INTERIM REPORT OF
THE COMMISSION TO

Propose Recommendations
to Promote and Stimulate
Economic Development in the
Blue Ridge Region of Virginia

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 78

COMMONWEALTH OF VIRGINIA
RICHMOND
1993
MEMBERS OF THE COMMISSION

Joan H. Munford, Chairman
Frank W. Nolen, Vice Chairman
C. Richard Cranwell
R. Creigh Deeds
Willard R. Finney
Thomas M. Jackson, Jr.
Lacey E. Putney
J. Brandon Bell II
Kevin G. Miller
Elliot S. Schewel
Malfourd W. Trumbo
Charles Ray Chandler
Vaden L. "Lee" Cobb
Dr. Charles L. Downs
J. Everette Fauber III
W.W. Griggs
James W. Harkness
Junius A. Haskins, Jr.
Melvin L. "Mel" Mayfield
Steven A. McGraw, Sr.
Dr. Barbara J. Pendergrass
Mr. David W. Rundgren
Macon C. Sammons, Jr.
Charles R. Saul
Michele C. Wright

STAFF

Legal and Research

Division of Legislative Services

Edie T. Conley, Staff Attorney
John A. Garka, Division Manager
Maria J.K. Everett, Staff Attorney

Virginia Tech Community Resource Development

Dr. Donald P. Lacy, Associate Professor
Pamela D. Gibson, Research Associate
Mark Miller, Research Associate

Administrative

Anne R. Howard, Clerk, House of Delegates
Bettie Jacobsen, Clerk, House of Delegates
Blue Ridge Region of Virginia

COUNTIES

Alleghany    Floyd
Amherst      Franklin
Appomattox   Giles
Augusta      Highland
Bath         Montgomery
Bedford       Nelson
Bland        Pulaski
Botetourt    Roanoke
Campbell     Rockbridge
Craig

CITIES

Bedford      Radford
Buena Vista  Roanoke
Clifton Forge Salem
Covington    Staunton
Lexington    Waynesboro
Lynchburg

TOWNS

28, including Blacksburg,
Pulaski and Wytheville
## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. AUTHORITY FOR STUDY</td>
<td>1</td>
</tr>
<tr>
<td>II. OBJECTIVES AND STUDY DESIGN</td>
<td>2</td>
</tr>
<tr>
<td>III. PROMOTING ECONOMIC GROWTH IN THE BLUE RIDGE REGION</td>
<td>3</td>
</tr>
<tr>
<td>A. Introduction: The Emerging &quot;Third Wave&quot; of Economic Development</td>
<td>3</td>
</tr>
<tr>
<td>B. Economic Development in the Commonwealth: Recent Studies</td>
<td>4</td>
</tr>
<tr>
<td>C. An Economic Development Approach for the Blue Ridge Region</td>
<td>7</td>
</tr>
<tr>
<td>IV. WORK OF THE COMMISSION</td>
<td>8</td>
</tr>
<tr>
<td>A. Introduction: Study Plan</td>
<td>8</td>
</tr>
<tr>
<td>B. Testimony</td>
<td>8</td>
</tr>
<tr>
<td>1. Development Bank</td>
<td>8</td>
</tr>
<tr>
<td>2. Global Economy</td>
<td>10</td>
</tr>
<tr>
<td>3. Regional Economic Development Needs</td>
<td>11</td>
</tr>
<tr>
<td>4. Craddock-Terry, Inc.: A Blue Ridge Success Story</td>
<td>12</td>
</tr>
<tr>
<td>5. Western Virginia Leadership Conference</td>
<td>12</td>
</tr>
<tr>
<td>6. Housing and Economic Development</td>
<td>13</td>
</tr>
<tr>
<td>7. Homebuilders' Concerns</td>
<td>13</td>
</tr>
<tr>
<td>8. Home Financing</td>
<td>13</td>
</tr>
<tr>
<td>C. Commission and Task Force Deliberations</td>
<td>14</td>
</tr>
<tr>
<td>1. Partnerships Between State and Local Governments, Educational</td>
<td>14</td>
</tr>
<tr>
<td>Institutions and the Private Sector</td>
<td></td>
</tr>
<tr>
<td>2. Marketing Strategies to Promote Businesses and Industry</td>
<td>17</td>
</tr>
<tr>
<td>3. Expansion and Diversification of Existing Industry</td>
<td>18</td>
</tr>
<tr>
<td>4. Strategies to Promote Tourism and Market Local Attractions</td>
<td>19</td>
</tr>
<tr>
<td>5. Initiatives to Enhance the Education and Training of the Workforce</td>
<td>22</td>
</tr>
<tr>
<td>6. Regional Data Collection and Analysis, Information Services</td>
<td>24</td>
</tr>
<tr>
<td>and Communication Needs</td>
<td></td>
</tr>
<tr>
<td>V. CONCLUSIONS AND RECOMMENDATIONS</td>
<td>27</td>
</tr>
<tr>
<td>VI. BIBLIOGRAPHY</td>
<td>33</td>
</tr>
<tr>
<td>VII. APPENDICES</td>
<td>34</td>
</tr>
<tr>
<td>A. House Joint Resolution No. 451</td>
<td></td>
</tr>
<tr>
<td>B. House Joint Resolution No. 107</td>
<td></td>
</tr>
<tr>
<td>C. Task Forces Memberships</td>
<td></td>
</tr>
<tr>
<td>D. Blue Ridge Region Development Bank Feasibility Study</td>
<td></td>
</tr>
<tr>
<td>E. Recommended Legislation</td>
<td></td>
</tr>
</tbody>
</table>
Interim Report of the Commission to
Propose Recommendations to Promote and Stimulate
Economic Development in the Blue Ridge Region
of Virginia

To
The Governor and the General Assembly of Virginia

Richmond, Virginia
April 1993

TO: The Honorable L. Douglas Wilder, Governor of Virginia,
and
the General Assembly of Virginia

I. AUTHORITY FOR STUDY

In an attempt to ensure a promising economic future for the Blue Ridge region of the Commonwealth, the 1991 General Assembly adopted House Joint Resolution No. 451 (HJR 451). (See Appendix A.) The resolution established a 23-member commission to propose recommendations to promote and stimulate economic development in the Blue Ridge region of the Commonwealth. The Commission's membership was composed as follows: six members of the House of Delegates, appointed by the Speaker; five members of the Senate, appointed by the Senate Committee on Privileges and Elections; and 12 citizen members from the Blue Ridge region of the Commonwealth, including two representatives each from local governments and from the business and industrial communities; two local economic development officials; one representative each from the banking community, a major utility, and a four-year institution of higher education; and one community college president, all appointed by the Governor.

Delegate Joan H. Munford served as chairman of the Commission, with Senator Frank W. Nolen acting as vice chairman. The Commission's interim report, House Document No. 60 (1992), included 19 recommendations addressing a wide variety of economic development concerns including the creation of a "deal-closing fund," the establishment of the Blue Ridge Economic Development Advisory Council and the Blue Ridge Regional Education Council, and an in-depth study of Virginia's Welcome Centers by Virginia Tech. Of these recommendations, 17 were supported by legislation, and 11 were adopted by the 1992 General Assembly.

Due to the success of the Commission's legislation and the recognition that a one-year extension would enable the Commission to further consider, among other things, initiatives to improve workforce education and training; marketing strategies to promote industry and tourism; and partnerships between local government, educational institutions and the private sector, the Commission supported, and the 1992 Session of the General Assembly adopted, House Joint Resolution No. 107 (see Appendix B), which authorized the Commission to continue its study for an additional year. Also, Commission membership was expanded to include the executive director of a planning district commission located in the region.
II. OBJECTIVES AND STUDY DESIGN

Although economic development of the southern states and certain regions of the Commonwealth has been the focus of numerous national, regional and state studies, none of these valuable studies directly addressed the exceptional challenges facing the Blue Ridge region of Virginia. However, upon adoption of HJR 451, an exploration began of ways to promote and stimulate economic growth in the region, which was defined as follows:

- **CITIES**
  - Bedford
  - Buena Vista
  - Clifton Forge
  - Covington
  - Lexington
  - Lynchburg
  - Radford
  - Roanoke
  - Salem
  - Staunton
  - Waynesboro

- **TOWNS**
  28, including Blacksburg, Pulaski and Wytheville

In the past two years, the Commission has focused on a wide range of issues in an attempt to determine the strengths, weaknesses and characteristics of the Blue Ridge region and spent a great deal of time analyzing specific data concerning the potential for its economic growth. In addition, the Commission received testimony from representatives of state and local governments as well as both private and corporate citizens of the Commonwealth. Representatives from Virginia Polytechnic Institute and State University (Virginia Tech) also presented testimony to the Commission, as well as assisted in providing staff support to the group. Lastly, the Commission sought the input and expertise of economic development specialists to explore traditional, as well as innovative, methods of spurring economic development.

In order to work more effectively and efficiently, the Commission continued the six task forces established in 1991:

- Partnerships Between State and Local Governments, Educational Institutions and the Private Sector
- Marketing Strategies to Promote Business and Industry
- Expansion and Diversification of Existing Industry
- Strategies to Promote Tourism and Market Local Attractions
- Initiatives to Enhance the Education and Training of the Workforce
- Regional Data Collection and Analysis, Information Services and Communication Needs
Each task force was comprised of Commission members and ad hoc appointees drawn from regional entities in the Blue Ridge region and met at least five times to explore issues in detail. (See Appendix C.) The task forces reported their findings and recommendations to the full Commission at its final meeting of 1992.

III. PROMOTING ECONOMIC GROWTH IN THE BLUE RIDGE REGION

A. INTRODUCTION: THE EMERGING "THIRD WAVE" OF ECONOMIC DEVELOPMENT.

In the past five to ten years, internal economic development has begun to focus on a new set of strategic issues such as quality education, innovative technology, cutting-edge infrastructures, capacity building, global sophistication and creative state government policies. Although economic progress has been achieved in some areas of the South, millions of Southerners still suffer in poverty. Nine million new jobs are projected to be created in the South by the year 2000; however, much of the workforce is currently performing jobs which are or will soon be obsolete, receiving no training or retraining for the next century's technical and service careers. In its 1986 report, the Southern Growth Policies Board noted that "too many are left behind with education and skills which better prepare them to function in Henry Grady's [editor of the Atlanta Constitution] Atlanta of 1886 than in Andrew Young's of today." Thus, education, training, and retraining of the workforce must be a priority in the southern states in order to ensure economic prosperity in the 21st century.

Education is one of the areas that experts agree underlies the emerging "Third Wave" in economic development. The Third Wave concept emerged in 1990 and was so named by Bob Friedman of the Corporation for Enterprise Development, a Washington, D.C.-based research and consulting firm, and has been expanded upon in the last few years. Long-term investments are crucial to the success of the Third Wave. These investments include (i) investments in people through education and workforce skills, (ii) investments in distressed communities through assistance for the people and businesses in those communities, and (iii) investments in programs that encourage business and local government to work together.

Until 1991, most states chose to deal with the recession by increasing spending for economic development; however, since 1991, legislatures in Illinois, Iowa, Kansas and North Carolina, to name a few, have cut the budgets of their economic development agencies and programs. This new perspective on economic development concentrates on substance and delivery of programs and services. The Third Wave approach demands radical restructuring of state programs that includes the following principles to increase scale, quality and accountability:

◆ Relying on competition to ensure quality services from different providers, instead of relying on government as the sole supplier of services;

3Id.
Providing automatic feedback from businesses, industries, and communities;
• Providing comprehensive services at the local level;
• Utilizing incentives to encourage businesses and industries to build their competitiveness and capacity to do business; and
• Encouraging relationships between service providers and the communities, businesses and industries that need them.5

Critics of the Third Wave argue that it does not aid distressed rural and urban areas and their residents; however, several American states and European countries have seen positive results. For example, in North Carolina, the legislature established the Rural Economic Development Center and funds it with $2 million per year. The private sector has also contributed over $2.5 million to the Center. The Center's programs include (i) improving the quality of education, (ii) venture capital, (iii) rural leadership, (iv) capital financing for women and minorities, (v) community development corporations, (vi) a micro-enterprise loan fund, and (vii) flexible manufacturing networks.6 In 1991, Virginia chose to follow North Carolina's lead and established the Center on Rural Development (CORD) to guide economic growth in rural Virginia over the long term. In Governor L. Douglas Wilder's Strategic Plan for Rural Development, CORD's mission is defined as one of developing prototypes and innovative pilot programs in the areas of financing alternatives, new rural economies and expansion of traditional rural economies, to be tested on a local or regional basis initially and expanded to other regions of the Commonwealth if successful.

Whether the Third Wave is a major breakthrough in economic thinking or merely a new way of looking at old techniques is yet to be determined; however, the Wave is generating much analysis and discussion and is certain to play a role in defining state economic development policy for the remainder of the 1990s and into the 21st century.

B. ECONOMIC DEVELOPMENT IN THE COMMONWEALTH: RECENT STUDIES.

How is the Commonwealth faring in this era of innovative thinking concerning economic development and growth? The 1991 Development Report Card for the States, published by the Corporation for Enterprise Development, grades, or assesses, the 50 states in four categories: economic performance, business vitality, development capacity and state policy. Virginia's report card was above average, with the State receiving three Bs and one C; the C being in state policy (see Table 1).7 The Report noted that the southern states, including Virginia, are slowly rebuilding industries, and the investment outlook is "long-term investment opportunity, suitable for patient investors only." The report added that Virginia, with a B, had the best development capacity grade of the southern states, as its human, technology, financial, and infrastructure resources make it competitive with other states in attracting new businesses and industries.8 For a comparison of the other 49 states to the Commonwealth, see Table 2.

5 Id.
6 Id. at 35.
8 Id. at 10.
Table 1

**Virginia**

<table>
<thead>
<tr>
<th>ECONOMIC PERFORMANCE INDEX</th>
<th>1991 INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Subindex</td>
<td>Earnings &amp; Job Quality Subindex</td>
</tr>
<tr>
<td>B</td>
<td>B</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUSINESS VITALITY INDEX</th>
<th>1991 INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Competitiveness Subindex</td>
<td>Entrepreneurial Energy Subindex</td>
</tr>
<tr>
<td>D</td>
<td>A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEVELOPMENT CAPACITY INDEX</th>
<th>1991 INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Subindex</td>
<td>Technology Resources Subindex</td>
</tr>
<tr>
<td>C</td>
<td>C</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STATE POLICY INDEX</th>
<th>1991 INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance Subindex</td>
<td>Workforce Development Subindex</td>
</tr>
<tr>
<td>F</td>
<td>C</td>
</tr>
</tbody>
</table>

THE 1991 DEVELOPMENT REPORT CARD FOR THE STATES
### Table 2

**THE 1991 DEVELOPMENT REPORT CARD**

<table>
<thead>
<tr>
<th>Economic Performance Index</th>
<th>Business Vitality Index</th>
<th>Development Capacity Index</th>
<th>State Policy Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>D</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Alaska</td>
<td>D</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>Arizona</td>
<td>C</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>Arkansas</td>
<td>D</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>California</td>
<td>C</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Colorado</td>
<td>D</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Connecticut</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Delaware</td>
<td>A</td>
<td>B</td>
<td>A</td>
</tr>
<tr>
<td>Florida</td>
<td>C</td>
<td>B</td>
<td>D</td>
</tr>
<tr>
<td>Georgia</td>
<td>C</td>
<td>D</td>
<td>C</td>
</tr>
<tr>
<td>Hawaii</td>
<td>A</td>
<td>D</td>
<td>B</td>
</tr>
<tr>
<td>Idaho</td>
<td>C</td>
<td>D</td>
<td>C</td>
</tr>
<tr>
<td>Illinois</td>
<td>C</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td>Indiana</td>
<td>C</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Iowa</td>
<td>C</td>
<td>C</td>
<td>A</td>
</tr>
<tr>
<td>Kansas</td>
<td>B</td>
<td>D</td>
<td>B</td>
</tr>
<tr>
<td>Kentucky</td>
<td>F</td>
<td>C</td>
<td>F</td>
</tr>
<tr>
<td>Louisiana</td>
<td>F</td>
<td>F</td>
<td>C</td>
</tr>
<tr>
<td>Maine</td>
<td>A</td>
<td>B</td>
<td>D</td>
</tr>
<tr>
<td>Maryland</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>C</td>
<td>B</td>
<td>A</td>
</tr>
<tr>
<td>Michigan</td>
<td>C</td>
<td>D</td>
<td>C</td>
</tr>
<tr>
<td>Minnesota</td>
<td>B</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Mississippi</td>
<td>F</td>
<td>C</td>
<td>A</td>
</tr>
<tr>
<td>Missouri</td>
<td>D</td>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td>Montana</td>
<td>F</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Nebraska</td>
<td>B</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Nevada</td>
<td>A</td>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>A</td>
<td>A</td>
<td>D</td>
</tr>
<tr>
<td>New Jersey</td>
<td>A</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>New Mexico</td>
<td>D</td>
<td>B</td>
<td>D</td>
</tr>
<tr>
<td>New York</td>
<td>D</td>
<td>A</td>
<td>C</td>
</tr>
<tr>
<td>North Carolina</td>
<td>B</td>
<td>A</td>
<td>C</td>
</tr>
<tr>
<td>North Dakota</td>
<td>C</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Ohio</td>
<td>C</td>
<td>F</td>
<td>C</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>D</td>
<td>D</td>
<td>A</td>
</tr>
<tr>
<td>Oregon</td>
<td>B</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>B</td>
<td>B</td>
<td>A</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>B</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td>South Carolina</td>
<td>C</td>
<td>D</td>
<td>B</td>
</tr>
<tr>
<td>South Dakota</td>
<td>C</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>Tennessee</td>
<td>C</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Texas</td>
<td>D</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>Utah</td>
<td>B</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Vermont</td>
<td>B</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td>VIRGINIA</td>
<td>B</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>Washington</td>
<td>A</td>
<td>C</td>
<td>A</td>
</tr>
<tr>
<td>West Virginia</td>
<td>F</td>
<td>F</td>
<td>D</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>A</td>
<td>D</td>
<td>C</td>
</tr>
<tr>
<td>Wyoming</td>
<td>C</td>
<td>F</td>
<td>C</td>
</tr>
</tbody>
</table>

Over the past few years, the Virginia General Assembly has continued to address the issues of economic growth and development through several legislative studies and Commissions. In 1986, House Joint Resolution No. 132 established a joint subcommittee to review Virginia's economic development laws. The committee issued its report in 1988 (see HD 38 (1988)). In 1989, the General Assembly passed House Joint Resolution No. 262 which provided for the Joint Legislative Audit and Review Commission (JLARC) to examine the Commonwealth's economic development policies and the organization, operations, management and performance of the Department of Economic Development (DED). In House Document No. 39 (1991), JLARC recommended that the Secretary of Economic Development be required to develop and implement a comprehensive economic development policy for the Commonwealth. The General Assembly agreed and passed House Bill 1336 in 1991.

Interest in regional economic development initiatives has also been addressed by the legislature by the creation of two regional economic development commissions. House Joint Resolution No. 106, passed in 1990, created the Southside Economic Development Commission to propose recommendations to improve and enhance the economic growth of the Southside region of Virginia. The Commission issued an interim report in 1991 (HD 42 (1991)), and its life was extended by the passage of legislation in 1991, 1992 and 1993. Another report was issued by that Commission, renamed the A.L. Philpott Southside Economic Development Commission, in 1992 (HD 45).

The second regional economic development entity is the subject of this report. The Blue Ridge Economic Development Commission was created in 1991 by House Joint Resolution No. 451 with a mission to improve and enhance the economic development of the Blue Ridge region, and both the 1992 and 1993 General Assemblies agreed to extend the life of the Commission for one year.

During 1991 a joint subcommittee to study the measures necessary to ensure Virginia's economic recovery (HJR 433 (1991)) was created. The committee, chaired by the Lieutenant Governor, issued its findings in House Document No. 37 (1992).

Lastly, the Commission on Capital Financing was established by the General Assembly in 1992, pursuant to House Joint Resolution No. 24, to study and recommend solutions to the capital financing needs of Virginia's small businesses.

C. AN ECONOMIC DEVELOPMENT APPROACH FOR THE BLUE RIDGE REGION.

The study conducted by the Blue Ridge Economic Development Commission has focused on the unique characteristics of the Blue Ridge region. The region has relatively high unemployment and dropout rates, experiencing minimal growth. The region experienced a 10 percent increase in the labor force between 1980 and 1990; however, during this same period, the state labor force increased by nearly 25 percent. Within the Blue Ridge region, there was a wide disparity among those that lost workforce members and those that gained significantly. Bland County saw a 126 percent gain; the City of Waynesboro saw a 51 percent gain; and the City of Staunton boasted a 26 percent gain. In contrast, Bath County suffered a loss of 62 percent, Highland County a loss of 37 percent and the City of Lexington a decline of 19 percent. All of this activity occurred in 10 years. However, during this same period, employment increased 11 percent for the region and 26 percent for the State, while unemployment decreased 6 percent in the region between 1980-1990.
These statistics clearly demonstrate the disparity which exists in the region; however, they also demonstrate that a skilled, conscientious labor force is already in place in the Blue Ridge region and available to companies which choose to locate, relocate or expand in the region. For example, in 1991, when New River Castings sought to fill 14 positions, it received over 800 applications, and when C&P Telephone required 100 new employees to staff its new assistance center in 1990, over 1,800 individuals applied. Also, with the location of a number of universities and colleges in the area, the Blue Ridge region produces an abundance of professional and highly-skilled workers seeking employment. This availability of potential employees offers employers located in the region an extremely attractive labor market.

The Blue Ridge Economic Development Commission has attempted to deal with these and other issues by viewing the region as a whole and recommending steps to promote all the localities included in this study.

IV. WORK OF THE COMMISSION

A. INTRODUCTION: STUDY PLAN.

In an effort to continue its in-depth analysis of specific data concerning economic growth, the Commission requested its six task forces to meet to identify new strategies for their particular area of concern. These included: partnerships between state and local governments, educational institutions and the private sector; marketing strategies to promote business and industry; expansion and diversification of existing industry; strategies to promote tourism and market local attractions; initiatives to enhance the education and training of the workforce; and regional data collection and analysis, information services and communication needs. The six task forces were comprised of both Commission members and ad hoc appointees drawn from regional entities in the Blue Ridge region (see Appendix C). Each of the six work groups met five times to receive testimony, deliberate, and develop its recommendations for presentation to the Commission. At its December 1992 meeting, the Commission voted to adopt the recommendations of the individual task forces.

The Commission met six times, at various locations in the Blue Ridge region, to (i) receive testimony from economic development experts, as well as other interested citizens of the Commonwealth; (ii) consider issues of economic development and growth; and (iii) to formulate a legislative package for introduction during the 1993 Session of the General Assembly.

B. TESTIMONY.

The second year of study for the Blue Ridge Economic Development Commission commenced on June 12, 1992, with a day-long meeting at Virginia Western Community College in Roanoke.


After a review of the Commission's legislative accomplishments during the 1992 Session of the General Assembly, Macon C. Sammons, Jr., county administrator for Alleghany County, and Wayne Strickland, executive director of the Fifth Planning District Commission, reported on
the feasibility of establishing a Blue Ridge Region Development Bank. The bank would be similar to the North Carolina Center for Community Help (often referred to as North Carolina's Development Bank), which was established in 1984 as the country's first statewide, private sector financial institution focusing on economic development in targeted communities. Since its first loan in 1984, the North Carolina bank has lent nearly $28 million for job creation and low-income housing. In 1992, the bank made nearly $12 million in loans.

There are three primary characteristics of a development bank that differentiate it from other financial institutions:

◆ It targets its lending to nontraditional borrowers and depressed areas;
◆ It increases its outreach and lending capital through partnerships with public sector programs, private sector capital and community-based organizations; and
◆ It provides technical assistance to its borrowers (this aspect of the development bank is a key issue because the technical assistance provided to borrowers helps reduce loan failures).

Additionally, a development bank:

◆ Is a large scale, private sector financial institution that focuses on the 10 to 15 percent of loans that are just beyond "bankability."
◆ Is usually associated with a depository institution, which allows the development bank to participate in certain financing programs (e.g., SBA 7(a) loan guarantees) that are available only to financial institutions. This also gives the bank a mechanism for attracting low cost, federally insured deposits from socially responsive investors such as foundations, religious orders, and wealthy individuals.
◆ Does not have equity financing as its primary focus, although the development bank can manage an equity fund. Thus, a development bank generally does not finance large start-ups with little owner or subordinate investment or plant closings. These are too high risk for a provider of debt.

An advisory committee was established to provide guidance in establishing a development bank in the Blue Ridge region. The committee had geographic representation from the Lynchburg area, the Roanoke area, the New River Valley area, and the Alleghany Highlands. The individuals invited to participate had various affiliations, including the Commission, lending institutions, nonprofit housing organizations, local government, small business development, and planning district commissions. The study group submitted its Blue Ridge Region Development Bank Feasibility Study in April 1993 (see Appendix D).

A development bank in the Blue Ridge region is an appealing idea for several reasons:

◆ The banking community is going through dramatic changes in the regulatory climate for lenders, and many persons who previously qualified for loans do not necessarily qualify in the 1990s.
◆ A declining percentage of young families can afford to purchase a home, compared to 20 years ago. Something needs to be done to make it easier for these families to enjoy the opportunities of home ownership.
A declining percentage of the population is composed of traditional families. Households headed by a single female, for example, are less likely to be able to buy a home under present market conditions.

Rural area banks often cannot specialize profitably in housing loans or government housing programs. There is insufficient demand for such programs to motivate the banks to serve these needs. A development bank serving an entire region can provide such specialization and outreach efforts.

Small business loans are often just too small to be profitable to banks; there is a need for venture capital in rural areas.

While the initial focus of a development bank would certainly be on the Blue Ridge region, the concept also has potential for other regions of the State, such as Southwest and Southside Virginia. Ultimately, the entire State could be served by a development bank, as is the case in North Carolina.

2. Global Economy.

Virginia's role in the global economy was also addressed by the Commission, as J.E. Justice, CEO of Alliance International, Inc., spoke on how the Commonwealth and the region can address overseas markets. New markets for existing businesses are a source of economic development available to most Virginia manufacturers. International activity is becoming more and more important, as evidenced by the fact that, in 1990, 30 percent of the gross national product (GNP) went abroad, compared with only two percent in 1960.

In 1987, Virginia exported $5.8 billion in goods; in 1991, $10.2 billion--a 76 percent increase in four years (see Figure 1).

![Figure 1. Virginia's total exports in billions of dollars, 1987-91. Source: Virginia Port Authority.](image-url)
Adding $2.5 billion for service exports, Virginia's total exports equal almost $13 billion, or 10 percent of Virginia's economy. The Commonwealth's major exports during that time were, and still are, tobacco, lumber and coal (see Figure 2).

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Value (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
<td>2677.9</td>
</tr>
<tr>
<td>Coal</td>
<td>2009</td>
</tr>
<tr>
<td>Other</td>
<td>1378.7</td>
</tr>
<tr>
<td>Industrial machinery</td>
<td>1258.5</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>851</td>
</tr>
<tr>
<td>Chemicals</td>
<td>841.5</td>
</tr>
<tr>
<td>Electrical parts</td>
<td>429.9</td>
</tr>
<tr>
<td>Agricultural products</td>
<td>422.9</td>
</tr>
<tr>
<td>Fabricated metal products</td>
<td>357.6</td>
</tr>
</tbody>
</table>

*Figure 2. Virginia's top export commodities, 1991. Total exports in millions of dollars. Source: USDOC and Alliance International, Inc.*

Contributing to Virginia's growth in exporting are direct foreign investment, exports, port shipments, and airport shipments, and all of these activities generate direct and indirect employment. In fact, 16,000-17,000 jobs are created by each billion dollars of goods exported from Virginia.

Mr. Justice stressed that local businesses need information, education, and support to succeed in international markets. From the State, a business can seek assistance from the Departments of Economic Development and Agriculture and the Virginia Port Authority. On the federal level, a business can solicit guidance from the Departments of Commerce and Agriculture, the Small Business Administration, and the Export/Import Bank. Other sources of assistance and support include educational institutions, trade groups, chambers of commerce, and the private sector.

3. **Regional Economic Development Needs.**

In order to receive comments on the economic development needs and achievements of the Blue Ridge region, the Commission held a public hearing at Central Virginia Community College on August 17, 1992. Economic development officials from throughout the Blue Ridge area attended the meeting, seeking the support and assistance of the Commission and providing information on their specific marketing and economic development programs.

The economic development officials repeatedly pointed out that Virginia, unlike a number of states, does not have a strong incentive plan to attract new industry or encourage expansion of existing ones. Several Commission members noted that the deal-closing fund, recommended by the Commission and enacted by the legislature in 1992, should help to address this concern.
Many of the smaller localities stressed their reliance on the marketing division of the Department of Economic Development (DED). Since these localities do not have the capital to mount any type of advertising campaign, the Department's advertising effort is the locality's advertising effort. Yet, due to budget constraints, DED advertising has been virtually nonexistent, according to these localities.

Several of the larger localities emphasized the importance of having adequate resources and infrastructure in place to support industrial growth and development. Prepared industrial sites and shell buildings aid in the attraction of industrial prospects. Regional cooperation is also important, because, in reality, if a neighboring community becomes the location for a new business, then surrounding communities also win. For example, people who work in Amherst County live in Campbell County and shop in Lynchburg.

A recurring theme throughout the presentations was the need for state financial assistance, especially the need for a financial program aimed at start-up and small businesses, since these businesses are crucial to the economic development process of the Blue Ridge region. Between 1974 and 1980, 80 percent of all new jobs in the United States were created by businesses with fewer than 100 employees. Additionally, over the last 20 years, small businesses developed 24 times as many innovations per research dollar as did large firms.


Formed in 1888 as the largest shoe company in the South and the seventh largest in the United States, Craddock-Terry, Inc., has been an integral part of Lynchburg's and surrounding localities' economic development.

James S. Barrett II, president of Craddock-Terry, Inc., addressed the Commission on his company's past history and recent revitalization. In 1985, the shoe manufacturer had seven factories in Virginia, employing 2,400 people. However, in 1986, an investor group paid $40 million to take over the company. Approximately 18 months later, the company filed for bankruptcy, closed all of its factories and laid off all 2,400 employees.

The citizens of Lynchburg rallied to bring the company back to life by raising over three million dollars in equity. Subsequently, the company was awarded government contracts to manufacture shoes for the military, and on June 6, 1988, Craddock-Terry reopened its factory in Gretna. The Farmville factory reopened on August 22, 1988. A third and fourth plant were opened in 1989 and 1991, followed by a retail store. Craddock-Terry now employs 1,023 people, with 223 of those located in Lynchburg, and is the single largest contractor for government shoes. In 1991, the company posted sales of $55 million.

This example of economic recovery and revitalization demonstrated to the Commission what a locality can do when it bands together to save its economic base. The economic impact of Craddock-Terry on the Lynchburg area was, and is, significant, and the citizens realized the importance of sustaining that positive impact.

5. Western Virginia Leadership Conference.

The Blue Ridge Economic Development Commission also chose to cosponsor and attend the leadership conference sponsored by the I-81 Corridor Council, the Center on Rural Development, and the VPI&SU Public Service Division. The conference, entitled "Strategic
Development of Western Virginia: An Investment in Tomorrow," was also cosponsored by Forward Southwest Virginia, Inc. The conference provided a forum for information sharing, discussion and agenda setting regarding the topics of growth and management, workforce quality, tourism, and child care.

Area leaders such as James D. McComas, President of VPI&SU; Ronald E. Carrier, President of JMU; and Walter Rugaber, Publisher of the Roanoke Times and World News, set the stage for the discussion by offering their comments and suggestions for the future of the region. These comments were followed by concurrent workshops and the formulation of a strategic agenda for investing in western Virginia’s future.

6. Housing and Economic Development.

The link between housing and economic development in the Blue Ridge region was explored by the Commission with the guidance of Ted Koebel, Director of the Virginia Center for Housing Research at Virginia Tech. When an industry looks for a new location, its primary concern is the quality of life offered by its potential location, and housing is an integral component of quality of life. Therefore, housing issues become paramount to economic developers. Mr. Koebel noted that due to the recession, there is no shortage of housing in the Blue Ridge region, and the housing that exists is more affordable than in other parts of the Commonwealth. The problem is not a lack of housing, but rather a lack of financial resources. People’s incomes are not allowing them to purchase or rent the available housing. More jobs appear to be the answer for the region, not more housing.

7. Homebuilders’ Concerns.

Homebuilding in the region was addressed by Lewis C. Jamison, president-elect of the Homebuilders Association of Virginia (HBAV). Bruce Cunningham, vice president of HBAV, also addressed the Commission. Mr. Jamison and Mr. Cunningham are the first officers of the 4,400 member organization from the Blue Ridge region in almost 22 years.

They agreed that there is no housing shortage in the area but that buyer confidence is lacking. Other concerns of homebuilders are the (i) provision of affordable housing, (ii) availability of infrastructure to support housing projects, (iii) special housing needs of the elderly, (iv) local governments’ responses to housing issues such as schools and infrastructure, and (v) opportunities housing offers to the Commonwealth’s young people.

As for solutions to these concerns, Mr. Jamison offered that the state needs to encourage cooperation and communication between local governments and the housing industry and between local planning Commissions and the industry to discuss the concerns of the parties. He also recommended more interaction between state agencies and industry concerning regulations and regulatory actions and more cooperation between the Virginia Department of Transportation (VDOT) and industry concerning the development of new roads. Commissions such as the Blue Ridge Economic Development Commission may also be helpful to homebuilders.


Housing financing was also addressed at the meeting by several banking representatives. Betty Forbes, senior vice-president of Central Fidelity Bank (CFB), emphasized CFB’s willingness to loan money for home purchases. In 1992, CFB created a mortgage subsidiary which loaned $350 million by the end of the year.
Lack of consumer confidence is a problem in the housing industry and the economy in general. The consumer is trying to get his financial house in order, and lenders must catch the consumer's imagination, according to Ms. Forbes. She suggested loan guarantees for infrastructure and tax credits for low-income developers and first-time home buyers.

The Federal Housing Tax Credit Program, which is operating in Virginia, was explained by Paul Norris, President of Dominion Bankshares CDC. Dominion Bankshares has teamed up with the Virginia Housing Development Authority (VHDA) and the Department of Housing and Community Development to increase affordable rental housing via a "state equity fund." The fund is an investment vehicle for corporations, allowing them to ultimately invest in affordable housing.

The nonprofit housing alternative was addressed by Karl Bren, Nonprofit Affairs Director at VHDA. Nonprofits are created to provide affordable housing; however, they are different from traditional lenders in that they operate with a "whole person" philosophy. Nonprofits do outreach work to find people in need of affordable housing and provide services in addition to housing. The goal of nonprofits is to keep housing affordable, so the housing in place continues to service those it was intended to service. Nonprofits view housing as a mechanism which empowers people, allowing them to be better citizens and ultimately creating a better Commonwealth.

According to Mr. Bren, the Commonwealth needs to attack the problem of lack of indoor plumbing, support regional cooperation, confer with the business community, and support the Virginia Housing Partnership Fund.

C. COMMISSION AND TASK FORCE DELIBERATIONS.

At the conclusion of many hours of testimony and discussion, the Commission continued to deliberate concerning which policies and programs would be most beneficial to the economic prosperity of the region. These deliberations, coupled with the recommendations of the six task forces, resulted in a comprehensive legislative package for the Blue Ridge region during the 1993 Session of the General Assembly.

1. Partnerships Between State and Local Governments, Educational Institutions and the Private Sector.

The Commission continued to focus on the promotion of economic growth through the formation of partnerships and alliances between various governmental and private sector entities.

The partnerships task force recommended the establishment of the World Trade Alliance of the Blue Ridge to promote and encourage world trade and economic development partnerships in the region. The Alliance will be comprised of five program areas focusing on the strengths and needs of the Blue Ridge region: International Trade Institute, trade mission, data bases, mentor programs, and student work placement.

Quarterly conferences will be held, in which successful exporters in the Blue Ridge region will describe how they found their overseas market, located financing and arranged shipping of their product. The focus of these conferences and most other activities of the World Trade Alliance will center on industries with the most potential for export in this region, including:
prefabricated housing, furniture, food products, and selected manufactured and value-added products. Also, because the net effect of tourism is the same as exporting (bringing in dollars from outside the local economy), tourism development will be addressed. These conferences will be motivational in nature.

The International Trade Institute will also develop and offer training programs that will certify export competency or export levels of understanding in key areas relevant to the Blue Ridge region. These areas will be determined by surveying companies in the region that are already exporting to determine their workforce competency needs. Among the areas of certification will be finding markets, arranging export financing, and shipping products.

Trade missions will be industry-specific and include eight to fifteen participants. These missions will focus on established, as well as "hot," newer markets. When necessary, faculty from participating universities and colleges will provide background training prior to the mission in language, culture and customs. The Virginia Department of Economic Development's overseas offices in Japan and Brussels will be utilized when appropriate. Participating companies will visit four to five prescreened, prospective buyers in each market. Once the company returns home, follow-up help will be given to further ensure export success. Export success does result from trade missions. As noted in Export Virginia (Vol. II, No. 3), one-half of all participants in industry-organized, government-approved trade missions conclude successful transactions within six months.

Participating universities will complete faculty surveys to determine areas of technical expertise relevant to international trade, foreign language skills, and cultural experience abroad. Colleges and universities are virtual gold mines in terms of human talent that has not been tapped for international trade. This data base will be of use to any business in the Blue Ridge region that needs to locate nearby talent to provide personal help with preparation for travel to a foreign market, translation of business communication or business cards, or technical expertise in various areas. In addition, a data base of foreign alumni will be helpful in networking and building additional contacts overseas.

There are business leaders in the Blue Ridge region who are successfully exporting and who have volunteered to work with other companies that are just beginning or are looking at new markets. This mentor program will be organized by first identifying qualified and willing mentors and then promoting their availability at "round table" discussion groups. Mentors will be identified in the six to ten business areas that have the most potential for export.

Once a business in the Blue Ridge region has identified the markets it wants to enter, it may wish to hire a student from that same country to serve as an advisor or helper. A list of foreign students who wish to participate in this international work/study program will be developed. The listing will include age, degree being pursued, professional experience, experience in the country and language skills. While this type of program has never been formally organized, it has contributed to the direct export success of several companies in the Blue Ridge region.

The World Trade Alliance of the Blue Ridge will be advised initially by members of the task force on partnerships. The task force will then add additional members from the public and private sectors. Administration of the Alliance will be housed in Public Service Programs at
Virginia Tech. Resources will be needed to initiate, administer, and promote the Alliance. The Alliance will serve as a prototype for similar, regionally-focused efforts in other parts of Virginia.

The key to this recommendation is the fact that all of the components of the Alliance can be measured in terms of their impact on consummating export sales. Within six months to a year after implementation, the Alliance can determine if overseas sales resulted from these activities.

The partnerships task force also recommended the establishment, in the near future, of a Regional Technology Improvement Council to bring together the developers and trainers from public and private colleges and universities and community colleges with the businesses and industries which make use of technological advances in their operations.

The linkage forged through the council will accomplish two things. First, it will help spur economic development within the region by helping move technological advances into the workplace more quickly, thus making businesses and industries within the Blue Ridge region more competitive. Second, it will enhance and improve the quality of the workforce by giving workers quicker access to the newest technologies available.

As part of its effort to improve the quality of the workforce, the council will also oversee additional productivity training for workers so they can utilize new technologies. Computers and electronic communication systems will be given special emphasis in this training.

This program needs to be further defined and a plan for implementation developed by a special, task-oriented working group appointed by the Blue Ridge Economic Development Commission. The sole function of this group will be to turn this proposal into reality. The narrowly focused group will be appointed by the entire Commission or its designee (i.e., the partnerships task force) and will be part of the Commission’s new structure for continuance in 1993.

Higher education has and will continue to play a meaningful role in the development of the Blue Ridge region, according to the partnerships task force. Approximately one-fourth of all higher education students in the State attend public and private institutions of higher learning in the region. That includes over 37,000 students at the region’s four state-supported four-year schools, over 21,000 at the region’s six state community colleges, and over 22,000 at the 15 independent institutions within the region.

The impact on the local economies made by the presence of these students as well as their institutions is significant. Thus, this task force recommended a study of the local economies throughout the region to determine the magnitude of the economic impact of all students on the economy with special attention to the economic impact of out-of-state and foreign national students upon the local economies. This impact will also be defined by a special, task-oriented working group to be appointed as part of the continuation of the Blue Ridge Commission. The Higher Education Study Committee will include representatives of all the colleges and universities in the region, the State Council on Higher Education in Virginia, and the General Assembly.

Furthermore, even in difficult economic times, it is not wise to reduce funding to one of the region’s, as well as the State’s, most valuable assets--the institutions of higher education. Thus, this task force recommended adequate investment be made in the future of Virginia by
providing necessary funding for institutions of higher education to provide the services to students and to society at large which we have come to expect and for which Virginia has gained a well-deserved international reputation. The task force agreed to explore and recommend funding strategies to further enhance the return on the investment in higher education.

Lastly, the partnerships group addressed regional cooperation by recommending the creation of a Public Sector Productivity Council. The Council would provide an opportunity for officials from higher education and government to interact with one another, find common themes in their operations, and create alliances and working relationships with one another, as the Blue Ridge region includes 20 counties, 11 cities, 28 towns, as well as numerous special districts, regional cooperative agreements, and state agencies. Also, as previously mentioned, it does have four state-supported four-year institutions of higher education, six state community colleges, and fifteen independent institutions which offer two- or four-year programs.

The local governments in the region could benefit significantly from increased contact with and support from the colleges and universities. The governments could gain additional access to expertise found at the colleges and universities. Furthermore, colleges and universities could get a better understanding on the practical application of course work and develop beneficial work experience for students.


The Blue Ridge Economic Development Commission also studied the promotion of economic growth by assessing ways to attract new enterprises, expand existing businesses and retain existing industry and jobs.

One of the solutions the group considered was the appropriation by the Commonwealth of an additional five million dollars in the current 1992-94 biennium for a Regional Economic Development-Tourism Promotion Advertising Program. This program would require a 50 percent match by a group of at least three localities (counties and cities only) which wish to join in this state/local partnership. Specific proposals for either regional economic development or a regional tourism promotion advertising campaign would be submitted to the Department of Economic Development, and the Department would select the best programs to be funded. This proposal would provide a critical boost in the Commonwealth’s advertising budget as well as allow Virginia to promote its regions. The proposal would maximize the state’s resources by requiring a local match. It would be a true partnership, since the Commonwealth and the localities would jointly agree on the specific advertising program prior to its initiation.

The task force further recommended that, of this five million dollars, $250,000 be set aside to advertise specific tangible assets (i.e., land and improvements) owned by any political subdivision of the Commonwealth. The same criteria, match, and selection process would apply for this subprogram.

Enactment of a Corporate Income Tax Credit Program to encourage job creation in basic industries was considered by the task force and adopted by the Commission. The task force examined both the taxes and tax incentives offered by competing states (Georgia, Kentucky, North Carolina, South Carolina, and Tennessee). The task force concluded the Commonwealth is competitive in income and sales taxes and tax rates. However, the tax rate alone is relatively meaningless. The task force found that every state examined provides some type of corporate
income tax credit program to provide an incentive for new or expanding industry to either invest in creating new jobs or purchasing additional equipment and machinery. Thus, they recommended that Virginia enact a Corporate Income Tax Credit for basic industries which increase their full-time employment in the Commonwealth by a certain amount. The task force further recommended the following features of this proposed credit:

- Annual credit for five years after the first full year of employment increase;
- No credit in a year if the employment falls below the base year;
- Ten-year carry-over, but the credit cannot exceed 50 percent of the tax liability; and
- Basic industries would include manufacturing, warehouse-distribution, process or research (e.g., exclude retail).

Lastly, the task force considered the development of a Blue Ridge industrial park, but after careful deliberations, decided not to pursue this option.

3. Expansion and Diversification of Existing Industry.

The Commission discussed and examined present economic development policies and programs, the long-term needs of the Blue Ridge area, and actions to encourage existing businesses to expand and diversify. The present condition of an outlook for agricultural industries located in the region was also assessed during the Commission's deliberations.

The task force on expansion and diversification of existing industry examined recent, effective efforts in the Commonwealth and sister states to promote economic growth, such as the overhaul of the permitting process in North Carolina and the creation of tax incentives in other states; developed specific recommendations for consideration by the Commission regarding policies and programs that could assist existing industry to expand; and developed specific recommendations concerning policies and programs that would help to diversify the existing industrial base. The role of the state agencies involved in the economic development process, including the environmental regulatory agencies, their areas of responsibility, and the various programs offered to facilitate economic development were examined.

The task force recommended a number of legislative measures including (i) providing a tax credit for the purchase of certified pollution prevention equipment and facilities; (ii) prohibiting the boards in the areas of water, air and solid waste to promulgate regulations which are more stringent than applicable federal requirements; (iii) providing that after July 1, 1993, no county may regulate the emission of smoke or the methods of firing and stoking furnaces and boilers, and (iv) requiring the Division of Legislative Services to provide an analysis for the members of the General Assembly of how all proposed bills concerning environmental regulation in Virginia compare to analogous federal requirements.

The group also concluded that an export loan guaranty program should be established to provide the missing link in Virginia's export development efforts. The program would 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.
Lastly, the expansion and diversification of existing industry work group recommended that the U.S. Forest Service manage the National Forests to provide higher levels of timber harvest and that the Virginia Department of Transportation take prompt action on the construction and improvement of the Route 29 Corridor, as soon as federal trust funds are released.

4. Strategies to Promote Tourism and Market Local Attractions.

The Commission also examined the existing tourism industry in the Blue Ridge region, focusing on ways to improve and expand this industry, thereby translating the area's tourist attractions into income producers for the area. Tourism, in the eyes of the Commission, is and can be a powerful economic development tool.

Tourism is the third largest retail/service industry in the nation, and according to present forecasts, tourism may be the largest industry in the United States, as well as the world, by the year 2000. Tourism is expected to be the second largest such industry in Virginia by then. This industry is noted for diversity and variety in both product (the sites and attractions promoted) and customer (a heterogenous group). The U.S. Travel Data Center in the Department of Commerce has estimated that an additional 100 visitors per day in an average community creates 48 new jobs and may add $145,000 per year to state and local revenues.

The Blue Ridge region, encompassing 20 counties and 11 cities, is a diverse geographic area in western Virginia. This region has 13.5 percent of the state population and 24.0 percent of the state land mass. Known for its scenic beauty, many small attractions, historic sites, and special events, the Blue Ridge region draws visitors for day trips and overnight stays en route to major tourist destination points such as Williamsburg, Virginia; Asheville, North Carolina; and Gatlinburg, Tennessee. The competition is often "the state down the road," not the town next door.

The counties in the Blue Ridge region contain two cities with populations of 50,000 or more and 1,168,041 acres of federal and state land and public parks, of which wooded timberland accounts for 29 percent. A broad variety of community and cultural activities are available; however, the variety is countered by the small scale, difficult accessibility, and, at times, minimal support services in the area.

Based on information from the Virginia Division of Tourism, tourism dollar expenditures increased over 116 percent between 1980 and 1988. The regional percentage of state tourism decreased from approximately 13 percent to 12 percent in the same time period. The cities within the Blue Ridge region increased total travel dollar expenditures by over 183 percent and local tax receipts by over 256 percent between 1980 and 1988. These increases exceed greatly the rise for counties--92 percent and almost 109 percent respectively. On average, although both

---


11 Id. at 1.
cities and counties increased tourism dollar and revenue receipts, together they did not match the
growth of the State which reached a 141 percent dollar expenditure growth and 177 percent
revenue growth within the tourism industry between 1980 and 1988. Unfortunately, the regional
percent of state tourism market declined approximately one percent between 1980 and 1988.12

The tourism task force recommended that the study of Virginia’s Welcome Centers, which
was approved by the 1992 General Assembly, be continued, in an effort to see how these Centers
can effectively market the Commonwealth and the region. The work group agreed that
aggressive marketing is essential to developing tourism as a major industry in the Blue Ridge
region.

The State has numerous major attractions such as Colonial Williamsburg and Virginia
Beach. The Blue Ridge region contains few if any destination points, but has many smaller
attractions and events. The state marketing plan, appropriate for the large state attractions, may
not be appropriate for the Blue Ridge. A more focused marketing plan must be conceived.
Many critics argue that funding for tourism in Virginia has been focused on the eastern side of
the state, the largest investment devoted to the largest attractions, the strongest promotion
focused on the largest contiguous east coast markets (i.e., New York, New Jersey, and
Washington, D.C.).

The Commission, with the assistance of the task force, concluded that state and regional
goals can be compatible and some of the statewide tourism goals found in the report of the
Tourism 2000 Committee may also be applicable to the Blue Ridge region:

♦ Encouragement of small and nonprofit attractions and suppliers;
♦ Cooperative planning and packaging to enhance shared customer base;
♦ Enhancement of historic sites;
♦ Standardized data collection; and
♦ Enhancing education in hospitality for local participants.

If tourism is perceived as a positive factor in the regional economic development of the
Blue Ridge, economic development decision makers may encourage additional state funding or
economic development to support clearly articulated marketing strategies for this specific region
and its differentiated markets.

Some weaknesses in the state tourism experience include the present fragmentation of
effort and leadership voice and the diversity of associations and organizations connected to the
travel business. Thus, the task force recommended the creation of a tourism advisory group,
consisting of a representative from each of the Destination Marketing Organizations located in
the Blue Ridge region and representatives of the Division of Tourism. The group would meet at
least quarterly to assist localities, as well as legislators, with the problems, issues and concerns
of the tourism industry.

The group will encourage a cooperative attitude among the counties and cities of the
region. Many successful partnerships have occurred in the last two years with public and private
organizations joining together under one common cause. There is incredible potential to
increase tourism revenue within the Blue Ridge region. By working together in cooperative
partnerships to promote the entire region, many of the problems would be solved.

...
A review of the services already offered by tourism associations will be conducted by the group. Numerous statewide organizations are currently offering promotional and marketing programs. These organizations include the Virginia Association of Convention and Visitors Bureaus, the Virginia Travel Council, the Virginia Division of Tourism, and multistate organizations such as the Travel South Association, the Southeast Tourism Society and the Appalachian Tourism Commission. Local communities are given numerous opportunities throughout the year to participate in promotional activities offered by the aforementioned organizations. Each locality selects the activity that is pertinent to its particular market.

Another function of the advisory group will be to encourage localities within the Blue Ridge region to participate in the Virginia Local Tourism Accreditation Program. There is a strong need for the proposed accreditation program to develop tourism leadership within each locality so that local groups can assist small businesses, promote development and create tourism boards that will be responsible for marketing and promotion.

Localities should also be encouraged by the advisory group to invest in tourism development as an integral part of their overall economic development.

Development of rural areas will be a major component of the economic development plan of the Blue Ridge Commission. According to many experts, rural areas will rely on their competitive ability to seek service producing industries. These include health service delivery, computer processing, tourism, business and personal services, as well as high technology in this economic trend.

The main attraction of the Blue Ridge is its scenic beauty. There are few major destination points in the region and the majority of attractions are visited, if visited at all, as a break in a journey, an excursion while visiting a friend, or an entertainment while attending to business related activities. Thus, the area cannot treat tourism in the same manner as the eastern side of Virginia, nor necessarily expect equivalent economic support. The decision to invest in tourism should be based on an economic analysis of the entire area, not just an individual town or attraction. Using a regional approach to planning may help decision makers avoid the weaknesses or pitfalls associated with a broader statewide or strictly local approach to planning and investment.

The Commission concluded that investors in western Virginia’s tourism industry should be aware that surrounding states have already established programs which compete for visitors. There is need for a coordinated and realistic regional planning process involving coalitions of private and public enterprise.

One of the essential ingredients for expanding the tourist industry in the Blue Ridge region will be an educated workforce. All service sector employees must be aware of the special needs and requirements of the tourism industry. Community workforce training can be enhanced through community colleges or university continuing education classes. Education is considered to be the key national response to a global economy and industry mobility; a key state response to national need; a necessary local response for both special urban and rural location constraints. Community education for participation in tourism networks as well as community coexistence with the tourism industry are aspects of a regional economic growth plan. 13

13Id. at 9.
In addition, success in the Blue Ridge region is likely to depend heavily on the development of packages. These "packages" will focus on a variety of potential visitors. Using this format, a combination of small attraction and events may be the only way to create a large enough mass of visitors.

Transportation is an issue of significance to tourism. The location of the main interstate routes and upkeep of secondary roads influence the accessibility of all tourist attractions. However scenic the attraction, "getting there" needs to be perceived as relatively easy and time efficient. If we fail to provide adequate transportation, travelers will substitute equivalent small sites further along the destination route.

Thus, both the Commission and the task force identified the basic needs and problems associated with marketing tourism in the region, explored the development of a comprehensive marketing research program or strategy for the Blue Ridge region, examined possible funding sources for a regional marketing plan, and identified tourist attractions and events located or occurring in the region. Twelve recommendations were submitted to the Commission, and all were accepted, indicating the willingness of the Commission to accept tourism as a vital component of economic development. (These recommendations can be found in Section V of this report, Conclusions and Recommendations.) Due to its importance in economic growth, tourism will remain a topic of great interest to the Commission in 1993.

5. Initiatives to Enhance the Education and Training of the Workforce.

The Commission examined the Blue Ridge region's adult workforce and its education system, keeping in mind that the future economic development of the region rests on the quality of the region's "human capital." A great deal of time was spent identifying problems, needs and concerns of the workforce and potential workforce, assessing the quality and competitiveness of the region's adult workforce, projecting what jobs and skills will be in demand in the region over the next 20 years and evaluating current educational and training programs as they relate to the area's long-term economic growth.

The task force on education and training of the workforce surveyed a multitude of literature on education, the future workforce needs, and education reform initiatives. Members elected to work in subgroups and concentrate on the four areas of K-12 education, post-secondary efforts, adult retraining, and coordination of these three efforts.

Adults 25 and older are the workforce of the Blue Ridge region. In truth most of the workforce 2000 is already in place, except for those joining the ranks of 18- to 25-year-olds in the 1990s. According to the most recent U.S. census data, the average education level in the region is as follows: 50-75 percent of residents have a high school diploma or less, 10-20 percent have a community college degree or apprenticeship/technical school training, and 10-15 percent have completed four or more years of college.

The most recent unemployment figures for the region showed rates from a high of 12 percent to a low of 5.1 percent. Of course, these figures do not include those thousands of workers who have exhausted their unemployment benefits and are no longer counted. Clearly, there needs to be swift and definitive action to raise the basic educational level of the adults in the region to create a more active and attractive workforce. This effort will not only provide a pool for newly created or ongoing entrepreneurship, small business, and work-at-home opportunities, but it will serve to draw expanding business and industry to the region.
To improve the education level of the adults, the task force recommended that the Blue Ridge Regional Education and Training Council, pursuant to House Bill 998, adopted by the 1992 General Assembly, become an active force in improving the education and training in the region and that funding be maintained at the 1992 level. The Task Force on Initiatives to Enhance the Education and Training of the Workforce recommended that the directive adopted for this Council in the 1992 Session be amended to include the following three initiatives:

**That incentives be offered to school systems which prescribe to integrated/applied educational programs which prepare students either for post-high school education or for employment.** The workforce projections to the year 2000 from major sources for the Blue Ridge region of Virginia and the United States show ample employment opportunities for well prepared high school graduates. The most favorable preparation is that in which the student has: (i) command of basic functional skills of English, mathematics, written/oral communication, and keyboarding; (ii) command of basic adaptive skills such as: dependability, honesty, punctuality, reliability, ability to work in teams or groups, commitment to hard work, and openness to learning new tasks (in and out of school); and (iii) specific skills such as those learned in modern, effective vocational education programs in agriculture, business health, homemaking, marketing, technology, and trade and industrial education. The workforce now and in the year 2000 needs these three fundamental skills as well as the background and the willingness to move easily from high school graduation, to community college, to four year college, to a lifelong learning commitment.

Repeated testimony and related professional information indicates that many of the traditional educational programs in place in our schools are not preparing students for the future. Success model programs in the region have involved a structured program of studies; tech prep and/or academic prep tracks (elimination of the general track); and integrated/applied education with appropriate math, science, and communication skills.

The purpose of an integrated/applied program is to raise the:

- Competency level of high school graduates in functional, adaptive, and specific skills in order that they can compete actively in the area workforce and continue their education in community colleges, four year colleges, and in lifelong learning;

- Level of knowledge of workforce 2000 requirements for students, parents, teachers, counselors, and administrators; and.

- Level of awareness of employers and the public of opportunities for job creation or expansion in order to provide attractive employment options for young people entering the workforce over the next decade.

**That the Education and Training Council promote and expand apprenticeship training for youth and adults in the Blue Ridge region.** The Blue Ridge region has a unique blend of rural and urban communities and a diverse workforce in which many types of apprenticeship training would be beneficial for economic development. Apprenticeship is a voluntary training system which provides businesses with skilled employees trained in the technologies. Apprentices learn the "how to" of their occupation on the job, under the direction of highly skilled employees, and they learn the "why" in related technical instruction taught in the classroom.
Apprenticeship is (i) on-the-job training in the workplace that enables the apprentice to learn and perform his or her job and ensures that the apprentice is fully trained in all areas of the occupation; (ii) related instruction that occurs in the classroom after work; and (iii) state-certified training. Apprentices are awarded a certificate of completion from the Commonwealth of Virginia after successful completion of required instruction courses and on-the-job training.

Apprenticeship training is a proven, cost-effective system for training employees in occupations which require a wide range of skills and knowledge. Over 2,500 Virginia businesses in all sectors of our economy—manufacturing, services, and construction—currently use apprenticeship to meet their skill training needs. Each year over 1,300 apprentices complete their training and receive apprenticeship certificates which are recognized throughout the country.

The Blue Ridge Economic Development Commission is committed to making the Blue Ridge region a model area in Virginia for upgrading of the workforce through expanded apprenticeship efforts; raising the apprenticeship level of adults by 10 percent each year between now and the year 2000; focusing on diversity of new apprenticeships which include a high proportion of women, minorities, and persons with disabilities; and increasing funding for apprenticeship training, as funding for apprenticeship training was reduced from the 1989-90 level of $2,064,417 to $1,038,870 in 1992-93. With the 1989-90 funding, the apprenticeship program was training about 9,000 apprentices with 2,000 employers/sponsors. Companies who have worked with the program in the past would again sponsor apprentices if the Commonwealth would again assist with funding.

That the role of student volunteerism be investigated and a model created to assist school systems in developing student volunteer programs as part of the student's graduation requirements. Volunteer service teaches students a sense of community, and through volunteer service, students learn new skills.

The task force also recommended that the Blue Ridge Economic Development Advisory Council, created pursuant to House Bill 1142 of the 1992 General Assembly, identify and make recommendations regarding the child-care needs in the region. One of the deterrents to an educated, well-trained workforce is the lack of affordable quality child-care programs. By identifying and implementing affordable child-care options, a major barrier to an educated, well-trained workforce will be eliminated. Employers should be encouraged to work through appropriate agencies to develop and maintain quality child care centers, while employees or prospective employees are trained or retrained, especially during evenings or weekends.

Lastly, the work group concluded that a School Equipment Assistance Fund should be developed in which businesses, corporations, partnerships or sole proprietorships could contribute approved equipment to this fund and receive a tax deduction. The State Board of Education would determine which equipment was needed and thus qualified for the deduction, as well as distribute the equipment where needed.


The task force on regional data collection and analysis was charged with examining the development of regional databases and information systems that will assist data users both public and private to acquire, in a timely manner, the data and information necessary to evaluate and support development of the region. Elements of the study included:
• Identification and review of existing databases and information sources that serve the region;
• Assessment of resources of colleges, universities, planning district offices and other development organizations and how these resources can be integrated effectively into a regional communications and data center network;
• Identification of legal, legislative, and bureaucratic impediments to the timely access to data and information important to the economic development process within the region;
• Identification of the kinds of assistance data users such as local and regional agencies and organizations might need in relation to databases and information systems;
• Identification of alternative methods of funding various components of the databases and information systems; and
• Development of specific recommendations for consideration by the Commission that would help to establish databases, information systems and communication regions or localities within the region.

After extensive research and survey, the task force recommended the creation of the Blue Ridge Information Data Exchange Network (BRIDEN). The network would serve as an on-line information/data service for the Blue Ridge region. It would serve state and local elected officials, local governments, school boards, school systems, local service boards and service agencies; planning district Commissions; economic development agencies, chambers of commerce, and tourism/visitor's bureaus; colleges and universities; and business enterprises throughout the region. The rationale for this system is to provide immediate and up-to-date information which could be used in pursuing economic development opportunities at the local and state levels.

The network would include data on population and other basic demographics (age, ethnicity, gender, and educational attainment); housing stock data (age, availability, and cost), personal financial status, etc.; economic indicators; labor market statistics; industrial output, migration, and support service availability; and tourism-related data (activities and events, origin and destination, hotel/motel occupancy, dollars spent, and average length of visit). Utility costs and accessibility, including data on fees and rate schedules for water, sewer, solid waste disposal, electricity, telephone and other communications, and other utilities will also be included, as well as data concerning transportation costs, availability, and plans, including commuting patterns and six-year plans by the Virginia Department of Transportation. Tax rates; government permitting processes and costs; government finance statistics; banking data; cost of living and effective buying power information; fees and rate schedules for water, sewer, solid waste disposal, electricity, telephone and other communications, and other utilities, as well as education system information will also be contained in the system.

This information is currently provided by one or more of the following agencies: the Virginia Employment Commission's State Data Center, the Center for Public Service at the University of Virginia, Public Service Program of Virginia Polytechnic Institute and State University, the Department of Information Technology, the Department of Economic Development, the Department of Taxation, and other state agencies. Thus, those agencies should take part of the planning process for the network.
These data bases and services would be phased in over a three-year time frame. The network should be housed at Virginia Tech computer center which will serve as the host within the region. It would be made available without cost to the clients for a three-year period. (During this time there would be no subscription cost and toll-free telephone lines would be maintained.) After the start-up time, the system would become user-supported with connect charges, user charges, subscription fees, and/or donations. Sufficient resources would be made available to Virginia Tech to establish the network and to provide the necessary telephone lines, maintain an up-to-date data base, and provide any requested assistance.

The network would also serve as a prototype for the state as a whole. Once BRIDEN is fully implemented and accepted by its users, it would be made available to other areas of the state, beginning with the Shenandoah Valley, Southwest, Southside, Northern Neck, then progressing to the Piedmont, and to the urban areas of Northern, Central, and Southeastern Virginia.

The establishment of a state-sponsored State Data Center to meet the needs of current and potential users was also recommended by the data group. Currently, the Virginia Employment Commission maintains some databases and makes them available via electronic transfer through its own system, known as "ALICE." The VEC is also designated as the State Data Center by the U.S. Bureau of the Census. However, it is not designated as the State Data Center in the Code of Virginia. Additionally, the data available does not always meet the needs of many officials in local governments and public agencies because it may not always be timely, it is not always easily accessible in the desired electronic format, and some desired information may not be collected. Legislation to designate a State Data Center would need to include expanding the current data distribution services provided by the VEC. Other organizations throughout the State also maintain data bases, some are made available in electronic format while others are not.

Since many of these data bases contain the same information, it is not cost-effective for all of them to exist. Instead, there should be one central State Data Center which is responsible for keeping up-to-date and making available for use a set of databases which are essential for supporting development activities on the local and state level throughout Virginia. These databases should include data on population and other basic demographics (age, ethnicity, gender, educational attainment, housing stock, personal financial status, etc.), economic indicators, labor market statistics, industrial output and migration, utility and transportation costs and accessibility, tax rates, government permitting processes and costs, government finance statistics, and education information. Such data sets that are developed with public funds should not be copyrighted or require a license fee for their use. Analysis and specially-derived information should be available to users on an as-needed basis.

The State Data Center would serve the General Assembly, the Governor, executive and legislative agencies, local governments, school boards and service agencies, planning district Commissions, economic development agencies, chambers of commerce, and tourism/visitor’s bureaus, colleges and universities, and business enterprises throughout the region. The rationale for this system is to provide immediate and up-to-date information which could be used in pursuing economic development opportunities. The Blue Ridge region could serve as the prototype user/consumer for the State Data Center. The experience in setting up the system and its utilization by those in the region could be used to assist with expanding it throughout the Commonwealth.
The data task force concluded that the State should provide sufficient resources and establish reasonable deadlines for state agencies to release information in electronic formats on a timely basis. Data should be released in electronic format within 45 days after the close of the period for which the report is being issued. And within one year of that closing date, a hard copy of that same report should be available to the general public without any restrictions placed on its usage.

This is important, as data is a required tool for economic development. It must be accurate, meaningful, and up-to-date. However, data reporting is not always given a high level of priority by state agencies. Many required reports are being released later and later every year. Still other meaningful reports have ceased to be released altogether. Data unavailability can place a state at a competitive disadvantage in economic development. The fear of the unknown often outweighs other problem situations.

Data does not come without cost. Therefore, funds should be made available to facilitate the flow of data in agencies which have had their information processing capability reduced by state budget reductions over the past several years. Money spent on the front-end for data should yield long-term benefits in the State by placing it in a better position for economic development.

Electronic reports to be covered by this recommendation include: **Comparative Report of Local Government Revenues and Expenditures** from the Auditor of Public Accounts; the **Superintendent's Report for Virginia** from the Department of Education; the Department of Taxation's **Annual Report, Local Tax Rates, and Taxable Sales Annual Report, Virginia Assessment/Sales Ratio Study;** the Quarterly Sales Reports; and the Quarterly Employment Reports. For example, the **Comparative Report of Local Government Revenues and Expenditures** would have to be available in electronic format by mid-August, 45 days after the end of the fiscal year, and the **Virginia Assessment/Sales Ratio Study** would have to be available in electronic format by mid-February, 45 days after the end of the calendar year.

Other recommendations of the data task force include (i) the creation of communications computer software by the Commonwealth; (ii) that the State take a lead position in acquiring computer software to be used by local and state agencies; (iii) that support for data collection needs be discussed and recommended by other task forces within the Commission; (iv) that there be no restrictions in the use of or access to public data, especially for other governmental and public agencies; (v) that interstate business climate data, which can be used for comparison, be made available to support local and state agencies in their economic development efforts; and (vi) that a Geographic Information System be made available for use to promote economic development in the Blue Ridge region.

**V. CONCLUSIONS AND RECOMMENDATIONS**

House Joint Resolution No. 107 directed the continuation of the Blue Ridge Economic Development Commission to propose recommendations to promote and stimulate economic development in 20 counties and 11 cities defined as the Blue Ridge region. In the past two years, the Commission has carried out its charge by seeking the advice and expertise of economic development experts, state and local governmental officials, educators, representatives of business and industry, and the citizenry of the Commonwealth. The Commission has learned
that the region is committed to the enhancement of economic, educational, cultural and social opportunities and growth in the region and that, while the picture is not always rosy, there is great hope and potential for the western part of the Commonwealth. The commitment of state and local officials, business and industry, and the citizens of the region to promoting economic growth in the Blue Ridge region will spark the necessary changes to move the region into the 21st century. Having considered a plethora of suggestions and comments, the Commission focused on the strengths and weaknesses of the region as a whole to develop its specific recommendations.

All of the issues and concerns of the people of the region could not be adequately addressed by the Commission in its first two years of existence; therefore, the 1993 General Assembly agreed to extend the life of the Commission for another year. The Commission endorses all the recommendations of its six task forces and makes the following recommendations for specific action in 1993:

Recommendation No. 1: That the Blue Ridge Economic Development Commission be extended for another year.

Recommendation No. 2: That the World Trade Alliance of the Blue Ridge be established to focus in the exporting potential of the area.

Recommendation No. 3: That a Regional Technology Improvement Council be created to link the developers of and trainers in technology with the businesses and industries which make use of technological advances in their operations.

Recommendation No. 4: That a study of the local economies throughout the region be accomplished to determine the magnitude of the economic impact of students attending institutions of higher education in the region.

Recommendation No. 5: That a Public Sector Productivity Improvement Council be established to provide an opportunity for officials from higher education and government to interact with one another, to find common themes in their operations, and to create alliances and working relationships with one another.

Recommendation No. 6: That after July 1, 1993, no county be allowed to regulate the emission of smoke or the methods of firing and stoking furnaces and boilers.

Recommendation No. 7: That the Division of Legislative Services be required to provide an analysis for the members of the General Assembly of how all proposed bills concerning environmental regulation in Virginia compare to analogous federal requirements.

Recommendation No. 8: That a 10 percent tax credit be provided for the purchase of certified pollution prevention equipment and facilities. To obtain certification, either the State Water Control Board or Air Pollution Control Board, or their successors, must certify to the Department of Taxation that such property is eligible for the credit.

Recommendation No. 9: That the U.S. Forest Service manage the National Forests of Virginia to provide higher levels of timber harvest.

Recommendation No. 10: That VDOT take prompt action on the construction and improvement of the Route 29 Corridor as soon as federal trust funds are released.
**Recommendation No. 11:** That the boards in the areas of water, air and solid waste not be allowed to promulgate regulations which are more stringent than applicable federal requirements.

**Recommendation No. 12:** That, to provide the missing link in Virginia's export development efforts--export financing assistance, an export loan guaranty program be established.

**Recommendation No. 13:** That the report on the regional technical training plan prepared by Virginia Western Community College pursuant to HJR 217, adopted by the 1992 General Assembly, be submitted to the Governor and the General Assembly in January 1993.

**Recommendation No. 14:** That the Education and Training Council, pursuant to House Bill 998 adopted by the 1992 General Assembly, receive the findings of the regional technical training plan pursuant to HJR 217, adopted by the 1992 General Assembly, and recommend methods of implementation in 1993 according to the findings in order to improve the technical training in the region.

**Recommendation No. 15:** That the Blue Ridge Regional Education and Training Council pursuant to House Bill 998, adopted by the 1992 General Assembly, become an active force in improving the education and training in the region and that funding be maintained at the 1992 level. The Task Force on Initiatives to Enhance the Education and Training of the Workforce has been studying, meeting, and finding ways to improve the education and training of the workforce and must amend the directive adopted for this council in the last session, to include the following initiatives:

- That incentives be offered to school systems who prescribe to integrated/applied educational programs which prepare students either for post-high school education or for employment.
- That the Education and Training Council promote and expand apprenticeship training for youth and adults in the Blue Ridge region.
- That the role of student volunteerism be investigated and a model created to assist school systems in developing student volunteer programs as part of the student's graduation requirements.

**Recommendation No. 16:** That the Blue Ridge Economic Development Advisory Council, pursuant to House Bill 1142 of the 1992 General Assembly, identify and make recommendations regarding the child-care needs in the region.

**Recommendation No. 17:** That a School Equipment Assistance Fund be developed into which businesses, corporations, partnerships or sole proprietorships may contribute approved equipment and receive a tax deduction for donations of $100 or more.

**Recommendation No. 18:** That the Virginia Division of Tourism continue to maintain a close presence in the Blue Ridge region through its regional office in Abingdon. This office shall work closely with the regional tourism development organizations, assisting communities and local jurisdictions to realize their potential for tourism development. This office shall also educate local citizens, civic organizations and governmental units about the benefits of tourism to the local economy and the need to support tourism. The office shall help to develop a regional approach to tourism development.
Recommendation No. 19: That Virginia Tech's study of the Welcome Centers be continued for one year and that the Blue Ridge Economic Development Commission's Tourism Task Force monitor the study.

Recommendation No. 20: That Douthat State Park be open and staffed during the fall season, since many people travel to the Blue Ridge region in October and November to view the fall foliage. In October 1991 alone, 905,558 people visited the Blue Ridge Parkway; however, the Park closed on Labor Day. This pilot project could be later expanded to include the other state parks in the Blue Ridge region. Also, funds should be provided for improvement of the Park's facilities and for advertising the Park in tourism publications.

Recommendation No. 21: That the Blue Ridge Economic Development Commission solicit support from the Governor and appropriate state offices to work with the Blue Ridge Parkway and other National Park Service officials to develop a visitors' center on the Blue Ridge Parkway as soon as possible. Located near Roanoke, the largest city on the entire Parkway, the visitors' center would serve the Blue Ridge region. The Parkway's Master Plan has called for such a visitors' center since the 1950s, and the current General Management Plan continues to call for such a center. The Roanoke River Parkway Environmental Impact Statement discussed several sites and proposed an 11,000-square-foot center that would include a 150-seat auditorium. The center could include exhibits from the U.S. Forest Service, the Virginia Department of Tourism, the various convention and visitors bureaus of the Blue Ridge region, and Virginia's Explore Park. Both local and state support is needed, however, to move the project off the drawing boards.

Recommendation No. 22: That the DMOs (Destination Marketing Organizations) situated in the Blue Ridge region be listed on the bingo card in the VIRGINIA IS FOR LOVERS GUIDE and, if they wish, receive labels from the inquiries through the state's 800 number.

Recommendation No. 23: That there should be only one magazine promoting the State (presently the VIRGINIA IS FOR LOVERS GUIDE) and work be done to offer advertising that is affordable. However, this allowance for affordable advertising should be provided only if the destination/attraction has collateral materials, support resources, and sufficient hotels, restaurants (attractions), etc., to efficiently serve the visitor. (This is similar to Recommendation No. 2, and the two should probably be combined.)

Recommendation No. 24: That an advisory group be formed, consisting of the DMOs from the Blue Ridge region and representatives of the Division of Tourism, to meet at least quarterly to assist localities, as well as legislators, with problems, issues and concerns of the tourism industry.

This advisory group shall encourage a cooperative attitude among the counties of the Blue Ridge region. Many successful partnerships have occurred in the last two years with public and private organizations joining together under one common cause. There is incredible potential to increase tourism revenue within the Blue Ridge region. By working together in cooperative partnerships to promote the entire region, many of the problems would be solved.

A review of the services already offered by tourism associations shall also be conducted by the group. Numerous statewide organizations are currently offering promotional and marketing programs. These organizations include the Virginia Association of Convention and Visitors Bureaus, the Virginia Travel Council, the Virginia Division of Tourism, and multistate
organizations such as the Travel South Association, the Southeast Tourism Society and the Appalachian Tourism Commission. Local communities are given numerous opportunities throughout the year to participate in promotional activities offered by the aforementioned organizations. Each locality selects the activity that is pertinent to its particular market.

Another function of the advisory group will be to encourage localities within the Blue Ridge region to participate in the Virginia Local Tourism Accreditation Program. There is a strong need for the proposed accreditation program to develop tourism leadership within each locality so that local groups can assist small businesses, promote development and create tourism boards that will be responsible for marketing and promotion.

Localities should also be encouraged by the advisory group to invest in tourism development as an integral part of their overall economic development.

**Recommendation No. 25:** That, in order to enhance the image of tourism as an integral part of a comprehensive economic development program, the General Assembly adopt a statement that the Commonwealth and its agencies will recognize that tourism is an integral part of economic development and should be provided a priority in the context of state grant and loan programs.

**Recommendation No. 26:** That the Commonwealth (once it has adopted its statement on tourism as an important element in economic development) work with Virginia congressional leaders and leaders of federal agencies to request that tourism-related activities be clearly specified as eligible projects for federal grant and loan programs.

**Recommendation No. 27:** That the Commission on Capital Financing, established pursuant to HJR 24 (1992), study the establishment of special loan and grant programs specifically for tourism-related business start-ups and expansions, as well as tourism marketing and promotion at the regional and local level. A pilot program could be initiated for the Blue Ridge region to examine the potential for such programs, and eventually expanded to other areas throughout the Commonwealth.

**Recommendation No. 28:** That the Blue Ridge Economic Development Commission's Tourism Task Force encourage localities in the Blue Ridge region, via correspondence, to invest in tourism development and participate in the Virginia Local Tourism Accreditation Program.

**Recommendation No. 29:** That the Commonwealth appropriate an additional five million dollars in the current 1992-94 biennium for a Regional Economic Development/Tourism Promotion Advertising Program.

**Recommendation No. 30:** That the Commonwealth enact a Corporate Income Tax Credit Program to encourage job creation in basic industries.

**Recommendation No. 31:** That the Blue Ridge Information/Data Exchange Network (BRIDEN) be created to serve as an on-line information/data service for the Blue Ridge region.

**Recommendation No. 32:** That a state-sponsored State Data Center be established to meet the needs of current and potential users.

**Recommendation No. 33:** That the State provide sufficient resources and establish reasonable deadlines for state agencies to release information in electronic formats on a timely basis, so as to provide the timely flow of information crucial to economic development.
Recommendation No. 34: That there be no restrictions on the use of or access to public data which is not exempted by the Virginia Freedom of Information Act or other statutory provisions, especially for other governmental and public agencies.

Recommendation No. 35: That interstate business climate data which can be used for comparison be made available to support local and state agencies in their economic development efforts.

Recommendation No. 36: That the State seek to make available to local, regional, and state agencies a "user-friendly" computer program which would allow them to easily access the proposed computer data/information network.

Recommendation No. 37: That the Commonwealth take the lead in acquiring computer software to be used by local and state agencies, including low-cost access to a geographic information system.

The Commission extends its appreciation and gratitude to the task force members, the representatives of local and state governments and business and industry, and all others who contributed to a successful study year. The Commission also looks forward to continuing its work, with the assistance of its task forces, in 1993.

Respectfully submitted,

Joan H. Munford, Chairman
Frank W. Nolen, Vice Chairman
C. Richard Cranwell
R. Creigh Deeds
Willard R. Finney
Thomas M. Jackson, Jr.
Lacey E. Putney
J. Brandon Bell II
Kevin G. Miller
Elliot S. Schewel
Malfourd W. Trumbo
Charles Ray Chandler
Vaden L. "Lee" Cobb
Dr. Charles L. Downs
J. Everette Fauber III
W.W. Griggs
James W. Harkness
Junius A. Haskins, Jr.
Melvin L. "Mel" Mayfield
Steven A. McGraw, Sr.
Dr. Barbara J. Pendergrass
Mr. David W. Rundgren
Macon C. Sammons, Jr.
Charles R. Saul
Michele C. Wright
VI. BIBLIOGRAPHY


VII. APPENDICES

A. House Joint Resolution No. 451
B. House Joint Resolution No. 107
C. Task Forces Memberships
D. Blue Ridge Region Development Bank Feasibility Study
E. Recommended Legislation
APPENDIX A

House Joint Resolution No. 451
Establishing a commission to propose recommendations to promote and stimulate economic development in the Blue Ridge region of Virginia.

Agreed to by the House of Delegates, February 22, 1991
Agreed to by the Senate, February 21, 1991

WHEREAS, while the Commonwealth’s overall 1988 per capita income ranked highest among southeastern states and higher than the national average, this prosperity has not been evenly distributed throughout Virginia; and

WHEREAS, the increasing economic disparity between urban and rural areas has prompted the expansion of strategies to meet the unique development needs of southern states in particular; and

WHEREAS, many economic development experts have cited the need for "growth-from-within" strategies focusing on the cultivation of local entrepreneurship and existing untapped resources to address effectively the economic, educational, and geographic challenges facing many regions in the South; and

WHEREAS, the Blue Ridge region of the Commonwealth, encompassing the Counties of Alleghany, Amherst, Appomattox, Augusta, Bath, Bedford, Bland, Botetourt, Campbell, Craig, Floyd, Franklin, Giles, Highland, Montgomery, Nelson, Pulaski, Roanoke, Rockbridge, and Wythe, is committed to the enhancement of economic, educational, cultural, and social opportunities and growth in the region; and

WHEREAS, although, unlike other regions of the Commonwealth, the Blue Ridge area is neither economically depressed nor disadvantaged, the region is not assured a promising economic future without some assistance; and

WHEREAS, although the Blue Ridge region’s unique combination of urban and rural areas and unsurpassed natural beauty provide exceptional opportunities for economic expansion, the region is lacking several resources and services necessary to ensure self-sufficiency and growth; and

WHEREAS, although the economic development of southern states and certain regions of the Commonwealth has been the focus of various national, regional, and state studies, none of these valuable studies has directly addressed the exceptional challenges facing the Blue Ridge region of Virginia; and

WHEREAS, while the Commonwealth’s Blue Ridge region has benefited greatly from the efforts of state and local governments as well as private organizations, reduced financial support for planning districts and federal development programs necessitates the exploration of innovative approaches to ensure the continued growth and economic well-being of the region; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a study commission be hereby established to propose recommendations to promote and stimulate economic development in the Blue Ridge region of Virginia. Among other issues, the commission shall consider (i) individual and regional efforts which might be conducted in partnership with state government, educational institutions, and the private sector; (ii) expansion and diversification of existing industry; (iii) regional data collection and analysis, information services, and communications needs; (iv) marketing strategies to promote tourism, business, and industry; and (v) initiatives to enhance the education and training of the workforce.

The commission shall be composed of 23 members as follows: six members of the House of Delegates, to be appointed by the Speaker; five members of the Senate, to be appointed by the Senate Committee on Privileges and Elections; and twelve citizens from the Blue Ridge region of the Commonwealth to include two representatives each from local governments, the business community, and industry, two local economic development officials, one representative each from the banking community, a major utility, and a four-year institution of higher education, and one community college president, to be appointed by the Governor.

The legislative members of the commission shall be compensated as specified in § 14.1-18 of the Code of Virginia, and all members of the commission shall be reimbursed for their actual expenses incurred in the performance of the work of the commission.

The commission may accept and expend gifts, grants, or donations from public or private sources which will enable it to carry out its objectives.

All agencies of the Commonwealth shall cooperate with the commission and, upon request, assist the commission in the performance of its duties and responsibilities.

The commission shall submit its findings and recommendations to the Governor and the 1992 Session of the General Assembly in accordance with the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

The indirect costs of this study are estimated to be $13,675; the direct costs of this study shall not exceed $20,700.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.
APPENDIX B

House Joint Resolution No. 107
HOUSE JOINT RESOLUTION NO. 107

Continuing the Blue Ridge Economic Development Commission.

Agreed to by the House of Delegates, February 9, 1992
Agreed to by the Senate, March 3, 1992

WHEREAS, House Joint Resolution No. 451, adopted by the 1991 Session of the General Assembly, established a commission to propose recommendations to improve and enhance economic development in the Blue Ridge region of the Commonwealth (the "Blue Ridge Economic Development Commission" or "Blue Ridge Commission"); and

WHEREAS, the Commission was charged to consider a wide range of issues including strategies to attract new businesses to the region and to expand and diversify existing industry; ways to promote partnerships between state and local governments, educational institutions and the private sector; and initiatives to increase the educational attainment and technical skill of the workforce; and

WHEREAS, in exploring the challenges facing the Blue Ridge region, the Commission met four times to review regional data regarding economic growth, education, and industry and to seek the input and expertise of economic development specialists, state agencies, and representatives of higher education and the private sector; and

WHEREAS, the Commission was greatly assisted by the establishment of six task forces comprised of Commission members and ad hoc appointees from public and private entities in the Blue Ridge region, which provided more detailed examinations of partnerships between various public and private entities; marketing strategies to promote business and industry; expansion and diversification of existing industry; strategies to promote tourism; initiatives to enhance the education and training of the workforce; and regional data collection and analysis respectively; and

WHEREAS, traditional economic development strategies as well as newer theories have received Commission scrutiny; and

WHEREAS, testimony before the Commission and the task forces has confirmed a number of disturbing trends in the economic development of the Blue Ridge region, including educational disparity, declining populations, low median incomes, inadequate infrastructure, and poor representation in anticipated "growth" industries; and

WHEREAS, while a number of current programs have provided some assistance to the region, the Blue Ridge region of Virginia continues to face serious challenges as it struggles to accelerate its economic development and to retain those values and to utilize those resources that make it a unique and important part of the Commonwealth; and

WHEREAS, although the Commission has developed specific recommendations addressing such issues as business incentives and the regulatory permit-approvals process, it is the consensus of the Commission that further review of the expansion of industries using the region's abundant natural resources, the educational needs of Blue Ridge citizens and employers, regional marketing efforts, infrastructure needs, and other issues is necessary to develop additional specific recommendations to enhance the economic growth of the region; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Blue Ridge Economic Development Commission be continued. The membership of the Commission shall continue as established by House Joint Resolution No. 451 of the 1991 Session of the General Assembly, except one executive director of a planning district commission, to be appointed by the Governor, shall be added to the membership of the Commission. Vacancies shall be filled by the Governor, the Speaker of the House of Delegates, and the Senate Committee on Privileges and Elections, as appropriate. The Commission shall continue to review and evaluate methods of enhancing the economic growth of the region and shall consider financing alternatives, partnerships between government, higher education, and the private sector, and other related issues as it deems appropriate.

The legislative members of the Commission shall be compensated as specified in § 14.1-18 of the Code of Virginia, and all members of the Commission shall be reimbursed for their actual expenses incurred in the performance of the work of the Commission.

The Commission may accept and expend gifts, grants, or donations from public or private sources which will enable it to meet its objectives.

The Commission shall submit its findings and recommendations to the Governor and the 1993 Session of the General Assembly in accordance with the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

The indirect costs of this study are estimated to be $13,675; the direct costs of this study shall not exceed $20,700.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.
APPENDIX C

Task Forces Memberships
BLUE RIDGE ECONOMIC DEVELOPMENT COMMISSION

Membership of the Task Force on
MARKETING STRATEGIES TO PROMOTE BUSINESS AND INDUSTRY

The Honorable Thomas M. Jackson, Jr., Chairman
Member, House of Delegates

The Honorable Elliot S. Schewel, Vice Chairman
Member, Senate of Virginia

Mr. Steven A. McGraw, Sr.
Clerk of Circuit Court, Roanoke County

Mr. Vaden L. "Lee" Cobb
City of Lynchburg

Mr. Charles R. Saul
Appalachian Power Company

Mr. Russ Merritt
Franklin County Chamber of Commerce

Mr. Stanley Goldsmith, Town Manager
Town of Altavista

Mr. Beverly Fitzpatrick, Jr.
Dominion Bank/Roanoke City Council

Mr. Don Moore
Montgomery County Department of Economic Development

Mr. Ron Secrist, Town Manager
Town of Blacksburg

Mr. Franklyn H. Moreno, C.I.D.
Marketing Director, New River Valley Economic Development Alliance

Ms. Lin Chaff
Chaff Public Relations & Advertising

Mr. Joe Morgan, County Administrator
Pulaski County
BLUE RIDGE ECONOMIC DEVELOPMENT COMMISSION

Membership of the Task Force on
REGIONAL DATA COLLECTION AND ANALYSIS, INFORMATION
SERVICES AND COMMUNICATION NEEDS

Dr. Donald P. Lacy, Associate Professor, Chairman
Virginia Polytechnic Institute & State University

Mr. Melvin L. "Mel" Mayfield

Mr. Thomas Taylor, Executive Director
Mount Rogers Planning District

Mr. Wayne Strickland, Executive Director
Fifth District Planning District

Ms. Laura Reed, Executive Director
Central Virginia Planning District

Ms. Beth Doughty
Roanoke Valley Economic Development Partnership

Mr. David Rundgren, Executive Director
New River Valley Planning District

Mr. William Strider, Executive Director
Central Shenandoah Planning District

Mr. Robert Dowd, AICP
West Piedmont Planning District

Ms. Pamela Gibson, Research Associate
Virginia Polytechnic Institute & State University
BLUE RIDGE ECONOMIC DEVELOPMENT COMMISSION

Membership of the Task Force on
EXPANSION AND DIVERSIFICATION OF EXISTING INDUSTRY

The Honorable Frank W. Nolen, Chairman
Member, Senate of Virginia

The Honorable Lacey E. Putney, Vice Chairman
Member, House of Delegates

Mr. W.W. "Skip" Griggs

Mr. J. Everette Fauber III
Fauber Architects, P.C.

Mr. Stuart Litvin, Executive Director
Rockbridge Area Economic Development Commission

Mr. Robert Hoover, Plant Manager
Coming Incorporated

Mr. Joe Colvin, President
Inland Motors

Mr. Al Bowman, President
Poly-Scientific

Mr. Wayne Gaabo
J.M. Turner & Company

Mr. Skip Hurley, Vice President
Hercules, Inc.

Mr. William Michael St. John
BLUE RIDGE ECONOMIC DEVELOPMENT COMMISSION

Membership of the Task Force on
INITIATIVES TO
ENHANCE THE EDUCATION AND TRAINING OF THE WORKFORCE

The Honorable Willard R. Finney, Chairman
Member, House of Delegates

The Honorable J. Brandon Bell II, Vice Chairman
Member, Senate of Virginia

Dr. Barbara Pendergrass
Assistant Vice President for Student Affairs
Virginia Polytechnic Institute & State University

Dr. Charles Downs, President
Virginia Western Community College

Dr. Robert McCracken, Superintendent
Giles County Public Schools

Dr. Frank Tota, Superintendent
Roanoke City Schools

Dr. William Asbury, Superintendent
Pulaski County Schools

Dr. George Nolley, Superintendent
Campbell County Schools

Mr. Joe Doby
Blue Bird East, Division of Blue Bird Body Co.

Dr. Jack Lewis
Dean of Business Management, New River Community College

Mr. Thomas Robertson, President
Carilion Health System

Dr. Carl McDaniels
Virginia VIEW

Dr. Rick Williamson
Director of Continuing Education, Wytheville Community College

Dr. Bob Stuart
Economic Development Assistance Center
Virginia Polytechnic Institute & State University
BLUE RIDGE ECONOMIC DEVELOPMENT COMMISSION

Membership of the Task Force on
STRATEGIES TO PROMOTE TOURISM AND MARKET LOCAL ATTRACTIONS

The Honorable R. Creigh Deeds, Co-Chairman
Member, House of Delegates

The Honorable Malfourd W. Trumbo, Co-Chairman
Member, Senate of Virginia

Ms. Michelle Wright
Alleghany Highlands Chamber of Commerce

Mr. Brian Wishneff

Mr. Randall Amo, County Administrator
Floyd County

Ms. Margaret Ray
The Oaks

Mr. Peter Kipp
Donaldson Brown Center
Virginia Polytechnic Institute & State University

Mr. Dave Saunders

Dr. Richard Sorenson, Dean
College of Business
Virginia Polytechnic Institute & State University

Ms. Kitty Ward Grady

Mr. Lindsey Coleman
Maxwell’s Restaurant

Mr. Gary Everhardt, Superintendent
Blue Ridge Parkway

Ms. Lynn Davis
Friends of the Blue Ridge Parkway

Mr. Sergei Troubetzkoy, Tourism Coordinator
Staunton Office of Tourism

Ms. Gail Lowrey, Tourism Coordinator
Highland County Chamber of Commerce

Ms. Martha Doss
Director of Tourism
BLUE RIDGE ECONOMIC DEVELOPMENT COMMISSION

Membership of the Task Force on
STRATEGIES TO PROMOTE TOURISM AND MARKET LOCAL ATTRACTIONS
(continued)

Ms. Eleanor "Stevie" T. Dovel
Marketing Administrator, Travel & Tourism, City of Lynchburg

Mr. Bob Thomas
Project Coordinator—Accreditation Project, New River Valley HOSTS

Mr. Peter Huber
Assistant County Administrator, Pulaski County
BLUE RIDGE ECONOMIC DEVELOPMENT COMMISSION

Membership of the Task Force on
PARTNERSHIPS BETWEEN STATE AND LOCAL GOVERNMENTS,
EDUCATIONAL INSTITUTIONS AND THE PRIVATE SECTOR

The Honorable C. Richard Cranwell, Chairman
Member, House of Delegates

The Honorable Kevin G. Miller, Vice Chairman
Member, Senate of Virginia

Mr. Macon C. Sammons, Jr.
County Administrator, Allegheny County

Mr. Junius A. Haskins, Jr.

Mr. James W. Harkness
Dominion Bankshares Corporation

Dr. C.W. Pryor, Vice President & General Manager
Babcock & Wilcock Co., Nuclear Power Division

Dr. James D. McComas, President
Virginia Polytechnic Institute & State University

General John W. Knapp, Superintendent
Virginia Military Institute

Dr. William F. Snyder, President
Wytheville Community College

Dr. John F. Backels, President
Dabney S. Lancaster Community College

Dr. Cynthia Tyson, President
Mary Baldwin College

Mr. Ken Anderson
Anderson & Associates

Mr. David Reemsnyder

Dr. George N. Rainsford, President
Lynchburg College

Mr. Jeff Taylor
Virginia Region 2000

Mr. Joe Adams
Virginia Polytechnic Institute & State University
APPENDIX D

Blue Ridge Region Development Bank Feasibility Study
BLUE RIDGE REGION DEVELOPMENT
BANK FEASIBILITY STUDY

Prepared by the Fifth Planning District Commission,
in conjunction with the
Blue Ridge Region Economic Development Commission

This project was partially funded by a grant
from the Center on Rural Development

APRIL 1993
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>History of Development Banks in the United States</td>
<td>3</td>
</tr>
<tr>
<td>Typical Structure of Development Banks</td>
<td>4</td>
</tr>
<tr>
<td>Benefits of a Development Bank</td>
<td>6</td>
</tr>
<tr>
<td>Balancing Development Objectives and Financial Viability</td>
<td>8</td>
</tr>
<tr>
<td>Case Study: Self-Help Development Bank</td>
<td>10</td>
</tr>
<tr>
<td>The Business Climates in Virginia and North Carolina</td>
<td>12</td>
</tr>
<tr>
<td>Comparison of Socio-economic Conditions in the Blue Ridge Region with the Commonwealth of Virginia</td>
<td>13</td>
</tr>
<tr>
<td>The Need for an Analysis of Virginia's &quot;Capital Gap&quot;</td>
<td>14</td>
</tr>
<tr>
<td>Federal Small Business Loan Programs</td>
<td>17</td>
</tr>
<tr>
<td>Virginia's Small Business Loan Programs Which Serve the Blue Ridge Region</td>
<td>22</td>
</tr>
<tr>
<td>Strategies for Developing a Regional Development Bank</td>
<td>26</td>
</tr>
<tr>
<td>Funding Sources for a Development Bank</td>
<td>31</td>
</tr>
<tr>
<td>Concluding Observations about Establishing a Development Bank</td>
<td>32</td>
</tr>
<tr>
<td>Recommendations</td>
<td>33</td>
</tr>
</tbody>
</table>

Exhibit A
Introduction

Access to credit has long been considered a key to successful economic development. This is especially true in rural areas. A survey jointly conducted in December of 1992 by the National Association of Counties (NACO), the National Association of Development Organizations (NADO), and the National Association of Towns and Townships (NATaT) found that local officials cited as a second priority the need to create and expand the credit available to businesses as a means of enhancing the economic development potential of their communities (the first priority was related to infrastructure concerns). Based on the results of their study, NACO, NADO, and NATaT has recommended that the Clinton Administration give priority consideration to increasing the amount of capital and credit available for small businesses in rural America (Source: Rural America: Worth the Investment, January 13, 1993).

The availability of capital financing for small business development and access to credit for improving housing conditions in the Blue Ridge region of Virginia* has been a topic of some importance over the last few years in enhancing the economic development position of this region. A 1992 survey by the Blue Ridge Regional Business Journal addressed the issue of capital financing. Approximately 40% of the business respondents (the majority of respondents employed 25 people or less) estimated that there would be less availability to capital in 1993. Furthermore, the business respondents ranked improving housing conditions as one of the top ten issues which should be addressed in the region. The need for an innovative approach to increasing capital in the Blue Ridge region is the topic of this study.

* Note: The Blue Ridge region of Virginia consists of the Counties of Alleghany, Amherst, Appomattox, Augusta, Bath, Bedford, Bland, Botetourt, Campbell, Craig, Floyd, Franklin, Giles, Highland, Montgomery, Nelson, Pulaski, Roanoke, Rockbridge, and Wythe as well as the Cities of Bedford, Buena Vista, Clifton Forge, Covington, Lexington, Lynchburg, Radford, Roanoke, Salem, Staunton, and Waynesboro. In addition, the area encompasses a total of 28 towns among the largest are Blacksburg, Christiansburg, Pulaski, Vinton, and Wytheville.
Government policy and programs have consistently sought innovative financing tools to foster business expansion, job creation and income generation. Over the last fifteen years, a new type of institution - called a "development bank" - has emerged in the United States as a means by which government and foundations can attract and leverage substantial private sector dollars for development lending, while at the same time using market forces to ensure that those dollars are loaned in ways that are prudent and cost-effective.

The Fifth Planning District Commission, in conjunction with the Blue Ridge Economic Development Commission, prepared this feasibility study as an initial step in determining how to increase the availability of development finance funds in the Blue Ridge region, particularly through a development banking vehicle. A partner in this effort was Virginia's Center for Rural Development (CORD). CORD provided partial funding for the Commission's work on this project.

An advisory committee was organized early in the process to provide guidance in the study. The committee had geographic representation from a major portion of the Blue Ridge region including the Lynchburg area, the Roanoke area, the New River Valley area, and the Alleghany Highlands. Furthermore, the individuals invited to participate maintained various affiliations: a member of the Blue Ridge Economic Development Commission; representatives of lending institutions; representatives of non-profit housing organizations; economic development specialists; local government representatives; a representative of a local Small Business Development Center; and representatives of the Fifth Planning District Commission.

Because Development Banks are a relatively new phenomenon in this country, and there are many questions involving these types of organizations. This study covers a wide range of issues. Specifically, the study:

* examines the typical structure of a development bank;
* discusses the benefits of a development bank;
* details how a development bank balances its development objectives with financial viability;
* provides a case study of an existing development bank
* reviews studies in other states that documented demand for business credit;
* compares Virginia's usage of federal credit programs with that of selected other states;
reviews Virginia's existing state-sponsored business credit programs;

discusses three possible strategies for creating a development bank;

identifies potential funding sources for a development bank; and

outlines possible next steps.

Additionally, this study reviews in detail the activities of the Center for Community Self-Help (CCSH) and the business climate in which it works in North Carolina. Since Virginia and North Carolina share similar business and socio-economic conditions, it was decided that the CCSH, rather than one of the other three Development Banks in the nation, would be used as the model for this feasibility study.

This report primarily uses data for the entire State of Virginia, since that is the data most readily available. However, data comparing the State and the Blue Ridge region are also provided for comparative purposes. Although most points relating to a development bank are applicable Statewide, special emphasis will be placed on the establishment of a development bank for the Blue Ridge region. Once such a bank is established in the Blue Ridge region, it could be expanded to accommodate the development financing needs of other regions of the State.

History of Development Banks in the United States

Development banking organizations in the United States grew out of the experience of government and community development loan funds that were started in the 1960s and 1970s. Those funds were generally obtained through federal sources and were community- or region-based. They focused on job creation and service delivery in economically distressed areas. They usually operated independently of banks or other financial institutions, and often provided low-interest loans to newly created small businesses.

While some of these funds were successful, many were too small to attract professional management, loaned to projects that were well-intentioned but ill-conceived, and lacked the flexibility needed to be responsive to the needs of the private sector. As a result, these revolving loan funds were largely dependent on federal funding, and failed to attract substantial private resources.

The development bank concept emerged in response to the failures and successes of these earlier credit programs financed by the federal government. Currently, there are three development
banks in the United States that have achieved significant size and have been in existence for at least 5 years. Since 1990, at least one other development bank has been started, and several others are in the process of being formed. Development banks are private, non-profit institutions which do not depend on federal funding for their survival, and they are operated in such a way to ensure flexibility for the private sector. A brief outline of the three largest development banks is provided below.

* Private development banking in the U.S. began in 1978 with the creation of the Shorebank in Chicago. Focusing on the South Shore and Austin neighborhoods in Chicago, Shorebank now totals over $200 million in assets.

* In North Carolina, the Center for Community Self-Help, Self-Help Ventures Fund and Self-Help Credit Union (collectively known as Self-Help) constitute the nation's first statewide development bank. Self-Help's financial affiliates were formed in 1984, and now manage more than $40 million in assets. A detailed discussion of the structure and activities of Self-Help are featured later in this report.

* Southern Development Bancorporation was formed in 1986 to serve several rural counties in Arkansas. Southern Bancorporation differs from North Carolina's Center for Self-Help in two ways: (1) the holding company for Bancorporation is a for-profit entity while Self-Help's holding company is a non-profit entity; and (2) Bancorporation's handles its traditional loans through a for-profit bank subsidiary while Self-Help activities are handled through its non-profit credit union. It should be noted that Bancorporation also possesses a non-profit revolving loan fund as well as a non-profit real estate lending fund.

Typical Structure of Development Banks

Development banks are private organizations, usually receive some public funding or investment to leverage substantial private investment, and feature at their core a bank or credit union, with several affiliate corporations pursuing related development activities. It should be noted that, even though these institutions can include credit unions as well as banks, they are called "development banks" for the sake of simplicity. The term "development bank" refers to both the regulated financial institution and its non-regulated affiliates.

In its simplest form, the typical development bank has the following structure:
The bank or credit union is the cornerstone of the development bank. This institution offers depositors up to $100,000 in deposit insurance, similar to traditional financial institutions. Deposit insurance enables the development bank to attract relatively low-cost capital in the form of deposits from people and institutions nation-wide who are interested in supporting the mission of the bank. Because of its ability to offer insured deposits, it can build a sizable asset base that can in turn generate revenue to cover fixed costs and attract experienced management. Due to its size, this type of institution can also offer a broad array of products to meet a region or state's development financing needs. Many federal credit enhancement programs, such as Small Business Administration guaranteed loans, are easier to utilize through a regulated depository institution. Furthermore, federal and state regulators generally provide a control mechanism (the savings and loan crisis notwithstanding) to ensure that the institution is being run in a safe and sound manner.

This cornerstone bank or credit union differs from a traditional financial institution in the following ways:

* Its primary purpose is to make loans to its service area's small businesses, non-profits and low- and moderate-income home buyers. Its marketing focuses solely on those constituencies.

* It concentrates on providing essential loan products to its target constituencies. As a result, the development bank usually does little or no consumer lending, offers limited products to depositors and does not provide comprehensive money management and sophisticated loan services to larger borrowers.

* It is an active user of federal and state credit enhancement programs.

* It spends substantially more time (and thus money) on technical assistance to borrowers.

* It does not compete with more traditional financial institutions, but rather complements the array of financing available to a community, and often works in
partnership with other local financial institutions.

* It takes more risk in its lending, to the extent prudent as a regulated financial institution.

As the chart above indicates, the regulated financial institution has non-regulated affiliates, including at a minimum a revolving loan fund. Since the development bank is a regulated institution, there are many loans it cannot make, even though those loans are sound. For example, regulated financial institutions are not well-suited for delivering credit to firms that cannot largely secure their debts with collateral or need longer-term debt. A development bank, however, can refer that loan to its revolving loan fund affiliate which can also experiment on a pilot basis with new loan products before those products are offered by the regulated financial institution. The revolving loan fund affiliate also makes loans to borrowers who eventually graduate to the development bank as their businesses grow.

The revolving loan fund affiliate (which is a 501(c)(3)) is also necessary to take advantage of several federal credit programs that are operated through private, non-profit revolving loan funds and to receive grant capital and investments by foundations, corporations and individuals. As the development bank matures, it often starts other non-regulated affiliates, which can include affiliates that provide mezzanine financing, venture capital, technical assistance, advocacy, real estate development, job training or other special programs that revolve around economic development.

Benefits of a Development Bank

Development banks in the United States attempt to generate the following benefits:

Program: A development bank has a mission to lend to groups that do not have access to existing credit. Its loan marketing focuses on those groups, and it develops the resources needed to better serve its target markets. For example, a development bank could be formed to focus on the Blue Ridge region, the rural parts of Virginia, the urban areas of the state, women- or minority-owned businesses, or all of the above. The key is that the development bank target a constituency that needs its services and that is not being fully served by traditional financial institutions.

Scale: With a few exceptions, development financing efforts in the United States have historically been fragmented. A key strategy of a development bank is to be large enough to: (1) focus substantial resources on a project, locality or region; (2) serve as a model and "testing laboratory" for more traditional financial institutions (e.g., banks); (3) act as an effective advocate for
changes in development policy at the federal and state level; and (4) offer an array of financial products to a community (e.g., secured debt, mezzanine debt, other forms of higher risk debt, and special financing programs). Size also enables the institution to achieve economies of scale and attract experienced management and professional staff. Scale is also important if the bank is to reduce its reliance on outside subsidy and remain a long-term player in its service area. An additional aspect of scale is that the development bank must target a market that is large enough for it to utilize its asset base effectively.

**Outside Resources:** A development bank must be of sufficient scale and impact that it can attract significant outside resources to a region or state. It should be particularly aggressive in utilizing existing, and pursuing new, federal programs, as well as helping national foundations focus on an area. A substantial portion of the development bank's deposits will often come from outside the state.

**Responsive to Market:** To be effective, a development bank must be responsive to its market. It must hold transaction costs to a minimum (given the nature of its lending). As a lender, it cannot be viewed as a "giveaway" or "government" program. Ultimately, the bank must be subject to the final market discipline of failure if it does not properly manage the risks it faces, serve its market, and control its costs. The entire development banking movement is an effort to combine private sector discipline with public sector goals.

**Local Partnerships:** Many communities have existing local development organizations in place. To the extent possible, a development bank is responsive to those community organizations and attempts to form partnerships with them. Ideally, these community organizations will use the development bank's expertise in finance and business management, and the development bank will use the local development organization's knowledge of the community (and what will work in that locality) to assist the community in ways the community deems appropriate.

**Building Local Businesses and Tax Base:** A development bank focuses on small, local businesses and first-time home buyers, which in turn creates a more stable economic base for the communities in its service area. Many of the businesses financed by the development bank will stabilize or grow, adding to the area's long-term job creation and tax base. As first-time home buyers, people have a financial stake in their community, and over a long term build up equity in their home so that they can start a business, send their children to college or retire.
Balancing Development Objectives and Financial Viability

Development lenders work to expand the limits of lending risk without incurring an unsustainable level of loan losses. They face unusually high costs compared with conventional banks because they make loans to businesses that have at least one risk factor (e.g., weak cash flow or collateral) and to home buyers who similarly have at least one risk factor (e.g., poor credit histories or less cash for down payments or repairs). Also, they face costs associated with the development and possible failure of "cutting edge" programs. They must devise a corporate financial/marketing strategy that recognizes the inherent costs and constraints of development banking.

Lending in Market Gaps: Development banks pursue markets that conventional lenders perceive as unprofitable. Their development targets are chosen primarily on the assumption that there are market gaps in certain commercial and mortgage markets that can be served without assuming enormously high costs. For example, the Center for Community Self-Help, despite its relatively small size, has become one of the largest SBA guaranteed loan originators in North Carolina through focused marketing and thorough knowledge of the program. Many banks avoid SBA loans due to the program's paperwork (and thus lower profits). As a result, borrowers who are just beyond "bankability" do not get access to credit. As another example, Self-Help's affordable mortgage program uses an innovative structure (a more flexible, low-down payment mortgage sold to Fannie Mae) to serve low-income, first-time home buyers. This same program is available to banks through Fannie Mae, but is not marketed extensively by them, since it is a low-profit product compared to larger home loans.

Although economic development literature frequently advocates this "market gap" approach, in practice the Center for Community Self-Help has found that such niches are not always as profitable or extensive on the business loan side as expected. For example, rural businesses are often perceived not to have the same access to loans as businesses in urban areas. Yet, one major factor in reducing the availability of credit in those areas is the high cost of bank marketing to businesses that are relatively dispersed. Those same costs exist for a development bank, which necessitates innovative marketing strategies and often some level of external subsidy in order to reach those markets.

Technical Assistance: A development bank controls to a certain extent the risk inherent in its loans through a combination of: (1) experienced loan officers who can identify ways to control risk in a loan (Self-Help's average loan officer's age is 38, with many years of lending experience); and (2) intensive upfront technical assistance to borrowers.
North Carolina has developed an extensive network of technical assistance providers through its Small Business and Technology Development Center and Small Business Centers, and the Center for Community Self-Help encourages borrowers to use those services in preparing initial plans. Self-Help offers supplemental technical assistance to companies with specific weaknesses that they can address with additional information or training in simple management procedures. In many cases, technical assistance is provided to companies that have not accurately determined the type of financing they need to achieve viability, and Self-Help helps those companies structure their requests. Self-Help sometimes counsels existing customers to take advantage of new market opportunities or to address difficulties that affect company performance.

Collection Efforts: Recognizing that many of its lending programs involve high delinquency rates, development banks emphasize their loan collection efforts. By remaining in close contact with borrowers to remind them of their payment schedule, good payment patterns are established early. They work closely with a borrower to try to work out problem loans, but will aggressively collect their loan once it is clear that the loan cannot be paid in due course. They are lenders, not grantors, and have found that establishing this expectation in borrowers is key to a good repayment record.

Limited Interest Rate Subsidy: Self-Help has established a policy of increasing the access to credit to disadvantaged borrowers, instead of lowering the cost (i.e., lowering the interest rate) of credit. Both options involve high cost to the lender. On the one hand, increasing access to credit increases risk and origination/loan servicing costs. On the other hand, reducing the cost of credit gives a lender less income to cover costs. Most development lenders must choose between these two options. It is rarely possible to subsidize both risk and interest rates without a significant, ongoing government subsidy.

The cost of capital does not significantly impact the profits of most business borrowers. Interest costs are a small percentage of a business’s cost structure when compared to cost of goods sold, labor, etc. Thus, even a 50 percent reduction in interest rates would be of marginal benefit to the business, but would halve the income from that loan to the lender. Furthermore, lowering the cost of credit is an ineffective application of subsidies in an era of limited resources, since both firms who need and do not need the subsidy receive it. The one exception to this principle is in low-income housing, where interest costs are the largest share of total borrower cost. Unfortunately, only government lenders, and not development banks, can afford the revenue loss associated with subsidized mortgage rates.
Many of the publicly-funded enterprise loan programs of the 1960s and 1970s focused on both reducing interest rates and increasing access to loans. Many of these programs were unable to manage the losses associated with this strategy, despite a relatively unlimited supply of federal subsidy. Today's development lenders must use more sophisticated management techniques to insure that they can make loans without bankrupting their organizations.

Debt versus Equity: A development bank focuses on transactions that can become "bankable" through technical assistance or some other form of risk management. It is a provider of debt that must be repaid (assuming that it does not have a venture capital subsidiary). A development bank recognizes that there are times in the life of a business when some portion of the business' capital should be equity, and times when a business can incur substantial debt. If a business is at a stage where it needs equity, the development bank should not substitute debt for that equity, since the probability of repayment is low. Thus, if a potential start-up business has a "good idea" and business plan, but little collateral, equity or secondary cash flow, a development bank's job is to help that entrepreneur recognize the scale of project that is appropriate, given the entrepreneur's resources.

External Subsidy: While they seek to make their core lending programs operate on at least a break-even basis, development banks seek continuous, reliable sources of subsidy to support new program development, technical assistance and advocacy. One of the core strategies of a development bank is to attract external resources to a region or state to leverage local capacity (both human and capital). The external resources may take the form of: (1) direct grants for operations; and (2) loan loss reserves, capital grants and low-cost loan capital (i.e., funds borrowed by the development bank at low interest and then re-loaned to borrowers) for higher risk loans. Development banks also use income from their net worth to support additional costs associated with development lending, and to a limited extent, reduce its reliance on grant funding.

Case Study: Self-Help Development Bank

The Center for Community Self-Help in Durham, North Carolina began in 1980 in the wake of one of the worst recessions in North Carolina's history. Initially, it provided only technical and managerial assistance to new or struggling employee-owned companies. After four years of trying to raise capital for these projects, the leaders of the Center became convinced that small businesses needed a source of capital somewhere in between bank loans and traditional venture capital. In response, the Center created the Self-Help Credit Union and Self-Help Ventures Fund. These two institutions were launched in 1984 with $77 raised at a bake sale. By 1992, the two institutions had combined assets...
exceeding $40 million. Self-Help has opened small field offices in Charlotte and Asheville and has a marketing representative in eastern North Carolina.

The structure of Self-Help's institutions and services is similar to that of other development banks. The parent corporation for Self-Help is the Center for Community Self-Help, a non-profit corporation that provides technical assistance and advocates for change in development policy and programs. Self-Help Credit Union (SHCU) is a federally-insured, state-chartered credit union that uses interest-bearing savings accounts (money markets, IRAs and CDs) to build a base for lending. Self-Help Ventures Fund is a non-profit corporation which obtains capital through low-interest loans and grants from foundations, religious organizations, corporations and private individuals. The Ventures Fund provides the highest-risk commercial financing at Self-Help.

Self-Help Credit Union has $3.5 million in equity and approximately $27 million in deposits. It has over 1500 depositors. Sixty percent (60%) of depositors are individuals, while 65% of deposit dollars are from for-profit and non-profit corporations and institutions. Twenty percent (20%) of SHCU's deposits are from religious orders. Forty percent (40%) of SHCU's depositors are from outside North Carolina. SHCU does not pay above market rates on its deposits. Self-Help Ventures Fund has $8 million in equity, with an additional $6 million in "program-related investments" (long-term, low interest loans from foundations).

Since its first loan in 1984, Self-Help has lent nearly $35 million to small businesses and first-time home buyers. In 1992, Self-Help will make more than $12 million in loans. Self-Help's loan portfolio does not resemble that of a typical bank. Cumulatively, Self-Help has made more than $18 million in commercial loans since its inception. In 1991, 118 loans were made to businesses and non-profit groups. Of these 1991 loans:

* 67% were made to rurally-based businesses
* 43% were made to minority-owned businesses
* 42% were made to women-owned businesses
* 9% were made to employee-owned businesses, cooperatives or non-profits

Since 1984, Self-Help has made 440 housing loans totalling nearly $17 million. Of housing loans made in 1991:

* 88% were made to minority households
* 61% were made to single mothers

Despite having a portfolio of loans to people who could not obtain traditional financing, Self-Help's losses have been low. In 1991, Self-Help wrote off less than $25,000 in loan losses.
Self-Help's development philosophy is that ownership is key for individual advancement and community stabilization. Self-Help therefore makes loans to people who are buying homes and building their own businesses. Control of assets gives families a financial base for additional economic or educational investment. Families need a certain level of net worth to send their children to college, buy or maintain a home or start and expand a small business. Local ownership of businesses, particularly in rural communities, provides a means for establishing and maintaining a stable economic base.

Beyond the development financing work, Self-Help works with organizations throughout North Carolina to develop and implement lending programs. Over the last two years, Self-Help has worked with:

* Housing Authorities of Durham, Charlotte and Wilson
* Minority Credit Union Association of North Carolina
* Coalition of Farm and Rural Families
* Rural Day Care Association of Northeastern North Carolina
* Microenterprise Lending Demonstration
* North Carolina Association of Community Development Corporations

The Business Climates in Virginia and North Carolina


North Carolina and Virginia boast similar populations (6.6 million for North Carolina and 6.2 million for Virginia in 1990). North Carolina, however, has approximately 900,000 more non-agricultural workers than Virginia (3,068,300 and 2,164,484, respectively). North Carolina's rate of long-term (1984-1989) employment growth is 12.64%, compared to 12.41% for Virginia.

As with many states, the rural economy lags behind urban areas. In both states, urban long-term employment growth outpaced the rural long-term growth. In North Carolina the ratio of urban employment growth to rural employment growth for 1990 was 6 to 1, while in Virginia it was 10 to 1. The 1990 ratio of average urban income to average rural income for North Carolina was 1.2 to 1. For Virginia this same ratio was
Workers in Virginia are considerably better-paid than North Carolina's workers (presumably due largely to the concentration of federal employees in the Washington area). In North Carolina the 1990 average annual wage was $19,320, while in Virginia it was $21,879. In North Carolina, the ratio of the income of the wealthiest 20% of the population to that of the poorest 20% was 8.9 to 1 in 1990. In Virginia, that same ratio was 9.41 to 1.

Limited data is available on bank activity in lending for businesses, but available data indicates that Virginia banks may be less active than North Carolina banks. North Carolina banks have $4,450 outstanding in commercial and industrial loans for each non-agricultural worker. Virginia has $2,850 outstanding per worker (36% less). For North Carolina, commercial loans are 29% of total loans, while in Virginia the same ratio is 19%.

Virginia does have substantially higher venture capital resources, with $909 per capita, compared to North Carolina's $298 per capita.

The two states have comparable numbers of businesses. As of 1988, North Carolina had a total of 158,793 establishments, while Virginia had 145,563 establishments. In that same year, North Carolina had 17,188 construction firms, while Virginia had 19,855. In the service industries (hotels, business services, automotive repair, etc.), North Carolina had 45,741 establishments, and Virginia had 38,331. In manufacturing, North Carolina had 11,065 plants, while Virginia had only 6,283.

On a per capita basis, North Carolina and Virginia had comparable numbers of black- and women-owned businesses. In North Carolina in 1987, 4.5% of all blacks between the ages of 18 and 65 owned their own business. In Virginia, 5.2% owned their own business. In both North Carolina and Virginia, 6.9% of women 18 to 65 owned their own business.

Comparison of Socio-economic Conditions in the Blue Ridge Region with the Commonwealth of Virginia

As a part of this study's examination of the need for a development bank to serve the Blue Ridge region, specific highlights of current socio-economic conditions in the Blue Ridge region versus the Commonwealth are presented below. The sources for this statistical information are the: 1992-93 Virginia Statistical Abstract (published by the Center for Public Service, University of Virginia, 1992) and The Blue Ridge Region of

* The Blue Ridge region has a population of 833,784 (1990), approximately 13.5% of the total population for the Commonwealth of Virginia. While Virginia's population grew at a rate of 16% during the decade of the 1980's, the Blue Ridge region grew at a rate of only 4%.

* Of the total non-agricultural workers in the Commonwealth, the Blue Ridge region employs approximately 17%.

* While Virginia's long-term employment growth (between 1980 and 1990) was 29%, the employment growth rate for the same period for the Blue Ridge region was only 13%.

* Annual wages for workers in the Blue Ridge region are slightly lower in comparison to the rest of the State. In 1990, the average annual wage for the Blue Ridge region was $17,997, while for the State as a whole, it was $21,879.

* The ratio of the income of the poorest 20% of the population to that of the richest 20% was 7.9 to 1 in the Blue Ridge region in 1992. For the State, it was 9.41 to 1.

* For every one business establishment in the Blue Ridge region in 1989, there were 7.7 business establishments in the State in 1989. Construction establishments in the Blue Ridge region in 1989 numbered 2,250 (13% of the State total), manufacturing establishments numbered 1,098 (18% of the State total), and service establishments numbered 6,194 (13% of the State total) in 1989.

* Although Virginia has substantially higher venture capital resources than North Carolina, as mentioned above, there appears to be no venture capital firms located in the Blue Ridge region.

The Need for an Analysis of Virginia's "Capital Gap"

There have been no thorough "capital gap" studies conducted in Virginia recently which attempt to examine where gaps in the supply of business credit exists. However, the issue of the need for more capital financing to support small business start-ups has been raised in various State Commission hearings.

At recent public hearings of the State Commission on Capital Financing (in October and November of 1992), testimony was provided concerning the lack of adequate available capital to support small business development. Furthermore, the Blue Ridge Economic
Development Commission (established by House Joint Resolution 107) at its November meeting in Clifton Forge, heard a report from a Virginia entrepreneur who said he had to go to Maryland to obtain venture capital for start-up of his high-tech business since such capital was not available in Virginia. The speaker noted that capital financing appeared to be available for expansions of existing industry, but there seemed to be no entity willing to take a risk to assist a small business start-up.

The Commonwealth, through its Economic Recovery Commission, recently looked at possible alternatives for expanding capital financing in light of the recession experienced during 1990-1991. In 1992, this Commission reported to the Governor and the General Assembly on options for increasing capital to enhance job creation in the State. The Commission recommended:

* creating a "Virginia Reinvestment Program", which would help small businesses to become more profitable and to encourage the reinvestment of corporate profits into new business activity;

* broadening the mission of the Virginia Economic Development Corporation (VEDCORP) to meet the needs of small start-up businesses statewide; and

* catalyzing the development of a venture fund industry in Virginia by getting the Virginia Retirement System to invest up to one percent (1%) of total assets in qualified Virginia venture funds.

Several states have conducted in-depth studies of "gaps" that exist in the supply of business credit. Field surveys to determine credit gaps in Virginia are beyond the scope of this study, but would typically include the following:

I. Assessment of the Availability of Business Financing

A. Interviews with top management of selected financial institutions

B. Interviews with selected local bank managers and loan officers

C. Interviews with key personnel at existing public financing institutions and technical assistance providers

D. Interviews with non-profits involved in business development

E. Analysis of available statistical data on institutional lending capacity
II. Assessment of Demand for Business Financing

A. Conduct written surveys of a representative sample of small businesses

B. Follow-up telephone surveys

C. In-depth interviews with selected survey respondents

D. Interviews with bank personnel, public financing institutions and development non-profits

III. Given the information developed in I and II above, potential intervention strategies could be examined.

One opportunity for assessing capital needs in the Commonwealth is to take a comparative approach in exploring potential demand for the services of a development bank in the Blue Ridge region or in Virginia as a whole. Several so-called "capital gap" studies have been conducted in other states (many focusing on rural areas), and virtually all have uncovered market segments that were not being adequately addressed. For example, in late 1989 the Center for Improving Mountain Lending (CIML) conducted a "deal stream analysis" for the 17 western most counties in North Carolina -- an area that would be comparable to the Blue Ridge region in western Virginia. That analysis examined both the nature and extent of unmet demand for business capital in that region. (The complete report is attached as Exhibit A.)

Briefly, the CIML deal stream analysis involved six lending institutions that agreed to complete a one-page form on each small business loan request that was denied during the 3-month period from November 1989 to January 1990. During that 3-month period, those six banks turned down 158 small business loan requests totalling $31.9 million. The study also reviewed in some detail the type of deficiencies that led to the credit denials. In summary, inadequate sources of repayment were present in 73% of the denials, followed by insufficient collateral (67%), inadequate capitalization (63%), inadequate management (53%), poor quality of financial information (49%) and poor credit (8%).

Based on these results, the report recommended several steps to enhance delivery of management training, technical assistance and small business education programs. The report also recognized that, even with enhanced management assistance, many of these businesses could not and should not qualify for debt financing. Nevertheless, the report took the position that a small fraction of the loan applicants could qualify for higher risk financing after receiving management assistance, and the economic impact of those successful applicants would be significant. For example, based on the surveys received from the six participating banks, the study projected at least $124 million of annual demand for business loans.
in western North Carolina. If only 10\% of these businesses could qualify for a higher risk loan pool with additional technical assistance, then that pool could potentially deliver $12.4 million of new capital to the region every year. In response to this study, the task force recommended that CIML and the Center for Community Self-Help undertake the formation of a higher risk loan fund focusing on western North Carolina.

Other studies in North Carolina have similarly documented the demand for financing delivery systems that supplement the existing commercial banking system. In 1988, the Counsel for Community Development, Inc. conducted a comprehensive study entitled *Rural North Carolina Capital Markets Analysis*. That study documented the need in rural North Carolina for additional sources of venture capital, higher risk debt and small loans. This study led to the formation of a venture capital firm focusing on rural North Carolina, a significant capital infusion into Self-Help to enable it to expand its programs and the creation of a microenterprise loan fund to address the need for very small business loans.

Other states undertaking a capital gap study have documented the need for higher risk financing. For example, South Shore analyzed rural Arkansas carefully before it undertook the Southern Development Bancorporation venture. The Foundation for the Mid-South is currently acting as a catalyst for a major review of credit needs in the Delta region of Arkansas, Mississippi and Louisiana.

Because of the lack of information on "capital gaps" in Virginia, it is difficult to determine the extent of need for additional capital financing in the Commonwealth, and in particular the Blue Ridge region. Although the "statistics" indicate that Virginia does have substantially higher venture capital resources than North Carolina, testimony at recent public hearings by State Commissions appears to conflict with these statistics. Furthermore, these statistics do not indicate comparable availability of these capital venture funds across various regions of the Commonwealth.

**Federal Small Business Loan Programs**

An examination of Virginia's participation in federal credit programs is useful in two ways: (1) a low level of participation relative to other states would indicate that there exists demand for business credit in Virginia that is currently not being satisfied (assuming that Virginia's businesses need credit to the same extent as businesses in other states); and (2) since one of the primary purposes of a development bank is aggressive use of federal credit programs, low current participation would be one indication of the need and market potential for a development bank. Again, Virginia is compared to North Carolina in much of this
section to provide a "real-life" context for Virginia's level of participation.

Several federal small business loan programs exist that either (1) provide loan guarantees to banks to enable them to make higher risk loans, (2) make loans directly to small businesses that cannot get credit elsewhere or (3) make long-term, low-interest loans to non-profit intermediaries, who in turn re-lend that money to small businesses. Information on utilization of these programs is fragmented, but readily available information indicates that these programs are dramatically underutilized in Virginia. As a result, Virginia each year is missing out on millions of dollars of federal money that could be targeted for small business capital.

Small Business Administration's 7(a) Guarantee Program

Probably the most important source of small business capital through the federal government is the Small Business Administration's 7(a) Guarantee Program. Under that program, the Small Business Administration (SBA) guarantees 85% to 90% of a bank's loan. That guarantee enables a bank to take higher risk than it would ordinarily. A bank earns interest on 100% of a loan so long as it is performing, but only has to take 10% to 15% of the loss.

Virginia is covered by two SBA offices (the Washington office covers the portion of Northern Virginia surrounding that city and the Richmond office covers the remainder of the State). The Washington office has verbally stated that only a small portion of its loans are to Virginia-based businesses. Based on available information, however, it is probably fair to say that either banks in Virginia underutilize the 7(a) guarantee program, or banks are more willing to take higher risk without SBA guarantees than their North Carolina counterparts.

During fiscal year 1992, the Charlotte, NC office of SBA approved guarantees for 311 loans totalling $69,549,000. During that same year, the Richmond SBA office approved guarantees for 148 loans totalling $49,626,000. Assuming that Virginia has 149,700 business establishments (the number present in 1990 according to the Bureau of the Census), Virginia received $332 per business establishment. The comparable numbers for North Carolina are 165,000 business establishments and $422 per business establishment (27% more per business establishment). To translate these numbers into opportunity cost, if Virginia businesses had received SBA 7(a) loans at the same rate as their North Carolina counterparts, they would have received $13,550,000 in additional capital in fiscal year 1992 alone (($69,549,000 in loans/165,000 NC business establishments) x 149,700 VA business establishments) - $49,626,000).

Before any definitive conclusions can be drawn, more complete data would have to be gathered for the Washington SBA office
serving Northern Virginia. The State of Virginia also has its own guarantee program that guaranteed 26 loans totalling $1.2 million in fiscal year 1991. Nevertheless, it would appear that Virginia businesses do not have the same access to SBA loans as businesses in other southern states.

The difference in SBA lending rates to rural Virginia businesses and rural North Carolina businesses is so dramatic that one has to question whether one is comparing "apples to apples". Approximately 50% of SBA loans in North Carolina went to rural businesses. Using the data provided by the Richmond office, only 15.5% of SBA loans in Virginia went to rural areas. The Virginia SBA office presumably is using a different definition of "rural", since that difference is so large. If, however, the information is accurate, it would certainly support the need for a development bank that would focus in part on delivering SBA loans to rural areas in Virginia, such as the Blue Ridge region.

The Small Business Administration's 504 Program

The Small Business Administration's 504 Program is designed to provide long-term financing at fixed rates and lower down payments for fixed and related types of assets. Under this program, a local certified development corporation (an SBA-approved lending organization) issues an SBA-guaranteed debenture for 50% of the project's cost, a local bank provides 40% of the financing and the owner must put in 10% of project costs. This program also has a jobs creation requirement -- generally one job must be created or retained for every $35,000 loaned.

In 1992, Virginia lagged behind comparable southern states in the rate of utilization of the 504 program. In that year, the Richmond office made thirty-four (34) SBA 504 loans totalling $9,427,000. Again, statistics are not readily available for the Washington office of SBA to determine if any of its 504 loans were located in Virginia. The Charlotte office made sixty-four (64) SBA 504 loans totalling $17,500,000. If Virginia businesses received SBA 504 loans at the same rate as North Carolina businesses in 1992, they would have received an additional $6,500,000 in debt capital ($(17,500,000 in loans/165,000 NC business establishments) x 149,700 VA business establishments) - $9,427,000).

Farmers Home Administration's Business and Industrial Loan Program

The Farmers Home Administration (FmHA) runs a loan program for large rural businesses called the Business and Industrial Development Loan Program ("B&I" for short). In 1992, FmHA funded $100 million in such loans. Of that $100 million, Virginia received one (1) loan totalling $820,000 through this program. North Carolina received $2,934,750, South Carolina received $2,619,000 and Georgia received $7,540,440. If Virginia businesses received B&I loans at the same rate as their North Carolina
counterparts, they would have received $1,850,000 in additional debt capital in 1992 (((✓2,934,750 in NC loans/165,000 NC business establishments) x 149,700 VA business establishments)−$820,000).

The Community Development Block Grant Program

The Community Development Block Grant program can be a source of economic development funds. This program, which is funded by the U.S. Department of Housing and Urban Development (HUD), makes money available to local municipalities through two vehicles -- directly to large cities through the Entitlement Program and to smaller cities (via states) through the States and Small Cities Program. While the funds are typically used to finance community and housing development efforts, economic development is a permissible lending activity. Cities and states vary widely in how they use CDBG money, which makes it difficult to generalize how that money is used on a state-by-state basis. North Carolina, for example, has traditionally allocated $4 million per year for business projects through its States and Small Cities Program. Although Virginia traditionally has not allocated a specific amount of money each year from CDBG funds for economic development projects, 10%-30% of all Community Improvement Grants (from the CDBG Program) have been awarded to business-related projects. Between 1982 and 1992, Virginia awarded $54 million to various economic development projects.

Various Federal Pilot Programs

The federal government from time-to-time initiates pilot projects in various states and localities that attempt to increase credit available to businesses. Virginia's participation in those pilot programs appears negligible.

One of the major new programs in recent years has been FmHA's Intermediary Relending Program. Under that program, selected non-profit organizations in various states make loans to rural businesses. These loans are funded by FmHA. As of July 1992, no non-profit organization in Virginia was participating in that program. North Carolina non-profit groups had received $3,200,000 in funds under that program, while Georgia groups had received $2,000,000. Based on the same formula used above, Virginia's rural businesses missed out on $2,800,000 of additional debt capital, when compared to their North Carolina counterparts.

The Small Business Administration recently funded 35 non-profits across the country to make loans of $25,000 and under to small businesses. SBA made approximately $12,500,000 in long-term fixed rate loans to various non-profit organizations and $2,500,000 in operating grants. Virginia received no loans or grants from this program. North Carolina received $500,000 in loans and $100,000 in grants, and several other southern states received comparable amounts or more.
HUD recently funded several non-profits across the country to make very small loans to housing authority residents who are running one-person businesses. North Carolina non-profit groups received $260,000 in funding under this program. Virginia received no loans from this program.

A Summary of Virginia's Participation in Federal Programs

There are undoubtedly credit programs to which Virginia businesses have better access than their peers in other states. Nevertheless, it is reasonable to say that Virginia's businesses have significantly less access to many federal small business credit programs than businesses in North Carolina. The data reviewed above would suggest that a partial accounting of those "lost dollars", when compared to North Carolina, during 1991 would be the following:

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBA 7(a) program</td>
<td>$13,550,000</td>
</tr>
<tr>
<td>SBA 504 program</td>
<td>$6,500,000</td>
</tr>
<tr>
<td>FmHA B&amp;I program</td>
<td>$1,850,000</td>
</tr>
<tr>
<td>FmHA IRP program</td>
<td>$2,800,000</td>
</tr>
<tr>
<td>SBA Small Loan program</td>
<td>$450,000</td>
</tr>
<tr>
<td>HUD Small Loan program</td>
<td>$230,000</td>
</tr>
<tr>
<td>PROJECTED TOTAL &quot;LOST DOLLARS&quot; FROM FEDERAL LOAN PROGRAMS FOR RURAL BUSINESSES</td>
<td>$25,380,000</td>
</tr>
</tbody>
</table>

It is somewhat simplistic to look at one state's participation in federal programs, and then to draw the conclusion from that observation that another state should be participating at the same level. The $25,380,000 in "lost money" is a somewhat contrived number. From the standpoint of Virginia's businesses, however, it is fair to say that they do not get millions of dollars per year through federal credit programs that their counterparts (and competitors) are getting in other states.

The question is -- why does not Virginia participate in federal loan programs at the same level as her sister states? Perhaps, the answer lies in the fact that there is no one entity in the Commonwealth that serves as a "facilitator" to disseminate information about these federal programs and to promote participation in such programs. A development bank can play a key role in alleviating this problem, since one of the main functions of a development bank is to: (1) stay abreast of changes in federal credit programs; (2) utilize federal credit programs intensively; and (3) advocate for changes in these programs so they are more "user-friendly".

One can look to the North Carolina Center for Community Self-Help as a model for effectively utilizing federal credit programs.
Virginia's Small Business Loan Programs
Which Serve the Blue Ridge Region

There are several business loan programs in Virginia which can assist small businesses with financing for either the start-up and/or maintenance of their operation. The following is a discussion of the different types of programs available in the State.

Community Development Block Grants

In Virginia, from 1982-1992, the States and Small Cities CDBG Program funded 82 economic development projects. The statistics indicate that 13,948 individuals benefitted from this program with an average cost of $3,295 per beneficiary. Throughout the mid-1980's, economic development projects consistently made up 20-40% of the total number of Community Improvement Grants (CIG) awarded. The amount of economic development CIGs awarded during the late 1980's and early 1990's decreased to about 10% of the total grant awards. While nearly $35.5 million was spent on economic development from 1982 to 1987, only $18.5 million was spent for this project category during 1987-1992.

Within the economic development component of Virginia's CDBG Program, business financing is an eligible activity. Over the last decades, two (2) projects requesting business financing were awarded. The amount of financing provided these two projects totalled $1.4 million dollars. This amount represents about 2.6% of all funds awarded for economic development projects under Virginia's CDBG Program.

Virginia Economic Development Revolving Loan Fund

This fund provides fixed-asset financing to new or expanding manufacturing and related industries that are creating new jobs or retaining "at-risk" jobs in Virginia. Administered by the Virginia Department of Housing and Community Development, the VEDRLF provides "gap financing", or financing that is unavailable or unaffordable from private sector lenders for the completion of economic development projects.

The maximum loan amount from VEDRLF for a single project is $700,000. There is a job creation requirement for this program -- for every $10,000 borrowed from the loan fund, one (1) job must be
Flexible loan interest rates and loan terms make the VEDRLF a viable option for Virginia localities seeking to expand their industrial base.

From 1988 to 1990, DHCD approved VEDRLF loan requests from 13 businesses. The loan amounts ranged from $60,000 to $700,000 for a total of nearly $4 million. Once these projects have been completed, approximately 1,250 jobs will have been created or retained as a result of VEDRLF financing.

Certified Development Companies (SBA 504 Program)

There are several certified development companies (CDCs) in operation in the Commonwealth. A certified development company is a lending organization, sanctioned by the Small Business Administration, which is intended to coordinate public and private final asset financing for small to medium-sized businesses. Two CDCs serve the needs of small businesses in the Blue Ridge Region. These are the New River Valley Development Corporation in Radford and the Central Virginia Development Corporation in Lynchburg.

The New River Valley Development Corporation (NRVDC) has issued $2.8 million in SBA 503/504 loans to six businesses in the southwestern portion of the Blue Ridge region since 1984. As a result of these loans, 24 jobs were created and 46 jobs were retained. Currently, the NRVDC is working on lending another $10 million to businesses in the southwestern portion of the Blue Ridge region.

The Central Virginia Development Corporation has issued $1.9 million in SBA 503/504 loans to nine (9) businesses in the southeastern portion of the Blue Ridge region since 1986. As a result of these loans, 145 jobs were created or retain in this portion of the region.

Small Business Financing Authority

Created in 1984 with the passing of the Virginia Small Business Financing Act, the Small Business Financing Authority offers three financing programs. These are described below. To be eligible for funding from the SBA, a business in Virginia must meet one of the following: (1) have less than 250 employees; (2) have $10 million or less in annual gross revenues over each of the last three years; and (3) have a net worth of $2 million or less.

1) Loan Guaranty Program -- This program is designed to reduce the risk to banks in making loans and subsequently increasing the availability of short-term capital for small businesses. The program will guarantee $150,000 or 50% (whichever is less) of a bank loan. Short-term loans for working capital and fixed-asset purchases, and revolving lines of credit to financing accounts receivable and inventory are examples of
how money is borrowed under this program.

2) Export Financing -- The Small Business Financing Authority guarantees short-term bank loans offered to small businesses (primarily for pre-export working capital) under the Export Guaranty Program. The maximum guaranty (which may apply to a short-term loan, a revolving line of credit or a standby letter of credit) is $150,000 or 50% of the loan amount, whichever is less.

Through this program, the Small Business Financing Authority also markets all of the export finance programs and services of Eximbank, the Export-Import Bank of the Untied States. This enables them to better serve small Virginia's exporters by obtaining export credit insurance from the Foreign Credit Insurance Association.

3) Industrial Development Bonds and the Umbrella IDB Program -- The Small Business Financing Authority issues tax-exempt industrial development bonds to finance the land, building and new capital equipment needs of small manufacturing businesses statewide. These industrial development bonds are available to cities, counties and towns in Virginia. The maximum bond issue is $10 million per company for any given locality. Industrial Development Bonds may be used to finance up to 100% of the cost of land, buildings and new capital equipment.

Tax Increment Financing Program

Cities, counties and towns in Virginia can use the Tax Increment Financing (TIF) Program to encourage private investment in development project areas in their communities. The purpose of this program is to improve the real estate tax base and eliminate blighted conditions.

For a locality to become involved with the TIF program, it must pass an ordinance that designates a development project area. Upon determining the base value of real estate in the development project area, the locality reassesses the property each year. Incentives for development are offered. Once development takes place and the current value of the property exceeds the base assessed value, the difference is the tax increment that is placed into the Tax Increment Financing Fund. This fund is used to finance the principle and interest on the local government bonds, loans and other financial obligations used to finance the costs of the development project area.

The Virginia Economic Development Corporation, Inc.

The Virginia Economic Development Corporation (VEDCORP) is a private, for-profit venture capital firm created in 1991 that makes investments in small businesses located in areas outside the
Northern Virginia—Richmond—Hampton Roads area. VEDCORP does not provide loans for small business start-ups, but instead, assists small businesses with expansion opportunities. To date, VEDCORP has $12.5 million in assets obtained from financial institutions, utilities, and other large corporations in Virginia. VEDCORP investments include rapidly growing companies whose capital needs exceed senior bank debt capacity, land acquisitions, ownership transitions, and additional investments in portfolio companies.

Interest-bearing securities senior to equity that provide equity-linked returns through warrants, options, or conversion features are preferred by VEDCORP. Investments characteristic of VEDCORP often range between $100,000 and $700,000 on a subordinated note basis with a term of five to eight years. Cash flow expectations dictate the repayment plan. When larger investments are required for a particular transaction to occur, VEDCORP has the ability to bring in other venture capital investors.

**Virginia Revolving Loan Fund**

This program provides loans to assist eligible Virginia localities for the retention or creation of permanent jobs. Localities eligible for this funding are those eligible for U.S. Economic Development Administration Title IX programs, those that have an unemployment rate higher than the state average, those with an average family income below the state average, or those located in an approved Economic Development District. The maximum loan amount for any project is $700,000, with one job created or retained for each $10,000 invested.

Similar in nature to the Economic Development Revolving Loan Fund, the Virginia Revolving Loan Fund monies are made available to localities, while funds from the Economic Development Revolving Loan Fund are typically awarded to Industrial Development Authorities in CDBG non-entitlement communities.

**Western Virginia Revolving Loan Fund**

This relatively new program is operated through a consortium of Planning District Commissions 4, 5 and 6 and the Southwest Virginia Community Development Fund. The Western Virginia Revolving Loan Fund was capitalized with funds provided by the U.S. Economic Development Administration. Since 1991, this program has provided loans to ten (10) businesses (totalling $765,600) in the southwestern portion of the Blue Ridge region. Eighty-three (83) full-time and 38 part-time jobs have been created and 46 jobs retained as a result of loans provided through this program. Localities eligible for funding are those eligible for U.S. Economic Development Administration Title IX programs. Participating localities are required to provide a partial match in order for a loan to be issued in their community. Additionally, this program has a jobs creation/retention requirement -- one job
created or retained for every $10,000 invested.

A Commentary on Business Loan Programs in Virginia

The loan programs which exist in the Commonwealth do provide opportunities for capital financing to small businesses. However, there are often restrictions or requirements associated with loan programs which reduce their flexibility in addressing the capital needs of the business community. Requirements for job creation/retention, minimum loan requirements, and locality eligibility play a role in reducing the access of small businesses to some loan programs.

Another important issue which may affect the ability of a small business to tap into capital provided by the above programs, is that these programs are not housed within one agency. Several different agencies administer these programs. Unless the entrepreneur has a detailed knowledge of such programs, he/she may have no idea how to access the capital available through these programs.

Strategies for Developing a Regional Development Bank

If Virginia desired to pursue a development bank, it has several alternatives to consider. The Commonwealth could pursue a development bank, at least initially, that focuses on a particular region, such as the Blue Ridge region. If it is determined that there has been a positive the impact on capital financing in this region, then the development bank could be expanded statewide.

A regional development bank can focus its resources on a limited area, be an active player in that region with intimate knowledge of its people and institutions and specialize in industries that are crucial to the economic health of that region. This is the strategy pursued by Southern Development Bancorporation in Arkansas.

If the development bank proves beneficial on a regional level, then a statewide bank could be pursued. The statewide development bank would serve all areas of a state (both rural and urban) that need its community development dollars. A statewide development bank could: (1) build local relationships and partnerships to supplement its knowledge of a specific area; (2) address the needs of a larger market; (3) more likely receive support from statewide institutions and national foundations; and (4) more likely obtain support from the General Assembly over the long term. This is the strategy followed by the North Carolina Development Bank. The ultimate decision in this regard would be based on an evaluation of those areas of Virginia which have the greatest need for the services of a development bank, balanced by the sources of funding and political support for the project.
Alternative Approaches for Pursuing a Development Bank

If some group within Virginia were to decide to pursue the eventual creation of a development bank, there are at least three different strategies that could help reach that goal.

Support Center: One incremental strategy is to create a "support center" that would work with existing revolving loan funds in Virginia. That Support Center could support those funds as follows:

* Provide technical assistance (e.g., strategic planning, accounting and collections advice, capacity-building, etc. to member revolving loan funds);

* Sponsor periodic meetings of, and communication between, those funds to share experiences;

* Encourage and coordinate usage of federal credit enhancement programs;

* Develop proposals to foundations and social investors that might support the growth of this "partnership";

* Publicize successes of revolving loan funds in working with banks as they develop community lending programs and help member funds develop relationships with those banks;

* Advocate for changes in policies affecting revolving loan funds at both the federal and the state level; and

* Begin laying the groundwork for the creation of a regulated financial institution that would eventually become the development bank.

The State of North Carolina has funded a support center of the type described above for the Community Development Credit Unions in that state.

There are weaknesses in this strategy:

* Other than dues from member revolving loan funds and limited opportunities for fee for services, there is no ongoing source of internally generated revenue for the Support Center. For example, a revolving loan fund would be willing to pay for accounting support when it needs that support, but would probably be unwilling to pay a "retainer" for that support unless it anticipates using that support intensively. Yet, the Support Center cannot survive in the long term without a steady ongoing source of revenue.
This lack of reliable revenue means that each year, the support center will have to rely on state funding, which will be difficult to maintain on an ongoing basis, or foundation funding, which will require substantial time and skill to raise and which will also be difficult to maintain on an ongoing basis.

Revolving loan funds may be adequately serving their existing markets and may not want to expand into new markets.

The Support Center will find it difficult, as a non-depository institution, to participate in certain programs, such as the SBA's 7(a) guarantee program.

Since it would not make its own loans directly, the Support Center would not be in as strong a position as a direct lender when advocating policy changes to banks and the state/federal government.

Creation of a "Central Fund": A second strategy, which is one step closer to a development bank, is to create a large revolving loan fund (the "Central Fund") that would cover areas of Virginia not currently served by a revolving loan fund and provide supplemental coverage in other areas. This Central Fund would make loans directly when appropriate and could also co-invest with local revolving loan funds when those funds need additional capital for a project.

In terms of its direct lending activities, the Central Fund would in some ways resemble Virginia's Department of Housing and Community Development's Revolving Loan Fund. The Central Fund, however, would have the added advantage of not being a state agency, and thus would be able to attract foundation funding and participate in federal programs for which a state agency is not eligible. The Central Fund would also have more flexibility in adapting to changing market conditions and offering a wider array of loan programs.

The Center for Community Self-Help has used its revolving loan fund to leverage the assets of other local revolving loan funds in a program it calls "partnership lending". Like most states, North Carolina has many small loan funds that are not large enough to afford the loan documentation, servicing, reporting and collections that are required to run a loan fund successfully over a long period of time. Recognizing that economies of scale exist, several smaller loan funds have entered into a partnership with Self-Help. Under that partnership, the local fund decides which loan to make and what the terms of each loan will be. The loan fund then informs Self-Help of its decision, and Self-Help makes that loan, which is secured not only by the borrower's collateral, but also by cash provided by the local fund. Self-Help documents and services
the loan just like any other loan in its portfolio. If that loan defaults, Self-Help collects what it is owed out of the loan fund's deposit in Self-Help and assigns the loan and its collateral to the loan fund. The loan fund then turns it over to an attorney for collection.

The advantage for the local funds in this arrangement is that they can focus on marketing, decision-making and follow-up technical assistance, while Self-Help can focus on loan documentation, servicing and initial collections. Furthermore, if the local fund's portfolio performs in accordance with predetermined standards, Self-Help will provide additional capital beyond the loan fund's own capital. This enables the loan fund to expand the base that it has for local lending.

In the case of Virginia, the Central Fund would be the equivalent of Self-Help in its partnership lending model. This model also assumes that the Central Fund would also begin laying the groundwork for the eventual creation of a development bank, which could further support the activities of the local loan funds.

The major advantage of this strategy is that the Central Fund would generate income, which would make it less reliant on other sources of operating funds. Of course, the Central Fund could also undertake many of the same activities as the Support Center.

There are weaknesses in this strategy:

* The Central Fund will find it difficult, as a non-depository institution, to participate in certain programs, such as the SBA's 7(a) guarantee program.

* The Central Fund's mission must be clear, so that it is not viewed as a competitive threat to existing local loan funds.

* It will be difficult to achieve a large asset base within the Central Fund without a financial institution with a federally-insured deposit base (i.e., it will have to rely on grant capital, program-related investments and social investments).

* The degree of risk that the Central Fund can take, and the impact it can have, is directly proportional to the size of its equity base. Again, the key to the development bank concept is scale, and thus the Central Fund concept requires a large loan fund with an equity base of several million dollars. Thus, the capital-raising efforts with respect to a new central loan fund are not insignificant.
Creation of Development Bank: The third strategy is to create a development bank. This strategy would require either (1) attracting Self-Help, South Shore or some other experienced group to Virginia to start a de novo development bank, (2) supporting two or three people who are experienced in running a regulated financial institution in starting a de novo development bank, which would work in cooperation with existing revolving loan funds, (3) starting both a de novo development bank and revolving loan fund, or (4) convincing Self-Help to expand its service area to include Virginia or the target region.

It is important to emphasize that creation of a development bank will not lead to duplication of, or competition with, existing loan funds. The purpose of a development bank is to help meet effective credit needs that are currently not being satisfied, not to supplant existing resources. Thus, the development bank's revolving loan fund will be active in an area that is served by an existing fund only to the extent that the development bank is offering different products. The development bank, however, can still serve that area by offering products that cannot be offered by the local revolving loan fund (e.g., SBA 7(a) loans).

The advantages of this strategy are clear -- Virginia would get a full-fledged development bank from day one. It would be prudent for that bank to start its lending program slowly to enable it to better understand the actual capital gap that exist in Virginia without incurring an undue level of loan losses. Nevertheless, the impact of that bank would be felt immediately, and within three to five years Virginia could expect a number of development credit programs.

The barrier in pursuing that strategy is also clear -- money. The key to a successful development bank is scale, and scale requires that the institution have a significant amount of equity. A development bank that covers a large region or the entire State needs at least $10 million in equity if it is to achieve the scale necessary to cover all parts of the state, particularly rural areas. For example, Southern Development Bancorporation in Arkansas raised over $6.5 million in equity in 1986 to begin that bank and revolving loan fund, with an additional $3.5 million in program-related investments. That bank covers only a portion of Arkansas (a state whose entire population is a fraction of Virginia's). Self-Help's equity now stands at more than $12 million, with its program related investments exceeding $6 million.

Of course, the equity in a development bank is leveraged substantially by deposits in that institution, which is the primary benefit of using a bank or credit union as a base. Self-Help and Southern Development Bancorporation believes that an initial equity of $12 million would enable a development bank, and its revolving loan fund, to eventually reach at least $100 million in total assets. This level of assets could in turn support lending of $15
million or more annually for developmental purposes in Virginia.

Funding Sources for a Development Bank

The amount of dollars required to start a development bank is significant. It is fair to say that some individual(s) or institution(s) within Virginia must make a significant investment or contribution to the development bank in order to attract funding from outside the state. For example, in Arkansas over $4 million of the initial capitalization of $10 million was provided by in-state sources. More importantly, the Winthrop Rockefeller Foundation, which is based in Arkansas and was a major investor, took the lead in attracting other substantial investors (both in-state and out-of-state).

In the case of the Center for Community Self-Help, the Z. Smith Reynolds and Mary Reynolds Babcock Foundations (both North Carolina foundations) provided key support during Self-Help's formative years. In addition, the North Carolina legislature has appropriated $6 million to Self-Help in capital grants over the last eight years. Understandably, national funding organizations and, to a lesser extent, the federal government are reluctant to support an institution unless they believe that the people and institutions within a state are committed to it. Potential funding sources within Virginia would include utilities, banks, insurance companies, other major corporations, foundations, wealthy individuals and the state government.

Once major in-state funding sources have been identified, there are a number of national foundations that are actively involved in supporting development banking. The two largest contributors to such institutions are the Ford Foundation and the John D. and Catherine T. MacArthur Foundation. These two institutions have made grants and program-related investments over the years of over $15 million to Self-Help, Southern Development Bancorporation and South Shore. Other major foundations, such as the Pew Charitable Trusts, are evolving as major actors in this area, and a number of smaller foundations also provide operating support.

The federal government is also increasingly recognizing the benefits of lending funds through development banks and similar institutions (in fact, the Clinton Administration has proposed establishing 100 development banks throughout the nation). Several of these programs were identified in the section above captioned "Federal Small Business Loan Programs". The Farmers Home Administration, Small Business Administration, Housing and Urban Development, Health and Human Services and Rural Electrification Agency are all now using private sector intermediaries for business loan programs and are expected to increase their use of successful intermediaries as time passes. It would not be entirely unexpected
if at some point Congress funds development banks directly. The Senate Banking Committee is currently considering a capitalization program for development banks.

The bulk of a development bank's assets are deposits. Both Self-Help and South Shore have developed national deposit bases, composed of individuals, for-profit and non-profit corporations and religious related institutions. Both Self-Help and South Shore have found that deposits are the easiest form of capital to raise, since they are federally insured and are at market rate. Both institutions have leveraged their capital substantially with these deposits.

Concluding Observations about Establishing a Development Bank

A development bank is a significant undertaking that requires input from a number of different sources. A foundation or governmental unit must be identified that would be willing to fund the initial groundwork. One of the first steps would be to seek input from business, community and governmental leaders and potential funding organizations to both gather information and to begin to create support for the development bank concept. Formation of an advisory group, or at least a series of meetings of key people, is desirable.

Eventually, the persons leading the development bank effort need to develop a specific mission and structure for the bank, followed by a business plan for the institution. At that point, commitments will need to be obtained from two to three institutions (including State government) who are willing to grant or invest significant dollars in the effort.

If a development bank was established in the Blue Ridge region of the Commonwealth (or statewide), its basic role would be to:

1. **target loans to assist small business start-ups and allow low-income families to buy homes (focus on the 10%-15% of marginal loans that are just beyond "bankability");**
2. **provide technical assistance to its borrowers (to reduce the risk of loan failures);**
3. **serve as a leader (an innovator) and an advocate in enhancing consumer accessibility to federal credit programs; and**
4. **assist in increasing lending capital through partnerships with public sector programs, private sector capital and community-based organizations.**

A development bank is not a "quick fix". It requires expenditure of significant effort and investment of substantial dollars. Yet, on the basis of evidence gathered by this study, Virginia's small businesses lose access to millions of dollars of credit each year that are going to businesses in other states.
Even if a development bank diverts $10 or $15 million a year of additional capital to businesses in this state, the benefits accruing from the creation of a development bank would be a substantial return on the initial investment.

Recommendations

The study has attempted to address issues related to increasing the availability of development financing in Virginia as a means of providing more capital for small business development within the Blue Ridge region of the State. One critical piece of information about the Blue Ridge region which could not be determined (because of the limited scope and funding for this project) relates to the "credit gap" which currently exists in this region and statewide. Information concerning the existing "credit gap" should be obtained in order to better assess the scale of a regional development bank.

It has been noted that although Virginia does take advantage of federal programs intended to assist business start-ups, it appears that each year Virginia may be missing out on millions of dollars of federal money that could be targeted for small business capital. Furthermore, although the State may have several programs which try to address the capital needs of the business community, often these programs have restrictions/requirements which start-up businesses might not be able to accommodate. Additionally, the programs which do exist might not be accessible simply because these programs are administered by numerous agencies and the entrepreneur who requires capital does not have a "single point of contact" to find out: (1) how to pursue such loans, or (2) what may be the requirements of these loans.

The following recommendations are proposed as a means to enhance access to existing loan sources and to expand the base of capital financing in the Commonwealth.

Recommendation #1:

It is recommended that the Commonwealth establish a "clearinghouse" (or "central point of contact") for all loan programs available throughout the State. This clearinghouse should be assigned to one specific agency. This agency would be the depository for all information (i.e., loan restrictions/requirements, minimum loan amount, locality eligibility, etc.) pertaining to available loan programs.

This agency should be knowledgeable about programs operated at a regional level, such as the SBA 504 certified development companies and the revolving loan programs operated through the planning district commissions and other non-profit organizations. To heighten access to this information at the regional level, the
agency which serves as the clearinghouse could designate an entity within each region of Virginia to serve as its regional affiliate. Existing institutions such as the planning district commissions, small business development centers, regional chambers of commerce, regional economic development commissions, or industrial development authorities could serve in this capacity.

Recommendation #2:

As noted in the section above entitled "The Need for an Analysis of Virginia's 'Capital Gap'"., there appears to be a need for the Commonwealth to study the current and future demand for business credit. This type of study would be beneficial in that it could provide some idea of the required minimum scale of a development bank, if such an institution was created.

It is recommended that the General Assembly establish a study commission to examine the current capital gap in Virginia, and based on the findings of this analysis, assess the future demand for credit. A process for studying this issue is presented in the above cited section of this report.

Recommendation #3:

Recognizing that a development bank (modelled after the Center for Community Self-Help in North Carolina) would help to expand development financing in Virginia, it is recommended that the General Assembly establish a study commission which would assess the role of the State in helping to initiate a development bank. This study should examine: (1) any legislative or institutional barriers to formation of a development bank; (2) how a development bank could be structured so that all regions of the State have easy access to such a bank (i.e., determination as to the number of regional offices operated by a development bank to enhance access for development financing); and (3) the role the State could play in ensuring that this private, non-profit institution has adequate seed money to begin its work.

Recommendation #4:

It is recommended that the State should encourage the Clinton Administration to pursue the establishment of a development bank in the Commonwealth if this initiative is approved by Congress. The State should also make a commitment to provide seed money to match with federal funds so that the development bank has significant capital to ensure that the "capital gap" is being adequately addressed.

Recommendation #5:

If a development bank is established in Virginia, it is recommended that such a bank first be established in the Blue Ridge
region. Assuming that an assessment of the impact of the bank on the development financing in the region is positive, then the service area of the bank should be expanded to include Southwest Virginia and Southside Virginia. Following this initial stage of expansion, a 5-year plan for Statewide expansion should be developed.
EXHIBIT A
STRAATEGY FOR BUSINESS FORMATION AND DEVELOPMENT IN WESTERN NORTH CAROLINA

August 20, 1990


Center for Improving Mountain Living
Western Carolina University
Cullowhee, NC 28723
(704) 227-7492
INTRODUCTION

Western North Carolina is a region with many economic assets. However, the regional economy of the 17 westernmost counties lags behind those of the state and the nation on a number of measures. In 1987, 14 of our counties had per capita income levels below the state level. Furthermore, seven of the counties had per capita income levels below 75 percent of the state level. Consequently, poverty is more pervasive in this region than in the state as a whole or in the nation. There is little to indicate that we are catching up with the state as a whole. From 1984 to 1987, employment growth in the region was 7.5 percent, compared to 11.3 percent for the state. During the same period, the average annual wage in this region increased by 14.1 percent, while the state average grew by 16.4 percent.

Concerned people and communities have been working hard to strengthen local economies. In recent years, however, they have realized that in a region with a lagging economy there are limitations to what can be accomplished solely through local initiative. It was this realization that sparked the initiation of the Regional Economic Strategy Project to create strategies that build on the region's strengths and overcome its limitations to solve critical economic problems.

 Begun in January 1988, the Regional Economic Strategy Project was designed, and is staffed by, Western Carolina University's Center for Improving Mountain Living (CIML). During the spring and summer of 1988, CIML convened a series of five public forums, involving nearly 400 people. These half-day meetings involved citizens in analysis of the region's economic circumstances and identification of courses of action that could move the region toward a more desirable economic future.

A technical committee, organized and staffed by CIML, evaluated these alternative courses of action and selected those that had high potential impact and that could begin to produce results in the near term. Four "immediate objectives" emerged:

1. U.S. Bureau of Economic Analysis

- to improve the availability of business capital to finance the start-up and expansion of small businesses,
- to reduce solid waste and improve solid waste management,
- to enhance the contribution of tourism and recreation to the region's economy, and
- to broaden and deepen the pool of leaders who are prepared to help solve local and regional problems.

These objectives were announced to the public in January 1989. Four regional task forces were organized—one around each of the four objectives. These groups were charged with creating regional strategies to accomplish their objectives. The RESP Business Capital Task Force had 36 members, representing a variety of interests and types of institutions and organizations. The group included small business owners, economic development professionals, lenders, utility representatives, providers of business assistance, and staff of state economic development agencies. (See attached list of members).

ASSESSING THE PROBLEM OF BUSINESS DEVELOPMENT FINANCE

The strategies developed by the RESP Business Capital Task Force are grounded in careful analysis conducted over a period of about a year and a half. The first step taken by the Task Force was to develop its understanding of the problem of business development finance in western North Carolina. All members of the group had insights into the problem before the Task Force began its work. However, because of the varied perspectives from which the members viewed the problem, there was not a clear consensus within the group about the nature of the problem or its solution. Therefore, the initial efforts of the Task Force were directed at building this consensus. The Task Force began its work with a couple of panel discussions designed to share perspectives and stimulate some organized discussion of critical issues. The first panel included several Task Force members, a combination of economic development professionals and providers of business assistance. The second panel included Task Force members who own and operate small businesses in western North Carolina. These panel discussions were useful for providing insight into some of the difficulties of small business development. However, they also demonstrated to the Task Force that a more systematic analysis would be required to provide the group with the information needed to understand and solve the problems of business development finance. More information was needed about both the nature and the extent of unmet demand for business capital than could be provided by anecdotal data.

The need for more systematic analysis was underscored in discussions between the Task Force and representatives of the Southern Development Bancorporation, a development finance institution that is being developed in rural Arkansas. Representatives of Southern were invited to western North Carolina to discuss their program and the
lessons it might provide to the Task Force. During their two-day stay in the region they met with a number of economic development groups and business owners. Their visit culminated in a meeting with the Task Force, in which they discussed their experience in development finance in Arkansas and their observations about the potential to apply lessons from Arkansas to development finance problems of this region.

Reactions of the Task Force members were mixed. Some members were very favorably impressed with the design of Southern Development Bancorporation, which has subsidiaries and programs for initiating real estate development projects, and for providing equity and debt financing, and management assistance. Other members were impressed with the enormous cost, in terms of capital and work, that have been invested in the development of Southern. These members were skeptical about the prospects of raising sufficient funds here, particularly without a lead funder such as the Winthrop Rockefeller Foundation, which has injected several million dollars into the development of Southern. Some Task Force members still questioned the need to do anything at all about business development finance in the region.

The discussion of the Arkansas experience did produce consensus within the Task Force on a key point. The group agreed that before it could move forward, it needed reliable information about unmet demand for business capital. First, the Task Force needed to know whether there was enough unmet demand to justify intervention. Second, if intervention were found to be justified, the group needed to know what specific actions were called for.

Deal Stream Analysis

To provide the needed information, the Task Force asked the lenders represented on the Task Force to participate in what came to be called a Deal Stream Analysis. This analysis was intended to measure the volume and nature of the "nonbankable" deal stream. The analysis was designed by Regional Economic Strategy Project staff and the lenders on the Task Force. It used a one-page form to collect specified information on each small business loan request that was denied during the three-month study period--November 1989 - January 1990. (For the purposes of this analysis, small businesses were defined as those with annual sales of $2 million or less.)

Six lending institutions (BB&T, First Citizens Bank & Trust, First Union National Bank, NCNB, Wachovia Bank & Trust, and the Self-Help Credit Union) participated, and the data were analyzed by staff of the Regional Economic Strategy Project of Western Carolina University's Center for Improving Mountain Living. During the three-month period, data were collected on 158 small business loan requests. Due to the time of year in which the data were collected, the results of the analysis probably are not representative of the annual volume of the nonbankable deal stream. There was a general consensus among the Task Force members that the annual volume probably is greater than four times the volume of activity in this quarter. Following is a discussion of the results of the Deal Stream Analysis.
Geographic Distribution of Nonbankable Loan Demand

The data were drawn from 22 counties. Two counties accounted for 55% of the cases (Buncombe at 39% and Henderson at 16%). Macon County had the third highest share of cases (8%). Thus, almost two-thirds (63%) of the cases analyzed were from these three counties. Six of the 22 counties had only one loan denial recorded, and 13 counties had three or fewer loan denials recorded.

Sectoral Distribution of Nonbankable Loan Requests

The cases represented 35 industrial classifications (two-digit SIC). However, five classifications, or sectors, accounted for 50% of the cases (79 cases). In rank order, these five sectors were:

- real estate (23 cases or 14.6%)
- misc. retail (19 cases or 12.0%)
- hotels and lodging (15 cases or 9.5%)
- eating & drinking est. (14 cases or 8.9%)
- business services (8 cases or 5.1%)

In addition, five manufacturing sectors were represented in the data. These sectors included 16 cases—just over 10% of the total cases recorded. The specific manufacturing sectors are listed below:

- food and kindred products (4 cases or 2.5%)
- lumber & wood products (4 cases or 2.5%)
- fabricated metal products (4 cases or 2.5%)
- furniture & fixtures (3 cases or 1.9%)
- leather & leather products (1 case or 0.6%)

The five sectors with the highest frequencies combined with the five manufacturing sectors account for 60% of the cases observed. Selected characteristics of these sectors are shown in Table 1.
### TABLE 1. CHARACTERISTICS OF SELECTED SECTORS IN NONBANKABLE DEAL STREAM

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage of Total Sample</th>
<th>Number of Cases</th>
<th>Percentage Existing Businesses</th>
<th>Median Loan Request</th>
<th>Total Loan Requests</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sample</td>
<td>100.0</td>
<td>158</td>
<td>52%</td>
<td>$49,500</td>
<td>$31.9 MM</td>
</tr>
<tr>
<td>Business Services</td>
<td>5.1</td>
<td>8</td>
<td>50%</td>
<td>$25,000</td>
<td>$0.5 MM</td>
</tr>
<tr>
<td>Hotels &amp; Lodging</td>
<td>9.5</td>
<td>15</td>
<td>53%</td>
<td>$350,000</td>
<td>$7.6 MM</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.0</td>
<td>16</td>
<td>75%</td>
<td>$130,000</td>
<td>$2.2 MM</td>
</tr>
<tr>
<td>Real Estate</td>
<td>14.6</td>
<td>23</td>
<td>52%</td>
<td>$100,000</td>
<td>$6.9 MM</td>
</tr>
<tr>
<td>Restaurants</td>
<td>8.9</td>
<td>14</td>
<td>57%</td>
<td>$32,000</td>
<td>$1.0 MM</td>
</tr>
<tr>
<td>Retail</td>
<td>12.0</td>
<td>19</td>
<td>47%</td>
<td>$36,000</td>
<td>$1.4 MM</td>
</tr>
</tbody>
</table>

### Start-up vs. Existing Businesses in Nonbankable Deal Stream

Less than half (76 cases or 48%) of the loan requests were from start-up businesses, and just over half (82 cases or 52%) were from existing businesses. This distribution was fairly consistent across the different industrial sectors.

### Size of Businesses in Nonbankable Deal Stream

Business size was measured by annual sales. Sales figures were recorded for only 58 of the 82 existing businesses. Eighteen of the 24 existing businesses that had no sales figures recorded were real estate developers. Of the businesses for which sales were recorded, the median annual sales figure was about $240,000. The lowest figure recorded was $8,000 and the highest was $2,000,000. Nine cases had annual sales of $1,000,000 or more.

### Size of Nonbankable Loan Requests

The total amount of funds requested by all the observed cases was $31.9 million. The loan amounts requested by individual businesses ranged widely from $1,500 to $3.2 million. The median amount requested was $49,500. Loans of $100,000 or more were requested by 36% of the cases, and loans of $200,000 or more were requested by 21% of the cases. The 53 requests for operating capital ranged from $3,000 to $385,000. The median operating capital request was $22,500. Eight of the requests were for $100,000 or more in operating capital. The 56 requests for funds to finance fixed assets ranged from $2,000 to $2.25 million. The median fixed asset request was $68,500. Eight of the requests were for $500,000 or more. The 18 requests for funds to finance a business acquisition ranged from $6,000 to $3.2 million. The median request for acquisition financing was $175,000.
Deficiencies

Lenders were asked to indicate the deficiencies that were observed in businesses making unsuccessful business loan requests. The lenders used a checklist of 18 potential deficiencies grouped into six categories as follows:

- Management Deficiencies
  - Inadequate Track Record (past performance)
  - Reputation/Character of Management
  - Inadequate Understanding of Financial Controls
  - Inadequate Experience in this Type of Business
  - Management Succession (depth of management)

- Deficiencies in Quality of Financial Information
  - Poor or Questionable Business Plan
  - Lack of CPA-Prepared Statements
  - Poor or Suspect Projections

- Deficiencies in Ability to Repay Loan
  - Inadequate Primary Source of Repayment
  - Inadequate Secondary Source of Repayment
  - Excessive Repayment Term Requested

- Capitalization Deficiencies
  - Insufficient Equity
  - Too Much Debt

- Collateral Deficiencies
  - Lack of Collateral
  - Resale Value of Collateral Insufficient or Not Marketable
  - Otherwise Unacceptable Collateral

- Credit Deficiencies
  - Derogatory Credit History of Principal
  - Derogatory Credit History of Company

Seventy-three cases, or 46% of the total loan requests had three or fewer deficiencies. Thus almost half of the loan requests were denied on the basis of three or fewer deficiencies. Nineteen cases, or 13% of the total, were declined on the basis of one deficiency. On the other hand, 55 cases, or about 35% of the total, were judged to have five or more deficiencies. Eleven cases had ten or more deficiencies. Table 2 shows the relative frequency with which types of deficiencies were observed in the total sample and the six largest sectors. The deficiencies are discussed following the table in order of the frequency with which they were observed in the total sample.
**TABLE 2. TYPES OF DEFICIENCIES AMONG TOTAL SAMPLE AND SELECTED SECTORS**

<table>
<thead>
<tr>
<th>Deficiency Type</th>
<th>Total Sample</th>
<th>Business Services</th>
<th>Hotels &amp; Lodging</th>
<th>Mfg.</th>
<th>Real Estate</th>
<th>Restaurants</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>53.2</td>
<td>47.5</td>
<td>66.7</td>
<td>43.7</td>
<td>56.5</td>
<td>57.1</td>
<td>68.4</td>
</tr>
<tr>
<td>Quality of Financial Information</td>
<td>48.7</td>
<td>75.0</td>
<td>33.3</td>
<td>56.2</td>
<td>47.8</td>
<td>50.0</td>
<td>52.6</td>
</tr>
<tr>
<td>Ability to Repay</td>
<td>73.4</td>
<td>87.5</td>
<td>66.7</td>
<td>68.7</td>
<td>87.0</td>
<td>57.1</td>
<td>68.4</td>
</tr>
<tr>
<td>Capitalization</td>
<td>63.2</td>
<td>75.0</td>
<td>53.3</td>
<td>56.2</td>
<td>59.1</td>
<td>64.3</td>
<td>52.6</td>
</tr>
<tr>
<td>Collateral</td>
<td>67.0</td>
<td>75.0</td>
<td>20.0</td>
<td>75.0</td>
<td>43.5</td>
<td>64.3</td>
<td>73.7</td>
</tr>
<tr>
<td>Credit</td>
<td>8.2</td>
<td>0.0</td>
<td>6.7</td>
<td>25.0</td>
<td>0.0</td>
<td>14.3</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Ability to Repay.** The most frequently noted group of deficiencies were those having to do with ability to repay the loan. Seventy-three percent of the cases had one or more deficiencies in this category. Twenty-eight percent of the cases had two or more of these deficiencies. Two of the individual deficiencies in this group, "inadequate primary source of repayment" and "inadequate secondary source of repayment," were the two most frequently noted deficiencies (first column of Table 3). Of the 19 cases declined with one deficiency, nine were judged to have an inadequate primary source of repayment.

**Collateral Deficiencies.** The second most frequently noted group of deficiencies were those associated with collateral. Fifty-seven percent of the cases had at least one collateral deficiency. However, when disaggregated, the collateral deficiencies did not rank as high as their aggregate rank might suggest. The most frequently noted single collateral deficiency was the "lack of collateral," which tied for the fourth rank, showing up in 37% of the cases. The other two collateral deficiencies did not rank in the top eight deficiencies.

**Management Deficiencies.** The management deficiencies tied for third rank among the groups of deficiencies. Fifty-three percent of the cases had at least one management deficiency. The most common management deficiency was "inadequate track record," which refers to the performance history of management. This deficiency was observed almost twice as frequently as "inadequate experience in this type business," which refers to the amount of experience rather than the quality of performance.

**Capitalization Deficiencies.** The capitalization deficiencies also tied for third rank. Fifty-three percent of the cases had at least one capitalization deficiency. "Insufficient equity," the more common of the two capitalization deficiencies, tied for fourth position among the disaggregated deficiencies.
Quality of Financial Information. The deficiencies related to quality of financial information ranked fifth as a group. Forty-nine percent of the cases had at least one deficiency related to the quality of their financial information. "Poor or questionable business plan" was the most frequently observed deficiency in this group. It ranked sixth among all the deficiencies, and was observed in 30% of the cases.

Credit Deficiencies. Credit deficiencies were not observed very frequently, with only 8% of the cases having one or more credit deficiency.

TABLE 3. SPECIFIC DEFICIENCIES BY SELECTED SECTORS

<table>
<thead>
<tr>
<th>Deficiency</th>
<th>All Sectors</th>
<th>Business Services</th>
<th>Hotels &amp; Lodging</th>
<th>Mfg.</th>
<th>Real Estate</th>
<th>Restaurants</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate Track Record</td>
<td>38.6(3)</td>
<td>37.5</td>
<td>46.7(2)</td>
<td>25.0</td>
<td>30.4(3)</td>
<td>42.9(3)</td>
<td>52.6(1)</td>
</tr>
<tr>
<td>Reputation/ Character of Mgt.</td>
<td>1.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8.7</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Inadequate Understanding of Fin. Controls</td>
<td>18.4</td>
<td>12.5</td>
<td>0.0</td>
<td>31.3</td>
<td>17.4</td>
<td>14.3</td>
<td>15.8</td>
</tr>
<tr>
<td>Inadequate Experience in This Type Business</td>
<td>20.9</td>
<td>12.5</td>
<td>33.3</td>
<td>25.0</td>
<td>26.1</td>
<td>21.4</td>
<td>31.6</td>
</tr>
<tr>
<td>Mgt. Succession</td>
<td>10.8</td>
<td>12.5</td>
<td>6.7</td>
<td>18.8</td>
<td>8.7</td>
<td>14.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Poor or Questionable Business Plan</td>
<td>29.7</td>
<td>50.0(3)</td>
<td>0.0</td>
<td>37.5</td>
<td>21.7</td>
<td>35.7(4)</td>
<td>21.1</td>
</tr>
<tr>
<td>Lack of CPA Prepared Statements</td>
<td>25.3</td>
<td>37.5</td>
<td>33.3</td>
<td>18.8</td>
<td>17.4</td>
<td>35.7(4)</td>
<td>26.3</td>
</tr>
<tr>
<td>Poor or Suspect Projections</td>
<td>23.4</td>
<td>12.5</td>
<td>0.0</td>
<td>31.3</td>
<td>26.1</td>
<td>21.4</td>
<td>31.6</td>
</tr>
<tr>
<td>Inadequate Primary Source of Repayment</td>
<td>50.6(1)</td>
<td>62.5(2)</td>
<td>53.3(1)</td>
<td>56.3(1)</td>
<td>52.2(1)</td>
<td>35.7(4)</td>
<td>47.4(2)</td>
</tr>
<tr>
<td>Inadequate Secondary Source of Repayment</td>
<td>46.8(2)</td>
<td>50.0(3)</td>
<td>40.0(3)</td>
<td>43.8(4)</td>
<td>52.2(1)</td>
<td>35.7(4)</td>
<td>47.4(3)</td>
</tr>
<tr>
<td>Excessive Terms Requested</td>
<td>9.9</td>
<td>25.0</td>
<td>6.7</td>
<td>12.5</td>
<td>13.0</td>
<td>7.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Insufficient Equity</td>
<td>36.7(4)</td>
<td>50.0(3)</td>
<td>26.7</td>
<td>50.0(3)</td>
<td>26.1</td>
<td>50.0(2)</td>
<td>42.1(4)</td>
</tr>
<tr>
<td>Too Much Debt</td>
<td>25.9</td>
<td>25.0</td>
<td>40.0(3)</td>
<td>18.8</td>
<td>13.0</td>
<td>35.7(4)</td>
<td>26.3</td>
</tr>
<tr>
<td>Lack of Collateral</td>
<td>36.7(4)</td>
<td>75.0(1)</td>
<td>20.0</td>
<td>56.3(1)</td>
<td>8.7</td>
<td>57.1(1)</td>
<td>42.1(4)</td>
</tr>
<tr>
<td>Resale Value of Collateral Insuff. or Not Marketable</td>
<td>16.5</td>
<td>0.0</td>
<td>6.7</td>
<td>43.8(4)</td>
<td>13.0</td>
<td>21.4</td>
<td>26.3</td>
</tr>
<tr>
<td>Unacceptable Coll.</td>
<td>21.5</td>
<td>0.0</td>
<td>6.7</td>
<td>37.5</td>
<td>30.4(3)</td>
<td>21.41</td>
<td>21.1</td>
</tr>
<tr>
<td>Derogatory Credit History of Principal</td>
<td>7.6</td>
<td>0.0</td>
<td>6.7</td>
<td>18.8</td>
<td>0.0</td>
<td>14.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Derogatory Credit History of Company</td>
<td>1.3</td>
<td>0.0</td>
<td>0.0</td>
<td>6.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

8
Interaction of Deficiencies with Business Stage

Existing businesses generally had fewer deficiencies than did start-ups: 46% of the existing businesses had four or more deficiencies, compared to 62% of the start-ups. Another way to look at this, however, is that 15 existing businesses (18%) were denied financing on the basis of one deficiency compared to only 5 start-ups (7%). The distribution of deficiencies by business stage are presented in Table 4.

### TABLE 4. DEFICIENCIES BY STAGE

Percentage of Cases in Which Deficiency was Observed (and rank of top deficiencies)

<table>
<thead>
<tr>
<th>Deficiency</th>
<th>Existing</th>
<th>Start-up</th>
<th>Total Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate Track Record</td>
<td>38.6(3)</td>
<td>56.6(1)</td>
<td>22.0</td>
</tr>
<tr>
<td>Reputation/ Character of Mgt.</td>
<td>1.9</td>
<td>1.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Inadequate Understanding of Fin. Controls</td>
<td>18.4</td>
<td>25.0</td>
<td>12.2</td>
</tr>
<tr>
<td>Inadequate Experience in This Type Business</td>
<td>20.9</td>
<td>30.3</td>
<td>12.2</td>
</tr>
<tr>
<td>Mgt. Succession</td>
<td>10.8</td>
<td>14.5</td>
<td>7.3</td>
</tr>
<tr>
<td>Poor or Questionable Business Plan</td>
<td>29.7</td>
<td>50.0(3)</td>
<td>11.0</td>
</tr>
<tr>
<td>Lack of CPA Prepared Statements</td>
<td>25.3</td>
<td>26.3</td>
<td>24.4(5)</td>
</tr>
<tr>
<td>Poor or Suspect Projections</td>
<td>23.4</td>
<td>34.2</td>
<td>13.4</td>
</tr>
<tr>
<td>Inadequate Primary Source of Repayment</td>
<td>50.0(1)</td>
<td>47.4(5)</td>
<td>53.7(1)</td>
</tr>
<tr>
<td>Inadequate Secondary Source of Repayment</td>
<td>46.8(2)</td>
<td>51.3(2)</td>
<td>42.7(2)</td>
</tr>
<tr>
<td>Excessive Terms Requested</td>
<td>8.9</td>
<td>13.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Insufficient Equity</td>
<td>36.7(4)</td>
<td>50.0(3)</td>
<td>24.4(5)</td>
</tr>
<tr>
<td>Too Much Debt</td>
<td>25.9</td>
<td>18.4</td>
<td>32.9(4)</td>
</tr>
<tr>
<td>Lack of Collateral</td>
<td>36.7(4)</td>
<td>35.5</td>
<td>37.8(3)</td>
</tr>
<tr>
<td>Resale Value of Collateral Insuff. or Not Marketable</td>
<td>16.5</td>
<td>17.1</td>
<td>15.9</td>
</tr>
<tr>
<td>Unacceptable Coll.</td>
<td>21.5</td>
<td>22.4</td>
<td>20.7</td>
</tr>
<tr>
<td>Derogatory Credit History of Principal</td>
<td>7.6</td>
<td>3.9</td>
<td>11.0</td>
</tr>
<tr>
<td>Derogatory Credit History of Company</td>
<td>1.3</td>
<td>0.0</td>
<td>2.4</td>
</tr>
</tbody>
</table>
Management Deficiencies and Business Stage. Start-ups were much more likely than existing businesses to have management deficiencies: 70% of start-ups had at least one management deficiency, while only 38% of existing businesses had at least one management deficiency.

- Start-ups (57%) were more than twice as likely as existing businesses (22%) to have inadequate track records (Table 4).
- Start-ups (25%) were twice as likely as existing businesses (12%) to have an inadequate understanding of financial controls.
- Start-ups (30%) were more than twice as likely as existing businesses (12%) to have inadequate experience in the type of business for which financing was sought.

Quality of Financial Information and Business Stage. Start-ups were much more likely than existing businesses to have deficiencies in the quality of their financial information: 62% of start-ups had at least one deficiency, while only 37% of the existing businesses had at least one deficiency.

- Start-ups (50%) were almost five times as likely as existing businesses (11%) to have a poor or questionable business plan.
- Start-ups (26%) and existing businesses (24%) were almost equally likely to lack CPA-prepared statements.
- Start-ups (34%) were almost three times as likely as existing businesses (13%) to have poor or suspect projections.

Ability to Repay and Business Stage. When aggregated, deficiencies related to ability to repay appear to have the same frequency among start-ups and existing businesses — 74% of start-ups had at least one of these deficiencies, compared to 73% of existing businesses. However:

- Existing businesses (54%) were somewhat more likely than start-ups (47%) to have an inadequate primary source of repayment.
- Start-ups (51%) were more likely than existing businesses (43%) to have an inadequate secondary source of repayment.

Capitalization Deficiencies and Business Stage. Start-ups were somewhat more likely than existing businesses to have capitalization deficiencies: 59% of start-ups had at least one capitalization deficiency, compared to 48% of existing businesses.
Start-ups (50%) were twice as likely as existing businesses (24%) to have insufficient equity.

Existing businesses (33%) were almost twice as likely as start-ups (18%) to have too much debt.

Collateral Deficiencies and Business Stage. Start-ups were more likely than existing businesses to have collateral deficiencies: 63% of start-ups had at least one collateral deficiency, compared to 51% of existing businesses. However:

- Existing businesses (38%) were slightly more likely than start-ups (36%) to have "lack of collateral."

- Start-ups were slightly more likely than existing businesses to have collateral judged unacceptable (22% versus 21%), or to have insufficient resale value (17% versus 16%).

SOLVING THE PROBLEM OF BUSINESS DEVELOPMENT FINANCE

From the results of the Deal Stream Analysis, the Task Force has concluded that intervention in the business formation and development process clearly is justified. The group was particularly impressed with the finding that, in one quarter, $32 million in potential loan requests were denied. Since the data were collected during a quarter that is typically a slow business period, it is reasonable to estimate that there is more than $130 million in unmet small business loan demand over the period of a year. Some of the lenders on the Task Force noted that even if this figure were halved, it would represent a substantial amount of potential business development-opportunity.

Nevertheless, the Deal Stream Analysis, the preceding panel discussions, and consultation with representatives of Southern Development Bancorporation made it clear to the Task Force that the obstacles to business formation and development are more complex than availability of capital. Therefore, the Task Force proposes a business formation and development strategy that concerns more than the availability of business capital. The strategy proposed by the Task Force includes three program elements with an organizational element to ensure follow-through, coordination, and continuing refinement of the region's business formation and development system. Although they should be seen as parts of a single strategy, the various elements are presented and discussed separately in this report. The organizational element, is presented first to establish a framework for the program elements.
Regional Business Consortium

Western North Carolina has a variety of financial and nonfinancial resources that support the business formation and development process. These resources include management training and free technical assistance on topics such as business planning, marketing, and financing. They also include a variety of financing mechanisms ranging from conventional commercial lenders to special loan funds. These resources are important assets. However, the Business Capital Task Force has concluded that the value of these resources could be substantially enhanced if they worked in a more collaborative fashion. In other words, obstacles to business formation and development could be overcome more effectively if the various organizations involved in the business formation and development process were linked together to operate as a business formation and development system.

Therefore, the Task Force proposes the formation of a Regional Business Consortium to serve as the facilitating mechanism for such a system. Although the functions of the Consortium would change over time, initially it would monitor the implementation of the strategy described in this report, and would work out adjustments that may be required as each element of the strategy is tested through application. Over the long run, the Consortium would continually review the operation of the region's business formation and development system to identify and work toward refinements that improve its effectiveness. The Task Force proposes that the Consortium meet on a quarterly basis initially.

The composition of the Consortium should be as follows:

- Four small business representatives, alternated annually with staggered terms. These representatives may be current or former (e.g. retired) business owners. The Task Force recognized that four business representatives cannot possibly represent the full range of interests of the various business sectors and sizes. Therefore, over time, efforts should be made by the Consortium to include representatives of different sectors (e.g. manufacturing, retail, etc.) and different sized businesses. In addition, efforts should be made to represent the perspectives of minority and women entrepreneurs.

- One utility, representation alternated annually.

- Two banks, each represented by a senior officer, alternated annually with staggered terms.

- NC Department of Economic & Community Development, Industrial Development Division.

- NC Department of Economic & Community Development, Community Assistance Division (CDBG Program).
• Cherokee Indian Business Development Center -- one representative.

• Small Business Centers, Western Region -- represented by one SBC director, selected annually by peers.

• Small Business & Technology Development Center, Western Regional Office -- one representative.

• Two Loan Fund Programs -- representation alternating annually among WNC programs, e.g. Microenterprise Loan programs, Southwestern North Carolina Revolving Loan Fund, etc. Terms are to be staggered.

• One SBA Certified Development Corporation -- representation alternating annually among the CDCs in WNC.

• One state legislator.

The Task Force proposes that initial staff support be provided by the Center for Improving Mountain Living to facilitate the work of the Consortium. The Consortium may change this arrangement if it chooses in the future. Initial composition of the Consortium will be recommended to the RESP Steering Committee by the Task Force co-chairs. Future alternation of members will be handled by the Consortium.

Business Education Program

Small business education programs are provided by community colleges, through their small business centers, as well as by other agencies in the region. These programs cover a variety of critical management and financial topics. However, the results of the Deal Stream Analysis suggest that more work is required to address some of the management deficiencies observed in the nonbankable deal stream. Therefore, the Business Capital Task Force proposes a program to strengthen and promote education for small business operators, concentrating initially on financial management and business planning, for both existing and start-up businesses. Business education is needed to enable small business owners to increase the sophistication with which they manage their companies. It could strengthen small businesses substantially, and could increase the rate of business formation and development in the region. In addition, business education could improve the quality of demand for business capital.

The Asheville Area Business Consortium (AABC) has initiated an educational program that could serve as a laboratory for developing comprehensive business education programs and facilitating their adoption by existing institutions and organizations throughout the region. The consortium is comprised of Asheville-Buncombe Technical Community College, the Asheville Area Chamber of Commerce, University of North Carolina-Asheville Management Department, and the Small Business and Technology Development Center. The Consortium already has conducted a pilot cycle for a 12-week
program on business planning. Another program is being developed that uses computerized spread sheets to teach financial management for small businesses. These programs are being organized and managed by a three-member project team representing the organizations in the AABC.

For these programs to be most effective at strengthening the formation and development of small businesses, a mechanism needs to be developed to allow for their refinement. Their results should be independently reviewed by the Regional Business Consortium and adjustments made accordingly. Furthermore, for the programs to affect business development outside of Buncombe County, they will have to be offered in other parts of the region.

The Business Capital Task Force proposes that the Regional Business Consortium work with the AABC to develop and refine the curricula and instructional material for its educational programs. In addition, the Consortium should work to strengthen the business education programs throughout western North Carolina.

Business Development Assistance

In addition to educational programs, direct technical and management assistance often are needed by small businesses to resolve specific problems, which may be of short- or long-term duration. Three publicly sponsored programs operating in western North Carolina already provide such assistance at no cost to the small business. Despite the availability of these programs in western North Carolina, the Deal Stream Analysis of the Business Capital Task Force provided evidence that these resources may be somewhat underutilized. Therefore, the Task Force proposes that lenders and business assistance providers strengthen the linkages between them.

The North Carolina Department of Community Colleges operates the Small Business Center program through local community colleges. Every community college in western North Carolina, except for Tri-County Community College, has a center. The primary mission of the Community College Small Business Center program is to "increase the success rate and number of small businesses in North Carolina by providing small business owners and prospective owners with better information, training, counseling and referral, and other technical or managerial assistance."

The University of North Carolina operates the Small Business and Technology Development Center through ten offices around the state. The western regional office, which covers 26 counties, is administered by Western Carolina University's Center for Improving Mountain Living. The primary mission of the SBTDC is "to provide
consultative services and technical and managerial assistance to small business owners and inventors and to develop and manage on a statewide basis a limited number of special emphasis programs (e.g., Procurement Assistance, School-Based Enterprises, and International Trade). The SBIDC's training and educational activities will be focused to support its special emphasis programs and to train small business assistance providers.  

In addition to these two state-sponsored programs, a federally funded program is operated by the Eastern Band of Cherokee Indians. The Cherokee Indian Business Development Center is affiliated with the Minority Business Development Agency of the U.S. Department of Commerce. The center provides management and technical assistance to minority-owned businesses. Services include accounting, general business management assistance, financial packaging, and procurement assistance.

The Deal Stream Analysis did not identify individual businesses, and therefore does not permit direct comparison with the client records of the assistance providers. Nevertheless, categorical comparisons suggest that few, if any, of the 158 cases observed in the analysis took advantage of the assistance available to them through these public programs. Another way to look at these results is that, during the period in which the Deal Stream Analysis was conducted, at least 158 businesses made unsuccessful loan applications. If a substantial number of these businesses had been linked with providers of technical assistance, some of their deficiencies might have been overcome. Alternatively, they might have received help in putting together a nonconventional financing package that would better fit their circumstances.

The Task Force proposes that lenders and providers of business assistance, adopt a view of local bank offices that regards them as a point of entry into the business formation and development system. This view differs materially from one that regards lenders solely as depositaries for, and allocators of, capital. Rather than simply determining whether or not to grant a credit request, the proposed scenario suggests that lenders would connect unsuccessful loan applicants with a technical assistance provider.

For this process to work, technical assistance providers must increase lenders' familiarity with their services. The burden is on the assistance providers to market their services. In discussing the matter of referrals, several lenders indicated that frequent contact between lenders and assistance providers is necessary to keep the referral process from stalling. To maintain active relationships, assistance providers could adopt a calling program in which they visit local lending officers every three to six months, to refresh memories and discuss opportunities for mutual assistance.

---

4 Excerpt from protocol defining the respective missions of the Small Business Center program and the Small Business and Technology Development Center, executed by the presidents of the Department of Community Colleges and the University of North Carolina, 1987.
High Risk Loan Fund

Some of the businesses observed in the Deal Stream Analysis might have been made bankable, with management education or assistance. However, the Task Force recognizes that, even with education or assistance, many of these businesses would be too risky for conventional bank financing. However, the Task Force expects that with education or assistance, many of these businesses would be suitable for financing through a higher risk lending mechanism. Therefore, the Task Force proposes the development of a flexible loan fund that can bear more risk than conventional commercial lenders can bear. The purpose of the fund would be to enable relatively risky small businesses--existing or start-ups--to develop the strength and the performance record needed to obtain financing from conventional lenders.

The North Carolina Rural Economic Development Center has initiated two programs that are intended to address different problems of small business finance. The North Carolina Enterprise Corporation has been established to provide financing for expanding or restructuring firms. Although initially designed to finance deals ranging from $50,000 to $1,000,000, the president of the Enterprise Corporation has stated that the actual range is not expected to extend below $250,000. Furthermore, the Enterprise Corporation will not fund businesses with normal profit and growth expectations. Instead it will fund deals with high growth and profit projections, operating more like a venture capital fund than a development loan fund.

The Rural Center’s Micro-enterprise Loan Fund is aimed at the other end of the small business spectrum, making loans under $20,000. Two pilot programs are operating in western North Carolina. One is at Warren Wilson College, and the other is a collaborative program involving Isothermal, Mayland, and McDowell community colleges. Eventually this program may be "franchised" to as many as fifty sites throughout the state. So, although it is limited now to the eastern end of our region, it may be expanded eventually to cover all of western North Carolina.

Both of these programs represent important steps toward meeting business development finance needs. However, a substantial gap remains between the $20,000 ceiling of the Micro-enterprise Loan Fund and the anticipated $250,000 floor of the Enterprise Corporation. Approximately 55 percent of the requests were between $20,000 and $250,000.

An additional loan fund is needed to finance relatively high risk deals that fall within this gap. The Task Force proposes that such a fund be developed jointly by Smoky Mountain Development Corporation and the Center for Community Self-Help, in consultation with the Regional Business Consortium. The proposed fund would be managed by Smoky Mountain Development Corporation and would have the following features:
It would have the flexibility to be a primary lender, in tandem with other loan funds; or to be a subordinate lender.

It would have no fixed jobs to loan ratio, but economic development impact including job creation would be considered in allocating loan funds.

Its market niche would be created by its ability to assume higher risk than conventional lenders, rather than by competing on price (interest rate).

It would be able to provide near-equity financing.

A detailed strategy for capitalizing the funds should be developed by Smoky Mountain Development Corporation and the Center for Community Self-Help, in consultation with the Regional Business Consortium. The capital base for the fund should be provided by banks, utilities, foundations, and others. The Center for Community Self-Help has agreed to match the funds raised from these other sources, and can provide a variety of services including loan administration.

CONCLUSION

Based on careful analysis, the Business Capital Task Force of the Regional Economic Strategy Project proposes the creation of a more effective business formation and development system in western North Carolina. Included in this system are the various organizations, agencies, and institutions providing financial and nonfinancial business development resources in the region. To be more effective, this system must operate in a more coordinated fashion. It must strengthen small business management by reaching more small business operators with education and technical assistance programs. Finally, it must provide financing to those businesses that have the potential to succeed but, for one or more reasons, are too risky for financing from conventional lenders. The strategy proposed in this report is designed to lay the foundation for the development of this system. It relies more on adjustments in existing organizations and institutions, and their interrelationships, than on the creation of new structures.

This strategy is the product of a year and a half of work by the Business Capital Task Force. It was adopted by the Task Force on June 27, 1990.
APPENDIX E

Recommended Legislation
HOUSE JOINT RESOLUTION NO. 712
Offered January 26, 1993
Continuing the Blue Ridge Economic Development Commission.

Patrons—Munford, Cranwell, Deeds, Finney, Jackson, Putney and Woodrum; Senators: Bell, Goode, Miller, K.G., Nolen, Reasor, Schewel and Trumbo

Referred to the Committee on Rules

WHEREAS, House Joint Resolution No. 451, adopted by the 1991 Session of the General Assembly, established a commission to propose recommendations to improve and enhance economic development in the Blue Ridge region of the Commonwealth (the "Blue Ridge Economic Development Commission" or "Blue Ridge Commission"); and

WHEREAS, in 1992, the Commission was authorized by House Joint Resolution No. 107 to continue its examination of the economic challenges facing the region; and

WHEREAS, in exploring the challenges facing the Blue Ridge region, the Commission met five times to review regional data regarding economic growth, education, and industry and to seek the input and expertise of economic development specialists, state agencies, and representatives of higher education and the private sector; and

WHEREAS, the Commission was greatly assisted by the establishment of six task forces comprised of Commission members and ad hoc appointees from public and private entities in the Blue Ridge region, which provided more detailed examinations of partnerships between various public and private entities; marketing strategies to promote business and industry; expansion and diversification of existing industry; strategies to promote tourism; initiatives to enhance the education and training of the workforce; and regional data collection and analysis respectively; and

WHEREAS, traditional economic development strategies as well as newer theories have received Commission scrutiny; and

WHEREAS, testimony before the Commission and the task forces has confirmed a number of disturbing trends in the economic development of the Blue Ridge region, including educational disparity, declining populations, low median incomes, inadequate infrastructure, and poor representation in anticipated "growth" industries; and

WHEREAS, while a number of current programs have provided some assistance to the region, the Blue Ridge region of Virginia continues to face serious challenges as it struggles to accelerate its economic development and to retain those values and to utilize those resources that make it a unique and important part of the Commonwealth; and

WHEREAS, although the Commission has developed specific recommendations addressing such issues as business incentives and the regulatory permit-approvals process, it is the consensus of the Commission that further review of the expansion of industries using the region's abundant natural resources, the educational needs of Blue Ridge citizens and employers, regional marketing efforts, infrastructure needs, and other issues is necessary to develop additional specific recommendations to enhance the economic growth of the region; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Blue Ridge Economic Development Commission be continued. The membership of the Commission shall continue as established by House Joint Resolution No. 107 of the 1992 Session of the General Assembly. Vacancies shall be filled by the Governor, the Speaker of the House of Delegates, and the Senate Committee on Privileges and Elections, as appropriate. The Commission shall continue to review and evaluate methods of enhancing the economic growth of the region and shall consider financing alternatives, partnerships between government, higher education and the private sector, and other related issues as it deems appropriate.

The legislative members of the Commission shall be compensated as specified in § 14.1-18 of the Code of Virginia, and all members of the Commission shall be reimbursed
for their actual expenses incurred in the performance of the work of the Commission.

The Commission may accept and expend gifts, grants, or donations from public or private sources which will enable it to meet its objectives.

The Commission shall submit its findings and recommendations to the Governor and the 1994 Session of the General Assembly in accordance with the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

The indirect costs of this study are estimated to be $13,675; the direct costs of this study shall not exceed $20,700.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.
A BILL to amend the Code of Virginia by adding in Title 9 a chapter numbered 22.8:1, consisting of sections numbered 9-145.39:1 through 9-145.39:4, relating to the World Trade Alliance of the Blue Ridge.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Title 9 a chapter numbered 22.8:1, consisting of sections numbered 9-145.39:1 through 9-145.39:4, as follows:

CHAPTER 22.8:1.

WORLD TRADE ALLIANCE OF THE BLUE RIDGE.

§ 9-145.39:1. Alliance established; members; terms.—A. The World Trade Alliance of the Blue Ridge is hereby established and shall be referred to in this chapter as the Alliance. The Alliance shall be composed of twenty-one members representing the Virginia General Assembly and local and regional government and business leaders. The members shall be selected as follows: four members of the House of Delegates to be appointed by the Speaker of the House; three members of the Senate to be appointed by the Senate Committee on Privileges and Elections; the Chairman of the Virginia World Trade Council; and thirteen citizen members appointed by the Governor. At least five of the citizen members shall be associated with business enterprises actively engaged in exporting Virginia goods or services.

B. Of the members to be appointed in 1993, seven shall be appointed for two-year terms, seven shall be appointed for three-year terms and seven shall be appointed for four-year terms. Thereafter, all appointments shall be for terms of four years, except the appointments to fill vacancies shall be for the unexpired terms. No person shall be eligible to serve for more than two successive four-year terms; however, after the expiration of a term of three years or less, or after the expiration of the remainder of a term to which appointed to fill a vacancy, two additional terms may be served by such member if appointed thereto.

C. The Alliance shall elect a chairman and vice chairman from among its members.

§ 9-145.39:2 Duties of the Alliance.—The Alliance shall:

1. Focus on the strengths and needs of the Blue Ridge region through the following five program areas: (i) international trade conferences, (ii) trade missions, (iii) mentor programs, (iv) student work placements and (v) a world trade data base.

2. Advise and make recommendations to businesses, localities and the Commonwealth concerning the promotion of exports of Virginia goods and services, especially in the following areas:

   a. Policies, legislation and programs to foster export activity by businesses in the Blue Ridge region;

   b. Identification of Virginia goods and services with the greatest potential for export;

   c. Identification of foreign countries and businesses with the greatest potential to purchase Virginia goods and services from businesses in the region;

   d. Strategies for promoting the export of Virginia goods and services;

   e. Means to improve the awareness of businesses in the Blue Ridge region of the opportunities and need for trade in international markets;

   f. National and international economic and trade initiatives and trends that potentially impact the export activities of businesses in the Blue Ridge region;

   g. Means by which the scope and quality of international education programs in education institutions in the Blue Ridge region can be improved; and

   h. Promotion and improvement of educational programs by both public and private entities relating to the means and methods of exporting.

§ 9-145.39:3. Executive director; staff support; location.—The Alliance is authorized to
employ such staff as necessary to enable it to perform its duties as set forth in this chapter. The Alliance is authorized to determine the duties of such staff and to fix salaries and compensation from such funds as may be appropriated or received. The Alliance's offices shall be housed in the Public Service Programs Department at Virginia Polytechnic Institute and State University.

§ 9-145.39:4. Application for and acceptance of gifts and grants.—The Alliance is authorized to apply for, accept, and expend gifts, grants, or donations from public or private sources to enable it to carry out its objectives.
HOUSE BILL NO. 1719
Offered January 25, 1993
A BILL to amend the Code of Virginia by adding in Title 9 a chapter numbered 22.8:1, consisting of sections numbered 9-145.39:1 through 9-145.39:4, relating to the Blue Ridge Regional Tourism Council.

Patrons—Deeds and Munford; Senators: Bell, Miller, K.G., Nolen, Schewel and Trumbo

Referred to the Committee on General Laws

Be it enacted by the General Assembly of Virginia:
1. That the Code of Virginia is amended by adding in Title 9 a chapter numbered 22.8:1, consisting of sections numbered 9-145.39:1 through 9-145.39:4, as follows:

CHAPTER 22.8:1.
BLUE RIDGE REGIONAL TOURISM COUNCIL.
§ 9-145.39:1. Council established; duties.—The Blue Ridge Region Tourism Council is hereby established and shall be referred to in this chapter as the Council. For the purposes of this chapter and the work of the Council, the “Blue Ridge” region shall include the Counties of Alleghany, Amherst, Appomattox, Augusta, Bath, Bedford, Bland, Botetourt, Campbell, Craig, Floyd, Franklin, Giles, Highland, Montgomery, Nelson, Pulaski, Roanoke, Rockbridge, and Wythe and the Cities of Bedford, Buena Vista, Clifton Forge, Covington, Lexington, Lynchburg, Radford, Roanoke, Salem, Staunton, and Waynesboro.

§ 9-145.39:2. Membership; terms; compensation; chairman and vice chairman; meetings.—A. The Council shall be composed of one representative of each of the destination marketing organizations (DMOs) located in the Blue Ridge region, as defined in § 9-145.39:1; the Director of Tourism for the Department of Economic Development’s Tourism Development Group, or his designee; and the Director of Community Development for the Tourism Development Group of the Department of Economic Development.

B. The Council shall elect a chairman and a vice chairman from among its members. The Council shall meet at least four times a year and at such dates and times as they determine.

§ 9-145.39:3. Duties of the Council.—The Council shall perform the following functions:
1. Assist localities in the region, as well as the General Assembly, with the problems, concerns and issues of the tourism industry in the Blue Ridge region;
2. Encourage a cooperative attitude among the localities of the region and assist in the establishment of successful tourism partnerships between private and public organizations;
3. Develop and assist in the implementation of a plan to increase tourism revenue within the Blue Ridge region;
4. Review and disseminate information to the localities in this region concerning statewide and national tourism associations;
5. Encourage localities in the region to participate in the Virginia Local Tourism Accreditation Program; and
6. Encourage localities to invest in tourism development as an integral part of their overall economic development.

§ 9-145.39:4. Application for and acceptance of gifts and grants.—The Council is authorized to apply for, accept, and expend gifts, grants, or donations from public or private sources to enable it to carry out its objectives.
HOUSE BILL NO. 1798
Offered January 25, 1993


Patrons—Finney, Deeds, Jackson and Munford; Senators: Nolen, Reasor and Trumbo

Referred to the Committee on General Laws

Be it enacted by the General Assembly of Virginia:

1. That § 9-145.37 of the Code of Virginia is amended and reenacted as follows:

   § 9-145.37. Responsibilities; duties.—The Council shall:
   1. Encourage Blue Ridge counties, cities and towns to work cooperatively to promote the region's strengths and advantages;
   2. Allow the six different marketing groups to plan a coordinated effort to maximize the region's marketing efforts;
   3. Support and encourage each locality or group of localities to foster its own marketing programs, growth strategies and individual identities;
   4. Apply for, accept, and expend gifts, grants, or donations from public or private sources to enable it to carry out its objectives; and
   5. Establish a pilot export program to encourage the region's industry to consider exporting as a way to increase sales; and
   6. Identify and assist in the implementation of affordable child-care options in the region.
HOUSE BILL NO. 1799
House Amendments in [ ] - February 8, 1993

A BILL to amend and reenact § 9-145.30 of the Code of Virginia, relating to the Blue Ridge Regional Education and Training Council.

Patrons—Finney, Deeds, Jackson and Munford; Senators: Nolen, Reasor and Trumbo

Referred to the Committee on General Laws

Be it enacted by the General Assembly of Virginia:

1. That § 9-145.30 of the Code of Virginia is amended and reenacted as follows:

   § 9-145.30. Council established; duties.—The Blue Ridge Regional Education and Training Council is hereby established and shall be referred to in this chapter as the Council. For the purposes of this chapter and the work of the Council, the “Blue Ridge” region shall include the Counties of Alleghany, Amherst, Appomattox, Augusta, Bath, Bedford, Bland, Botetourt, Campbell, Craig, Floyd, Franklin, Giles, Highland, Montgomery, Nelson, Pulaski, Roanoke, Rockbridge, and Wythe and the Cities of Bedford, Buena Vista, Clifton Forge, Covington, Lexington, Lynchburg, Radford, Roanoke, Salem, Staunton, and Waynesboro. The Council shall perform the following functions:

   1. To provide general leadership in the region for education and business partnership programs and excellence in education;
   2. To encourage and expand business participation and involvement in public education and to foster partnerships between the public and private sectors to enhance public education in the Blue Ridge region;
   3. To collect, generate, and disseminate ideas and information regarding educational innovations and effective instructional practices pertinent to the Blue Ridge region;
   4. To coordinate with business and industry throughout the region to ascertain those skills, education, and training that businesses seek from entry level workers;
   5. To serve as a resource and referral center for area school divisions by maintaining and disseminating information on existing educational programs and resources;
   6. To develop, in coordination with the Department of Education and local school boards, specific goals for public education in the Blue Ridge region and, to annually evaluate the local school boards’ progress toward these goals, and to adjust local plans if the need arises;
   7. To promote the coordination of elementary, secondary, and higher education and adult education and worker training; and
   8. To sponsor a series of seminars throughout the region to discuss, plan, and receive comments on how to upgrade the region’s adult workforce;
   9. Develop, in coordination with the Department of Education and local school boards, incentives for school systems that subscribe to integrated-applied educational programs which prepare students for post-high school education or employment;
   10. Promote and expand, in coordination with the Department of Labor and Industry, apprenticeship training for youth and adults in the region; and
   11. Investigate and formulate a model student volunteer program and assist school systems in developing and implementing such programs.
HOUSE JOINT RESOLUTION NO. 517
Offered January 25, 1993

Expressing the sense of the General Assembly that tourism is an integral part of economic development.

Patrons—Deeds, Bennett, Cranwell, Finney, Giesen, Jackson, Munford, Puller, Putney, Wood and Woodrum; Senators: Bell, Miller, K.G., Nolen, Schewel and Trumbo

Referred to the Committee on Rules

WHEREAS, it is the policy of the Commonwealth to support, maintain and expand the Commonwealth's domestic and foreign travel markets, thereby generating increased visitor expenditures, tax revenues and employment; and

WHEREAS, tourism is one of the largest industries in Virginia, generating over $7.1 billion in travel expenditures and providing direct employment for nearly 150,000 individuals; and

WHEREAS, tourism is and should be an integral part of the Commonwealth's economic development and should be given the same priority as industrial development for state grant and loan programs; and

WHEREAS, the Blue Ridge Economic Development Commission received testimony over the past two years that tourism projects are not considered for a number of state and federal grants and loans; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That it is the sense of the General Assembly that tourism is an integral part of the Commonwealth's economic development; and, be it

RESOLVED FURTHER, That the Department of Economic Development strive to ensure tourism development enjoys the same priority for state and federal grants and loans as industrial development currently enjoys.
HOUSE JOINT RESOLUTION NO. 690
House Amendments in [ ] - February 5, 1993

Expressing the sense of the General Assembly that a development bank be established in the Blue Ridge region of the Commonwealth.

Patrons—Munford, Cranwell, Deeds, Finney, Jackson, Putney and Woodrum; Senators: Goode, Miller, K.G., Nolen, Reasor, Schewel and Trumbo

Referred to the Committee on Rules

WHEREAS, the regulatory climate for lenders is dramatically changing and many people who may have previously qualified for loans do not necessarily qualify in the 1990s; and

WHEREAS, fewer young families can afford to purchase a home, compared to 20 years ago; and

WHEREAS, something needs to be done to make it easier for these families and individuals to own their homes; and

WHEREAS, small business loans are often too small to be profitable to commercial banks; and

WHEREAS, in 1992, an advisory committee, sponsored in part by the Blue Ridge Economic Development Commission, was established to study the feasibility of establishing a development bank in the Blue Ridge Region which would lend to nontraditional borrowers and provide technical assistance to such borrowers; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That it is the sense of the General Assembly that a development bank be established in the Blue Ridge region of the Commonwealth [ ; and, be it

RESOLVED FURTHER, That such banks be established in other regions of the Commonwealth, following a successful pilot program in the Blue Ridge region ].
HOUSE JOINT RESOLUTION NO. 696
Offered January 26, 1993
Continuing the Virginia Tech Center for Hospitality Research and Service's study of the design and operation of the Virginia Welcome Centers.

Patrons—Munford, Deeds, Finney and Jackson; Senators: Bell, Miller, K.G., Nolen, Reasor, Schewel and Trumbo

Referred to the Committee on Rules

WHEREAS, it is the policy of the Commonwealth to support, maintain and expand the Commonwealth's domestic travel markets, thereby generating increased visitor expenditures, tax revenues and employment; and
WHEREAS, tourism is one of the largest industries in Virginia, generating over $7.1 billion in travel expenditures and providing direct employment for nearly 150,000 individuals; and
WHEREAS, the Virginia Welcome Centers are often the traveler's first and sometimes only exposure to the sights, attractions and history of the Commonwealth; and
WHEREAS, these Welcome Centers have suffered severe budget cutbacks and are operating with reduced funding and staff; and
WHEREAS, the Welcome Centers have not been evaluated in recent years to assess their strengths and weaknesses; and
WHEREAS, in 1992 the Blue Ridge Economic Development Commission recommended that a study be done of these valuable economic development tools; and
WHEREAS, the 1992 General Assembly passed House Joint Resolution No. 246 requesting that the Virginia Tech Center for Hospitality Research and Service study the design and operation of the Welcome Centers and recommend changes to stimulate and support travel in the Commonwealth; and
WHEREAS, funds to conduct the necessary surveys were not obtained until July 22, 1992, and the survey instrument was still under revision as late as September 1992; and
WHEREAS, these delays made it impossible for Virginia Tech to report to the 1993 Session of the General Assembly, and the Blue Ridge Economic Development Commission recommended an extension of one year for Tech to submit its findings and recommendations; now, therefore, be it
RESOLVED by the House of Delegates, the Senate concurring, That the Virginia Tech Center for Hospitality Research and Service's study of the design and operation of the Virginia Welcome Centers be extended for a period of one year. The Center shall continue to (i) review the design and structure of the centers to ensure that their displays effectively present the Commonwealth, emphasizing the unique features of each region through decor and exhibits; (ii) consider the atmosphere of the centers, including the friendliness and helpfulness of the staff and the kind of staff interaction which occurs at these centers; (iii) examine ways to expand the centers' hours of operation to coincide with the needs and desires of the traveling public; and (iv) develop a pilot cooperative program whereby localities and regions may assist in staffing the centers on a volunteer basis, thus expanding staffing and extending hours of operation.
All costs of such study shall be paid through donations, gifts or grants received by the Center for Hospitality Research and Service from public and private sources for the purpose of conducting such study.
The Center for Hospitality Research and Service shall complete its work in time to make its recommendations to the Governor and the 1994 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.
SENA TE BILL NO. 345
AMENDMENT IN THE NATURE OF A SUBSTITUTE
(Proposed by the Senate Committee on Agriculture, Conservation and Natural Resources on January 18, 1993)
(Patron Prior to Substitute—Senator Nolen)
A BILL to amend and reenact §§ 10.1-1308, 10.1-1402 and 62.1-44.15 of the Code of Virginia, relating to the powers and duties of the environmental permitting boards.

Be it enacted by the General Assembly of Virginia:
1. That §§ 10.1-1308, 10.1-1402 and 62.1-44.15 of the Code of Virginia are amended and reenacted as follows:

§ 10.1-1308. Regulations.—The Board, after having studied air pollution in the various areas of the Commonwealth, its causes, prevention, control and abatement, shall have the power to promulgate, regulations, including emergency regulations, abating, controlling and prohibiting air pollution throughout or in any part of the Commonwealth in accordance with the provisions of the Administrative Process Act (§ 9-6.14:1 et seq.), except that no regulation promulgated by the Board shall be more restrictive than applicable federal requirements, unless the need for the regulation has been explained to the standing committee of each house of the General Assembly to which matters relating to the content of the regulation are most properly referable. No such regulation, shall prohibit the burning of leaves from trees by persons on property where they reside if the local governing body of the county, city or town has enacted an otherwise valid ordinance regulating such burning. The regulations shall not promote or encourage any substantial degradation of present air quality in any air basin or region which has an air quality superior to that stipulated in the regulations. Any regulations adopted by the Board to have general effect in part or all of the Commonwealth shall be filed in accordance with the Virginia Register Act (§ 9-6.15 et seq.).

§ 10.1-1402. Powers and duties of the Board.—The Board shall carry out the purposes and provisions of this chapter and compatible provisions of federal acts and is authorized to:
1. Supervise and control waste management activities in the Commonwealth.
2. Consult, advise and coordinate with the Governor, the Secretary, the General Assembly, and other state and federal agencies for the purpose of implementing this chapter and the federal acts.
3. Provide technical assistance and advice concerning all aspects of waste management.
4. Develop and keep current state waste management plans and provide technical assistance, advice and other aid for the development and implementation of local and regional waste management plans.
5. Promote the development of resource conservation and resource recovery systems and provide technical assistance and advice on resource conservation, resource recovery and resource recovery systems.
6. Collect data necessary to conduct the state waste programs, including data on the identification of and amounts of waste generated, transported, stored, treated or disposed, and resource recovery.
7. Require any person who generates, collects, transports, stores or provides treatment or disposal of a hazardous waste to maintain records, manifests and reporting systems required pursuant to federal statute or regulation.
8. Designate, in accordance with criteria and listings identified under federal statute or regulation, classes, types or lists of waste which it deems to be hazardous.
9. Consult and coordinate with the heads of appropriate state and federal agencies, independent regulatory agencies and other governmental instrumentalities for the purpose of achieving maximum effectiveness and enforcement of this chapter while imposing the least burden of duplicative requirements on those persons subject to the provisions of this chapter.
10. Apply for federal funds and transmit such funds to appropriate persons.
11. Promulgate and enforce regulations, and provide for reasonable variances and exemptions necessary to carry out its powers and duties and the intent of this chapter and the federal acts, except that no regulation promulgated by the Board shall be more restrictive than applicable federal requirements, unless the need for regulation has been explained to the standing committee of each house of the General Assembly to which matters relating to the content of the regulation are most properly referable.

12. Subject to the approval of the Governor, acquire by purchase, exercise of the right of eminent domain as provided in Chapter 1.1 (§ 25-46.1 et seq.) of Title 25, grant, gift, devise or otherwise, the fee simple title to any lands, selected in the discretion of the Board as constituting necessary and appropriate sites to be used for the management of hazardous waste as defined in this chapter, including lands adjacent to the site as the Board may deem necessary or suitable for restricted areas. In all instances the Board shall dedicate lands so acquired in perpetuity to such purposes. In its selection of a site pursuant to this subdivision, the Board shall consider the appropriateness of any state-owned property for a disposal site in accordance with the criteria for selection of a hazardous waste management site.

13. Assume responsibility for the perpetual custody and maintenance of any hazardous waste management facilities.

14. Collect, from any person operating or using a hazardous waste management facility, fees sufficient to finance such perpetual custody and maintenance due to that facility as may be necessary. All fees received by the Board pursuant to this subdivision shall be used exclusively to satisfy the responsibilities assumed by the Board for the perpetual custody and maintenance of hazardous waste management facilities.

15. Collect, from any person operating or proposing to operate a hazardous waste treatment, storage or disposal facility or any person transporting hazardous waste, permit application fees sufficient to defray only costs related to the issuance of permits as required in this chapter in accordance with Board regulations, but such fees shall not exceed costs necessary to implement this subdivision. All fees received by the Board pursuant to this subdivision shall be used exclusively for the hazardous waste management program set forth herein.

16. Collect, from any person operating or proposing to operate a sanitary landfill or other facility for the disposal, treatment or storage of nonhazardous solid waste, permit application fees sufficient to defray only costs related to the issuance of permits as required in this chapter in accordance with Board regulations, but such fees shall not exceed costs necessary to issue such permits. All such fees received by the Board shall be used exclusively for the solid waste management program set forth herein. The Board shall establish a schedule of fees by regulation as provided in §§ 10.1-1402.1, 10.1-1402.2 and 10.1-1402.3.

17. Issue, deny, amend and revoke certification of site suitability for hazardous waste facilities in accordance with this chapter.

18. Make separate orders and regulations it deems necessary to meet any emergency to protect public health, natural resources and the environment from the release or imminent threat of release of waste.

19. Take actions to contain or clean up sites or to issue orders to require cleanup of sites where solid or hazardous waste, or other substances within the jurisdiction of the Board, have been improperly managed and to institute legal proceedings to recover the costs of the containment or clean-up activities from the responsible parties.

20. Collect, hold, manage and disburse funds received for violations of solid and hazardous waste laws and regulations or court orders pertaining thereto pursuant to subdivision 19 of this section for the purpose of responding to solid or hazardous waste incidents and clean-up of sites which have been improperly managed, including sites eligible for a joint federal and state remedial project under the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, Public Law 96-510, as amended by the Superfund Amendments and Reauthorization Act of 1986, Public Law
and for investigations to identify parties responsible for such mismanagement.

21. Abate hazards and nuisances dangerous to public health, safety or the environment, both emergency and otherwise, created by the improper disposal, treatment, storage, transportation or management of substances within the jurisdiction of the Board.

22. Notwithstanding any other provision of law to the contrary, regulate the management of mixed radioactive waste.

§ 62.1-44.15. Powers and duties.—It shall be the duty of the Board and it shall have the authority:

(1) To study and investigate all problems concerned with the quality of state waters and to make reports and recommendations.

(2a) To study and investigate methods, procedures, devices, appliances, and technologies which could assist in water conservation or water consumption reduction.

(2b) To coordinate its efforts toward water conservation with other persons or groups, within or without the Commonwealth.

(2c) To make reports concerning, and formulate recommendations based upon, any such water conservation studies to assure that present and future water needs of the citizens of the Commonwealth are met.

(3a) To establish such standards of quality and policies for any state waters consistent with the general policy set forth in this chapter, and to modify, amend or cancel any such standards or policies established and to take all appropriate steps to prevent quality alteration contrary to the public interest or to standards or policies thus established, except that no standard or policy established by the Board shall be more restrictive than applicable federal requirements, unless the need for the standard or policy is explained to the standing committee of each house of the General Assembly to which matters relating to the content of the standard or policy are most properly referable. The Board shall, from time to time, but at least once every three years, hold public hearings pursuant to subsection B of § 9-6.14:7.1 but, upon the request of an affected person or upon its own motion, hold hearings pursuant to § 9-6.14:8, for the purpose of reviewing the standards of quality, and, as appropriate, adopting, modifying, or cancelling such standards. Whenever the Board considers the adoption, modification, amendment or cancellation of any standard, it shall give due consideration to, among other factors, the economic and social costs and benefits which can reasonably be expected to obtain as a consequence of the standards as adopted, modified, amended or cancelled. The Board shall also give due consideration to the public health standards issued by the Virginia Department of Health with respect to issues of public health policy and protection. If the Board does not follow the public health standards of the Virginia Department of Health, the Board’s reason for any deviation shall be made in writing and published for any and all concerned parties.

(3b) Except as provided in subdivision (3a), such standards and policies are to be adopted or modified, amended or cancelled in the manner provided by the Administrative Process Act (§ 9-6.14:1 et seq.).

(4) To conduct or have conducted scientific experiments, investigations, studies, and research to discover methods for maintaining water quality consistent with the purposes of this chapter. To this end the Board may cooperate with any public or private agency in the conduct of such experiments, investigations and research and may receive in behalf of the Commonwealth any moneys which any such agency may contribute as its share of the cost under any such cooperative agreement. Such moneys shall be used only for the purposes for which they are contributed and any balance remaining after the conclusion of the experiments, investigations, studies, and research, shall be returned to the contributors.

(5) To issue certificates for the discharge of sewage, industrial wastes and other wastes into or adjacent to or the alteration otherwise of the physical, chemical or biological properties of state waters under prescribed conditions and to revoke or amend such certificates.

(5a) All certificates issued by the Board under this chapter shall have fixed terms. The
term of a Virginia Pollution Discharge Elimination System permit shall not exceed five years. The term of a Virginia Pollution Abatement permit shall not exceed ten years, except that the term of a Virginia Pollution Abatement permit for concentrated animal feeding operations shall not exceed five years. The term of a certificate issued by the Board shall not be extended by modification beyond the maximum duration and the certificate shall expire at the end of the term unless an application for a new permit has been timely filed as required by the regulations of the Board and the Board is unable, through no fault of the permittee, to issue a new permit before the expiration date of the previous permit.

(5b) Any certificate issued by the Board under this chapter may, after notice and opportunity for a hearing, be amended or revoked on any of the following grounds or for good cause as may be provided by the regulations of the Board:

1. The owner has violated any regulation or order of the Board, any condition of a certificate, any provision of this chapter, or any order of a court, where such violation results in a release of harmful substances into the environment or poses a substantial threat of release of harmful substances into the environment or presents a hazard to human health or the violation is representative of a pattern of serious or repeated violations which, in the opinion of the Board, demonstrates the owner’s disregard for or inability to comply with applicable laws, regulations, or requirements;

2. The owner has failed to disclose fully all relevant material facts or has misrepresented a material fact in applying for a certificate, or in any other report or document required under this law or under the regulations of the Board;

3. The activity for which the certificate was issued endangers human health or the environment and can be regulated to acceptable levels by amendment or revocation of the certificate; or

4. There exists a material change in the basis on which the permit was issued that requires either a temporary or a permanent reduction or elimination of any discharge controlled by the certificate necessary to protect human health or the environment.

(6) To make investigations and inspections, to ensure compliance with any certificates, standards, policies, rules, regulations, rulings and special orders which it may adopt, issue or establish and to furnish advice, recommendations, or instructions for the purpose of obtaining such compliance. In recognition of §§ 32.1-164 and 62.1-44.18, the Board and the State Department of Health shall enter into a memorandum of understanding establishing a common format to consolidate and simplify inspections of sewage treatment plants and coordinate the scheduling of the inspections. The new format shall ensure that all sewage treatment plants are inspected at appropriate intervals in order to protect water quality and public health and at the same time avoid any unnecessary administrative burden on those being inspected.

(7) To adopt rules governing the procedure of the Board with respect to: (a) hearings; (b) the filing of reports; (c) the issuance of certificates and special orders; and (d) all other matters relating to procedure; and to amend or cancel any rule adopted. Public notice of every rule adopted under this section shall be by such means as the Board may prescribe.

(8a) To issue special orders to owners (i) who are permitting or causing the pollution, as defined by § 62.1-44.3, of state waters to cease and desist from such pollution, (ii) who have failed to construct facilities in accordance with final approved plans and specifications to construct such facilities in accordance with final approved plans and specifications, (iii) who have violated the terms and provisions of a certificate issued by the Board to comply with such terms and provisions, (iv) who have failed to comply with a directive from the Board to comply with such directive, (v) who have contravened duly adopted and promulgated water quality standards and policies to cease and desist from such contravention and to comply with such water quality standards and policies, (vi) who have violated the terms and provisions of a pretreatment permit issued by the Board or by the owner of a publicly owned treatment works to comply with such terms and provisions or
(vii) who have contravened any applicable pretreatment standard or requirement to comply with such standard or requirement; and also to issue such orders to require any owner to comply with the provisions of this chapter and any decision of the Board.

(8b) Such special orders are to be issued only after a hearing with at least thirty days' notice to the affected owners, of the time, place and purpose thereof, and they shall become effective not less than fifteen days after service as provided in § 62.1-44.12; provided that if the Board finds that any such owner is grossly affecting or presents an imminent and substantial danger to (i) the public health, safety or welfare, or the health of animals, fish or aquatic life; (ii) a public water supply; or (iii) recreational, commercial, industrial, agricultural or other reasonable uses, it may issue, without advance notice or hearing, an emergency special order directing the owner to cease such pollution or discharge immediately, and shall provide an opportunity for a hearing, after reasonable notice as to the time and place thereof to the owner, to affirm, modify, amend or cancel such emergency special order. If an owner who has been issued such a special order or an emergency special order is not complying with the terms thereof, the Board may proceed in accordance with § 62.1-44.23, and where the order is based on a finding of an imminent and substantial danger, the court shall issue an injunction compelling compliance with the emergency special order pending a hearing by the Board. If an emergency special order requires cessation of a discharge, the Board shall provide an opportunity for a hearing within forty-eight hours of the issuance of the injunction.

(8c) The provisions of this section notwithstanding, the Board may proceed directly under § 62.1-44.32 for any past violation or violations of any provision of this chapter or any regulation duly promulgated hereunder.

(8d) With the consent of any owner who has violated or failed, neglected or refused to obey any regulation or order of the Board, any condition of a permit or any provision of this chapter, the Board may provide, in an order issued by the Board against such person, for the payment of civil charges for past violations in specific sums not to exceed the limit specified in subsection (a) of § 62.1-44.32. Such civil charges shall be instead of any appropriate civil penalty which could be imposed under subsection (a) of § 62.1-44.32 and shall not be subject to the provisions of § 2.1-127. Such civil charges shall be paid into the state treasury and deposited by the State Treasurer into the Virginia Environmental Emergency Response Fund pursuant to Chapter 25 of Title 10.1, excluding civil charges assessed for violations of Article 9 or 10 of Chapter 3.1 of Title 62.1, or a regulation, administrative or judicial order, or term or condition of approval relating to or issued under those articles.

The amendments to this section adopted by the 1976 Session of the General Assembly shall not be construed as limiting or expanding any cause of action or any other remedy possessed by the Board prior to the effective date of said amendments.

(9) To make such rulings under §§ 62.1-44.16, 62.1-44.17 and 62.1-44.19 as may be required upon requests or applications to the Board, the owner or owners affected to be notified by certified mail as soon as practicable after the Board makes them and such rulings to become effective upon such notification.

(10) To adopt such regulations as it deems necessary to enforce the general water quality management program of the Board in all or part of the Commonwealth, except that no regulation promulgated by the Board shall be more restrictive than applicable federal requirements, unless the need for the regulation is explained to the standing committee of each house of the General Assembly to which matters relating to the content of the regulation are most properly referable.

(11) To investigate any large-scale killing of fish.

(a) Whenever the Board shall determine that any owner, whether or not he shall have been issued a certificate for discharge of waste, has discharged sewage, industrial waste, or other waste into state waters in such quantity, concentration or manner that fish are killed as a result thereof it may effect such settlement with the owner as will cover the costs incurred by the Board and by the Department of Game and Inland Fisheries in
investigating such killing of fish, plus the replacement value of the fish destroyed, or as it
deems proper, and if no such settlement is reached within a reasonable time the Board
shall authorize its executive secretary to bring a civil action in the name of the Board to
recover from the owner such costs and value, plus any court or other legal costs incurred
in connection with such action.

(b) If the owner be a political subdivision of the Commonwealth the action may be
brought in any circuit court within the territory embraced by such political subdivision. If
the owner be an establishment, as defined in this chapter, the action shall be brought in
the circuit court of the city or the circuit court of the county in which such establishment
is located. If the owner be an individual or group of individuals the action shall be brought
in the circuit court of the city or circuit court of the county in which such person or any
of them reside.

(c) For the purposes of this subsection the State Water Control Board shall be deemed
the owner of the fish killed and the proceedings shall be as though the State Water Control
Board were the owner of the fish. The fact that the owner has or held a certificate issued
under this chapter shall not be raised as a defense in bar to any such action.

(d) The proceeds of any recovery had under this subsection shall, when received by
the Board, be applied, first, to reimburse the Board for any expenses incurred in
investigating such killing of fish. The balance shall be paid to the Board of Game and
Inland Fisheries to be used for the fisheries' management practices as in its judgment will
best restore or replace the fisheries' values lost as a result of such discharge of waste,
including, where appropriate, replacement of the fish killed with game fish or other
appropriate species. Any such funds received are hereby appropriated for that purpose.

(e) Nothing in this subsection shall be construed in any way to limit or prevent any
other action which is now authorized by law by the Board against any owner.

(f) Notwithstanding the foregoing, the provisions of this subsection shall not apply to
any owner who adds or applies any chemicals or other substances that are recommended
or approved by the State Department of Health to state waters in the course of processing
or treating such waters for public water supply purposes, except where negligence is
shown.

(12) To administer programs of financial assistance for planning, construction, operation,
and maintenance of water quality control facilities for political subdivisions in this
Commonwealth.

(13) To establish policies and programs for effective area-wide or basin-wide water
quality control and management. The Board may develop comprehensive pollution
abatement and water quality control plans on an area-wide or basin-wide basis. In
conjunction with this, the Board, when considering proposals for waste treatment facilities,
is to consider the feasibility of combined or joint treatment facilities and is to ensure that
the approval of waste treatment facilities is in accordance with the water quality
management and pollution control plan in the watershed or basin as a whole. In making
such determinations, the Board is to seek the advice of local, regional, or state planning
authorities.

(14) To establish requirements for the treatment of sewage, industrial wastes and other
wastes that are consistent with the purposes of this chapter; however, no treatment will be
less than secondary or its equivalent, unless the owner can demonstrate that a lesser
degree of treatment is consistent with the purposes of this chapter.
A BILL to amend the Code of Virginia by adding respectively in Articles 3 and 13 of Chapter 3 of Title 58.1 sections numbered 58.1-339.2 and 58.1-439, relating to tax credits for contributions of equipment to public school.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding respectively in Articles 3 and 13 of Chapter 3 of Title 58.1 sections numbered 58.1-339.2 and 58.1-439 as follows:

§ 58.1-339.2. School equipment contribution credit.—A. For taxable years beginning on and after January 1, 1994, but before January 1, 1997, twenty-five percent of the value of "qualified school equipment contributions" donated and accepted by the Department of Education as eligible contributions to the School Equipment Assistance Program ("Program") shall be allowed as a credit against the tax imposed by § 58.1-320. Only property used in a business shall qualify for the credit. The Program shall be operated for the benefit of Virginia's local education agencies (LEAs).

B. The Department of Education shall develop and publish a list of equipment eligible as "qualified school equipment contributions" including, but not limited to, computers, copiers, telephones, and facsimile machines. All such contributed equipment shall be in working order. No credit shall be allowed until a local school superintendent has inspected and accepted such equipment and evidenced such inspection and acceptance by delivering a receipt to the donor. At the same time, a copy of such receipt, or equivalent notice of receipt as may be provided by regulation, shall be transmitted to the Department of Education. The value of such equipment shall be the value assigned to such business personal property for local tax purposes. On a monthly basis, the Department of Education shall provide a certified list of donors to the Department of Taxation, specifying the name of the donor, the donor's tax identification number, and the amount of credit per donor. Claiming of this credit shall not require an adjustment of the value of the equipment for charitable deduction or other deduction purposes.

C. The Board of Education shall promulgate regulations detailing how the qualified school equipment contributions will be distributed among the various school divisions, and priority shall be given to those school divisions demonstrating the greatest need. In the event of equal competing priorities, the Department of Education shall factor into its determination process which school divisions have previously benefited from the Program and the cost to the donor of effecting delivery of such equipment to the respective school divisions.

D. Credits allowed to a partnership or electing small business corporation (S corporation) shall be passed through to the individual partners or shareholders in proportion to their ownership or interest in the partnership or S corporation.

E. The total amount of credits for which the Department of Education may authorize the issuance of receipts for the Program in any taxable year shall not exceed five million dollars.

§ 58.1-439. School equipment contribution credit.—A. For taxable years beginning on and after January 1, 1994, but before January 1, 1997, twenty-five percent of the value of "qualified school equipment contributions", donated and accepted by the Department of Education as eligible contributions to the School Equipment Assistance Program ("Program") shall be allowed as a credit against the tax imposed by § 58.1-400. The Program shall be operated for the benefit of Virginia's local education agencies (LEAs).

B. The Department of Education shall develop and publish a list of equipment eligible as "qualified school equipment contributions" including, but not limited to, computers, copiers, telephones, and facsimile machines. All such contributed equipment shall be in working order. No credit shall be allowed until a local school superintendent has inspected
and accepted such equipment and evidenced such inspection and acceptance by delivering a receipt to the donor. At the same time, a copy of such receipt, or equivalent notice of receipt as may be provided for by regulation, shall be transmitted to the Department of Education. The value of such equipment shall be the value assigned to such business personal property for local tax purposes. On a monthly basis, the Department of Education shall provide a certified list of donors to the Department of Taxation, specifying the name of the donor, the donor's tax identification number and the amount of credit per donor. Claiming of this credit shall not require an adjustment of the value of the equipment for charitable deduction or other deduction purposes.

C. The Board of Education shall promulgate regulations detailing how the qualified school equipment contributions will be distributed among the various school divisions, and priority shall be given to those school divisions demonstrating the greatest need. In the event of equal competing priorities, the Department of Education shall factor into its determination process which school divisions have previously benefited from the Program and the cost to the donor of effecting delivery of such equipment to the respective school divisions.

D. In no event shall the Department of Education authorize the issuance of receipts in excess of the limitation established in § 58.1-339.2 F.

2. That the provisions of this act shall be effective for taxable years beginning on and after January 1, 1994, only if this act is reenacted by the 1994 Session of the General Assembly.
SENATE BILL NO. 900
Offered January 26, 1993
A BILL to amend and reenact §§ 10.1-1307, 10.1-1402 and 62.1-44.15 of the Code of Virginia, relating to the powers and duties of environmental boards.

Patron—Nolen

Referred to the Committee on Agriculture, Conservation and Natural Resources

Be it enacted by the General Assembly of Virginia:

1. That §§ 10.1-1307, 10.1-1402 and 62.1-44.15 of the Code of Virginia are amended and reenacted as follows:

§ 10.1-1307. Further powers and duties of Board.—A. The Board shall have the power to control and regulate its internal affairs; initiate and supervise research programs to determine the causes, effects, and hazards of air pollution; initiate and supervise statewide programs of air pollution control education; cooperate with and receive money from the federal government or any county or municipal government, and receive money from any other source, whether public or private; develop a comprehensive program for the study, abatement, and control of all sources of air pollution in the Commonwealth; and advise, consult, and cooperate with agencies of the United States and all agencies of the Commonwealth, political subdivisions, private industries, and any other affected groups in furtherance of the purposes of this chapter.

B. The Board may adopt by regulation emissions standards controlling the release into the atmosphere of air pollutants from motor vehicles, only as provided in Article 22 (§ 46.2-1176 et seq.) of Chapter 10 of Title 46.2.

C. After any regulation has been adopted by the Board pursuant to § 10.1-1308, it may in its discretion grant local variances therefrom, if it finds after an investigation and hearing that local conditions warrant. If local variances are permitted, the Board shall issue an order to this effect. Such order shall be subject to revocation or amendment at any time if the Board after a hearing determines that the amendment or revocation is warranted. Variances and amendments to variances shall be adopted only after a public hearing has been conducted pursuant to the public advertisement of the subject, date, time, and place of the hearing at least thirty days prior to the scheduled hearing. The hearing shall be conducted to give the public an opportunity to comment on the variance.

D. After the Board has adopted the regulations provided for in § 10.1-1308, it shall have the power to: (i) initiate and receive complaints as to air pollution; (ii) hold or cause to be held hearings and enter orders diminishing or abating the causes of air pollution and orders to enforce its regulations pursuant to § 10.1-1309; and (iii) institute legal proceedings, including suits for injunctions for the enforcement of its orders, regulations, and the abatement and control of air pollution and for the enforcement of penalties.

E. The Board in making regulations and in approving variances, control programs, or permits, and the courts in granting injunctive relief under the provisions of this chapter, shall consider facts and circumstances relevant to the reasonableness of the activity involved and the regulations proposed to control it, including:

1. The character and degree of injury to, or interference with, safety, health, or the reasonable use of property which is caused or threatened to be caused;
2. The social and economic value of the activity involved;
3. The suitability of the activity to the area in which it is located; and
4. The scientific and economic practicality of reducing or eliminating the discharge resulting from such activity.

F. The Board may designate one of its members, the Director, or a staff assistant to conduct the hearings provided for in this chapter. A record of the hearing shall be made and furnished to the Board for its use in arriving at its decision.

G. The Board shall submit an annual report to the Governor and General Assembly on
or before October 1 of each year on matters relating to the Commonwealth's air pollution control policies and on the status of the Commonwealth's air quality. The annual report shall be distributed in accordance with the provisions of § 2.1-467.

H. The Board shall, at or before the time when a bill relating to subjects under the authority of the Board is heard by a committee or subcommittee of the General Assembly, provide the committee or subcommittee a summary of, and citations to, any analogous requirements of federal law or regulation. Such summary shall include a point by point comparison of the proposed bill to analogous federal requirements and an explanation of the anticipated impact of any differences on citizens of the Commonwealth.

§ 10.1-1402. Powers and duties of the Board.—The Board shall carry out the purposes and provisions of this chapter and compatible provisions of federal acts and is authorized to:

1. Supervise and control waste management activities in the Commonwealth.
2. Consult, advise and coordinate with the Governor, the Secretary, the General Assembly, and other state and federal agencies for the purpose of implementing this chapter and the federal acts.
3. Provide technical assistance and advice concerning all aspects of waste management.
4. Develop and keep current state waste management plans and provide technical assistance, advice and other aid for the development and implementation of local and regional waste management plans.
5. Promote the development of resource conservation and resource recovery systems and provide technical assistance and advice on resource conservation, resource recovery and resource recovery systems.
6. Collect data necessary to conduct the state waste programs, including data on the identification of and amounts of waste generated, transported, stored, treated or disposed, and resource recovery.
7. Require any person who generates, collects, transports, stores or provides treatment or disposal of a hazardous waste to maintain records, manifests and reporting systems required pursuant to federal statute or regulation.
8. Designate, in accordance with criteria and listings identified under federal statute or regulation, classes, types or lists of waste which it deems to be hazardous.
9. Consult and coordinate with the heads of appropriate state and federal agencies, independent regulatory agencies and other governmental instrumentalities for the purpose of achieving maximum effectiveness and enforcement of this chapter while imposing the least burden of duplicative requirements on those persons subject to the provisions of this chapter.
10. Apply for federal funds and transmit such funds to appropriate persons.
11. Promulgate and enforce regulations, and provide for reasonable variances and exemptions necessary to carry out its powers and duties and the intent of this chapter and the federal acts.
12. Subject to the approval of the Governor, acquire by purchase, exercise of the right of eminent domain as provided in Chapter 1.1 (§ 25-46.1 et seq.) of Title 25, grant, gift, devise or otherwise, the fee simple title to any lands, selected in the discretion of the Board as constituting necessary and appropriate sites to be used for the management of hazardous waste as defined in this chapter, including lands adjacent to the site as the Board may deem necessary or suitable for restricted areas. In all instances the Board shall dedicate lands so acquired in perpetuity to such purposes. In its selection of a site pursuant to this subdivision, the Board shall consider the appropriateness of any state-owned property for a disposal site in accordance with the criteria for selection of a hazardous waste management site.
13. Assume responsibility for the perpetual custody and maintenance of any hazardous waste management facilities.
14. Collect, from any person operating or using a hazardous waste management facility, fees sufficient to finance such perpetual custody and maintenance due to that facility as
may be necessary. All fees received by the Board pursuant to this subdivision shall be used exclusively to satisfy the responsibilities assumed by the Board for the perpetual custody and maintenance of hazardous waste management facilities.

15. Collect, from any person operating or proposing to operate a hazardous waste treatment, storage or disposal facility or any person transporting hazardous waste, permit application fees sufficient to defray only costs related to the issuance of permits as required in this chapter in accordance with Board regulations, but such fees shall not exceed costs necessary to implement this subdivision. All fees received by the Board pursuant to this subdivision shall be used exclusively for the hazardous waste management program set forth herein.

16. Collect, from any person operating or proposing to operate a sanitary landfill or other facility for the disposal, treatment or storage of nonhazardous solid waste, permit application fees sufficient to defray only costs related to the issuance of permits as required in this chapter in accordance with Board regulations, but such fees shall not exceed costs necessary to issue such permits. All such fees received by the Board shall be used exclusively for the solid waste management program set forth herein. The Board shall establish a schedule of fees by regulation as provided in §§ 10.1-1402.1, 10.1-1402.2 and 10.1-1402.3.

17. Issue, deny, amend and revoke certification of site suitability for hazardous waste facilities in accordance with this chapter.

18. Make separate orders and regulations it deems necessary to meet any emergency to protect public health, natural resources and the environment from the release or imminent threat of release of waste.

19. Take actions to contain or clean up sites or to issue orders to require cleanup of sites where solid or hazardous waste, or other substances within the jurisdiction of the Board, have been improperly managed and to institute legal proceedings to recover the costs of the containment or clean-up activities from the responsible parties.

20. Collect, hold, manage and disburse funds received for violations of solid and hazardous waste laws and regulations or court orders pertaining thereto pursuant to subdivision 19 of this section for the purpose of responding to solid or hazardous waste incidents and clean-up of sites which have been improperly managed, including sites eligible for a joint federal and state remedial project under the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, Public Law 96-510, as amended by the Superfund Amendments and Reauthorization Act of 1986, Public Law 99-499, and for investigations to identify parties responsible for such mismanagement.

21. Abate hazards and nuisances dangerous to public health, safety or the environment, both emergency and otherwise, created by the improper disposal, treatment, storage, transportation or management of substances within the jurisdiction of the Board.

22. Notwithstanding any other provision of law to the contrary, regulate the management of mixed radioactive waste.

23. The Board shall, at or before the time when a bill relating to subjects under the authority of the Board is heard by a committee or subcommittee of the General Assembly, provide the committee or subcommittee a summary of, and citations to, any analogous requirements of federal law or regulation. Such summary shall include a point by point comparison of the proposed bill to analogous federal requirements and an explanation of the anticipated impact of any differences on citizens of the Commonwealth.

§ 62.1-44.15. Powers and duties.—It shall be the duty of the Board and it shall have the authority:

1. [Repealed.]

(2) To study and investigate all problems concerned with the quality of state waters and to make reports and recommendations.

(2a) To study and investigate methods, procedures, devices, appliances, and technologies which could assist in water conservation or water consumption reduction.

(2b) To coordinate its efforts toward water conservation with other persons or groups,
within or without the Commonwealth.

(2c) To make reports concerning, and formulate recommendations based upon, any such water conservation studies to assure that present and future water needs of the citizens of the Commonwealth are met.

(3a) To establish such standards of quality and policies for any state waters consistent with the general policy set forth in this chapter, and to modify, amend or cancel any such standards or policies established and to take all appropriate steps to prevent quality alteration contrary to the public interest or to standards or policies thus established. The Board shall, from time to time, but at least once every three years, hold public hearings pursuant to subsection B of § 9-6.14:7.1 but, upon the request of an affected person or upon its own motion, hold hearings pursuant to § 9-6.14:8, for the purpose of reviewing the standards of quality, and, as appropriate, adopting, modifying, or cancelling such standards. Whenever the Board considers the adoption, modification, amendment or cancellation of any standard, it shall give due consideration to, among other factors, the economic and social costs and benefits which can reasonably be expected to obtain as a consequence of the standards as adopted, modified, amended or cancelled. The Board shall also give due consideration to the public health standards issued by the Virginia Department of Health with respect to issues of public health policy and protection. If the Board does not follow the public health standards of the Virginia Department of Health, the Board's reason for any deviation shall be made in writing and published for any and all concerned parties.

(3b) Except as provided in subdivision (3a), such standards and policies are to be adopted or modified, amended or cancelled in the manner provided by the Administrative Process Act (§ 9-6.14:1 et seq.).

(4) To conduct or have conducted scientific experiments, investigations, studies, and research to discover methods for maintaining water quality consistent with the purposes of this chapter. To this end the Board may cooperate with any public or private agency in the conduct of such experiments, investigations and research and may receive in behalf of the Commonwealth any moneys which any such agency may contribute as its share of the cost under any such cooperative agreement. Such moneys shall be used only for the purposes for which they are contributed and any balance remaining after the conclusion of the experiments, investigations, studies, and research, shall be returned to the contributors.

(5) To issue certificates for the discharge of sewage, industrial wastes and other wastes into or adjacent to or the alteration otherwise of the physical, chemical or biological properties of state waters under prescribed conditions and to revoke or amend such certificates.

(5a) All certificates issued by the Board under this chapter shall have fixed terms. The term of a Virginia Pollution Discharge Elimination System permit shall not exceed five years. The term of a Virginia Pollution Abatement permit shall not exceed ten years, except that the term of a Virginia Pollution Abatement permit for concentrated animal feeding operations shall not exceed five years. The term of a certificate issued by the Board shall not be extended by modification beyond the maximum duration and the certificate shall expire at the end of the term unless an application for a new permit has been timely filed as required by the regulations of the Board and the Board is unable, through no fault of the permittee, to issue a new permit before the expiration date of the previous permit.

(5b) Any certificate issued by the Board under this chapter may, after notice and opportunity for a hearing, be amended or revoked on any of the following grounds or for good cause as may be provided by the regulations of the Board:

1. The owner has violated any regulation or order of the Board, any condition of a certificate, any provision of this chapter, or any order of a court, where such violation results in a release of harmful substances into the environment or poses a substantial threat of release of harmful substances into the environment or presents a hazard to human health or the violation is representative of a pattern of serious or repeated violations which, in the opinion of the Board, demonstrates the owner's disregard for or
appropriate species. Any such funds received are hereby appropriated for that purpose.

(e) Nothing in this subsection shall be construed in any way to limit or prevent any other action which is now authorized by law by the Board against any owner.

(f) Notwithstanding the foregoing, the provisions of this subsection shall not apply to any owner who adds or applies any chemicals or other substances that are recommended or approved by the State Department of Health to state waters in the course of processing or treating such waters for public water supply purposes, except where negligence is shown.

(12) To administer programs of financial assistance for planning, construction, operation, and maintenance of water quality control facilities for political subdivisions in this Commonwealth.

(13) To establish policies and programs for effective area-wide or basin-wide water quality control and management. The Board may develop comprehensive pollution abatement and water quality control plans on an area-wide or basin-wide basis. In conjunction with this, the Board, when considering proposals for waste treatment facilities, is to consider the feasibility of combined or joint treatment facilities and is to ensure that the approval of waste treatment facilities is in accordance with the water quality management and pollution control plan in the watershed or basin as a whole. In making such determinations, the Board is to seek the advice of local, regional, or state planning authorities.

(14) To establish requirements for the treatment of sewage, industrial wastes and other wastes that are consistent with the purposes of this chapter; however, no treatment will be less than secondary or its equivalent, unless the owner can demonstrate that a lesser degree of treatment is consistent with the purposes of this chapter.

(15) The Board shall, at or before the time when a bill relating to subjects under the authority of the Board is heard by a committee or subcommittee of the General Assembly, provide the committee or subcommittee a summary of, and citations to, any analogous requirements of federal law or regulation. Such summary shall include a point by point comparison of the proposed bill to analogous federal requirements and an explanation of the anticipated impact of any differences on citizens of the Commonwealth.
requires cessation of a discharge, the Board shall provide an opportunity for a hearing within forty-eight hours of the issuance of the injunction.

(8c) The provisions of this section notwithstanding, the Board may proceed directly under § 62.1-44.32 for any past violation or violations of any provision of this chapter or any regulation duly promulgated hereunder.

(8d) With the consent of any owner who has violated or failed, neglected or refused to obey any regulation or order of the Board, any condition of a permit or any provision of this chapter, the Board may provide, in an order issued by the Board against such person, for the payment of civil charges for past violations in specific sums not to exceed the limit specified in subsection (a) of § 62.1-44.32. Such civil charges shall be instead of any appropriate civil penalty which could be imposed under subsection (a) of § 62.1-44.32 and shall not be subject to the provisions of § 2.1-127. Such civil charges shall be paid into the state treasury and deposited by the State Treasurer into the Virginia Environmental Emergency Response Fund pursuant to Chapter 25 of Title 10.1, excluding civil charges assessed for violations of Article 9 or 10 of Chapter 3.1 of Title 62.1, or a regulation, administrative or judicial order, or term or condition of approval relating to or issued under those articles.

The amendments to this section adopted by the 1976 Session of the General Assembly shall not be construed as limiting or expanding any cause of action or any other remedy possessed by the Board prior to the effective date of said amendments.

(9) To make such rulings under §§ 62.1-44.16, 62.1-44.17 and 62.1-44.19 as may be required upon requests or applications to the Board, the owner or owners affected to be notified by certified mail as soon as practicable after the Board makes them and such rulings to become effective upon such notification.

(10) To adopt such regulations as it deems necessary to enforce the general water quality management program of the Board in all or part of the Commonwealth.

(11) To investigate any large-scale killing of fish.

(a) Whenever the Board shall determine that any owner, whether or not he shall have been issued a certificate for discharge of waste, has discharged sewage, industrial waste, or other waste into state waters in such quantity, concentration or manner that fish are killed as a result thereof it may effect such settlement with the owner as will cover the costs incurred by the Board and by the Department of Game and Inland Fisheries in investigating such killing of fish, plus the replacement value of the fish destroyed, or as it deems proper, and if no such settlement is reached within a reasonable time the Board shall authorize its executive secretary to bring a civil action in the name of the Board to recover from the owner such costs and value, plus any court or other legal costs incurred in connection with such action.

(b) If the owner be a political subdivision of the Commonwealth the action may be brought in any circuit court within the territory embraced by such political subdivision. If the owner be an establishment, as defined in this chapter, the action shall be brought in the circuit court of the city or the circuit court of the county in which such establishment is located. If the owner be an individual or group of individuals the action shall be brought in the circuit court of the city or circuit court of the county in which such person or any of them reside.

(c) For the purposes of this subsection the State Water Control Board shall be deemed the owner of the fish killed and the proceedings shall be as though the State Water Control Board were the owner of the fish. The fact that the owner has or held a certificate issued under this chapter shall not be raised as a defense in bar to any such action.

(d) The proceeds of any recovery had under this subsection shall, when received by the Board, be applied, first, to reimburse the Board for any expenses incurred in investigating such killing of fish. The balance shall be paid to the Board of Game and Inland Fisheries to be used for the fisheries' management practices as in its judgment will best restore or replace the fisheries' values lost as a result of such discharge of waste, including, where appropriate, replacement of the fish killed with game fish or other
adopted to implement this provision. The total credit allowed under this section shall not exceed forty percent of the Virginia income tax liability of such taxpayer in the taxable year of purchase.

2. As used in this section:

“Certified pollution prevention equipment and facilities” means any property, including real or personal property, equipment, facilities, or devices, used primarily for the purpose of abating or preventing pollution of the atmosphere or waters of the Commonwealth and which the state certifying authority having jurisdiction with respect to such property has certified to the Department of Taxation as having been constructed, reconstructed, erected, or acquired in conformity with the state program or requirements for prevention, abatement or control of water or atmospheric pollution or contamination.

“State certifying authority” means the State Water Control Board, for water pollution, and the State Air Pollution Control Board, for air pollution, and shall include any interstate agency authorized to act in place of a certifying authority of the Commonwealth. In the event of the reorganization of such state agencies, their successor agency or agencies shall fulfill such certification function.

B. Any tax credit not used in the taxable year in which the purchase price on such certified pollution prevention equipment and facilities was paid may be carried over for credit against the corporation’s income tax liability in the five succeeding taxable years until the total credit amount is used, subject to the forty percent limitation of subsection A.
SENATE BILL NO. 903
Offered January 26, 1993
A BILL to amend the Code of Virginia by adding respectively in Articles 3 and 13 of Chapter 3 of Title 58.1 sections numbered 58.1-339.2 and 58.1-439, relating to tax credits for certified pollution prevention equipment and facilities.

Patrons—Nolen, Bell and Schewel; Delegates: Deeds, Jackson and Munford

Referred to the Committee on Finance

Be it enacted by the General Assembly of Virginia:
1. That the Code of Virginia is amended by adding respectively in Articles 3 and 13 of Chapter 3 of Title 58.1 sections numbered 58.1-339.2 and 58.1-439 as follows:

§ 58.1-339.2. Pollution prevention equipment credit.—A. 1. For taxable years beginning on and after January 1, 1993, any individual shall be allowed a credit against the tax imposed pursuant to § 58.1-320 in an amount equal to ten percent of the purchase price paid during the taxable year for certified pollution prevention equipment and facilities, as defined herein, for machinery and equipment used in manufacturing facilities or plant units which manufacture, process, compound, or produce items of tangible personal property, at fixed locations in the Commonwealth, for sale. The taxpayer shall submit such documentation as may be required by the Department pursuant to regulations adopted to implement this provision. The total credit allowed under this section shall not exceed forty percent of the Virginia income tax liability of such taxpayer in the taxable year of purchase.

2. As used in this section:
   “Certified pollution prevention equipment and facilities” means any property, including real or personal property, equipment, facilities, or devices, used primarily for the purpose of abating or preventing pollution of the atmosphere or waters of the Commonwealth and which the state certifying authority having jurisdiction with respect to such property has certified to the Department of Taxation as having been constructed, reconstructed, erected, or acquired in conformity with the state program or requirements for prevention, abatement or control of water or atmospheric pollution or contamination.
   “State certifying authority” means the State Water Control Board, for water pollution, and the State Air Pollution Control Board, for air pollution, and includes any interstate agency authorized to act in place of a certifying authority of the Commonwealth. In the event of the reorganization of such state agencies, their successor agency or agencies shall fulfill such certification function.

B. Any tax credit not used in the taxable year in which the purchase price on such certified pollution prevention equipment and facilities was paid may be carried over for credit against the individual’s income tax liability in the five succeeding taxable years until the total credit amount is used, subject to the forty percent limitation of subsection A.

C. Credits allowed to a partnership or electing small business corporation (S corporation) or limited liability company shall be passed through to the individual partners, shareholders or members, respectively, in proportion to their ownership or interest in the partnership, S corporation or limited liability company.

§ 58.1-439. Pollution prevention equipment credit.—A. 1. For taxable years beginning on and after January 1, 1993, any corporation shall be allowed a credit against the tax imposed pursuant to § 58.1-320 in an amount equal to ten percent of the purchase price paid during the taxable year for certified pollution prevention equipment and facilities, as defined herein, for machinery and equipment used in manufacturing facilities or plant units which manufacture, process, compound, or produce items of tangible personal property, at fixed locations in the Commonwealth, for sale. The taxpayer shall submit such documentation as may be required by the Department pursuant to regulations
SENATE JOINT RESOLUTION NO. 92
Offered January 21, 1992

Requesting the College of Agriculture and Life Sciences at Virginia Polytechnic Institute
and State University to expand its research initiatives in the Blue Ridge region.

Patrons—Nolen, Trumbo and Schewel; Delegates: Cranwell, Deeds, Finney, Munford and
Putney

Referred to the Committee on Rules

WHEREAS, the College of Agriculture and Life Sciences at Virginia Polytechnic Institute
and State University has a long and distinguished history of providing high quality
programs through classroom, laboratory and field education, research studies, experiments,
and extension education programs to meet the needs of Virginia's agriculture and forest
industries; and

WHEREAS, Virginia Tech is a major university committed to serving the people of the
Commonwealth; and

WHEREAS, dissemination of new knowledge and the application of that knowledge by
its citizens are essential to make Virginians competitive in a national and global economy;
and

WHEREAS, economic competitiveness and protection of the environment are key
components to elevating the living standards of Virginia citizens, both individually and
collectively; and

WHEREAS, waste management, new products made available through biotechnology, and
information technology are essential to future economic growth and environmental quality;
and

WHEREAS, the economic development efforts of the Blue Ridge region would be
greatly enhanced through innovative applications of forestal, agricultural and
biotechnological resources endemic to the Blue Ridge region; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the College of
Agricultural and Life Sciences of Virginia Polytechnic Institute and State University expand
its research initiatives to establish new programs and innovative applications of
environmental science, agricultural biotechnology and information technology for the Blue
Ridge region; and, be it

RESOLVED FURTHER, That the College of Agriculture and Life Sciences at Virginia
Tech advise the Blue Ridge Economic Development Commission in October of each year in
which the Commission is in existence of the school's progress in implementing this
resolution and report any findings or recommendations.
SENATE BILL NO. 970
AMENDMENT IN THE NATURE OF A SUBSTITUTE
(Proposed by the Senate Committee on Agriculture, Conservation and Natural Resources on February 1, 1993)
(Patron Prior to Substitute—Senator Trumbo)
A BILL to amend and reenact § 10.1-1433 of the Code of Virginia, relating to definitions and criteria used in siting of hazardous waste facilities.

Be it enacted by the General Assembly of Virginia:
1. That § 10.1-1433 of the Code of Virginia is amended and reenacted as follows:

§ 10.1-1433. Definitions.—As used in this article, unless the context requires a different meaning:

“Applicant” means the person applying for a certification of site suitability or submitting a notice of intent to apply therefor.

“Application” means an application to the Board for a certification of site suitability.

“Certification of site suitability” or “certification” means the certification issued by the Board pursuant to this chapter.

“Criteria” means the criteria adopted by the Board, pursuant to § 10.1-1436.

“Fund” means the Technical Assistance Fund created pursuant to § 10.1-1448.

“Hazardous waste facility” or “facility” means any facility, including land and structures, appurtenances, improvements and equipment for the treatment, storage or disposal of hazardous wastes, which accepts hazardous waste for storage, treatment or disposal. For the purposes of this article, it does not include: (i) facilities which are owned and operated by and exclusively for the on-site treatment, storage or disposal of wastes generated by the owner or operator; (ii) facilities for the treatment, storage or disposal of hazardous wastes used principally as fuels in an on-site production process; however, the burning of hazardous wastes in cement kilns shall be subject to the purposes of this article; (iii) facilities used exclusively for the pretreatment of wastes discharged directly to a publicly owned sewage treatment works.

“Hazardous waste management facility permit” means the permit for a hazardous waste management facility issued by the Director or the U.S. Environmental Protection Agency.

“Host community” means any county, city or town within whose jurisdictional boundaries construction of a hazardous waste facility is proposed.

“On-site” means facilities that are located on the same or geographically contiguous property which may be divided by public or private right-of-way, and the entrance and exit between the contiguous properties is at a cross-roads intersection so that the access is by crossing, as opposed to going along, the right-of-way. On-site also means noncontiguous properties owned by the same person but connected by a right-of-way which the owner controls and to which the public does not have access.

“Operator” means a person who is responsible for the overall operation of a facility.

“Owner” means a person who owns a facility or a part of a facility.

“Storage” means the containment or holding of hazardous wastes pending treatment, recycling, reuse, recovery or disposal.

“Treatment” means any method, technique or process, including incineration or neutralization, designed to change the physical, chemical or biological character or composition of any hazardous waste to neutralize it or to render it less hazardous or nonhazardous, safer for transport, amenable to recovery or storage or reduced in volume.