. Ten states have eliminated their list of legal pension fund investment instruments and replaced it with the "Prudent Investor Standard" which provides broad authority to make investments that would "... be selected by an investor of prudence, diligence, and intelligence in the management of his or her own affairs, giving due consideration to the safety of principal and income."^{6/} Under this rule, practically every important type of security would be eligible.

Specific examples of a few selected state pension fund investment programs are described below.

In 1982, the Michigan state legislature authorized the state retirement fund to invest up to 5% of its assets in venture capital. With a \$9 billion retirement fund, the amount available for venture capital investment is \$450 million. As of 1985, \$35.8 million had been invested directly into 21 Michigan companies and 1 out-of-state company and another \$77 million had been invested in limited partnerships or venture capital pools.

In 1973, the Alabama Retirement System began making business loans in an attempt to put money back into the state and improve the economy. This program is the only direct loan program capitalized by public pension funds. The System offers permanent financing for plant and equipment to firms of any size, in any state, that have an A or better credit rating. The loans are

^{6/} State Activities in Capital Formation: Venture Capital, Working Capital, and Public Pension Fund Investments, Office of Advocacy, U.S. Small Business Administration, Washington, D.C., June, 1985, page 89.

made at prevailing market rates of interest and are normally for five to ten years but can be extended to fifteen years if helpful in attracting a firm to Alabama. The major advantage of the loans is their long term nature which is generally not available from other sources.

In 1981, Ohio state legislation required all state-administered pension systems to adopt the "Prudent Investor Standard" in addition to the legal list of investments. Additional legislation in 1982 allowed 5% of assets to be invested in venture capital limited partnerships, provided one of three criteria is met: 1) the firm must be headquartered in Ohio; 2) 50% of the firm's assets must be located in Ohio; and, 3) 50% of the firm's employees must be located in Ohio.

Despite the movement toward liberalization of pension fund investments, at present only a very small percentage of venture and small business capital is funded from this source -- less than 1% in 1985.

ECONOMIC ADJUSTMENT PROGRAMS

Virtually all states have programs to work with existing industries which may be experiencing problems or to respond to plant closings and layoffs. Virginia, for instance, has a program to work with existing industries in the Department of Economic Development and a revolving fund administered by the Department of Housing and Community Development to aid in retaining jobs and assisting in plant closings. However, there are two types of programs which may be of interest since they appear to be more comprehensive than the programs operated in Virginia and many other states. These are the use of economic adjustment teams and comprehensive management and technical assistance programs.

More than twenty states have established economic adjustment teams. South Carolina's Rapid Response Team is one example. The purpose of these teams is to coordinate the delivery of services in case of a plant closing. In South Carolina, the team draws on the services of five agencies. These are the State Development Board, the State Board for Technical and Comprehensive Education, the Employment Security Commission, the Governor's Office of Employment and Training, and the Jobs/Economic Development Agency (a development finance agency). The team seeks to avert the closing if possible and, if not, to coordinate the closing in an effective manner. The first priority is to provide assistance to the work force through access to job placement and retraining. The second priority is to try to find a market for the re-use of the plant facility.

An example of a Comprehensive Management and Technical Assistance program is the Massachusetts' Mature Industries Program. This program has three components: the Industrial Services Program, the Economic Stabilization Trust Fund, and the Dislocated Workers Program. The Industrial Services Program provides management and technical assistance to firms upon request. This may involve identifying efficiency problems, new markets, more productive processes, or capital needs. In addition, information is provided on public

financing sources, and assistance is given in loan packaging and preparing applications for financial assistance. The Economic Development Stabilization Trust Fund provides high risk capital that can be used to finance change of ownership, corporate restructuring or turn-around plans to make a firm more competitive. The Dislocated Workers Program comes into play when a firm cannot survive. It coordinates efforts to assist the workforce in re-employment and finding potential uses for the plant facility.

APPENDICES

A -- Virginia State Economic Development Activities

B -- Virginia Commodity Boards

C -- Source Publications

APPENDIX A

VIRGINIA STATE ECONOMIC DEVELOPMENT ACTIVITIES

| <u>PRIMARY AGENCIES</u> | <u>ACTIVITY CLASSIFICATION</u> | <u>SPECIFIC ACTIVITIES</u> | <u>AUTHORITY (Code Cite)</u> | <u>SUBPROGRAM</u> | <u>EMPLOYMENT LEVEL (1986-87)</u> | <u>FUNDING LEVEL (1986-87)</u> |
|------------------------------------|---|--|------------------------------|--|-----------------------------------|--------------------------------|
| DEPARTMENT OF ECONOMIC DEVELOPMENT | <u>Domestic Marketing</u> | | Title 2.1, Ch. 32.1 | Industrial Promotion | 16 FTE | \$883,376 |
| | Attracting businesses through domestic marketing | Direct marketing calls; publications and promotional items; community and site location visits; Virginia Film Office | | | 3 FTE | \$180,000 |
| | <u>International Marketing</u> | | Title 2.1, Ch. 32.1 | Industrial Promotion | 12 FTE | \$677,219 |
| | Attracting businesses through international marketing | Direct marketing calls; publications and promotional items; community and site location visits | | | | |
| | Helping businesses survive and expand through international sales | Consulting and referral services; banking and other professional services; workshops; trade missions; foreign offices - Brussels and Tokyo | | | | |
| | <u>Community and Business Services</u> | | Title 2.1 Ch. 32.1 | Industrial Promotion; Industrial Location Assistance | 17 FTE | \$630,215 |
| | Helping local governments attract businesses | Community certification program | | | | |
| | Helping businesses survive and expand through domestic sales | Business ombudsman service; regional offices - Abingdon, Staunton and South Boston | | | | |
| | <u>Marketing Services</u> | | Title 2.1, Ch. 32.1 | Industrial Location Assistance | 13 FTE | \$1,463,081 |
| | Conducting research and providing information | Develop economic, demographic, and market research; coordinate advertising program | | | | |

| <u>PRIMARY AGENCIES</u> | <u>ACTIVITY CLASSIFICATION</u> | <u>SPECIFIC ACTIVITIES</u> | <u>AUTHORITY (Code Cite)</u> | <u>SUBPROGRAM</u> | <u>EMPLOYMENT LEVEL (1986-87)</u> | <u>FUNDING LEVEL (1986-87)</u> |
|---|--|--|------------------------------|---|-----------------------------------|--------------------------------|
| DEPARTMENT OF ECONOMIC DEVELOPMENT (Continued) | <u>Small Business & Financial Services</u> | Business ombudsman service; consulting and information services; Virginia Small Business Finance Authority ^{1/} | Title 2.1, Ch. 32.1 | Industrial Promotion; Industrial Location Assistance | 4 FTE | \$187,101 |
| | <u>Industrial Training</u> | Employee training and retraining; training program development; employee recruitment | Title 2.1, Ch. 32.1 | Industrial Employee Training | 9 FTE | \$2,358,291 |
| | Helping businesses survive and expand through domestic sales | | | | | |
| Agency Totals % of Agency Budget | | | | | 77 FTE | \$6,346,602 44.5% |
| VIRGINIA PORT AUTHORITY | <u>Trade Development</u> | Targeted advertising; trade seminars; cargo solicitation; VEXTRAC ^{2/} ; importing services; domestic and foreign offices - New York, Winston-Salem, Chicago, Brussels, Tokyo, Sao Paulo, Hong Kong | Title 62.1, Ch. 10 | National & International Trade Services; Commerce Advertising | 3.25 FTE | \$127,610 |
| | Import/export services to increase port volume | | | | 13 FTE | \$1,235,820 |
| | Attracting businesses through domestic/international marketing | Foreign Trade Zones; trade seminars; domestic and foreign offices | | | .96 FTE | \$87,290 |
| | Helping businesses survive and expand through domestic/international sales | Consulting and referral services; workshops; legal assistance; banking and other professional services | | | | |

^{1/} VSBFA is a separate, non-state agency with its own Board and authority. DED provides staff assistance to VSBFA.

^{2/} Virginia Export Trading Company, Inc.

| <u>PRIMARY AGENCIES</u> | <u>ACTIVITY CLASSIFICATION</u> | <u>SPECIFIC ACTIVITIES</u> | <u>AUTHORITY (Code Cite)</u> | <u>SUBPROGRAM</u> | <u>EMPLOYMENT LEVEL (1986-87)</u> | <u>FUNDING LEVEL (1986-87)</u> |
|---|--|--|---|--|-----------------------------------|--------------------------------|
| VIRGINIA PORT AUTHORITY (Continued) | <u>Trade Development</u> Conducting research and providing information | Information services; market research | | | | |
| Agency Totals % of Agency Budget | | | | | 35.48 FTE | \$3,506,720 16.5% |
| DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES | <u>Agricultural Marketing</u> Promoting products through domestic marketing | Product and commodity promotion by Commodity Boards (13); trade shows; product sampling; cooperative advertising | Title 3.1, Ch. 18.23, 24, 25, 25.1, 26, 27, 40, Title 28.1, Ch. 11. | Agricultural Commodity Promotion; Agricultural Product Promotion | 12.35 FTE | \$2,020,205 |
| | Conducting research and providing information | Research, development, and special studies; market information | | | | |
| | <u>Seafood Marketing</u> Promoting products through domestic marketing | Product promotion by Virginia Marine Products Board; trade shows; product sampling; cooperative advertising | Title 3.1, Ch. 18.23, 24, 25, 25.1, 26, 27, 40, Title 28.1, Ch. 11. | Seafood Product Promotion Services | 2 FTE | \$294,610 |
| | Conducting research and providing information | Research, development, and special studies; market information | | | | |
| | <u>Trade Development</u> Promoting products through domestic marketing | Market information; selling assistance; inspection and certification; sales development missions | Title 3.1, Ch. 6, 23, 26, Title 61.1, Ch. 4 | National and International Trade Services | 22 FTE | \$1,350,667 |

| <u>PRIMARY AGENCIES</u> | <u>ACTIVITY CLASSIFICATION</u> | <u>SPECIFIC ACTIVITIES</u> | <u>AUTHORITY (Code Cite)</u> | <u>SUBPROGRAM</u> | <u>EMPLOYMENT LEVEL (1986-87)</u> | <u>FUNDING LEVEL (1986-87)</u> |
|--|---|--|--|---------------------------------|-----------------------------------|--------------------------------|
| DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES (Continued) | Promoting products through international marketing | Foreign trade shows; trade missions; consulting and referral services; on-site inspections; foreign offices - Brussels & Tokyo | | | | |
| Agency Totals % of Agency Budget | | | | | 36.35 FTE | \$3,665,482 11.6% |
| Totals for Primary Agencies | | | | | 142.83 FTE | \$13,518,804 |
| <u>SECONDARY AGENCIES</u> | | | | | | |
| DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT | <u>Community Services</u> | | | | | |
| | Helping local governments attract businesses | Economic Development Revolving Loan Fund | No Code Cite. An agreement between U. S. Econ. Development Admin. & State of Virginia. | Industrial Development Services | 1 FTE | 3/ |
| | | Community Development Block Grants | Title 36, Ch. 8 | Industrial Development Services | 2 FTE | 4/ |
| | | Virginia Urban Enterprise Zones | Title 59.1-278 | Industrial Development Services | 1 FTE | 5/ |
| Agency Totals % of Agency Budget | | | | | 4 FTE | \$96,000 1.5% |
| VIRGINIA CENTER FOR WORLD TRADE 6/ | <u>Trade Development</u> | | | | | |
| | Helping businesses survive and expand through international sales | Training; trade seminars; foreign language training | Title 23, Ch. 5 | Sponsored Programs | 5.08 FTE | \$300,000 |
| Agency Totals % of Agency Budget | | | | | 5.08 FTE | \$300,000 0.3% |

- 3/ A one-time federal grant of \$6 million was made in 1977. Funds are for loans or grants to create or retain permanent jobs. State pays administrative costs only.
- 4/ Agency will disburse approximately \$6 million in federal CDBG economic development funds in FY 1986-87. State pays administrative costs.
- 5/ It is a tax credit program for qualifying companies in both urban and rural areas. Agency disburses no funds, but bears administrative costs.
- 6/ The Center is an educational arm of Old Dominion University, which works with the Port Authority and Department of Economic Development to provide training and other services to practitioners in international trade.

| <u>SECONDARY AGENCIES</u> | <u>ACTIVITY CLASSIFICATION</u> | <u>SPECIFIC ACTIVITIES</u> | <u>AUTHORITY (Code Cite)</u> | <u>SUBPROGRAM</u> | <u>EMPLOYMENT LEVEL (1986-87)</u> | <u>FUNDING LEVEL (1986-87)</u> |
|--|--|--|---|---|-----------------------------------|--------------------------------|
| VIRGINIA AGRICULTURAL COUNCIL | <u>Agricultural Research</u> Conducting research and providing information | Research and market development projects | Title 3.1, Ch. 4.1 | Agricultural Commodity Promotion and Support | 0 FTE | \$205,615 |
| Agency Totals % of Agency Budget | | | | | 0 FTE | \$205,615 100.0% |
| CENTER FOR INNOVATIVE TECHNOLOGY ^{1/} | <u>High Tech Research and Management</u> Conducting research and providing information | High tech research; marketing and consulting | Discretionary inclusion, Ch. 643, 1986 Acts of Assembly | Sponsored Programs | N/A | \$9,000,000 |
| Agency Totals % of Agency Budget | | | | | N/A | \$9,000,000 100.0% |
| DEPARTMENT OF MINORITY BUSINESS ENTERPRISE | <u>Market and Management Development</u> Helping businesses survive and expand through domestic sales | Business management counseling; educational forums and training; technical support; bonding and financing assistance; identifying market opportunities | Title 2.1, Ch. 7.5 | Minority Enterprise Coordination and Promotion; Minority Enterprise Development and Improvement | 7 FTE | \$212,000 |
| Agency Totals % of Agency Budget | | | | | 7 FTE | \$212,000 30.6% |
| Totals for Secondary Agencies | | | | | <u>16.08 FTE^{B/}</u> | <u>\$9,813,615</u> |
| Totals For All Agencies | | | | | <u>158.91 FTE^{B/}</u> | <u>\$23,332,419</u> |

^{1/} Non-state agency involved in high tech research and management in conjunction with private industry and Virginia universities.

^{B/} Does not include CIT.

APPENDIX B

VIRGINIA COMMODITY BOARDS

| | <u>Funding Level</u> <u>(1986-87)</u> |
|--------------------------------------|--|
| Bright Flue-Cured Tobacco Board | \$ 83,000 |
| Corn Board | \$ 100,000 |
| Dark Fired Tobacco Board | \$ 6,000 |
| Egg Board | \$ 180,000 |
| Pork Industry Board | \$ 195,000 ^{1/} |
| Soybean Board | \$ 215,000 |
| State Apple Board | \$ 375,000 ^{2/} |
| Peanut Board | \$ 260,000 |
| Sweet Potato Board | \$ 12,000 |
| Cattle Industry Board | \$ 156,000 |
| Virginia Marine Products Board | \$ 294,610 |
| Virginia Winegrowers' Advisory Board | \$ 140,000 |
| Virginia Farmers' Market Board | <u>\$ 125,000</u> |
| TOTAL | \$ 2,141,610 |

^{1/} 1986-87 employment level of 1.0 FTE.

^{2/} 1986-87 employment level of 4.35 FTE.

DL/4651w/pht

APPENDIX C

SOURCE PUBLICATIONS

1. Economic Development: A Survey of State Activities, Robert J. Reinshuttle, Council of State Governments, Lexington, Kentucky, 1983.
2. Initiatives in State Economic Development, Ilene K. Grossman, For the Business Development Task Force of the Midwestern Conference of the Council of State Governments, Chicago, Illinois, 1984.
3. Analysis of Innovative State Economic Development Financing Programs: Appendix, Deborah Matz, National Association of State Development Agencies, Washington, D.C., August, 1985.
4. State Activities in Capital Formation: Venture Capital, Working Capital, and Public Pension Fund Investments, Office of Advocacy, U.S. Small Business Administration, Washington, D.C., June, 1985.
5. Economic Development: Briefing Paper for Incoming Governors, Dewitt John and Marianne Clarke, Center for Policy Research and Analysis, National Governors' Association, Washington, D.C., August, 1986.
6. Revitalizing State Economies, Marianne K. Clarke, Center for Policy Research and Analysis, National Governors' Association, Washington, D.C., August, 1986.

**OUTLINE OF
PROPOSED ORGANIZATIONAL STAFFING FUNCTIONS
DEPARTMENT OF ECONOMIC DEVELOPMENT
PREPARED BY DIT - DECEMBER 1986**

DIRECTOR'S OFFICE

Director

- o Commonwealth's principal representation on economic development issues
- o Varied agency head responsibilities
- o Direct marketing activities
- o External public relations function

Status:

Current

1 professional position
1 secretarial position

Proposed

0 NEW POSITIONS

Deputy Director

- o Agency's chief of staff
- o Departmental planning and management
- o Programmatic review and internal policy development
- o Development of a comprehensive economic development plan
- o Coordinate the Divisional marketing strategies
- o Coordinate agency advertising

Status:

Current

0 existing positions

Proposed

1 NEW POSITION - PROFESSIONAL
1 NEW POSITION - SECRETARIAL

Public Affairs/Governmental Relations Office

- o Legislative bill tracking and drafting
- o Legislative and executive liaison
- o Policy Analysis
- o Releasing quarterly economic statistics
- o Departmental public information and news releases
- o Speech writing coordination
- o Meeting planning and coordination
- o Special projects
- o Gift program

Status:

Current

0 existing positions

Proposed

3 NEW POSITIONS - PROFESSIONAL

Employee Relations Office

- o Personnel management
- o Staff recruitment
- o Training and staff development
- o EEO/AA
- o Benefits
- o Employee classification

Status:

Current

1 existing position - vacant
received 7/86

Proposed

0 NEW POSITIONS
Transfer secretarial
position from Marketing
section

Small Business Finance

- o Financial services for small businesses
- o Implements policies of the Small Business Finance Authority Board

Status:

Current

2 professional positions
1 secretarial position
1 technical position
assigned to SBFA Board

Proposed

0 NEW POSITIONS

ADMINISTRATION DIVISIONDirector of Administration's Office

- o Direct and manage administrative and general services functions
- o Provide direction for the Management Information System/computer support function
- o Administer the Department's Information Management Plan
- o Manage internal service requests
- o Coordinate agency budget process

Status:

Current

1 receptionist position

Proposed

1 NEW POSITION-PROFESSIONAL
1 NEW POSITION-SECRETARIAL

Management Information Systems

- o Data processing
- o Programming
- o DP training
- o System maintenance

Status:

Current

1 existing position - vacant
received 7/86

Proposed

1 NEW POSITION-TECHNICAL

Budget and Finance Office

- o Purchasing/procurement
- o Budget
- o Accounting
- o Inventory and supply

Status:

Current

4 existing positions
1 P-14 position

Proposed

1 NEW POSITION-PROFESSIONAL
1 P-14 TO PERMANENT

Media Support Services

- o Print production (responsible for total process including bids and follow-up)
- o Audio visual materials
- o Graphic arts
- o Photography
- o Video library (photos, slides, films, videos)

Status:

Current

3 existing positions

Proposed

2 NEW POSITIONS-PROFESSIONAL

Mailroom/Transportation

- o Mail processing and distribution
- o Messenger services
- o Express correspondence
- o Vehicles
- o Fullfillment program assistance

Status:

Current

4 existing positions

Proposed

0 NEW POSITIONS

TOURISM DIVISIONDirector's Office-(Director and Assistant Director)

- o Develop and implement long-range travel development plans
- o Coordinate local travel promotion organizations
- o Develop cooperative public/private partnership activities
- o Liaison with other state agencies and organizations
- o Direct the overall marketing strategies of three sections - research, travel promotion, and sales
- o Manage fulfillment program.

Status:

Current

2 professional positions
1 secretarial position

Proposed

0 NEW POSITIONS

Research and Community Services

- o Research
- o Travel development
- o Ad agency coordination
- o Advertising campaign development

Status:

Current

1 professional position
1 secretarial position

Proposed

4 NEW POSITIONS-PROFESSIONAL
1 NEW POSITION -SECRETARIAL

Travel Promotion Services

- o Broadcast relations (TV, Cable, talk shows)
- o Print relations (print media, feature stories, travel writers)
- o Special promotions (FAM tours, co-op promotions, special events)
- o Salt water sport fishing

Status:

Current

4 professional positions
2 secretarial positions

Proposed

1 NEW POSITION-PROFESSIONAL
1 NEW POSITION SECRETARIAL

Sales Services

- o Group travel (motorcoach, planners, operators)
- o Convention and conference (business travel)
- o Customer relations (Welcome Centers, hospitality training, etc.)
- o Consumer shows
- o Sales offices (Bell Tower, Washington, New York)

Status:

Current

3 professional positions
2 secretarial positions
in Central Office
34 in Welcome Centers
6 P-14 positions in
Welcome Centers
4 in Sales offices

Proposed

1 NEW POSITION-PROFESSIONAL
1 NEW POSITION-SECRETARIAL
(CENTRAL OFFICE)
6 P-14'S TO PERMANENT
(Welcome Centers)
2 NEW POSITIONS FOR
WASHINGTON OFFICE -TECHNICAL

INDUSTRIAL DEVELOPMENT DIVISION

Director's Office

- o Liaison with other state agencies and organizations
- o Develop and implement long-range industrial development plans
- o Manage services of two major branches- Community and Business Services and Marketing
- o Coordinate regional offices' services
- o Supervise activities of the information office

Status:

Current

Proposed

1 professional position
1 secretarial position

0 NEW POSITIONS

Information Office

- o Feature articles
- o Regular production of a newsletter
- o Business news media contacts
- o Industrial Development public relations

Status:

Current

Proposed

1 existing position

0 NEW POSITIONS

Regional Offices - provide the following services within the region:

- o Existing industry contacts
- o Domestic Marketing support
- o International Marketing support (including export trade support)
- o Building and site surveys
- o Community certification assistance
- o Liaison with local economic development professionals and community governments

Status:

Current

Proposed

3 professional positions
3 secretarial positions

0 NEW POSITIONS

DIRECTOR OF MARKETING BRANCH

- o Manage and plan industrial marketing strategies
- o Develop and coordinate the overall marketing program implemented by the the three sections - Domestic, International, and Research
- o Coordinate services with the C&BS Branch

Status:

Current

Proposed

0 existing positions

1 NEW POSITION-PROFESSIONAL
1 NEW POSITION-SECRETARIAL

Domestic Marketing

- o Outreach marketing to seven North American territories
- o Prospect assistance and information
- o Coordination of prospect visitations
- o Science and technology promotion
- o Promotion of film productions

Status:**Current**

11 professional positions
5 secretarial positions

Proposed

0 NEW POSITIONS
1 SECRETARIAL POSITION
TRANSFERRED TO EMPLOYEE
RELATIONS OFFICE

International Marketing

- o Inward investment
- o Export promotions
- o Trade shows
- o Brussels office
- o Tokyo office

Status:**Current**

8 professional positions
3 secretarial positions

Proposed

0 NEW POSITIONS

Research Services

- o Conduct research to serve industrial development programs
- o Prepare varied types of state research materials
- o Prepare site-location brochures
- o Coordinate research with other materials prepared for prospects.

Status:**Current**

8 professional positions
3 secretarial positions

Proposed

2 NEW RESEARCH POSITIONS
- PROFESSIONAL
1 POSITION TRANSFERRED FROM
C & BS
2 POSITIONS TRANSFERRED TO
MEDIA SUPPORT
1 POSITION TRANSFERRED TO ID
INFORMATION OFFICE
1 POSITION TRANSFERRED TO
MANAGEMENT INFORMATION
SYSTEMS

DIRECTOR OF COMMUNITY AND BUSINESS SERVICES BRANCH

- o Manage and plan industrial C&BS services
- o Develop and coordinate the programs implemented by the three sections - Industrial Training, Business Services and Community Development
- o Coordinate services with the Marketing Branch

Status:CurrentProposed

1 professional position
1 secretarial position

0 NEW POSITIONS

Industrial Training

- o Market Virginia via industrial training programs (primary responsibility of the Director)
- o Coordinate and manage service delivery statewide (primary responsibility of proposed assistance director position)
- o Develop industrial training materials
- o Coordinate the training process for individual businesses

Status:CurrentProposed

7 professional positions
2 secretarial positions
2 P-14 positions

1 NEW POSITION-PROFESSIONAL
2 P-14'S TO PERMANENT

Business Services

- o Sponsor existing industry program
- o Provide small business assistance program
- o Assist businesses with complaints

Status:CurrentProposed

3 professional positions
1 secretarial position

1 NEW POSITION-PROFESSIONAL
1 NEW POSITION-SECRETARIAL
1 POSITION TRANSFERRED FROM
THE CURRENT SMALL BUSINESS
AND FINANCIAL SERVICES
SECTION

Community Development

- o Assist local government with development issues
- o Sponsor community certification program
- o Provide educational programs
- o Conduct buildings and sites surveys

Status:CurrentProposed

3 professional positions
2 secretarial positions

0 NEW POSITIONS

SUMMARY OF NEEDED POSITIONS FOR THE DEPARTMENT OF ECONOMIC DEVELOPMENT

The DIT study recommends the following positions needed by each organizational component and listed in order of priority.

Director's Office

1987-88
Deputy Director
Executive Secretary
Legislative Analyst

Salary \$101,718
Fringe \$ 25,479
Start-up \$ 13,000
Total \$140,197
FTE 3

Grand Total \$207,088

1988-89
Information Director
Information Officer

Salary \$ 47,913
Fringe \$ 11,978
Start-up \$ 7,000
Total \$ 66,891
FTE 2

Administration Division

1987-88
Director of Administration
Executive Secretary
Computer Lead Operator
Fiscal Assistant (P-14)
Illustrator

Salary \$115,651
Fringe \$ 28,963
Start-up \$ 20,000
Total \$164,614
FTE 5

Grand Total \$224,975

1988-89
Media Support Supervisor
Fiscal Technician

Salary \$ 41,049
Fringe \$ 10,312
Start-up \$ 9,000
Total \$ 60,361
FTE 2

Industrial Development Division

1987-88
Planning Research Economist
Audio-Visual Specialist (P-14 Ind. Trng.)
Program Support Technician (P-14 Ind. Trng.)
Ind. Services Representative (Exi. Ind.)

Salary \$104,316
Fringe \$ 26,084
Start-up \$ 14,000
Total \$144,220
FTE 4

Grand Total \$341,827

1988-89
Planning Research Economist
Marketing Director
Executive Secretary
Industrial Trng. Asst. Mgr.
Senior Secretary (Bus. Svcs.)

Salary \$140,446
Fringe \$ 35,161
Start-up \$ 22,000
Total \$197,607
FTE 5

Travel and Tourism Division

1987-88
Media Promotion Specialist
Marketing Specialist (Sales)
Travel Development Supervisor
Senior Secretary
Senior Secretary (Travel Promotion)

Salary \$119,004
Fringe \$ 29,750
Start-up \$ 21,500
Total \$170,254
FTE 5

Grand Total \$472,868

1988-89
3 Travel Development Specialists
Senior Secretary - Sales
Tourism Supervisor - D.C.
Tourism Counselor - D.C.
6 Travel Center Assistants (P-14)

Salary \$206,891
Fringe \$ 51,723
Start-up \$ 44,000
Total \$302,614
FTE 12

Total Cost for positions for 87-88 = \$ 619,285.00
Total Cost for positions for 88-89 = 627,473.00
Grand Total = \$1,246,758.00

APPENDIX III

RESOURCE SUMMARY

| <u>Proposal</u> | <u>1987-88</u> | | <u>1988-90</u> | |
|--|-------------------------|-----------|----------------|-------------|
| Management & Administrative Support | 7 FTE | \$329,000 | 5 FTE | \$ 187,000 |
| Management Information Support | 1 FTE | \$147,000 | - | - |
| Research Services | 2 FTE | \$ 82,000 | 1 FTE | \$ 48,000 |
| Export Development | 2 FTE | \$160,000 | - | - |
| Existing Industry | 3 FTE | \$125,000 | 1 FTE | \$ 50,000 |
| Domestic Marketing | 4 FTE | \$168,000 | 2 FTE | \$ 143,000 |
| I.D. Advertising | 0 FTE | \$750,000 | 0 FTE | \$ 350,000 |
| Industrial Training | 3 FTE | \$131,000 | - | - |
| Ind. Training Equipment | - | - | 0 FTE | \$1,800,000 |
| Small Business & Financial Services | 1 FTE | \$ 53,000 | 3 FTE | \$ 128,000 |
| Small Business Data Base | - | - | 1 FTE | \$ 250,000 |
| Virginia Film Office | - | - | 1 FTE | \$ 114,000 |
| Marketing Director | - | - | 1 FTE | \$ 75,000 |
| International Investment | - | - | 1 FTE | \$ 58,000 |
| Community Development Services | - | - | 1 FTE | \$ 52,000 |
| Shell Building Program | - | - | 1 FTE | \$5,000,000 |
| Governor's Economic Development Contingency Fund | Amount to be determined | | | |

| | | | | |
|--------------|--------|-------------|--------|-------------|
| GRAND TOTALS | 23 FTE | \$1,945,000 | 18 FTE | \$8,255,000 |
|--------------|--------|-------------|--------|-------------|

APPENDIX IV
1987 SESSION

LD5947452

HOUSE BILL NO. 938

Offered January 14, 1987

A BILL to amend and reenact §§ 2.1-51.18 and 2.1-51.40 of the Code of Virginia, relating to agencies under the supervision of the Secretary of Transportation and Public Safety and the Secretary of Economic Development.

Patrons—Diamonstein, Hall and Slayton

Referred to the Committee on Rules

Be it enacted by the General Assembly of Virginia:

1. That §§ 2.1-51.18 and 2.1-51.40 of the Code of Virginia are amended and reenacted as follows:

§ 2.1-51.18. Agencies for which responsible.—The Secretary of Transportation and Public Safety shall be responsible to the Governor for the following agencies: Department of Highways and Transportation, ~~Virginia Port Authority~~, Department of Aviation, Department of Alcoholic Beverage Control, Department of Corrections, Department of Correctional Education, Department of Criminal Justice Services, Department of State Police, Department of Motor Vehicles, Department of Fire Programs and the Commonwealth's Attorneys' Services and Training Council.

The Governor may, by executive order, assign any other state executive agency to the Secretary of Transportation and Public Safety, or reassign any agency listed above to another secretary.

§ 2.1-51.40. Agencies for which Secretary of Economic Development responsible.—The Secretary shall be responsible to the Governor for the following agencies: Department of Forestry, Department of Economic Development, Department of Labor and Industry, Department of Mines, Minerals and Energy, Virginia Employment Commission, Department of Commerce, Milk Commission, Department of Agriculture and Consumer Services, Department of Housing and Community Development, Department of Minority Business Enterprise, Virginia Agricultural Council, Commission for the Arts , *Virginia Port Authority* and Virginia Marine Products Board.

The Governor, by executive order, may assign any state executive agency to the Secretary of Economic Development, or reassign any agency listed in this section to another secretary.

2. That the Governor may transfer an appropriation from special dedicated revenue or any portion thereof within the state agency affected by the provisions of this act to support the changes in organization or responsibility resulting from or required by the provisions of this act.

3. That the Governor may transfer any employees to support the changes in organization or responsibility resulting from or required by this act.

| Official Use By Clerks | |
|--|--|
| Passed By | |
| The House of Delegates | Passed By The Senate |
| without amendment <input type="checkbox"/> | without amendment <input type="checkbox"/> |
| with amendment <input type="checkbox"/> | with amendment <input type="checkbox"/> |
| substitute <input type="checkbox"/> | substitute <input type="checkbox"/> |
| substitute w/amdt <input type="checkbox"/> | substitute w/amdt <input type="checkbox"/> |
| Date: _____ | Date: _____ |
| _____ Clerk of the House of Delegates | _____ Clerk of the Senate |

LD5946452

HOUSE BILL NO. 924

Offered January 14, 1987

A BILL to amend and reenact §§ 2.1-548.10 and 2.1-548.11 of the Code of Virginia, relating to the Industrial Development Services Advisory Board.

Patrons—Diamonstein, Hall and Slayton

Referred to the Committee on General Laws

Be it enacted by the General Assembly of Virginia:

1. That §§ 2.1-548.10 and 2.1-548.11 of the Code of Virginia are amended and reenacted as follows:

§ 2.1-548.10. Industrial Development Services Advisory Board.—A. The Industrial Development Services Advisory Board, hereinafter referred to in this article as the Board, shall consist of ~~eleven~~ *twenty* members appointed by the Governor. ~~The members of the Board shall be appointed initially as follows: (i) three members for terms of two years; (ii) four members for terms of three years; and (iii) four members for terms of four years, and thereafter all~~ *There shall be at least one member from each Congressional District. The members of the Board shall be appointed for serve four years - year terms . No member shall serve more than two successive full terms. The nine additional members appointed to the Board pursuant to an amendment to this section by the 1987 General Assembly shall initially be appointed to staggered terms as follows: three members for terms of two years; three members for terms of three years; and three members for terms of four years; subsequent appointments shall be for terms of four years.* The appointments to membership on the Board shall be subject to the confirmation by the General Assembly if in session, and if not, then at the next succeeding session. Vacancies on the Board shall be filled for the unexpired term, subject to confirmation as original appointees. The Director shall serve on the Board in an ex officio capacity.

B. ~~The Governor shall appoint the Chairman and the~~ Board shall elect its ~~chairman and vice-chairman~~ *Vice-Chairman* . Members of the Board shall receive no compensation for their services but shall receive reimbursement for actual expenses. The Board shall meet ~~at least biannually and~~ at the call of the Chairman, Director, Secretary of Economic Development or Governor.

§ 2.1-548.11. Functions of Board.—The Board ~~may~~ *shall* review industrial development services of the Department and make recommendations concerning the effectiveness of the services furnished to the Director, the Secretary of Economic Development and the Governor. *Additionally, the Board shall be a resource to the Department of Economic Development, the Secretary of Economic Development and the Governor as they conduct the marketing efforts of the Commonwealth.*

Official Use By Clerks

Passed By
The House of Delegates
without amendment
with amendment
substitute
substitute w/amdt

Passed By The Senate
without amendment
with amendment
substitute
substitute w/amdt

Date: _____

Date: _____

Clerk of the House of Delegates

Clerk of the Senate

1987 SESSION
ENGROSSED

HP5946452

HOUSE BILL NO. 924

House Amendments in [] - January 21, 1987

A BILL to amend and reenact §§ 2.1-548.10 and 2.1-548.11 of the Code of Virginia, relating to the Industrial Development Services Advisory Board.

Patrons—Diamonstein, Hall and Slayton

Referred to the Committee on General Laws

Be it enacted by the General Assembly of Virginia:

1. That §§ 2.1-548.10 and 2.1-548.11 of the Code of Virginia are amended and reenacted as follows:

§ 2.1-548.10. Industrial Development Services Advisory Board.—A. The Industrial Development Services Advisory Board, hereinafter referred to in this article as the Board, shall consist of ~~eleven~~ *twenty* members appointed by the Governor. ~~The members of the Board shall be appointed initially as follows: (i) three members for terms of two years; (ii) four members for terms of three years; and (iii) four members for terms of four years, and thereafter all~~ *There shall be at least one member from each Congressional District. The members of the Board shall be appointed for serve four years - year terms . No member shall serve more than two successive full terms. The nine additional members appointed to the Board pursuant to an amendment to this section by the 1987 General Assembly shall initially be appointed to staggered terms as follows: three members for terms of two years; three members for terms of three years; and three members for terms of four years; subsequent appointments shall be for terms of four years.* The appointments to membership on the Board shall be subject to the confirmation by the General Assembly if in session, and if not, then at the next succeeding session. Vacancies on the Board shall be filled for the unexpired term, subject to confirmation as original appointees. The Director shall serve on the Board in an ex officio capacity.

B. ~~The Governor shall appoint the Chairman and the~~ Board shall elect its ~~chairman and vice-chairman~~ *Vice-Chairman* . Members of the Board shall receive no compensation for their services but shall receive reimbursement for actual expenses. The Board shall meet ~~at least biannually [and ,]~~ at the call of the Chairman, Director , *Secretary of Economic Development* or Governor [*and at the request of the majority of the Board members*] .

§ 2.1-548.11. Functions of Board.—~~The Board may~~ *shall* review industrial development services of the Department and make recommendations concerning the effectiveness of the services furnished to the Director , *the Secretary of Economic Development* and the Governor. *Additionally, the Board shall be a resource to the Department of Economic Development, the Secretary of Economic Development and the Governor as they conduct the marketing efforts of the Commonwealth.*

Official Use By Clerks

Passed By
The House of Delegates

- without amendment
- with amendment
- substitute
- substitute w/amdt

Passed By The Senate

- without amendment
- with amendment
- substitute
- substitute w/amdt

Date: _____

Date: _____

Clerk of the House of Delegates

Clerk of the Senate