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. 66

COMMONWEALTH OF VIRGINIA
RICHMOND
1996

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Table of Contents

Final 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
May 1996

TO: The Honorable George Allen, Governor of Virginia,
and
the General Assembly of Virginia

I. Authority and Membership

The Blue Ridge Economic Development Commission (the "commission") was created by the 1991 General Assembly in House Joint Resolution No. 451. The resolution established the Blue Ridge region as the Counties of Alleghany, Amherst, Appomattox, Augusta, Bath, Bedford, Bland, Botetourt, Campbell, Craig, Floyd, Franklin, Giles, Highland, Montgomery, Nelson, Pulaski, Roanoke, Rockbridge, and Wythe; the Cities of Bedford, Buena Vista, Clifton Forge, Covington, Lexington, Lynchburg, Radford, Roanoke, Salem, Staunton, and Waynesboro; and 28 towns, including Blacksburg, Pulaski, and Wytheville. The commission's first interim report was made to the Governor and 1992 General Assembly in House Document No. 60 (1992).

House Joint Resolution No. 107, adopted by the 1992 General Assembly, authorized the commission to continue its study for an additional year. The commission reported to the Governor and the 1993 General Assembly in House Document No. 78 (1993), its second interim report.

The commission's study was continued for an additional year by the 1993 General Assembly in House Joint Resolution No. 712. The commission's third interim report to the Governor and the 1994 General Assembly was published as House Document No. 40 (1994).

In 1994, House Joint Resolution No. 283 continued the commission's study for an additional two years. This final report summarizes the commission's work from 1994 to 1996.

From 1991 to 1994, the 23-member commission was chaired by Del. Joan H. Munford, who retired at the end of her 1994 term after 12 years in public office. From 1994 to 1996, Del. R. Creigh Deeds has chaired the commission. Sen. Frank W. Nolen has served as vice chairman. The commission's membership consists of 11 legislators and 12 citizens.

II. 1994-95 Work of the Commission

A. 1994 Interim

During the 1994 interim, the commission held three meetings and one legislative work session. The main areas of interest to the commission were economic development, transportation, and tourism. Several other issues also captured the commission's attention.

1. Economic Development

At its August 1994 meeting at Hollins College, the commission heard from Wayne Sterling, who, at the time, was the newly appointed director of the Virginia Department of Economic Development (VDED). Mr. Sterling reported that VDED's goal is to increase the flow of business and industry prospects into the Commonwealth by aggressively marketing the Commonwealth of Virginia. An increase in the number of prospects will, in turn, increase the number of companies that ultimately choose to locate or expand in Virginia, which, in turn, will spur overall economic development throughout Virginia.

Mr. Sterling reported that, at that time, VDED was working on 73 domestic, 30 international, and 12 retention and expansion project files. In order to increase the prospect flow into the Commonwealth and make Virginia a more competitive force among southeastern states, Mr. Sterling plans to provide enhanced training for VDED personnel, utilize direct-mail marketing, and develop a "red carpet" program for economic development consultants who are researching prospective sites for their clients.

In response to several questions from commission members, Mr. Sterling indicated that the state's environmental permitting process should be faster, especially when companies meet federal permitting standards in or around federally owned land. He also explained that VDED's process in working with a prospective company is not intended to generate competition between localities.

Site parameters specified by a prospect are the key factors in VDED's development of a list of appropriate potential locations. The ultimate choice of a location is solely within the company's judgment and not VDED.

At its second meeting in October 1994 at Washington and Lee University, the commission heard from seven private, nonprofit economic development organizations in the Blue Ridge, five of the governor's regional economic development advisory councils that serve the region, and the state director of the governor's regional councils. In addition to providing an opportunity to "meet and greet" the commission and each other, the meeting provided a forum to exchange relevant, helpful, and timely information. Chairman Deeds emphasized that such an exchange helps to foster a spirit of cooperation and coordination and avoids the time and expense of duplicative effort. Consequently, significant contributions are made towards everyone's goal of enhancing both the quality and quantity of economic development in the Blue Ridge.

At this meeting, presentations were made by or on behalf of the following: Franklyn H. Moreno, executive director, New River Valley Economic Development Alliance; Elizabeth S. Doughty, executive director, Roanoke Valley Economic Development Partnership; J. Glynn Loope, executive director, Allegheny Highlands Economic Development Authority; Beverly T. Fitzpatrick, Jr., executive director, The New Century Council; Jerry A. Brown, executive director, Mount Rogers Partnership; Stuart L. Litvin, executive director, Rockbridge Area Economic Development Commission; Jeff Taylor, program manager, Virginia's Region 2000; Boyd S. Richardson, Jr., director, Regional Economic Development Advisory Councils, Office of the Secretary of Commerce and Trade; R. David Crockett, chairman, District 2 Governor's Regional Economic Development Advisory Council (Blue Ridge Counties of Bland and Wythe); G. Steven Agee, chairman, District 3 Governor's Regional Economic Development Advisory Council (Blue Ridge Counties of Alleghany, Botetourt, Craig, Floyd, Franklin, Giles, Montgomery, Pulaski, and Roanoke and Blue Ridge Cities of Clifton Forge, Covington, Radford, Roanoke, and Salem); Gerald L. Nay, chairman, District 4 Governor's Regional Economic Development Advisory Council (Blue Ridge Counties of Augusta, Bath, Highland, and Rockbridge and Blue Ridge Cities of Lexington, Staunton, and Waynesboro); Jane Dittmar, chairman, District 8 Governor's Regional Economic Development Advisory Council (Blue Ridge County of Nelson); and Rodger Fauber, chairman, District 9 Governor's Regional Economic Development Advisory Council (Blue Ridge Counties of Amherst, Appomattox, Bedford, and Campbell and Blue Ridge Cities of Bedford and Lynchburg).

2. Transportation

At its August 1994 meeting at Hollins College, the commission heard from Fred Altizer, Salem district administrator of the Virginia Department of Transportation (VDOT). Mr. Altizer updated the commission on the "smart highway," Interstate 73, and Interstate 81 projects. The "smart highway" is a six-mile connector between Blacksburg and I-81. Virginia Tech has applied for a grant from the Federal Highway Administration to build a two-mile test bed. Mr. Altizer indicated that within the next two years, the design of the project should be completed and construction underway.

Interstate 73 was identified in the federal ISTEA legislation (Intermodal Surface Transportation Efficiency Act of 1991) to connect Detroit, Michigan, and Charleston, South Carolina. In March of 1994, Virginia's Commonwealth Transportation Board (CTB) recommended that the Virginia portion of I-73 follow Route 460 from West Virginia through Giles County and Blacksburg to Roanoke, then track U.S. 220 south through Franklin and Henry Counties and Martinsville and into North Carolina. Mr. Altizer reported that the U.S. House of Representatives had recently approved a National Highway System bill that includes this route through Virginia, but the Senate has not yet acted on the measure. In related legislative action, CTB was appropriated $500,000 in federal money to continue to study Virginia's preference for the I-73 route.

Planning for the widening of Interstate 81--328 miles of which is in Virginia--has begun on a 40-mile stretch from Christiansburg to Buchanan. Mr. Altizer reported that the project is a difficult one for several reasons, one of which is the existence of five interchanges within nine miles in the Roanoke Valley. Another concern is the high volume and type of traffic on I-81. Twenty to forty-five percent of total traffic volume is comprised of heavy vehicles. The weigh station at Troutville alone has reported up to 10,000 trucks a day.

At its third meeting of the 1994 interim in November at the Homestead, the commission heard from John Covaney, senior managing director of marketing services for the Virginia Port Authority (VPA), who discussed Virginia's Inland Port (VIP) at Front Royal. The VIP opened in 1989 after the General Assembly appropriated approximately $10.1 million to the project. Preliminary studies had begun on the project in 1987, and focused on the goal of the VIP as providing transportation, not economic development.

The design of the VIP is that of a major railyard--the Norfolk-Southern--with enhanced tractor-trailer truck access. The purpose of the VIP is to transport goods and products on a west-east route to Virginia's seaports. Mr. Covaney explained that in planning the VIP, the VPA targeted the business in a specific market, i.e, West Virginia and the Eastern Ohio Valley. The success of that marketing plan is attested to by the increasing number of containers that are annually shipped through the VIP. In 1989, it was three; by the end of this year, the total will be 16,000. Mr. Covaney reported that excluding coal, which has its own transportation system, eighty percent of the VIP's business is from outside the Commonwealth.

In considering a proposal to establish an inland port in the Blue Ridge region, Mr. Covaney suggested to the commission that a number of questions be answered prior to conducting a feasibility study. First, where will such an inland port be located? Wytheville and Roanoke have been suggested. Second, what is the targeted market? If it is primarily comprised of Southwest Virginia businesses, the level of interest and ability to use such an inland port must be determined. Third, what clearances will be needed? Fourth, will Norfolk-Southern, a major investor in the VIP, make a major investment in a second inland port?

3. Tourism

At its August 1994 meeting at Hollins College, the commission heard from Patrick McMahon, director of tourism at VDED. Although the Disney's America project ultimately failed, Mr. McMahon discussed several issues related to theme parks generally and Disney's America specifically. Mr. McMahon indicated that VDED expected Disney's America to have a major impact on tourism in Virginia. For example, VDED currently prints 750,000 Virginia travel guides. With matching grant dollars from Disney, VDED would have increased publication by an additional one million. Another example of Disney's impact would have been the unique information center to have been constructed at the park. In an attempt to encourage visitors to explore other parts of Virginia and lengthen their stays, the center would have featured numerous other events and attractions located throughout the Commonwealth.

Mr. McMahon indicated that Disney's America was also expected to increase economic development generally throughout the Commonwealth. For example, a recent VDED study showed that as a result of increased "pass-through" activity related to Disney's America, Roanoke would have gained 150 new jobs. Mr. McMahon also reported that the number of inquiries from businesses and industries considering a move to Virginia was up since the public announcement of Disney's America.

At its third meeting of the 1994 interim in November at the Homestead, the commission heard from Mary Sanders, then the new director of public relations at the Homestead, who reported that the Ingalls family sold the 200-year-old resort to Club Resorts, a subsidiary of Club Core International, on October 4, 1993. Since the sale, Club Resorts has invested $6 million in capital improvements to the 15,000-acre site. The hotel and golf courses have received the most attention to date. Lanny Watkins, a Virginia native and PGA champion, has been retained as spokesperson and consultant on golf at the Homestead.

At that same meeting, the commission also heard from Brian Wishneff, acting director of the Hotel Roanoke and Conference Center Commission, who reported that the newest showplace in the Blue Ridge is scheduled to open on April

3, 1995. The Hotel represents a true model of "partnership" and involved the City of Roanoke and its citizens, Virginia Tech, several financial institutions, the General Assembly, and the Hotel Commission. The Hotel Commission is making every effort to purchase Virginia products to furnish and supply the Hotel and, to date, has employed about 75 percent local and 15 percent minority contractors.

4. Other Issues of Interest

a. Blue Ridge Safety Network Pilot Project

At its August 1994 meeting at Hollins College, the commission heard from commission member W.W. "Skip" Griggs, director of the Blue Ridge Safety Network Pilot Project. Mr. Griggs reported that over 150 companies, one union, and several associations are participating in the safety network. The project grew out of a need to educate employers--particularly those with fewer than 200 employees--about Occupational, Health, and Safety (OSHA) standards in an effort to reduce work-related injuries and deaths in the Commonwealth. Participation in the project is voluntary.

In addition to four separate categories of membership participation, the network has divided into agricultural, construction, and manufacturing subcommittees. Through a number of educational seminars and demonstrations, the network has addressed the issue of workplace safety in those respective areas. In the summer of 1994, for example, the agricultural subcommittee held a dinner and safety demonstration that was attended by 105 people.

The Virginia Department of Labor and Industry originally selected the Blue Ridge region for the pilot project because the relative number of work-related injuries (as measured by workers' compensation claims) is greater than the number of jobs and because the rate of mortality for work-related injuries is much higher than in any other part of the Commonwealth. In 1993, a total of 26 people died in workplace fatalities in Virginia. By the summer of 1994, 32 people had died in work-related accidents in Virginia; nine of those deaths occurred in the Blue Ridge region. Mr. Griggs hopes that continued strong support from the private sector will help the network reverse this trend.

b. Status Reports

The commission helped to establish four permanent statutory entities: the Blue Ridge Regional Educational and Training Council (§ 9-145.30 et seq.), the Blue Ridge Economic Development Advisory Council (§ 9-145.35 et seq.), the Blue Ridge Regional Tourism Council (§ 9-145.39:1 et seq.), and the World Trade Alliance of the Blue Ridge (§ 9-145.39:5 et seq.). At its third meeting of the 1994 interim in November at the Homestead, the commission heard status reports from:

- Wendy Wingo, chairman of the Blue Ridge Regional Education and Training Council, which promotes partnerships between business and education to enhance worker preparedness and the economic viability of the region. Ms. Wingo updated the commission on the council's activities over the past year, which included publishing an adult services directory and regional newsletter, sponsoring school-to-work transition workshops, and distributing information on the School-to-Work Opportunities Act and the Governor's Champion Schools.

- Commission member Michele C. Wright, vice chairman of the Blue Ridge Regional Tourism Council, who reported that the council has met two of its four statutory goals, i.e., networking and distributing information. Two additional goals--creating a regional marketing plan and scheduling quarterly meetings--cannot be achieved until funding is available.

- Chairman Deeds reported on behalf of the World Trade Alliance of the Blue Ridge that Joseph Robinson was recently hired to staff the Roanoke office of the Virginia Department of Economic Development, Division of Export Development. That office provides staff support to the Alliance. The position had been vacant for several months.

B. 1995 Legislation and Budget Recommendations

At its fourth and final meeting of the 1994 interim at Virginia Western Community College, the commission conducted a work session to discuss, propose, and adopt its legislative and budget recommendations for the 1995 Session. Legislative proposals recommended and introduced by the commission included:

House Bill 1731 (Deeds). *Regional cooperation.* Encourages regional cooperation by awarding an appropriate additional point or points to any application or request for state funds, including but not limited to grants, loans, or subsidies of any kind, for projects related to economic, housing, community or infrastructure development, which application documents a benefit to three or more political subdivisions of the Commonwealth by such project. The measure passed. (Acts, Ch. 596.)

Senate Bill 841 (Nolen). *Council on Information Management.* Requires the council to establish statewide standards for (i) the efficient exchange of electronic information and technology, including infrastructure, between the public and private sectors in the Commonwealth and (ii) public access to the Legislative Information System. The measure passed. (Acts, Ch. 263.)

Senate Joint Resolution 290 (Nolen). *Study; Blue Ridge Economic Development Commission.* Increases the direct costs of the commission's study by $5000 and permits an amount not to exceed $5000 to be expended to a statistical profile of the Blue Ridge region. The measure passed.

House Bill 2517 (Deeds). *Virginia business facility tax credit.* Allows enterprises engaged in any type of business to qualify for major business facility job tax credits. The program provides firms that create new full-time jobs with a tax credit of $1,000 for each new full-time job in excess of 50. The credit is also available for creation of 25 jobs or more in economically distressed areas. Currently, the tax credits are available only to firms primarily engaged in manufacturing, mining, agriculture, forestry, fishing, transportation, or communications, and to certain public utilities. Tax credits are also currently available to an enterprise for administrative offices, research, development and testing laboratories, computer-related services, and financial, insurance and real estate services, without regard to the enterprise's primary type of business. The measure failed.

Other 1995 legislative proposals endorsed by the commission included:

Senate Bill 761 (Cross). *Enterprise Zone Act.* Increases the number of authorized zones from 25 to 50. The existing sales tax exemption for firms in the zones would continue only for firms designated as "qualified business firms" prior to July 1, 1995. Any locality may have up to three zones, except rural localities which may have two zones, one of which can be divided into two areas. Eligibility for the business income tax credit is based on (i) establishing a new business within an enterprise zone or (ii) an existing business increasing the average number of full-time employees by at least 10 percent over the higher of the preceding two years' employment levels. Forty percent of a business firm's employees must either have incomes below 80 percent of the median income for the jurisdiction or be residents of the zone. Business firms investing over $25 million and creating at least 100 full-time positions are eligible for a business income tax credit, the amount of which is subject to negotiation. Effective for taxable years 1996 through 2005, a 30 percent refundable tax credit (up to $125,000) is available to qualified zone residents for certain improvements to real property made in enterprise zones. The maximum amount available for both credits per fiscal year is $5 million. Business firms which invest over $100 million and create at least 200 full-time permanent positions are eligible for an investment tax credit of up to five percent in lieu of the other investment tax credit. These business firms are also eligible for a business income tax credit, the amount of which is subject to negotiation. The maximum amount available for this credit per fiscal year is $3 million. A grant incentive program is established for business firms creating new permanent full-time positions in enterprise zones. The job creation incentive gives a firm a grant for each permanent full-time position in excess of 110 percent of the number of positions that a firm had in either of the two preceding years. Firms will be eligible for job creation grants in three-year periods. After a three-year grant eligibility period expires, a firm may qualify for additional three-year grant periods, though the threshold limit increases to 120 percent of the base number. A firm must have at least five full-time employees to qualify for the hiring grants. The grants will be for $1,000 for each employee who is a resident of the enterprise zone, and $500 for each nonresident employee. A firm will not be eligible for more than $100,000 of job creation grants in any year. Job creation grants will be paid from a new Enterprise Zone Grant Fund, which will be funded by appropriations from the General Assembly. An enterprise zone designation shall be terminated if no business firms in such zone have qualified for benefits within a five-year period. Policies regarding reservation and allocation of the tax credits are to be developed by the Board of Housing and Community Development. The measure passed. (Acts, Ch. 792.) Also, the budget provided $1 million in FY 1995-96 for this program. (Acts, Ch. 853, Item 103.P.)

House Bill 1759 (Thomas)/Senate Bill 673 (Walker). *Small Business Commission established.* Creates, as a permanent legislative agency, the Small Business Commission. The commission, which consists of 14 members, is required to study, report, and make recommendations to the Governor and the General Assembly on issues of concern to small businesses. The measure passed. (Acts, Ch. 783.)

1995 budget proposals recommended by the commission included:

Increase the appropriation to the Governor's Opportunity Fund. The budget provided $10 million in FY 1995-96 (up from $8.5 million in FY 1994-95). (Ch. 853, Item 626.E.1.)

Maintain a $75,000 appropriation for the Roanoke office of the Virginia Department of Economic Development (VDED). The budget provided $75,000 in FY 1995-96. (Ch. 853, Item 106, part of Industrial Development Services.)

Maintain a $75,000 appropriation for the Blue Ridge Education and Training Council (through the Virginia Department of Education). The budget provided $50,000 in FY 1995-96. (Ch. 853, Item 162.E.5.)

Fund a small business incubator program. The budget provided $200,000 in FY 1995-96 to the City of Roanoke for a small business incubator program. (Ch. 853, Item 103.O.)

Fund a small business loan guaranty program. The budget provided over $1 million in FY 1995-96 for a microenterprise loan program administered by the Department of Housing and Community Development. (Ch. 853, Item 103.N.)

Increase the appropriation for industrial advertising through VDED. The budget provided $2 million for industrial promotion in FY 1995-96 (up from $1.5 million in FY 1994-95). (Ch. 853, Item 106.)

Maintain level funding for Mainstreet, the Center on Rural Development (CORD), and the Rural Economic Development Grant Fund (RED). The budget maintained

Mainstreet's FY 1995-96 funding at the FY 1994-95 level; CORD was reduced by $48,000 (1.0 FTE) and RED by $100,000. (Ch. 853, Item 103.)

Maintain level funding for the planning district commissions (PDCs). The budget provided over $800,000 in FY 1995-96 to all PDCs. (Ch. 853, Items 103.E.1-21.)

Maintain level funding for extension service agents. The budget provided over $57 million in FY 1995-96 to the Virginia Cooperative and Agricultural Experiment Station Division. (Ch. 853, Items 222.10 and 222.15.)

Appropriate $25,000 to the Blue Ridge Regional Tourism Council for a Blue Ridge regional marketing plan (through VDED). The joint conference committee report on the budget provided this funding.

Appropriate $75,000 to Virginia Western Community College to study establishment and transfer of electronic information in the Blue Ridge region. The budget provides $50,000 in FY 1995-96. (Ch. 853, Item 194.)

Fund an export loan guaranty program. No action was taken.

III. 1995-96 Work of the Commission

A. 1995 Interim

The commission held two meetings during the 1995 interim, its fifth and final year of study. In addition, the commission determined to focus its attention more effectively and efficiently by establishing three subcommittees comprised of commission members and other interested parties: economic development incentives (co-chaired by Del. C. Richard Cranwell and Del. A. Victor Thomas), the inland port study (co-chaired by Del. Lacey Putney and John Huddle of the World Trade Alliance), and technology (co-chaired by Dr. Charles Downs of Virginia Western Community College and Dr. Donald Lacy of Virginia Tech).

1. Economic Development Incentives Subcommittee

The economic development incentives subcommittee examined four issues: the overall direction of the Commonwealth's economic development policy; establishing and funding an export loan and/or guaranty fund to be administered by the Virginia Small Business Financing Authority (VSBFA); the Governor's Opportunity Fund; and the major business facility job tax credit.

a. Overall Direction of the Commonwealth's Economic Development Policy

At the economic development incentives subcommittee meeting in October 1995 at the Vinton War Memorial, Robert P. Vaughn, legislative fiscal analyst for the House Committee on Appropriations, reported that Virginia's overall business climate is highly competitive with other southern and southeastern states. The factors that contribute to Virginia's positive business climate are its low taxes, availability of skilled labor, favorable workers' compensation laws, well-developed transportation systems, geographic accessibility to materials and markets, and favorable regulatory policies.

Over the last decade, however, states have become increasingly aggressive in recruiting new businesses and keeping existing business through a variety of incentives, many of which are tailored to a particular firm and are targeted at its "bottom line." As a result, businesses have come to expect--and states routinely offer--a baseline package of incentives. A typical package may include land, accelerated permits, utility extensions and improvements, site preparation, employee training, road improvements, employee relocation assistance, property tax abatements, and income tax credits. Despite the millions of public dollars that states spend on such incentives, some research suggests that the effects of incentives on business location and expansion decisions are modest. One case study showed that the cost of incentives to businesses whose location decisions are unchanged exceeds the taxes from businesses whose location decisions are changed.

The subcommittee also heard a commission staff presentation about the case of William Maready, a lawyer in Winston-Salem, North Carolina, who filed a lawsuit challenging economic development incentives given by the city and Forsyth County to R.J. Reynolds, Pepsi Co., and Wake Forest University for expansion projects. Maready argued that such projects offered no tangible economic benefits for other city and county residents. He also argued that such incentives are an unwise use of public funds since North Carolina consistently enjoys an unemployment rate of four to six percent.

The legal issue in the case is whether the incentives which localities are authorized to appropriate under North Carolina Code section 158-7.1 violate Article V, section 2 of the North Carolina Constitution, which states that the "power of taxation shall be exercised in a just and equitable manner, for public purposes only, and shall never be surrendered, suspended, or contracted away."

In August 1995, a Forsyth County Superior Court judge ruled that the incentives at issue do not constitute a public use of taxpayer money and therefore, are unconstitutional. The court's ruling was largely based on Mitchell v. Financing Authority, a 1968 North Carolina Supreme Court decision which held that taxpayer money could not be used to create offices and pay for staff to administer an industrial recruitment bond program.

Despite the Mitchell precedent, the North Carolina Supreme Court reversed the Maready trial judge in March 1996, and upheld Winston-Salem's use of economic development incentives. The high court emphasized the importance of "contemporary circumstances in assessing the public purpose of governmental endeavors." Since the court had long recognized economic development as a proper governmental function, "even the most innovative activities . . . are constitutional so long as they primarily benefit the public and not a private party." On the facts of the case, the court found public benefit, rather than private advantage, to be the direct aim of the incentives. Two justices dissented, based upon a failure of proof at trial of such public benefit.

The subcommittee made several recommendations based upon its consideration of Virginia's business climate and the Maready case. First, to foster the continued growth of Virginia's positive business climate and thereby sustain long-term economic development, the General Assembly should take a more proactive role in setting the Commonwealth's overall economic development policy.

Second, in helping to set the Commonwealth's overall economic development policy, the General Assembly should require that any incentive offered and ultimately paid for by public funds:

- Target areas of high unemployment
- Target jobs that pay high wages
- Target companies with high growth potential and large investments
- Maximize the labor market benefits for local residents
- Focus on employee training or infrastructure improvements
- Be designed to recover the Commonwealth's investment if the project fails

Finally, in direct response to Maready, the subcommittee recommended that the General Assembly should require that any discretionary incentive offered and ultimately paid for by public funds: (i) be awarded on the basis of objective written guidelines developed within a statutory framework provided by the Assembly, (ii) state the public purpose or purposes which will be furthered by the award of such incentive, and (iii) require that periodic reports be provided to the Assembly which detail specified information about the incentives awarded.

b. Export Loan and/or Guaranty Fund

Preliminary information for the export loan and/or guaranty fund was provided at the commission's first meeting of the 1995 interim in May at Mary Baldwin College by Anna Mackley Cobb, financing programs manager at VSBFA. According to Ms. Cobb, the ability to obtain financing is often the most significant obstacle faced by Virginia businesses, particularly those interested in exporting products to the international marketplace. To assist Virginia businesses in overcoming this obstacle, the General Assembly created VSBFA in 1984 and appropriated approximately $500,000 to it in each fiscal year of the 1984-1986 biennium. Since that time, the Authority has not received any direct general fund appropriations, and sustains itself through administrative fees and repayments of principal and interest.

VSBFA provides two primary programs to Virginia's export businesses: export financing assistance and export credit insurance. To provide export financing assistance to Virginia exporters, VSBFA works in partnership with the Export-Import Bank (Eximbank) of the United States and the U.S. Small Business Administration (SBA). Initially, VSBFA helps exporters by packaging and submitting their applications according to the guidelines of these federal programs. Once an application is approved and either Eximbank or SBA will guarantee a loan, VSBFA assists businesses in locating a bank to fund the transaction. Ms. Cobb stressed that VSBFA and both federal programs are designed to supplement commercial financing; VSBFA, Eximbank, and SBA do not compete with private banks.

Ms. Cobb reported that the underwriting criteria for Eximbank and SBA are very strict. Consequently, VSBFA often works with Virginia exporters for three to six months before submitting a federal application. That work has paid off: To date, either Eximbank or SBA has approved every application for export financing assistance that VSBFA has taken and processed. Over $4.5 million in loan guarantees have been approved, and export sales of over $18 million have been facilitated.

When asked to compare Virginia to other states, Ms. Cobb indicated that some states have established their own export loan funds and/or guarantee programs. Typically, such funds and programs are designed to help exporters who do not qualify for one of the federal programs or for private commercial financing, e.g., a business exporting an ineligible product or shipping to an ineligible country, new businesses with no track record to rely on, or businesses with less-than-perfect credit histories. California, for example, established a $10 million export loan fund and a 90 percent loan guarantee program. Despite lending to "high-risk" businesses, Ms. Cobb reported that California has experienced a 100 percent loan success rate. Maryland, which also created its own loan fund, is successfully luring out-of-Maryland exporters to the port of Baltimore and Baltimore-Washington International Airport by providing a 90 percent loan guarantee if goods are shipped from either of those locations.

In the spring of 1994, VSBFA began helping Virginia businesses access export credit insurance. This insurance is designed to protect exporters and the commercial banks that lend to them against losses resulting from the inability to collect foreign accounts receivables. VSBFA administers an export credit insurance umbrella policy offered through Eximbank. The umbrella policy is designed for businesses that are just beginning to export or have limited export volume. For businesses that do not qualify for the umbrella policy, VSBFA refers them to other policies available through Eximbank or private insurers.

Ms. Cobb's presentation was particularly relevant to the commission's work in that Blue Ridge businesses have expressed tremendous interest in overseas exporting. Ms. Cobb reported that VSBFA provides a large majority of its export services and information to businesses in the Blue Ridge region. As part of its 1994 and 1995 legislative proposals to assist those businesses and all Virginia exporters, the commission recommended the creation of an export loan and/or guaranty fund to be administered by VSBFA. Ms. Cobb's presentation renewed the commission's enthusiasm for and commitment to such a program.

At the economic development incentives subcommittee meeting in October 1995 at the Vinton War Memorial, Ms. Cobb reported that recent Congressional actions have substantially reorganized the programs offered by the Eximbank and SBA, resulting in a significant reduction in the percentage of the federal government's loan guaranties. To decrease dependence on changing federal programs, states may choose to establish their own export guaranty programs to handle smaller transactions, to provide flexibility to extend a guaranty in any transaction where the state will have an economic benefit, and to enhance the perception that the state is responsive to the needs of business.

Ms. Cobb presented a scenario of what could be done with a $1 million export guaranty fund. The scenario assumed a 5:1 leverage of the fund, a 90 percent guaranty with a maximum guaranty of $750,000, and loan guaranties or lines of credit being supplied by the fund. Ms. Cobb reported that such a program could annually support $20 million in sales, create 380 jobs, and generate $1,567,840 in total state tax revenues ($1.2 million in corporate taxes and $367,840 personal income and sales taxes). All of this translates into a 157 percent annual return on the state's initial $1 million investment.

Based on this information, the economic development incentives subcommittee recommended that the General Assembly establish and fund a state export guaranty program in the Commonwealth, to be administered by VSBFA. The program should:

- Provide a 90 percent guaranty, up to a maximum of $1 million, to the commercial bank that funds the transaction
- Be structured as loan insurance with a deficiency guaranty, i.e., to collect under Virginia's guaranty if the borrower defaults, the bank must liquidate the collateral and incur a deficiency
- Allow for use in single or multiple transactions under a line of credit or loan
- Limit the term of the guaranty to a maximum of one year

- Be available to Virginia or non-Virginia companies, provided that non-Virginia companies utilize a Virginia port or airport
- Charge an annual insurance premium of one-half of one percent, which would be waived in areas of high unemployment
- Utilize flexible yet prudent underwriting criteria so that any credit-worthy transaction that VSBFA feels would provide an economic benefit to Virginia could be approved
- Be appropriated $1 million dollars in each year of the 1996-98 biennium
- Require VSBFA to keep proper records of its accounts and make an annual report to the Governor and the General Assembly

c. Governor's Opportunity Fund

At its October meeting, the subcommittee also heard a commission staff presentation about the three different funds established which allow the governor to award discretionary incentives to attract new businesses and expand existing businesses. The Economic Development Contingency Fund and the Governor's Development Closing Fund are codified at §§ 2.1-51.6:1 and 2.1-51.6:2, respectively. They each contain slightly different conditions and requirements and neither has been funded since their creation in 1992. The third fund, commonly known as the "Governor's Opportunity Fund," is found in the general appropriations act under "Central Appropriations/Economic Contingency" (1995 Acts, Ch. 853, Item 626.E.). Its conditions and requirements are also different from the two statutory funds. After an initial appropriation of $4.5 million in fiscal year 1992, this fund has increased steadily to a fiscal year 1995 appropriation of $10 million. Information from the Secretary of Commerce and Trade indicates that money from the fund has been committed by the governor over the next several fiscal years.

In response to this information, the subcommittee recommended that the two statutory funds should be repealed, the appropriations act fund stricken, and a new fund which combines the requirements of all three funds should be codified into one new fund in Title 2.1, which will then be funded through the general appropriations act. Moreover, the new fund should--unlike the existing three funds--encourage cooperation between localities. For example, assistance from the new fund could be appropriately increased if a new or expansion project is physically located in two or more contiguous political subdivisions of the Commonwealth. The new fund should also be harmonized with Virginia's major business facility job tax credit (found in § 58.1-439). For example, the job thresholds for the tax credit and the Governor's Opportunity Fund are substantially different. Also, while the job threshold for the tax credit is reduced in "economically distressed areas" and "enterprise zones," the fund does not provide for such a reduction. Finally, the new fund should contain the characteristics and requirements expressed in the subcommittee's other findings and recommendations related to discretionary incentives (e.g., developing objective, written guidelines; stating a public purpose; and requiring periodic reports) and should prohibit money being committed beyond the fiscal year in which it is appropriated.

d. Major Business Facility Job Tax Credit

At its October meeting, the subcommittee also heard a commission staff presentation about Virginia's major business facility jobs tax credit (§ 58.1-439), which was enacted in 1994, to be effective for taxable years 1995-2004, inclusive. Since the program is new, information about it is not yet available from the Departments of Taxation (DOT) or Economic Development (DED). Information indicated, however, that DOT is undertaking the statutory requirement to "make all determinations as to the classification of a major business facility" and to "certify" those that shall be eligible for the credit. The statute requires DED to perform these functions.

In response to this information, the subcommittee recommended that § 58.1-439 should be amended to reflect the current practice of DOT determining a business' eligibility for the tax credit. Moreover, DOT should be required to make an annual report on the program to the General Assembly.

2. Inland Port Study Subcommittee

This subcommittee established the World Trade Alliance of the Blue Ridge (WTA) as a liaison to the Virginia Port Authority (VPA) on its study of an inland port in the Blue Ridge. Late in 1994, VPA had voluntarily agreed to include this study as part of a larger study of Virginia's ports by Vickerman, Zachary, Miller (VZM). The initial parameters of the study outlined a product that would have been very helpful to VPA, WTA, and the Blue Ridge Economic Development Commission. Ultimately, however, VPA put the study on hold because Westvaco, Norfolk-Southern, and the City of Roanoke were discussing the establishment of an intermodal transportation facility in Roanoke. With those negotiations ongoing, VPA decided not to pursue the study of the inland port issue. The subcommittee, comprised primarily of WTA members, intends to monitor the ongoing developments between Westvaco, Norfolk-Southern, and the City to establish such a facility in Roanoke.

3. Technology Subcommittee

The technology subcommittee was asked to examine the implementation of Senate Bill 841 (1995 Acts, Ch. 263), which required the Council on Information Management to establish statewide standards for the efficient exchange of electronic information and technology, including infrastructure, between the public and private sectors in the Commonwealth; Virginia Western's study of telecommunications, information networking, and technology manufacturing funded by a $50,000 general fund appropriation; and Virginia Tech's $5,000 appropriation to publish an update of the Blue Ridge Statistical Profile.

The technology subcommittee met three times during September and October 1995, and divided into four work groups: economic development, interconnectivity, education and training, and data and information. The charge to each work group was to evaluate the current state of affairs with regard to the utilization of technology in the Blue Ridge and to develop recommendations that would help move the region into a stronger leadership role in the utilization of information technology. Each work group produced a list of problems which needed to be addressed. These problems were combined into a single recommendation to help bring a more focused effort to strengthen the use of information technology to support economic development in the Blue Ridge.

The subcommittee's single recommendation is to create the Commission on Information Technology for the Blue Ridge Region. The commission would consist of 15 to 19 members chosen in a manner similar to members of the Blue Ridge Economic Development Commission. The Commission on Information Technology would be tasked to promote, coordinate, and support information technology initiatives in the region by using state general funds to match local funds or private sector funds that are invested in approved regional technology initiatives. The commission's budget would be $750,000 for each of the next fiscal years, representing a cumulative general fund appropriation of $4.5 million and a match from public and/or private sources of a least the same amount.

The technology subcommittee's recommendation anticipates that the Blue Ridge Economic Development Commission would cease to exist upon the creation of the proposed Commission on Information Technology. The subcommittee's proposal is based upon the premise that efforts need to proceed in a more clearly focused manner and that sufficient resources need to be invested from state general funds to help with the development of information technology infrastructure and human resource skills in the Blue Ridge. The proposal assumes that state general funds can be used to leverage other public or private sector funds to double Virginia's investment.

To help accomplish the objectives established for the commission by the technology subcommittee, the commission would allocate funds in the following four categories:

(1) Incentive grants for education and training. Provide funding for programs to improve computer knowledge and skills of public school teachers, business, industry, and government personnel, and community residents. Annual expenditure of $200,000, as follows:

- Computer training for public school teachers. Money would be provided to school divisions to pay school teachers a summer stipend of $1,000 to attend a summer training program at a local community college or other college or university in the region. The courses would be designed for and offered only to teachers who have been selected by local school divisions. The school division would be reimbursed for one-half of the tuition cost for the course. The school division would be responsible for providing a one-half match for tuition, mileage, and books and supplies. The educational institution would be responsible for providing instructors, classrooms, laboratories, and equipment. In addition, the educational institution would be required to assign one or more individuals to participate in a curriculum development committee to design and redesign courses that are funded. Each institution working with the school divisions would prepare and submit proposals to be considered by the commission. The number of teachers funded each year with stipends should not exceed 100. The program would need to be coordinated with State Department of Education to ensure that the courses would meet the requirement for college credit for re-certification.

- Computer training for business, industry, and local government personnel. A consortium of five or more businesses, industries, or local governments can submit a proposal in conjunction with a local college or university to provide training for selected personnel within their organizations. The funds sought will be applied only to the cost of instruction as negotiated between the college or university and the grant applicants.

- Community college grants for computer training for community residents. Community colleges should be encouraged to increase their program offerings to community residents who need to acquire or improve computer skills. A special focus should be on use of the Internet and interconnectivity. The grants would lower the fees paid by the participants.

(2) Incentive grants for electronic communication infrastructure. Provide grants to telecommunications companies, communities, or community organizations to purchase and install equipment to provide or improve electronic communications infrastructure in the service area. All funds would be applied to the cost of capital equipment and would require a dollar-for-dollar match. The annual allocation would be $250,000.

(3) Incentive grants for data and information center development. Provide grants to planning district commissions (PDCs) to purchase equipment such as modem pools for electronic communication, scanning equipment which converts paper records into electronic records, and servers with sufficient capacity to handle large databases to serve the needs of the economic development organizations, businesses, industries, and local governments in the region. Each PDC could

prepare a proposal but grants would be made from a priority listing created by a consortium of all the PDCs serving the Blue Ridge region. The annual allocation would be $140,000.

(4) Commission staffing expenses. The commission would be staffed by a director and an office support person. Office space should be arranged with another state, regional or local agency in order to reduce costs. Computer equipment would need to be purchased initially to provide the director access to the Internet and to provide appropriate office support systems. The director would be responsible for serving the commission, developing and maintaining a "home page" presence on the Internet, working to ensure that the anticipated outcomes in the grant programs identified above are achieved, and promoting the use of technology by organizing an annual technology conference and trade show for the region. The annual allocation would be $160,000.

To encourage donation of information technology equipment to local public schools, colleges, universities, and local governments, the technology subcommittee recommended that private sector contributors receive a state tax credit. Special appraisal teams should be utilized by the commission to ensure a fair and accurate appraisal of the market value of the equipment. These teams would consist of staff loaned from government, business, and industry. After establishing a market value, the available equipment would be posted to an electronic bulletin board serving the area. Property could be claimed electronically through a first-come, first-served or bid basis. The commission's director would be responsible for keeping a current list of available equipment and issuing a certificate of tax credit after approval by the commission. The value of the credit could be established on a dollar-for-dollar basis or percentage basis.

4. Other issues of Interest

a. Transportation

The commission's second and final meeting of the 1995 interim in November at the Hotel Roanoke and Conference Center began with a presentation by the Virginia Department of Transportation (VDOT). VDOT representatives reviewed transportation issues of interest in the Blue Ridge region such as Route 58, the industrial revenue bond program, Interstates 81 and 73 and 74 (the national highway system signed into law by President Clinton in November, 1995), and the "smart highway" in Montgomery County.

b. Status Reports

At the commission's first meeting of the 1995 interim in May at Mary Baldwin College, John Huddle, chairman of the World Trade Alliance of the Blue Ridge Region, reported that the Alliance consists of 21 members representing the

General Assembly and local and regional government and business leaders. The Alliance is housed at and staffed by the Virginia Department of Economic Development's Roanoke office.

The Alliance's enabling statute charges it with several duties, including increasing awareness among Blue Ridge businesses about the opportunities and need for trade in international markets. Mr. Huddle reported that the Alliance spent most of its first-year efforts trying to increase such awareness and would continue those efforts through international trade seminars to be held in Lynchburg on June 6, Galax on June 13, and Harrisonburg on June 20, 1995. Because the Alliance receives no direct general funds, financial support for the conferences has been raised from Ericsson, Central Fidelity Bank, Crestar Bank, and local trade councils in Galax, Lynchburg, and Harrisonburg. In the future, the Alliance hopes to facilitate foreign trade missions and advanced training in export and trade.

At the commission's second and final meeting of the 1995 interim in November at the Hotel Roanoke and Conference Center, the commission heard from Beverly T. Fitzpatrick, Jr., executive director of the New Century Council, founded in 1992 by business and community leaders from the New River and Roanoke Valleys. Mr. Fitzpatrick discussed the council's final report, published in July 1995, which contains over 150 strategies that create and implement the 21st century vision devised by over 1,000 citizens coming together to share their ideas about the region.

B. 1996 Legislation and Budget Recommendations

Legislative proposals recommended by the commission and introduced for consideration in the 1996 Session included:

House Bill 303 (Deeds). *Blue Ridge Regional Education and Training Council Fund.* Creates the Blue Ridge Regional Education and Training Council Fund as a nonreverting fund on the books of the Comptroller. The fund, consisting of any private or public grants received or moneys appropriated by the General Assembly, is to be used to support the education and training programs of the council. The measure passed. (Acts, Ch. 46.)

House Bill 304 (Thomas). *Virginia Export Loan Guaranty Fund.* Creates the Virginia Export Loan Guaranty Fund, to be administered and managed by the Virginia Small Business Financing Authority (VSBFA). The fund will permit VSBFA to guarantee up to 90 percent of the principal amount of commercial loans, up to a maximum of $1 million, made by a lender for the purpose of facilitating the sale of goods, products, or services outside of the United States by persons, firms, or corporations (i) located in Virginia or (ii) located outside of Virginia, so long as such nonresident person, firm, or corporation utilizes a Virginia air, land, or sea port to ship such goods, products, or services. Also, as part of the appropriation to the Virginia Department of Economic Development for community and business assistance, the budget provides $1 million in FY 1996-97 for this program. (Acts, Ch. 912, Item 97. See, also, the Joint Conference Committee Report on House Bill 30 (which became Ch. 912), March 11, 1996, p. 84.)

House Bill 304 passed the General Assembly with unanimous votes throughout the 1996 Session in committee and on the floor. The governor sent an amendment to the measure for the Assembly's consideration at its reconvened session in April 1996. The governor's amendment would have required the State Comptroller, "[u]nless otherwise directed by the appropriation act," to withhold sums appropriated to the fund until the Secretary of Commerce and Trade certifies that "there exist, through the Virginia Economic Development Partnership, programs for the promotion of Virginia exports that are sufficiently funded to achieve the export-related objectives of Virginia's economic development strategy." In a letter to the General Assembly accompanying this amendment, the governor stated that he could not approve of the bill in its enrolled version. In a separate letter to the Assembly explaining his vetoes to House Bill 30 (the budget bill), the governor wrote that he was "prepared to approve [House Bill 304] *only* if payments to that Fund are conditioned upon the existence of an adequately financed export promotion program through the Virginia Economic Development Partnership" (emphasis in original).

The House of Delegates rejected the governor's amendment 38-59. A vote to pass the bill in its enrolled form despite the governor's objections failed to obtain the required two-thirds approval (59-40). House Bill 304, as enrolled, was sent back to the governor. He vetoed the measure on May 6, 1996.

House Bill 305 (Cranwell). *Major business facility job tax credit.* Transfers the existing statutory requirements to determine who is eligible for the credit and to certify such eligibility from the Virginia Department of Economic Development to the Department of Taxation. The bill also requires the Tax Commissioner to make an annual report to the money committees on the program. The measure passed. (Acts, Ch. 874.)

House Bill 306 (Deeds). *Governor's Development Opportunity Fund.* Repeals the existing Economic Development Contingency Fund and the Governor's Development Closing Fund in Title 2.1 and replaces them with the new Governor's Development Opportunity Fund. The new fund combines characteristics of the statutory funds and the Governor's Opportunity Fund found in the general appropriation act, and provides a few new requirements. Most notably, the bill requires the governor, with the assistance of the Department of Economic Development, to develop objective guidelines and criteria for the use of the fund, to make periodic reports to the chairmen of the money committees, and to not commit funds beyond the fiscal year in which they are appropriated, except under certain circumstances. The measure passed. (Acts, Ch. 859.) The budget provides over $30 million during the 1996-98 biennium for this Fund. (Acts, Ch. 912, Item 530.E.1-5.)

1996 budget proposals recommended by the commission included:

Appropriate $150,000 to the Virginia Department of Economic Development (VDED) to fund its Roanoke office in each fiscal year of the 1996-98 biennium. The budget transfers responsibility for this program to the Virginia Economic Development Partnership (VEDP) and provides $100,000 in each fiscal year of the 1996-98 biennium through its appropriation for industrial development services. (Acts, Ch. 912, Item 94. See, also, the Joint Conference Committee Report on House Bill 30, March 11, 1996, pp. 72-73.)

Support funding for the industrial advertising program administered by VDED. The budget transfers responsibility for this program to VEDP and provides a total of nearly $8 million during the 1996-98 biennium through its appropriation for industrial promotion. (Acts, Ch. 912, Item 94.)

Support funding for the regional tourism grants matching program administered by VDED. The budget transfers responsibility for this program to VEDP and provides $100,000 in each fiscal year of the 1996-98 biennium. (Acts, Ch. 912, Item 95.D.)

Increase the appropriation to the Blue Ridge Regional Education and Training Council to $100,000 per fiscal year. The budget provides $50,000 in each fiscal year of the 1996-98 biennium. (Acts, Ch. 912, Item 138.E.3.)

IV. Conclusion

The commission wishes to thank all who participated in its study of the Blue Ridge region over the last five years. Without their enthusiasm, commitment, and knowledge, the recommendations that will promote and stimulate continued economic development in the Blue Ridge could not have been envisioned or enacted.