

**REPORT OF THE  
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

# **Distressed Localities Employment Grants 2004-2005 Program Report**

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



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## PROGRAM BACKGROUND

Item 112 C of the 2005-2006 biennial budget included language establishing the Virginia Distressed Localities Employment Grant program. This program provided one-time performance based grants within distressed localities for qualifying firms creating permanent full-time positions after July 1, 2004. The appropriations act specified program parameters and allocated \$1 million to the Department of Housing and Community Development (DHCD) for FY 2006.

The budget language specified that a locality would be considered distressed for the purposes of the program if its unemployment rate was at least 175 percent of the statewide average over a two year period. Firm qualification could begin in either 2004 or 2005. Because a locality's distress is based on the average unemployment rate of two previous years, this necessitated two sets of calculations. As a result, there were some changes in the localities able to participate in the 2004 and 2005. Seven localities were able to participate only in 2004, two in only 2005, and 11 in both years. A total of 20 could participate over the biennium.

Localities Meeting Program Distress Criteria	
Appomattox County*	Henry County
Brunswick County**	Martinsville City
Buchanan County*	Mecklenburg County
Carroll County*	Page County*
Danville City	Patrick County
Dickenson County	Petersburg City
Emporia City**	Pittsylvania County
Galax City*	Pulaski County*
Grayson County*	Smyth County
Halifax County	Williamsburg City
*Localities meeting distress criteria only for a qualification period beginning in 2004.	
**Localities meeting distress criteria only for a qualification period beginning in 2005.	
<i>Source: VEC</i>	

The budget language also limited grant availability to firms in the fishing, forestry, information technologies, manufacturing, transportation and wholesale sectors. To be eligible, the firms must have hired five net new permanent full-time employees who worked continuously during a twelve month qualification period that began after July 1, 2004 as selected by the firm (e.g., July 1, 2004 through June 30, 2005; January 2, 2005 through January 1, 2006). The five grant-eligible employees must have worked continuously during this qualification period. The firm could submit its qualification application to DHCD any time after the end of this 12 consecutive month period on a first come-first served basis; thus, DHCD began accepting applications July 1, 2005 and will continue to do so until all funds are allocated.

Businesses received grants for those five new permanent full time employees ranging between a minimum of \$25,000 and a maximum of \$37,500 depending on the wages of the employees. Businesses were eligible for \$5,000 per five eligible employees earning less than twice the prevailing weekly wage rate for their respective localities. Businesses were eligible to receive \$7,500 for each of the five eligible employees earning at least twice their respective locality's prevailing wage rate.

DHCD held two "How to Apply" workshops for local economic development staff of the distressed localities. Business development staff of the Virginia Economic Development Partnership also attended one of the workshops. DHCD staff also provided ongoing technical assistance to local economic development staff and interested businesses.

## PROGRAM PERFORMANCE

Since July 1, 2005, DHCD has received applications from 41 business firms representing ten localities and to date has qualified 37 of the businesses for a total of \$974,664 in Distressed Locality Employment Grants. DHCD anticipates the qualification of two more firms upon receiving additional information for a total of 39 firms receiving the entire \$1 million.

Two firms that submitted grant requests did not meet the job creation requirements and have been notified that they are not eligible to receive a grant.

Businesses in ten of the twenty localities identified as distressed for the purposes of the program have qualified for the grants. The table below provides a percentage breakout of qualifying grants by locality. Mecklenburg County had the largest number of qualified businesses with 30 percent of all firms qualifying for the grants being located within it.

<b>Percentage of Qualifying Firms by Locality</b>	
Mecklenburg County	29.7%
Halifax County	18.9%
Smyth County	16.2%
Henry County	13.5%
Petersburg City	5.4%
Pittsylvania County	5.4%
Danville City	2.7%
Galax City	2.7%
Grayson County	2.7%
Page County	2.7%
Total <i>(does not equal 100 due to rounding)</i>	99.9%
<i>Data current as of December 12, 2005</i>	

The following table breaks out qualifying firms by eligible sector. The overwhelming majority of qualifying firms were engaged in manufacturing operations. Some firms in transportation and wholesale trade also qualified. DHCD received no applications from firms in the fishing, forestry, or information technology sectors.

Percentage of Qualifying Firms by Eligible Sector	
Manufacturing	84.0%
Transportation	11.0%
Wholesale Trade	5.0%
Total	100.0%
<i>Data current as of December 12, 2005</i>	

The grants benefited both large and small businesses. The number of permanent full-time employees in a qualified firm's qualification year ranged from as few as 18 to as many as 1,627. The average number of permanent full-time employment for all qualifying firms during a qualification period was 272.

The number of new permanent full-time employees in the firm's qualification year also ranged widely. For a firm to identify the five net new grant-eligible employees, it must show an increase in employment from a previous twelve month period to the qualification period. The number of net new permanent full-time employees at qualified firms ranged from the program's minimum requirement of 5 workers to as many as 325 workers; the average was 59 net new permanent full-time employees.

Grant awards ranged from the minimum possible \$25,000 (5 employees earning less than the twice the prevailing wage rate x \$5,000) to the maximum of \$37,500 (5 employees earning more than twice the prevailing wage rate x \$7,500). Twenty-two percent of the firms paid at least one of the grant-eligible employees more than twice the prevailing wage rate for the locality. In cases where the grant-eligible employee's wage increased to at least twice the prevailing weekly rate for only a portion of the qualification year, DHCD prorated the grant accordingly.

## PROGRAM RECOMMENDATIONS

As of December 12, 2005, DHCD had awarded \$974,664 of the \$1 million in Distressed Localities Employment Grants. DHCD anticipates awarding the remaining funds by the end of 2005. As set forth in the budget language, the intent of the program was to **attract** new and expanding businesses to economically distressed localities. However, a number of features inherent to the program design may have limited its effectiveness.

- Because this was a one-time allocation whose effective date of July 1, 2004 was concurrent with the start of the first possible qualification year, in effect the program served more as a reward for businesses already planning to locate or expand in a distressed locality than as a means for influencing location decisions. Firms able to have begun hiring new employees in July 2004 would likely have made the decision to do so well before the grant had even been under development.

- The limited amount of total funding, the amount available to individual grantees, and the short time during which the program could operate may also have made it more effective as an additional incentive for business expansion than startups.
- Businesses participating in the program represented only ten of the potentially eligible distressed communities—two thirds of these were located in Southside or the southwestern piedmont. The reasons for the limited participation by businesses in other eligible communities are not clear.
- Changing local eligibility from year to year may have created additional complexity or uncertainty.
- In spite of the relatively limited amount of available funding and the small number of eligible localities and qualifying businesses, the program required a relatively complex administrative structure to comply with the provisions of the budget language.

Because of the program's complexity and its limited effectiveness in incentivizing business location decisions, future funding has not been recommended.