REPORT OF THE
VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

Retooling Virginia's Economic Development Incentives

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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Economic Development Incentives
(Concept Paper)

I. Preamble

Virginia's approach to economic development incentives has evolved over the last 40 years from virtually nothing to a variety of programs today designed to influence location decisions. The approach has always been cautious, certainly limited by constitutional and philosophical restraints, but one that has allowed reasonable competitiveness. Generally speaking, the focus of incentives has been on improving the individual worker (training); infrastructure improvements that have public benefit in addition to project benefit (CDBGs, road and rail access, GOF); performance based grants (VIP, VEDIG, and semiconductor programs) to reward investments and job creation; and enterprise zones, designed to encourage investment in distressed areas. Tax credits, a major incentive of the enterprise zone program until recently, have also been popular for some companies and have been used to encourage pollution control and major job creation.

These programs have served Virginia well and should continue to be the basis for our more routine economic development incentives. There are refinements, however, that would increase competitiveness, provide for greater flexibility, and rationalize how the Commonwealth deals with this issue. A retooling of existing incentives, not a major overhaul, is needed and that is what this paper will address.

Additionally, the General Assembly's guidance for this study calls for the evaluation of the *"Commonwealth's program, tax , budget incentives capable of attracting new investment and job creation such as major automotive industries or other significant economic development projects to targeted regions of Virginia with an emphasis placed on those localities with the most need of economic development."* Our clear conclusion is that our current incentive offerings fall well short of allowing Virginia to assemble and deliver a site and offer competitive incentives for a mega project. The experience of other states demonstrates that special legislative action is often the most successful avenue for addressing the variety of issues necessary for the attraction of such a project.

<u>Intrinsic Advantages</u>

Fundamental to Virginia's business development marketing is a firm understanding that it is the Commonwealth's long-term, intrinsic advantages that ultimately will make the sale and not short-term incentives. Business finds Virginia attractive for a variety of reasons that can be best summarized as a "quality business climate." Factors that have lasting importance are:

- Reasonable regulatory and legal environment
- Stable tax structure; fair and equitable tax system; strategic tax exemptions
- Predictable government policies
- Reasonable/low employment taxes
- Quality education system, especially higher education
- Overall acceptable cost structure
- Favorable geographic position
- Transportation infrastructure – road, rail, air, and ports
- History as a right-to-work state
- Proximity to Washington, DC and related power structure
- Quality of life – ease of recruiting personnel

It is factors such as these upon which most successful businesses will make their location decisions and which should weigh heavier in the selection process than discretionary incentives. Many of these factors are based on the priorities, policies, and actions taken by the elected political leadership of the Commonwealth, are revisited often by the General Assembly, and require diligence to stay the course. Virginia must continue to guard and enhance natural advantages, but at the same time realize that specific economic development incentives are essential to ensure competitiveness. Businesses today more than ever before are seeking ways to minimize and ameliorate new location start-up costs, with a heavy emphasis on developing and maintaining a skilled workforce. If the marketplace is telling us anything, it is that the best incentives are the ones which help businesses through the start-up phases.

Corporate Welfare

Too often, economic development incentives are dismissed as corporate welfare. They are disparaged as blackmail by big business or examples of corporate greed and excess. To have an effective incentive program with both public and political support, this misconception must be corrected.

Economic development is a legitimate function of government. It is, after all, an effort to nurture a healthy economy in an ever-changing environment. There are too many examples where a locality's economic base has been quickly weakened beyond recovery by changing technologies, foreign competition, or new products. Economic development seeks to ensure a stable, and hopefully growing, flow of local and state revenue critical to funding the services demanded by the public. Economic development is simply a profit center for government. It is the duty of government not only to provide necessary public services but also to have the means with which to meet its obligations. Successful economic development is a way to do this.

There are numerous examples of well-established government programs aimed at influencing courses of actions either by individuals or organizations:

- Government-backed mortgages and mortgage interest tax deductions to encourage home ownership
- Government loans or scholarships to students to encourage an educated workforce

- Subsidized mass transit to reduce traffic congestion
- Accelerated depreciation to encourage business investment

There are many more, all with an interest in promoting the public good. Economic development incentives, designed properly and with firm execution, are a means to provide the resources for necessary public services and ultimately achieve a public good.

Incentive Philosophy

An established and thoughtful incentive philosophy is essential to gain public and political support; it also aids in explaining the government's position in negotiations with private sector investors. Public leadership needs to remain clear that governments do economic development to help pay for public services and that you cannot give all the new revenue away and still claim that you use incentives to further the public good. Clearly stated principles will go a long way in garnering support for the concept of economic development incentives:

- The incentive must make economic sense to both sides of the table
- Incentives should be equally available to both new and existing employers
- Incentives should support the development goals of the public entity
- Incentives should foster and enhance partnership between the public and private sector parties
- Incentives are ideally performance based
- Enforceable performance agreements with repayment provisions are required

Virginia is following these principles and has a good record of recapturing grants where performance goals were not met. To date, more than $8.0 million has been recovered from underperforming projects which received GOF grants. No matter what changes are made in the various incentive programs, these guiding principles must be maintained. Fundamental to this transition has been our use of a Return on Investment (cost/benefit) analysis as an evaluation tool to guide our use of incentives. For the six-year period beginning in 2000, for all projects for which discretionary incentives have been used, the average breakeven point for the Commonwealth is 1.9 years with $6.80 of revenue returned for every dollar of incentive. (It should be noted these numbers do not include local revenues from real and tangible property taxes.) We expect this to continue and to remain a critical ongoing element of program administration in a retooled incentive program.

II. Virginia Incentives

Listed below are the FY 2005 funding allocations for Virginia's *primary* economic development incentive programs which are available for "regular" projects statewide. Not included in this listing are the special incentives which required legislation on a case-by-case basis, such as the semiconductor performance grants, nor are Tier II VIP incentives shown, as they are used infrequently. (A total of $45 million of Tier II grants for three separate projects are the potential commitments over the ten-year history of this program.) In addition to these statewide incentive programs, grants are also available to Southwest and Southside communities through the Virginia Tobacco Commission. For FY 2005, $5.5 million has been available for Tobacco Region Opportunity Fund projects. Excluded are programs which are federally funded and available in all states, such as CDBGs or, where applicable, ARC funds. The Major Business Facilities Job Tax Credit amount is based on 2003 state corporate income tax returns. The enterprise zone tax credits are shown, although they are being eliminated over a period of years and will be replaced by grants. The total dollar amount will remain approximately the same.

Governor's Opportunity Fund	$12,000,000
Virginia Investment Partnership Fund	$ 3,000,000
Virginia Economic Dev Incentive Grant	$ 3,000,000
Workforce Services Cash Reimbursement	$ 7,698,000
Industrial Access Road and Rail Funds	$ 5,500,000
Enterprise Zone Grants	$ 1,960,000
Cash sub-total	$33,158,000
Enterprise Zone Tax Credits	$19,000,000
Major Business Facilities Job Tax Credits	$ 6,951,414
Tax Credits sub-total	$25,951,414
Total	**$59,109,414**

III. Competitive Situation

Listed below are illustrative summaries of primary incentive programs for states with which Virginia has competed most often during recent years. Virginia has competed with these states for projects ranging from manufacturing to distribution to headquarters. Except for Maryland and Florida, all these states exceed Virginia's incentive funding, by a multiple factor in some cases. Again, we have not included federally-funded programs nor specially-legislated programs (such as Dell's in North Carolina or special funds for auto plants), and the listing only includes incentives that are available statewide.

Texas – FY 2004

Texas Enterprise Fund	$285,000,000
Skills Development Fund	$ 12,100,000
Total Cash	**$297,100,000***

North Carolina

Golden Leaf Foundation	$ 76,612,000
Job Development Investment Grant	$ 15,000,000
One North Carolina Fund	$ 20,000,000
Customized Training Program	$ 3,841,225

Industrial Road and Rail Funds	$ 2,775,000
Cash sub-total	$118,228,225
William S. Lee Act (tax credits)	$ 53,000,000
Total	**$171,228,225***

*This amount does not include the Community College Training budget.
Amounts are based on current funding.

Pennsylvania

Opportunity Grant Program	$53,000,000
Job Training Grant	$ 3,300,000
Cash sub-total	$56,300,000
Keystone Innovation Zones (combination cash and tax credits)	$50,000,000
Total	**$106,300,000***

*In addition to this total, Pennsylvania also has the "Life Sciences Greenhouse Initiative" which utilizes $100 million in tobacco settlement funds.

Georgia – FY 2006

One Georgia Fund	$65,834,093
OneGeorgia is an authority that uses 1/3 of the state's tobacco settlement to assist the most economically-challenged areas.	
Pooler Megasite Incentive Grant	$ 9,380,000
Pooler Megasite Training Funds	$ 750,000
Local Assistance Grants	$ 3,900,000
Regional Infrastructure Grants	$ 500,000
Training-General Administration	$ 4,728,848
Quick Start/Customized Training Services	$11,889,779
The purpose is to provide a number of programs and services designed to assist businesses and industries with their training needs.	
Total:	**$96,982,720**

Florida – FY 2005

Economic Development Tools Total	$26,905,500
General Revenue Fund($22,330,000)	
Economic Development Trust Fund ($4,575,500)	
Economic development incentives are provided to encourage new businesses in targeted industries to locate in Florida, and existing Florida businesses in targeted industries to expand in the state and create quality, high wage jobs.	
Quick Action Closing Fund	$10,000,000
Quick Response Training Program	$ 5,000,000

The program has been structured to be flexible and to "respond quickly" to meet the business's training objectives. A local fiscal agent – community college, area technical center, or university – is selected and is available to help develop or deliver the customized program and to provide assistance in the application process. If the business already has a training program in place, the local training provider will supervise and manage the training program and serve as the fiscal agent for the grant funds. Similar to our Workforce Services program.

Infrastructure Grants $15,700,000

Economic Development Transportation Projects($10,000,000)
Space, Defense, Rural Infrastructure($5,700,000)

The Economic Development Transportation Fund is available to local governments in need of financial assistance for transportation projects which will facilitate economic development. A local government must apply on behalf of a company as an inducement for the company to remain, locate, or expand in Florida. The program has repeatedly demonstrated it is effective in job creation and retention because it relies on the coordinated efforts of the private business community, local government, local organizations, and the resources and input of Enterprise Florida, Inc.

The Space, Defense, and Rural Infrastructure budget includes $5.7 million for grants to fund infrastructure projects essential to economic growth and expansion. Grants are intended to support the needs of rural communities as well as communities with military base facilities.

Note: Enterprise Florida is the state's operating and marketing arm and receives $10.6 million in funding, not counted in the incentives total.

Total: $57,605,500

Maryland – FY 2006

Sunny Day Fund $0

Legislature may be petitioned for funds; no actual ongoing appropriation. Last year had over $8 million funded.

Economic Development Assistance Grant $11,750,000

Customized Job Training $ 1,387,954

Maryland Partnership for Workforce Quality:
General Funds($887,954)
Special Funds($500,000)

Infrastructure Grants TBD

Total: $13,137,954

South Carolina

Job Development Tax Credits	$45,656,712
Corporate Headquarters Tax Credit	$ 921,768
Economic Impact Zone Investment Tax Credit	$20,543,279
Tax Credit subtotal	$67,121,759
Retraining Funds for New Technology	$ 3,872,601
Enterprise Zone Job Development Fund	not available
Total	**$70,994,360***

*Amounts based on most current data available (FY 2002-03).
Total does not include training funds which are incorporated
into technical colleges 2003-04 state appropriation of $131,400,792.

Ohio

Business Development Grants	$ 8,900,000
Economic Development Contingency Grant	$10,000,000
Investment in Training Grants	$12,200,000
Workforce Policy Grant	$ 5,600,000
Thomas Edison Program	$16,300,000
Third Frontier Action Fund	$16,700,000
Total Cash	**$69,700,000***

*Cash amounts for FY 2004

These examples provide a good demonstration of the range of project assistance funds that some of our main competitor states have at their disposal. Generally speaking, these states are formidable competitors with ample incentives arsenals and aggressive marketing programs.

Within our multi-state region, we do find that competition with North Carolina and Georgia can be quite intense, and the ability of these states to tap into their respective tobacco settlement funds to supplement their generous standard incentives offering can produce rather large incentives for individual projects that make ours often appear anemic. The Golden Leaf Foundation in North Carolina and the One Georgia Fund are powerful enhancements. Within our immediate region, Maryland is the exception in terms of incentive funding. Maryland has recently adopted a single factor corporate income tax system which has come into play for a few projects, but we do not typically find ourselves coming up short on competitive packages when Maryland is the sole competition.

Interestingly, we note that Georgia has established a mega site fund for both training and incentives associated with its Pooler, Georgia, site that was abandoned by DaimlerChrysler (see below for project description). This fund helps position the state to capitalize on the next large automotive assembly or similar type project that may materialize. It is representative of the type of work we believe Virginia will be required to take in addition to identifying a competitive mega site for this or a similar intensive industry.

Florida's Economic Development Tools assistance program is noteworthy for its attempts to link specific preparation and project assistance to specified targeted industries it is seeking. It is similar in concept to our efforts to link performance grants for key industry sectors. Likewise, the Economic Development Transportation Fund is reminiscent of Virginia's 2005 legislation setting aside the new Transportation Partnership Opportunity Fund for economic development projects, but does help support the case that the new Virginia fund should be used for economic development projects specifically.

Perhaps most noteworthy as a major commitment to economic development, Texas established the Texas Enterprise Fund at just under $300 million. This was done using a one-time infusion from the state's "Rainy Day" or Economic Stabilization Fund. The biggest portion of this was to set up a $200 million deal closing fund (a "mega" GOF-type pool) with other major allocations of funds supporting technology partnerships with the universities, Sematech funding, and health care infrastructure. Much of the university and Sematech funding went to support the Texas Instruments semiconductor project, for which Virginia was invited to submit a proposal. The deal closing pool of funds must be approved by the Governor, Lieutenant Governor, and the House Speaker for each project. Additionally, Texas launched a new Emerging Technology Fund containing $200 million in 2005.

Recent High Profile Projects

- **Dell Computer Assembly**

  Announced in late 2004 for North Carolina, Virginia competed with North Carolina for this $125 million, 1,680 employee (average annual salary of $28,000) project. **North Carolina** offered a state package valued at over **$287 million**, representing almost 8 to10 times that offered by Virginia and more than twice the company investment. To secure this project, North Carolina held a Special Session of the General Assembly to institute broad tax credits that would enable Dell to forego tax payments for 15 years.

- **Scripps Research Institute**

  In 2003, the Scripps Research Institute announced plans to establish a biomedical research center in Palm Beach County, Florida. The Florida Legislature approved a $369 million incentive package that included $310 million in economic stimulus funds for start-up operations and $59 million in interest. Florida did require the Institute to repay half of the state's initial investment after seven years by reinvesting up to $155 million in the State's Biomedical Research Trust Fund.

- **Automotive Projects**

  High profile automotive projects, such as South Carolina's 1992 BMW project with an investment of $625 million and 1,900 jobs, received $133 million in state incentives. For the 2002 Daimler Chrysler project with an investment of $750 million and 4,000 jobs, Georgia offered over $220 million in state incentives. The 2000 Nissan project that located in Mississippi received incentives for the original project and the expansion project. For the initial project of 4,000 jobs and an investment of $930 million, the company received a $295 million incentive package. For the subsequent expansion project of 1,300 jobs and a $500 million investment, Nissan received an additional $68.5 million from Mississippi.

- **Virginia's Large Projects**

  Virginia's incentives for large projects are modest in comparison. Some recent projects include:

  - In 2003, Virginia's state incentive package of cash grants and tax credits for the Wachovia Securities project with 1,200 jobs, average salaries of $55,713, and an investment of $8.268 million was approximately $12.5 million. This package included grants of about $10 million and tax credits of about $1 million. The estimated net benefit to Virginia after 20 years is approximately $125 million.

  - For the 2005 Philip Morris USA project with 500 jobs, average salaries of $77,530, and an investment of $266 million, the company's state incentive package was approximately $26 million. This included about $18 million in grants and $8 million in tax credits. The estimated net benefit to Virginia after 20 years is approximately $55 million.

  - For the 2004 Infineon Technologies project with 1,200 jobs, average salaries of $65,000, and an investment of $1.1 billion, the state's incentive package to the company was approximately $66.7 million. This included $64.1 million in performance and education grants and $2.6 million in tax credits. The estimated net benefit to Virginia after 20 years is approximately $193 million.

In summary, the competition for economic development projects is intense. Other states have continued to ramp up their incentive budgets in recent years, while Virginia's incentive funding has fallen. Recognizing the return, other states have been willing to hold special legislative sessions to pass unique incentive packages, to invest significant portions of their tobacco settlement funds, and to appropriate state revenue for economic development incentives. Because Virginia's incentive philosophy is based on sound principles and the use of a Return on Investment tool that ensures a solid return on all projects receiving state incentives, it is important that Virginia appropriate additional incentive funding so that we can successfully compete for projects that will generate additional general fund revenue needed for basic services.

It should be noted that large projects and the special incentives associated with them have generated both controversy and legal challenges. The incentive package legislated for Dell in North Carolina is now being challenged in court. Recently, the United States Supreme Court has agreed to review lower federal court rulings on tax credits in Ohio for a Daimler Chrysler facility. In Florida, the Scripps project has not moved forward due to zoning and local controversy about the appropriateness of the facility.

IV. Proposal

As was broadly stated in the opening paragraphs of this paper, Virginia's incentives need to be refined, not completely overhauled. Those discretionary incentives aimed at infrastructure improvements work well and are meeting the demands of the competitive marketplace. In this category would fall the Industrial Access Road Program, the Industrial Rail Access Program, and Community Development Block Grants. While no fundamental changes are recommended, adequate funding must continue, and improved customer service should be a focus of the agencies administering these programs in an effort to deliver seamless services to new and expanding business.

With the changes already enacted in the Enterprise Zone Program, it is now aimed, as it originally was intended, as an effort to aid distressed areas. It will no longer be a relatively broad reaching general incentive. Consequently, its use as an economic development incentive will be limited to fewer areas in the future, although the program changes phase in over 19 years so the geographic impact will be very gradual.

The new Enterprise Zone Program relies on cash grants and has eliminated the use of tax credits. It is our recommendation to follow this lead and phase out other specific tax credit programs, especially the Major Business Facility Jobs Tax Credit. Tax Department records indicate that approximately $7 million of credits were used in FY 2003 for this program. This type of incentive causes uncertainty in the budget process and, consequently, is not in favor with the Money Committees. Likewise, the majority of businesses who are offered tax credits find it difficult to value them, because they are only useful if there is a tax liability at some future time. Thus, such a change would help our competitive standing with companies also considering states that base their incentive offerings on tax credits.

Existing performance-based incentives, the Virginia Investment Partnership, Virginia Economic Development Incentive Grant, and the several Semiconductor Performance Grant Programs, are well designed and generally accepted by prospects and consultants alike as meaningful efforts to assist in location decisions. For these programs, we have two recommendations: (1) bring consistency to the programs by making the three performance-based incentives referred to above payable beginning three years after the investment has been made, provided the new revenues generated by the projects will result in a positive cash flow at the time of the first payment; and (2) the per year cap for both VIP and VEDIG should be raised. For VIP, the maximum availability should return to $30 million with no more than 10% for any one project and no more than $6 million of grants payable in any fiscal year. For VEDIG, the maximum cap for outstanding grants should also be raised to $30 million. However, since fewer (but more beneficial) projects will qualify for its use, the maximum grant per project should be $10 million, with no more than $6 million payable in any one year.

In amending VIP and adding VEDIG, the past session of the General Assembly also provided for the creation of "sinking funds" for each of these programs using a portion of the new tax revenues that a project's new jobs produce. This "self-funding" mechanism will ease the process of appropriating incentive payments and also justifies raising the maximum caps on fund usage because the projects will fund themselves. Future performance grants for specific industries, such as the semiconductor performance grants, should also carry this funding mechanism. This allows the Commonwealth to predictably collect revenues that will be required for future obligations. This structure also allows flexibility to target incentive programs at appropriate business sectors as the economy changes.

The GOF remains a well-received and important economic development incentive for communities/prospects. The performance agreement aspect of this program is functioning well and to date, approximately $8.0 million has been recovered. The deal-closing aspect of this incentive is particularly effective; thus, every effort should be made to insure that it is adequately funded. To assist GOF funding, it is recommended that $3 million of the savings associated with the elimination of the Major Business Facility Jobs Tax Credit be transferred to the GOF. Further, it is recommended the name of this incentive be changed to the Commonwealth Opportunity Fund in order to reflect the role that both the executive and legislative branches play in its success.

Workforce Services is one of the oldest and most important of the economic development incentives. This effort has been housed in three different agencies over its 40+ year history. It has seen considerable fluctuation in its annual appropriation and, consequently, it has lacked at times the ability to be a forceful player in Virginia's economic development effort.

With the demand for Workforce Services program funds increasing (for both training and retraining purposes), funding resources have been decreasing. Forecasting demand for this program has always been difficult because business training and employment needs are greatly impacted by economic conditions. The economic downturn in the early part of this decade lessened program demand just about the time resources were reduced. However, with the economic upturn, funding has not increased to keep pace with demand.

To begin to meet the funding needs of the Workforce Services program, it is recommended that some of the resources ($3 million) that were going to fund the Major Business Facility Jobs Tax Credit (which has been recommended to be eliminated) should be used to support this incentive. It is further recommended that Workforce Services be given carry-forward provisions in its budget. This will assist in the planning process and allow procedural reforms necessary for program management and would truly treat the program as an incentive similar to the GOF.

The Community College System can and should be viewed as an incentive which builds workforce capabilities and, thus, influences location decisions. In other states, especially North and South Carolina, major competitors for economic development, there are extremely close relationships between workforce incentive programs and the community colleges. The

Department of Business Assistance and the Community College System should explore ways to improve relationships to ensure their resources have the greatest impact on economic development activity. In addition to reviewing program delivery efficiencies, it is recommended that ways be explored to build synergies between this existing industry program (existing business creates more than 70% of new jobs annually) and the economic development process.

There is no doubt that in today's world, a workforce with state-of-the-art skills is the critical element in successful economic development. Workforce development is an ongoing effort – people are not simply trained or develop a skill and work the rest of their lives. Training must be continuous to meet the ever-changing needs of the market place. Areas without a process in place to provide a stream of workers with skills in demand will ultimately lose jobs and will ultimately enter economic decline. Last year, the Virginia Community College System trained about 53,000 employees for Virginia companies, with those companies fully absorbing the cost of such workforce training and skill building. This benefited the companies for sure, but it also benefited society as a whole and helps to ensure our industries remain viable and our economy healthy.

Major Project

As noted in previous sections, Virginia's ability to assemble a large pool of funds to secure a strategically significant project, such as an automotive assembly plant, is difficult given the current array of incentive program offerings. These current programs are an important "baseline" for Virginia, and the types of refinements suggested previously will do much to improve Virginia's general competitiveness. However, these standard programs alone will be insufficient in the present environment for Virginia to successfully attract a marquee project – **we want to emphasize that there are possibilities other than an auto facility for which Virginia should be prepared to compete.**

The Virginia Tobacco Commission commissioned a consultant team in 2005 to critically evaluate Virginia's competitive position for attracting a major auto assembly plant, with particular emphasis on the Tobacco Region. Many of the consultants' conclusions about Virginia's business climate, operating costs, labor force, and logistics were quite favorable for our future potential to compete generally for projects of this nature. The key challenges identified for Virginia to be successful come down to two central issues: 1) our ability to identify and be able to deliver a 1,500-2,000 acre site that meets the industry's requirements; and 2) to marshal the type of financing support for delivering a fully-ready site and an adequate incentives package to help influence the final location decision.

To effectively compete for an auto assembly plant or other mega project will require a collective understanding that delivering a site that is (or will be) assembled, graded for construction, and prepared with adequate water, sewer, fiber, gas, rail, and electricity is an entry level expectation to be considered and does not represent an incentive to the company. Given the experiences from other states and the site development and infrastructure challenges in much of rural Virginia especially, Virginia needs a site funding mechanism approaching $125-$175 million to have a real chance to be successful. This should be viewed as a comprehensive undertaking involving a multiplicity of resources from not only state agencies, but to also encompass regional entities, local governments, and private sector partners, such as utilities and rail companies.

In addition to the site package, Virginia would need to provide a meaningful array of project incentives, to include a significant workforce training package (to include specialized training centers), ongoing retraining opportunities, performance grants, and enterprise zones, along with significant local inducements. Recent major project activity has shown the requisite Training Center and related ongoing workforce training packages averaging $65 million. Other miscellaneous state and local grants and incentives offered for these projects have been averaging just under $60 million. Recognizing these are major outlays, it is well documented that these types of projects can have a transforming positive effect on a region and state, and in particular for those regions that have been experiencing major economic distress. For example, since groundbreaking in 1993, BMW has continually ramped up its production through adding product lines and plant expansions. It now employs more than 4,300 workers and has an aggregate investment of about $1.9 billion. An extensive network of suppliers has materialized in South Carolina, creating additional jobs and income in the region which produces further demand for local purchases.

In all, BMW's investment supports a total of 16,691 jobs (4,327 direct and 12,364 indirect and induced) and produces $691 million in wages and salaries ($345 million direct and $346 million indirect and induced) annually in the state. Using BMW's payroll number and investment figure, in Virginia it is estimated this project would have generated $433 million in state revenues alone over a ten-year period.

As all understand, there is no magic source of funds to carry out the ambitious undertaking of developing a mega site and then providing for other necessary training incentives. Direct Assembly appropriations into a Site Fund, some redirection of projected state surplus revenues into a Fund for a specific project in the tobacco region, or some of the Tobacco Commission's funds all are potential options. Clearly, the magnitude of such a project requires multiple funding avenues and a willingness for public and private cooperation.

As an interim step, we believe it would be a helpful approach to develop a demonstration of what it would take to acquire and develop a competitive site in the heart of the Southside region. We propose working with representatives in the Danville/Pittsylvania County and Martinsville/ Henry County areas jointly on a regional site development project for an automotive assembly site, building on the input received from our recent analysis of sites in this area, and attempting to provide cost estimates for the nature of improvements needed to actually deliver a competitive site. Our view is this would be instructive to the community and regional leadership on what and how to best structure institutional and working relationships and confirm the cost magnitude for Virginia to compete, regardless of the ultimate site to be advanced. It would allow us to present a bonafide engineering solution for delivering a site, with cost estimates and a development time frame that would be perceived as meaningful by a prospect. To conduct the engineering work and basic due diligence for a 2,000-acre site will require securing property access, and some measure of legal site control consisting of option agreements. Funding needed for this work will vary depending on the specific site chosen for study, but is estimated to range from $1 to $3 million.

Distressed Areas

Distressed areas have received additional focus on a regular basis in the incentive process. The GOF is a good example in that distressed areas over the years have received a grant per job of about twice that of the urban areas. In the 2004-05 period a total of about $24 million in GOF grants were awarded. Ten million of that amount was used for five major corporate headquarters or semiconductor projects. Of the approximately $14 million balance, 82% was used in Southwest Virginia, Southside and the Valley region.

Recent changes in the Enterprise Zone Act restrict zone designation to truly distressed areas. The Tobacco Commission's funds are limited to the tobacco region, an area of great need. There has been success in distressed areas; the Danville and Martinsville areas are notable examples in Southside. Activity in the Washington, Smyth, and Wythe corridor and the recent announcements in Russell County likewise are encouraging and demonstrate the extraordinary efforts that have been undertaken as well as the ability of distressed areas to be competitive. Further evidence of success is that unemployment rates in both Southwest and Southside Virginia are substantially lower than they were four years ago. Unemployment rates in Southwest Virginia are at their lowest level in 20 years. Traditional, existing incentives have played an important role in this success.

However, given the devastating employment decline in the tobacco, furniture, textile, apparel, and coal industries, it has been difficult for new job creation to match losses in the short term. The call for this study with the focus on "significant economic development projects with an emphasis placed on those localities with the most need" reflects the clear understanding that additional efforts are needed to assist with the economic rejuvenation of distressed areas.

The greatest immediate need in distressed areas is focused on the area of workforce development. Without a labor force with market place skills an area simply can not compete. It is therefore recommended that in any distressed area, Workforce Service funds be used for retraining an existing workforce if such action were necessary to give employees new skills that would save or increase employment opportunities. No other qualification would be needed.

The Community College System can also play a greater role in economic development, especially in distressed areas, if the individual Colleges received the normal reimbursement for students in specific workforce development classes whether or not the individuals were classified as full-time students. The Community College System should receive funds sufficient to allow reimbursement for this type of workforce development in distressed areas.