

**REPORT OF THE  
JOINT SUBCOMMITTEE**

**To Study the  
Measures Necessary  
to Assure Virginia's  
Economic Recovery**

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



**HOUSE DOCUMENT NO. 37**

**COMMONWEALTH OF VIRGINIA  
RICHMOND  
1992**

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# COMMONWEALTH of VIRGINIA

Donald S. Beyer, Jr.  
Lieutenant Governor

Office of the Lieutenant Governor  
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7 January 1992

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To The Honorable L. Douglas Wilder, Governor of Virginia  
The General Assembly of Virginia  
The People of Virginia

Today 172,000 Virginians do not have jobs. The number of Virginia citizens receiving Aid to Families with Dependent Children and Medicaid is growing at the fastest rate in history. Virginia's General Fund revenues dropped by 0.4 percent in fiscal year 1991, the first decline in 33 years.

In the coal fields, one of every four adults does not have work. In the Hampton Roads area, anticipated defense cuts make the future uncertain. In Northern Virginia, there is a six to ten year glut in commercial office space.

Virginia has a history of weathering economic troubles better than many other states. In the 1980s, our personal income growth outpaced the nation's. In 1991, however, Virginia's personal income and employment growth fell far below the national average. Virginia went into recession before the nation and may recover later than most other states.

Our assumption is that the citizens of Virginia are our most valuable economic assets. Virginia workers will become more productive. Virginia families will save. Virginia's entrepreneurs will enter new international markets and seize new technologies. Virginia's government will become a catalyst for economic growth.

The mission of the Economic Recovery Commission has been to position Virginia as the best state in the nation in which to do business. This is not an interim report. We need action now, not endless analysis. The Commission's recommendations are an action plan to renew our prosperity.

This is not the time to point fingers or to assign blame. Rather, we need to get to work. We must all share responsibility for seeking solutions, for moving forward with thoughtful, constructive plans for change. Together we have coasted on a prosperity built on the shaky foundation of federal deficit spending. We must now develop lasting structures for steady and vibrant growth.

Sincerely

Donald S. Beyer, Jr., Chair  
Lieutenant Governor of Virginia

Lewis W. Parker, Jr., Vice Chair  
Virginia House of Delegates

## **EXECUTIVE SUMMARY**

The commission recommends the following goals and strategies:

### **Virginia will pursue global trade and open new markets.**

- Link Virginia businesses with export market opportunity data banks.
- Create an export loan guaranty program managed by the Virginia Small Business Financing Authority.
- Develop the "Capital Headquarters" initiative to match Northern Virginia office space with companies wanting to locate in the Washington area.
- Develop an aggressive domestic and international "New Markets" program for Virginia agriculture, seafood, forest products, coal, and tourism.

### **Virginia will become a national leader in scientific and technical research and commercialization of emerging technologies.**

- Complete the nation's first statewide, state-of-the-art communications technology network for our homes, classrooms, and businesses.
- Create three specialized technology centers - the Center for Software Engineering, in Northern Virginia; the Center for Applied Light Source and Materials Research at Hampton Roads; and the Center for Biomedical Research at Richmond at the Medical College of Virginia/Virginia Commonwealth University - and continue to support the Center for Fiber and Electro-Optics in Blacksburg.
- Hold the first World Technology Fair in Virginia.
- Intensify the state's economic conversion effort to help localities respond to defense spending reductions.
- Eliminate the Business Professional Opportunity License (BPOL) tax on selected activities of Virginia technology firms doing business with the Federal Government.

### **Virginia will challenge its businesses and citizens to save and invest.**

- To encourage individuals to save, exempt from state taxes the first \$250 in interest on personal savings.
- Stimulate reinvestment of corporate profits in new business activity through state investment tax credits.
- Exempt long-term capital gains from personal and corporate income tax.
- Encourage the Virginia Retirement System to invest up to one percent of its assets in Virginia venture funds.
- Encourage VEDCORP to broaden its mission to a state-wide focus.

**Virginia will develop the highest quality, most productive workforce in America by 2000.**

- Act quickly to expand adult literacy and workplace training programs by creating 18 new employee development positions.
- Create the "Virginia Enterprise Extension Service" based on the agriculture extension model.
- Create a blue-ribbon "Leadership 100 Commission" to devise fair, reliable, comprehensive methods to pay for Virginia's education reform and innovation plans.
- Support or introduce a General Obligation Bond referendum package of up to \$1 billion to finance capital investments in community colleges, college and university facilities, and selected state parks and natural areas.

**Virginia will have the most productive, best managed state government in the nation by 1998.**

- Set up a state government working group to integrate critical elements of a consumer-responsive quality management process.
- Establish the "Virginia Government Managing for Excellence Commission" to recommend reforms in state civil service rules.
- Increase appropriations for the state departments of air pollution and solid waste to reduce the backlog of permit requests.

- **Make the process of developing regulations more predictable, more measurable and more favorably inclined towards conflict resolution.**
- **Establish an "Environmental Roundtable" to resolve specific areas of conflict and controversy in environmental regulation.**
- **Create a \$10 million deal-closing fund to give state and local economic development officials an extra tool for recruiting business and industry.**
- **Authorize the Virginia Housing Development Authority to increase participation in the Buydown and Operation Boot-Strap programs.**
- **Support the Virginia Procurement Pipeline project to stimulate Virginia companies to buy from one another.**

**The report which follows details strategies we propose to achieve these goals. As with any group involved in the challenging process of democratic public policy development, there was not always unanimity. While some individual members differed with specific strategies, the full commission endorsed the package as a whole. This set of recommendations is truly bipartisan and broadly based and reflects the intelligence, creativity, and courage of the people of Virginia.**

## INTERNATIONAL EXPANSION

Economies expand from within only by reaching out - by the infusion of new capital through expanding trade. In the recent past Virginia businesses needed to look only to domestic markets to sell their goods and services. That time is gone. Exports, which represented only 4.5 percent of U.S. gross national product in 1960, rose to 10 percent of our gross national product in 1990, and will likely increase significantly by the year 2000. In recent years, exports have provided a major portion of real growth in the American economy.

Virginia, like the rest of the country, is a part of the global economy. Today, the flow of goods, services, technology, and capital is world-wide. Yet most small- and medium-sized Virginia businesses which can export, don't. They believe that financing arrangements are too complex, and the paperwork too complicated. They feel that shipping their goods is too cumbersome.

Selling in national and international markets needs to become standard operating procedure for Virginia firms. Virginia's businesses need to be as ready to do business in California as they are in Culpeper. They must be as ready to sell products in Malaysia as they are in Maryland.

## **Our Goal**

Virginia will pursue global trade and open new markets. Exports currently account for 10 percent of the Virginia economy. We will double the number of Virginia firms involved in exporting by 1998. The Commonwealth will become known internationally for its high quality ports - air, rail and sea. International business leaders will put Virginia at the top of their lists of where to invest and where to shop. The state will double the number of international tourists by 1998 by marketing our unique vacation and historical resources.

## **Strategies**

- 1) To increase exports, bring the abundant export market opportunity information available in computer data banks to Virginia businesses. The U.S. Department of Commerce and Virginia Department of Economic Development have much of this information, although it is not yet in an accessible format for use by Virginia businesses and localities. The Department of Economic Development will be responsible for directing the development of the data base, maintaining the computer information down-links to local agencies, and training groups to understand and bring export opportunities to local firms. While the Department of Economic Development will be responsible for the creation and maintenance of the data base, the department will work with the Virginia Chamber of Commerce, local chambers, regional trade associations, small business development centers, the District Export Council, and the Virginia Enterprise Extension Service to link individual firms with



the data base.

- 2) To provide the missing link in Virginia's export development efforts - export financing assistance - create an export loan guaranty program to be managed by the Virginia Small Business Financing Authority (VSBFA). This would leverage state resources through a partnership with the private sector. The proposed program will provide a 90 percent guarantee of short-term bank loans or lines of credit, primarily for pre-export working capital. This will include loans to finance inventory, labor, marketing and other services needed for processing orders before shipping. The maximum outstanding guaranty per company would be \$500,000.
  
- 3) To build personal relationships which are basic to doing business, create the "Virginia Ambassadors" program. This people-to-people program will be a long-term investment to help Virginians make personal contacts in countries with high potential as markets for Virginia goods and services. Strategies will include educating the diplomatic corps, setting up a briefing center for international businessmen and businesswomen, and arranging cultural exchanges and visits. The Department of Economic Development will implement and administer this initiative. The private sector will provide funding and oversight.
  
- 4) To match Northern Virginia office space and the expertise of Virginia universities with the needs of leading national and international companies, develop a "Capital

Headquarters" initiative. This initiative will provide direct access to the nation's capital. The Department of Economic Development will provide oversight while representatives of the Northern Virginia jurisdictions manage this initiative. The headquarters program will be a joint public/private venture cited at George Mason University.

- 5) To expand domestic and international markets for Virginia agriculture, seafood, forest products, coal, and tourism, the Departments of Economic Development, Mines, Minerals and Energy, and Agriculture will develop and promote a comprehensive "New Markets" program. The Department should directly involve private sector leadership from these industries in developing a marketing alliance they will examine new domestic and international opportunities (including those in the former Soviet Union), determine common challenges (e.g. of transportation, financing, communication, environmental impacts) and help define appropriate private and public sector responsibilities for marketing strategies and priorities.

# **NATIONAL LEADERSHIP IN TECHNOLOGY**

History shows that the nations, businesses, and individuals which commit first to the leading edge of science and technology often achieve a dominant competitive advantage.

Over the past four decades many people have chosen Virginia as their home. Hand in hand with this population growth came economic growth tightly tied to federal spending, particularly on defense. Technology businesses have been integral to this economic growth.

With changes in national priorities, leadership in defense-based technologies will not suffice to drive future growth. Yet technology businesses, through planned adjustment, can propel Virginia's economic growth over the next decade. Targeted investments in technology will be critical for Virginia's economic health.

The Commission members acknowledge the importance of Virginia's manufacturing sector. The Commission encourages the creation of the A.L. Philpott Manufacturing Modernization Center described in the recommendations of the "Southside Economic Development Commission."

## **Our Goal**

Virginia will become a national leader in scientific and technical research and commercialization of emerging technologies. The Commonwealth will support an array of emerging technologies. Virginia will emphasize four areas – particle light and materials development; fiber materials and electro-optics development; biomedical engineering and technologies; and software engineering.

## **Strategies**

- 1) Make Virginia the first state to complete a statewide state-of-the-art communications technology network to our homes, classrooms, and businesses. Working with the Virginia Congressional delegation, Virginia will encourage the removal of federal regulatory obstacles. Virginia will promote specific telecommuting, telemarketing, and fiber optic classroom initiatives. These efforts, in collaboration with local telephone companies, will help realize this vision.
  
- 2) To achieve national technology leadership, existing Virginia resources will work together. Private businesses, the Center for Innovative Technology, and our colleges and universities with their Eminent Scholar programs, will set up or expand the following technology centers:
  - o Create the Virginia Technology Center for Software Engineering, in Northern Virginia, co-located with the Software Productivity Consortium.

- Create the Virginia Technology Center for Applied Light Source and Materials Research at Hampton Roads. Use the facilities of CEBAF, NASA Langley, and a consortium of Virginia Universities.
  
- Expand the Technology Development Center for Fiber and Electro Optics in Blacksburg.
  
- Create the Virginia Technology Center for Biomedical Research at Richmond at the Medical College of Virginia/Virginia Commonwealth University. Use the strengths of the Institute of Biotechnology at the Medical College of Virginia, the Virginia Biotech Center in Virginia Beach, and the Technology Development Center in Bio-processing at the University of Virginia.

To recommend short- and long-term goals for technology development, create a statewide network of technology councils. The councils will be staffed by public and private sector individuals in their localities. The Center for Innovative Technology, with the assistance of the Department of Economic Development, will be the point of connection between the councils and the governor and state agencies.

3. To encourage and showcase Virginia's commitment to technology development, hold the first World Technology Fair in Virginia. This year-long, multi-site event will demonstrate an abundance of new technologies and Virginia's leadership in the world

technology community. Create a Technology Fair Commission, authorized by the General Assembly and funded by private donations, to hold a fair by the year 2000. The Center for Innovative Technology, assisted by the Secretary of Economic Development, will be the liaison between the commission and state government.

- 4) To match new and expanding businesses, particularly technology concerns, with compatible existing companies, develop a "Joint Venture Initiative." The purpose of the initiative will be to promote the sharing of equity, markets, technology, and financial resources. It will be coordinated with capital resource programs.
- 5) To help localities assess their dependence on the defense economy and make specific plans for reducing that dependence, formalize and expand the state's existing economic conversion and adjustment activities. The Working Group on Conversion and Adjustment now includes representatives from the Department of Economic Development, the Virginia Employment Commission, and other state agencies. This group is collecting and analyzing data about Virginia's dependence on defense spending and the potential need for economic conversion activities. The commission recommends that the Secretary of Economic Development augment this current activity with an outreach initiative to provide help to localities especially affected by this issue.
- 6) To assist Virginia's technology firms in maintaining a competitive position, eliminate

the Business Professional Opportunity License (BPOL) tax on research and development and "pass-through" business done with the Federal Government.

## **CAPITAL FORMATION**

American's personal savings' rate was 5.7 percent in 1990, one of the lowest among industrialized nations, and it has fallen by over 40 percent since 1973. On a broader scale, America has become the largest debtor nation in the world. Investment in productive capacity, both plant and equipment, has slowed. We are mortgaging our children's standard of living.

### **Our Goal**

Virginia will challenge its businesses and citizens to save and invest. Leadership and tax incentives will encourage every Virginia family to devote 10 percent of its disposable income to savings. The exemption of small business profits and long term capital gains from taxes will encourage Virginia businesses to reinvest their profits to create new jobs. Expansion of Virginia venture funds, expansion of a seed capital program, and the coordination of existing small business capital funds will spur private investments.

### **Strategies**

- 1) To encourage individual savings of 10 percent of disposable income, create the "Virginia Taxpayer Savings Plan". This plan will exempt the first \$250 of interest and dividends from personal income tax.
  
- 2) To make small businesses more profitable and to stimulate the reinvestment of corporate profits in new business activity, create the "Virginia Reinvestment



Program". Institute a 10 percent investment tax credit for Virginia corporations not to exceed \$3,750 in 1992, \$7,500 in 1993, \$15,000 in 1994 and \$30,000 in 1995.

- 3) To encourage private and business investment in Virginia, exempt long-term capital gains from personal and corporate income tax.
- 4) To catalyze the development of a venture fund industry in Virginia, the Virginia Retirement System will invest up to one percent of total assets in qualified Virginia venture funds.
- 5) To meet the needs of small start-up businesses statewide, encourage VEDCORP to broaden its mission. Dedicate \$3 million of VEDCORP assets to a seed capital program with a loan limit of \$100,000.
- 6) To help keep Virginia marketing concerns competitive with their out of state rivals, exempt sales tax on printed materials described in subdivision (A)(6)(d) of § 58.1-608. This exemption will apply to materials shipped out-of-state or used for inserts that become part of exempt publications.
- 7) To enable Virginia banks to compete and to keep credit card jobs, amend our banking and credit card laws allowing banks to set competitive rates with credit card providers across the country.

## **EDUCATION AND WORK FORCE QUALITY**

For the past two decades, the rate of growth of U. S. productivity has slowed. Real average hourly earnings dropped 6 percent in the last 20 years. Among the industrialized nations, America has the largest gap in income between rich and poor. Our future prosperity demands that all Virginians be increasingly productive. We can no longer rely on low-skill, low-wage employment. Our challenge is to make sure that Virginia has a world class work force - a work force whose productivity is second to none.

The recommendations of The Virginia Plan for Strengthening the Commonwealth's 21st Century Workforce (The Virginia Plan) are central to our economic future. Implementation of the recommendations, particularly those supporting international trade and technology development, must take priority. Two special initiatives of the Virginia Community College System, Training the Workforce and Distance Learning and Telecommunications, will be essential in transforming these recommendations into reality.

### **Our Goal**

Virginia will develop the highest quality, most productive work force in America by 2000. Virginia will assure that, by the end of the century, 90 percent of its work force will have graduated from high school.

## Strategies

- 1) Employ 18 new employee development directors to establish adult literacy and work place training programs by stimulating the best use of existing resources and the aggressive recruitment of business participation.
  
- 2) To bring quality management training, technology transfer, production innovation and the latest management practices to small- and medium-sized businesses in the Commonwealth, create the "Virginia Enterprise Extension Service". The Agricultural Extension Service will serve as a model for this program. The Department of Economic Development, assisted by the Center for Innovative Technology, will build on the existing framework of the Small Business Development Centers, and the variety of quality management, adult literacy, technology transfer, and high performance work organization outreach programs now in place. While the Department will not directly provide these services, it will create the network of resources required to make these services available to Virginia businesses.
  
- 3) Resolve, in 1992, that education is the most important building block for long-term economic recovery. By Joint Resolution, the Commonwealth should create a Blue Ribbon Panel to recommend public education financing proposals. These recommendations will be made for all levels of education – from pre-school through higher education.

Members of this "Leadership 100 Commission" should be bipartisan and should include civic and corporate leaders, local officials, educators, and former governors.

The Leadership 100 Commission should begin at ground zero and invent a fair, reliable, comprehensive system for funding Virginia's educational future.

- 4) To challenge Virginia firms to achieve specific Commonwealth workplace productivity goals, create an enterprise leadership contract between corporations and the citizens of Virginia. This contract recognizes that corporate leadership entails rights and responsibilities and asks corporations to hold themselves accountable. Virginia business chief executives will choose goals, projects, and processes that let their organizations contribute to progress in worker training and education, business-education partnerships, and drug-free workplaces. Leadership contracts will be filed with the State Corporation Commission along with the annual corporate reporting. Charge the Virginia Small Business Advisory Board to create a working group of volunteer business leaders to write sample contracts.
- 5) To meet expanding needs in higher education, to take advantage of historically low interest rates, to take advantage of significant cost-value benefits in the construction industry, and to create new jobs, support a possible Administration-introduced General Obligation Bond referendum. The bond will be for up to \$1 billion, to finance an array of capital investments in community colleges, college and university facilities and selected state park and natural areas. This referendum will be on the

ballot for voter approval in November, 1992. If the Governor chooses to focus on other areas of leadership and fiscal management, introduce such a proposal to the General Assembly.

## **THE BUSINESS OF GOVERNMENT**

We are a nation awash in debt. Yet the public opposes tax increases. The public has little faith that its money is spent wisely and efficiently.

Most states are suffering from the recession. Political leaders throughout the nation are seeking a return to prosperity. They aggressively tout their states' lifestyles, locations, educational systems, pro-business climates, tax and debt incentives, and physical infrastructures. They emphasize that they spend public dollars wisely.

Government itself must embody excellent management; to close the gap in public confidence, governments must abandon business as usual.

In Virginia there is another factor to be considered. The Virginia economy is a defense economy, and the defense economy is in retreat. This combination of a lack of public trust in the ability of government to use tax dollars effectively and the impact of the recession lead to an inescapable conclusion - Virginia government must make fundamental changes.

### **Our Goal**

Virginia will have the most productive, best managed state government in the nation by the year 1998.

## **Strategies**

- 1) To begin the transformation of the operations of state government and build on the achievements of Project Streamline, set up a working group (the Virginia Government Managing for Excellence Working Group) within state government to propose the benchmarks, standards, and processes needed to integrate critical elements of a consumer-responsive quality management process.
  
- 2) To make recommendations on the reform of the state civil service rules, and actions necessary to make possible flexible, adaptive, motivating, and mission-driven leadership, establish a "Virginia Government Managing for Excellence" Commission. This commission will be composed of leading government and private sector experts - individuals with demonstrated skills and achievement in creating consumer-responsive quality management processes. This group will work in close collaboration with the Virginia Government Managing for Excellence Working Group.
  
- 3) To reduce the backlog in air and solid waste permitting requests, significantly increase the appropriation for the Air Pollution and Solid Waste Departments. This appropriation will allow the Secretary of Natural Resources to use a combination of strategies to get additional permitting resources.
  
- 4) To make the future regulatory development process more predictable, more measurable, and more favorably inclined towards conflict resolution, the General

Assembly should establish a policy by resolution to that effect.

- 5) To resolve specific areas of conflict and controversy within the realm of environmental regulation, establish a one-year "Environmental Roundtable" to be composed of business, environmental advocacy, and citizen leaders. The Roundtable will be charged with the responsibility of conflict resolution, and will focus specifically on the regulation of air quality. The Roundtable will serve as a model for conflict resolution in other areas in succeeding years.
- 6) To give state and local economic development officials an extra tool when recruiting industries to Virginia, create a \$10 million business deal closing fund.
- 7) To stimulate the real estate and housing markets, authorize the Virginia Housing Development Authority (VHDA) to increase their Buydown and Operation Bootstrap participation. This will help lower-middle class first- and second-time home buyers who do not now qualify for plan participation because of income. A \$6 million appropriation in the next biennium to the Secretary of Economic Development's Housing and Community Development program, with pass through to VHDA, will fund this expansion. VHDA will distribute the appropriation to banks to allow them to buy down interest rates for a specified period of time (generally two years) to qualified buyers. This new capital will provide over 2,400 homebuyers with access to funding. The VHDA estimates the investment would generate up to \$38



million of activity in the Commonwealth.

To ensure adequate supplies of affordable housing while assuring environmental protection, require that housing cost impact statements be considered when proposing new zoning and land use rules.

- 8) To assure fairness and profitability of long-term investments which support Virginia's growth strategy, establish that local site plans and building permits will have a minimum five-year life span. These site plans and building permits will be subject to further state and federal law changes.
- 9) To stimulate Virginia companies to buy from other Virginia companies, support the "Virginia Procurement Pipeline" project of the Virginia Economic Bridge Initiative.

## **HOW THE COMMISSION APPROACHED**

### **ITS MISSION**

The Commission tackled its mission through three coordinated tracks. There were five full Commission meetings around the state of the Economic Recovery Commission, public forums were held in Virginia's Planning Districts, and seven work groups met.

The Lieutenant Governor convened nineteen public forums around the state. Over 1,000 people attended these forums and over 200 individuals testified, making over 800 recommendations for ensuring a vital economy.

The Commission's seven work groups, which prepared recommendations for the commission to consider, were given the following charges:

**Capital Formation:** to increase the availability of capital and reduce the cost and barriers to capital formation.

**Workforce Skills:** to assure the Commonwealth has a world class workforce by the year 2000.

**Government as Catalyst:** to find ways state government can act as a catalyst in fostering economic growth.

**Innovation:** to integrate quality management techniques in government.

**Export:** to build stability and flexibility into the Virginia economy by increasing our share of international markets.

**Technology:** to make Virginia the national leader in high technology business.

**Regulatory Climate:** to promote a regulatory climate which integrates economic growth and environmental protection.

## **ECONOMIC ANALYSIS**

The commission wanted to put a dollar value on the benefits that would result from reaching its goals. At the commission's request an econometric model was constructed, developed by Dr. Roy Pearson of the College of William and Mary, with advice from Dr. Samuel Laposata of Virginia Power and Dr. Robert Benton of the Department of Taxation, to assess the benefits of achieving the commission's targets. Using a 1 percent increase in worker productivity, a 10 percent expansion in private investment, and a 10 percent export growth, while assuming at least a 2.5 percent background growth in national GNP, the model predicts that in its initial year, if the target increases are achieved Virginia will have:

**62,000 new jobs**

**\$267 Million in new State General Fund Revenues**

**a \$3 Billion increase in Gross State Product**

With the same assumptions, in three years the recommendations predict the gains will be:

**108,000 new jobs**

**\$480 Million in new State General Fund Revenue**

**\$9 Billion in Gross State Product**

These projections are only approximations. As with all such speculations, unforeseen events could result in different results.

## **CONCLUSION**

The current era in world history is unparalleled. We are only now beginning to understand the basic economic changes that are underway. Yet, we know that we cannot travel the road to economic vitality equipped only with shopworn wisdom. With bold thinking, Virginia will lead the nation.

The Virginia economy needs both short-term stimulus and long-term investment. The persistent recession creates the need and the opportunity to change the way our economy works. We urge innovative thinking and bold action to achieve long-term payoffs.

These commitments and innovations will significantly improve the performance of Virginia's economy. As one economist observed, they are "democratic investments in the common genius" of Virginia's people. To succeed will require our courage and conviction to take those actions needed to execute this plan and realize these visions.

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