REPORT OF THE DEPARTMENT OF TRANSPORTATION

Definition of Businesses and Industry that Qualify for Industrial Access Road Funding

TO THE GOVERNOR AND THE GENERAL ASSEMBLY OF VIRGINIA



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COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION

1401 EAST BROAD STREET RICHMOND, VIRGINIA 23219-2000

GREGORY A. WHIRLEY
ACTING COMMISSIONER

December 19, 2005

The Honorable Mark R. Warner Members of the General Assembly

Dear Governor Warner and Members of the General Assembly:

The Virginia Department of Transportation (VDOT) was directed through Item 492 D.6. of the 2005 Appropriation Act to work with local, regional, and state economic development agencies to revise the definition of businesses and industry that qualify for industrial access road funding. A stakeholder group representing the prescribed constituencies was formed to study the issue and provide recommendations.

This group recommended an amendment to § 33.1-221 of the *Code of Virginia* that names additional eligible business activities, with the qualification that they meet "basic employer" criteria as determined by the Virginia Economic Development Partnership and the Virginia Department of Business Assistance. The intent of this action is to broaden the definition of eligible uses for the Industrial Access Roads Program while maintaining its primary goal of assisting localities in attracting businesses that provide significant amounts of private capital investment, employment opportunity, and assurance of long-term presence in the Commonwealth.

The group identified other issues related to the administration of the Industrial Access Roads Program. While these issues are not directly related to industry eligibility, they are considered relevant and important, and impact the overall effectiveness of the Industrial Access Road Program.

Attached is the report that addresses the information raised in the budget amendment. If you have any questions or need additional information, please let me know.

Sincerely,

Gregory A. whiley

Attachment

cc: The Honorable Pierce R. Homer

Report to the General Assembly Definition of Businesses and Industry That Qualify for Industrial Access Road Funding

Preface

The Virginia Department of Transportation (VDOT) was directed by the 2005 General Assembly through Item 492.D.6 of the 2005 Appropriation Act to work with local, regional and state economic development agencies to revise the definition of businesses and industry that qualify for industrial access road funding.

This report was prepared by the Local Assistance Division of VDOT, which manages the Industrial Access Roads Program for the Commonwealth Transportation Board.

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Executive Summary

The 2005 General Assembly, through Item 492.D.6 of the 2005 Appropriation Act, directed the Virginia Department of Transportation (VDOT) to work with local, regional and state economic development agencies to revise the definition of businesses and industry that qualify for industrial access road funding, and to present findings and recommendations to the Governor and the General Assembly prior to the 2006 General Assembly Session. This document contains those findings and recommendations.

The Industrial Access Program has been in existence since 1956. It was established by the General Assembly so that counties, cities and towns could assist new or expanding industries in obtaining access to their sites, without expending substantial portions of the localities' traditional highway funds.

Both the *Code of Virginia* and the Commonwealth Transportation Board's (CTB) policy state that industrial access road funds are to be used to provide access to sites on which "...manufacturing, processing, or other establishments..." will be built or are already constructed. However, economic development officials have pointed to current trends indicating fewer new businesses are of the traditional manufacturing and processing nature. Establishments based on service and technology-based products constitute the majority of all new investments. The General Assembly's direction to address the eligibility definition reflects recognition that the industrial access roads program could be a more effective economic development resource if its criteria were broadened.

A group representing the prescribed constituencies was formed to study the issue and provide recommendations. This group recommended an amendment to § 33.1-221 of the *Code* that names additional eligible business activities, with the qualification that they meet "basic employer" criteria as determined by the Virginia Economic Development Partnership and the Virginia Department of Business Assistance. The intent of this action is to broaden the definition of eligible uses for the Industrial Access Roads Program while maintaining its primary goal of assisting localities in attracting businesses that provide significant amounts of private capital investment, employment opportunity and assurance of long-term presence in the Commonwealth.

During its discussions, the group identified other issues related to the administration of the Industrial Access Roads Program. While these issues are not directly related to industry eligibility, they are considered relevant and important, and impact the overall effectiveness of the Industrial Access Road Program. These additional recommendations are summarized in Appendix C.

Introduction

The Virginia Department of Transportation (VDOT), in consultation with the Virginia Economic Development Partnership and the Virginia Department of Business Assistance, has administered the Industrial Access Roads Program since 1956. Administration is carried out under the provisions of § 33.1-221 of the *Code of Virginia* and the policies of the Commonwealth Transportation Board (CTB).

Since its establishment, the Industrial Access Roads Program's enabling legislation and the CTB's policies have been amended several times in response to changes in the economy or administrative requirements. The original language in § 33.1-221 of the *Code* that authorizes the CTB to expend funds to provide access to "...industrial sites on which manufacturing, processing or other establishments will be built under firm contract or are already constructed..." has never been changed. Acknowledging that the nature of economic development in the Commonwealth has evolved so that there are fewer new establishments of the traditional manufacturing type, the 2005 General Assembly directed that: "The Department of Transportation, working with representatives of local governments and local, regional, and state economic development agencies, will revise the definition of businesses and industry that qualify for access road funding. Such work shall be completed so that its findings and recommendations can be considered by the Governor and General Assembly prior to the 2006 General Assembly session."

Background

The purpose of the Industrial Access Roads Program is to assist localities in attracting new industries or retaining existing industries undergoing expansion by providing adequate road access to their development sites. The program has been in existence since 1956, when the General Assembly enacted legislation to set aside from state highway funds a sum not to exceed one million dollars to be expended by the State Highway Commission for construction of access roads to industrial sites. The 1956 act stipulated that the fund be used "... for constructing, reconstructing, maintaining or improving access roads to industrial sites on which manufacturing, processing or other establishments will be built under firm contract or are already constructed." Although the program's enabling legislation has been amended several times since 1956, the terms "manufacturing, processing or other establishments" have remained unchanged.

The policy of the CTB under which the program is administered states that "[t]he use of industrial access funds shall be limited to the purpose of providing adequate access to new or substantially expanding manufacturing, processing, and industrial facilities, or other establishments." Determinations of eligibility are made on a case-by-case basis within the general parameters prescribed in the *Code* and the CTB's policy. Detailed information on each applicant business is evaluated by VDOT and the Department of Business Assistance to ensure it conforms to the intent of the program.

Today's Industrial Access Roads Program is financed through the Industrial, Airport and Rail Access Fund, with an annual appropriation of \$5.5 million. As implied in its title, the fund supports three separate access programs. There is no partition of the fund for the individual programs; any of them may finance eligible projects on a first come first serve basis until the available total is committed. Each of the programs, however, does have limitations on the amount that can be allocated per project and also on the amount that can be allocated to any jurisdiction per fiscal year. Based on the current CTB Industrial Access Policy, a maximum allocation of \$450,000 is available to any one county, town, or city in any fiscal year. A locality can request up to \$300,000 of unmatched funds for any one project in any fiscal year. The unmatched funds may be supplemented with up to an additional \$150,000 if matched, dollar-for-dollar, by the recipient. In recent years, the entire \$5.5 million has been committed for new projects.

The Industrial Access Roads Program provides two alternatives for constructing access roads to development sites. The "traditional" industrial access road project involves an industry that has selected a site and committed to development of a new facility, or an existing industry that expands to the extent that it generates an amount of additional traffic that will exceed the capacity of the existing roads serving its site. For traditional access road project, a determination of the industry's eligibility is required before an application for access road funding is forwarded to the CTB for action. The second type of project is the "bonded" type. As authorized in § 33.1-221 of the *Code* and further detailed in the policy of the CTB, a locality may request funding for an access road serving a site (typically a new industrial park) with no specific qualifying industry committed to locate there. The locality then provides a surety to VDOT in the amount of the industrial access funds expended for the road's construction. Currently, the locality has a period of five years from the date of the CTB's allocation of funds to attract eligible industries that will provide sufficient capital outlay on the site. If that does not occur, the locality must repay all or part of any funds received or forfeit the surety to VDOT so that the Fund can be recapitalized.

As is the case with many other state-funded incentive programs, there is an expectation that the Commonwealth will receive a return on its investment in industrial access roads. To ensure funds expended provide sufficient economic benefit, the industrial access roads program requires a capital investment from a qualifying industry that is 10 times greater than the request for funding. This makes industry eligibility determination a key element in the administration of the program. If a locality is negotiating with an industry considering sites in several states, the locality may or may not be able to include provision of an access road in its offer of economic incentives, depending on an industry eligibility determination by the program's administrators. Similarly, if a "bonded" project has been constructed, the responsible locality risks repayment or forfeiture of the surety if an ineligible business locates on the site served by the access road. Therefore, defining what constitutes a qualifying industry or business has direct effects on both the availability of the Industrial Access Roads Program to localities and on the potential financial risk involved in a "bonded" project.

The issue of eligibility for industrial access road funding has been discussed at various times over the life of the program. Two prior high level studies of the program have been conducted. In 1994, a task force appointed by the Secretary of Transportation evaluated various aspects of the industrial access program but did not recommend any change in eligibility criteria.

In 1998, the General Assembly directed the VDOT, in conjunction with the Virginia Economic Development Partnership, to study "...whether to broaden the statutory authority of § 33.1-221, *Code*, to include additional 'establishments' that could qualify for access road funding." That study, reported to the General Assembly in 1999 as House Document No. 19, concluded that the number of projects funded annually under the existing eligibility criteria was sufficient to exhaust the program's annual appropriation and recommended that no change be made to the *Code*

It has become apparent, however, that the economy of Virginia and the nation has experienced a shift away from its former focus on large manufacturing operations as the primary stimulus for job creation and private capital investment. Technology- and service-based establishments represent a much larger percentage of new business development today. As recently as 1995, manufacturing accounted for 77% of all new basic sector developments announced statewide; over the five-year period from 2000-2004 the trend was almost reversed with non-manufacturing establishments representing 63% of total Virginia activity. Announced employment in non-manufacturing establishments accounts for 78% of all employment in Virginia over this same period. Many of these operations do not meet the traditional definitions of "manufacturing" or "processing," but they support large numbers of employees, stimulate the creation of other service businesses and typically create a positive flow of revenue to Virginia. The General Assembly's current direction to revise the definition of qualifying businesses for the industrial access roads program appears to reflect the economic development community's desire for formal acknowledgement of this change in business development

An underlying reason for evaluation of the eligibility criteria for the Industrial Access Roads Program is the desire for Virginia to remain competitive with other surrounding states in attracting new business. Incentive programs of a similar nature are offered by other states, with varying eligibility considerations and funding limitations. Site selection by potential business developers has become a highly specialized activity, and localities are expected to produce proposals containing potential economic incentives within relatively short time frames. Clarification of the types of development that can be supported by the Industrial Access Roads Program will assist localities in determining whether they can include the value of an access road in site selection negotiations.

The Industrial Access Roads Program is administered through three levels of authority. Section 33.1-221 of the *Code* establishes the program and provides primary guidance. The Industrial Access Policy of the CTB sets forth more detailed conditions for administering the program and use of the funds. A "Guide for the Industrial Access Program," published by the Local Assistance Division of VDOT, expands further on specific issues concerning all phases of the program, from application to acceptance of a completed project into the state secondary or urban road system. A more detailed description of what types of business and industry qualify for industrial access road funding could be addressed in any of these documents with equal effect on the program's administration. Any change in legislation will prompt accompanying changes in the CTB Policy and the "Guide to the Industrial Access Road Program."

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¹ Virginia Economic Development Partnership

Stakeholder Input

As directed by the General Assembly, VDOT consulted with local governments and local, regional and state economic agencies to address the issue of business and industry eligibility for industrial access road funding. A stakeholder group was formed, representing the various constituencies as specified in the 2005 General Assembly's Appropriation Act. In anticipation of potential changes in the access program's orientation and to get a sense of its customers' perceptions of the current situation, the Local Assistance Division concurrently prepared a questionnaire on the program. This questionnaire was distributed to every locality eligible to apply for industrial access funds, to economic development state agencies and to all of VDOT's District and Residency offices. In addition to questions on eligibility, the questionnaire also elicited comments on other aspects of the industrial access road program, and all survey results were summarized and provided to the stakeholder group for background and discussion. Many of the recommendations could be addressed in future updates of the program's administrative guidelines.

In addition to representing the various localities and economic development entities, the stakeholder group also represented various geographic regions of the Commonwealth. Members of the stakeholder group are:

		Loudoun County
Robyn Bailey	Manager, Business Infrastructure	Dept. of Economic Development
Neal J. Barber	Executive Director	Virginia First Cities Coalition
Paul J. Carroll	Executive Director	Front Royal-Warren County EDA
		Southside Planning District
Joyce I. French	Executive Director	Commission
		Hampton Roads Economic
C. Jones Hooks	President And CEO	Development Alliance
Bob Isner	Director of Economic Development	Montgomery County
		Virginia Economic Development
Rob McClintock	Director of Research	Partnership
		Smyth County/Smyth-Washington
Sally H. Morgan	Economic Development Planner	Industrial Facilities Authority
H. Greg Reid	Director of Economic Development	Goochland County
		Virginia Department of Business
Wayne K. Waldrop	Director, Existing Business Services	Assistance

VDOT Local Assistance Division staff that worked with the stakeholder group included:

Hugh Adams	Access Program Supervisor
Julie Brown	Assistant Division Administrator
Bill Dandridge	Access Program Manager
Mike Estes	Director, Local Assistance

The stakeholder group met on July 29, August 24 and September 21 in Charlottesville to discuss the issues and develop recommendations. The CTB was briefed at the CTB workshop meeting held September 15, 2005, on the discussions and recommendations of this group.

Draft Legislative Recommendation

The stakeholder group's initial efforts were directed toward a recommendation for amendment of § 33.1-221 of the Code. The existing language of § 33.1-221 of the Code could be considered sufficiently broad to allow wider discretion in industry eligibility decisions since it includes "or other establishments". However, the group assumed that the charge by the General Assembly ("...will revise the definition...") indicated a preference to expand the eligibility criteria in the actual legislation. After discussion of both general economic development trends and specific cases involving the Industrial Access Roads Program, the group proposed an amendment of § 33.1-221 of the Code that would indicate the Commonwealth's awareness of changes in the business arena but would, at the same time, emphasize the intent of the access road program to assist only in development that creates a net gain to the state's economy. The proposed amendment substitutes "economic development" for "industrial" in describing the sites to which access roads will be provided. This reflects a more flexible interpretation of eligible uses. Emphasis on expanded eligibility is made by the addition of several specific types of development (some of which have already been provided industrial access funding under the existing language), with the further provision that they meet "basic employer" criteria as determined by the Virginia Economic Development Partnership and the Virginia Department of Business Assistance. This requirement supports the intent to assist those activities proposing investment in substantial capital facilities, having intentions of long-term presence and generating a positive revenue flow to Virginia. It is consistent with the criteria applied by other state agencies in administering other economic development incentive programs. The draft legislation is provided in Appendix B.

The group also discussed other aspects of the industrial access roads program and made several other recommendations beyond those related to eligibility criteria. Some of the recommendations are deemed necessary as a result of the increased flexibility for industries deemed eligible. The entire \$5.5 million appropriation for the Industrial, Airport and Rail Access Fund (Fund) has been allocated to eligible projects for several years so any increased demand on the program will likely exhaust the fund prior to the end of the year. Without the returned funds from bonded projects that did not satisfy the capital investment requirements, the Fund would not have been able to meet the requests for several years. The stakeholder group recognized the need to address overall funding with these recommendations. Other recommendations focused on improving the program's utility as an economic development tool for localities and ensuring the program met the goal of providing adequate access in today's environment. The other recommendations of the stakeholder group beyond the eligibility criteria are summarized in Appendix C of this report. Several charts and reports were discussed with the stakeholder group that illustrate the history of allocations with this program. Two of those items are also included as Appendix D for reference information.

Appendix A

2005 Appropriations Act (Reference Item 492.D.6)

The Department of Transportation, working with representatives of local governments and local, regional, and state economic development agencies, will revise the definition of businesses and industry that qualify for access road funding. Such work shall be complete so that its findings and recommendations can be considered by the Governor and General Assembly prior to the 2006 General Assembly session.

Appendix B – Proposed Legislative Revision

§ 33.1-221. Funds for access roads to industrial economic development sites and airports; construction, maintenance, etc., of such roads.

A. Notwithstanding any other provision of law, there shall be appropriated to the Commonwealth Transportation Board funds derived from taxes on motor fuels, fees and charges on motor vehicle registrations, road taxes or any other state revenue allocated for highway purposes, which shall be used by the Board for the purposes hereinafter specified, after deducting the costs of administration before any of such funds are distributed and allocated for any road or street purposes.

Such funds shall be expended by the Board for constructing, reconstructing, maintaining or improving access roads within counties, cities and towns to industrial economic development sites on which manufacturing, processing, research and development facilities, distribution centers, regional service centers, corporate headquarters, or other establishments that also meet basic employer criteria as determined by the Virginia Economic Development Partnership in consultation with the Virginia Department of Business Assistance will be built under firm contract or are already constructed and to licensed, public-use airports; in the event there is no such establishment or airport already constructed or for which the construction is under firm contract, a county, city, or town may guarantee to the Board by bond or other acceptable device that such will occur and, should no establishment or airport acceptable to the Board be constructed or under firm contract within the time limits of the bond, such bond shall be forfeited. Towns which receive highway maintenance payments under § 33.1-41.1 shall be considered separately from the counties in which they are located when receiving allocations of funds for access roads.

B. In deciding whether or not to construct or improve any such access road, and in determining the nature of the road to be constructed, the Board shall base its considerations on the cost thereof in relation to the volume and nature of the traffic to be generated as a result of developing the airport or the *economic development site*. In Within any industrial park *economic development site* or airport, the total volume of traffic to be generated shall be taken into consideration in regard to the overall cost thereof. No such access road shall be constructed or improved on a privately owned plant *economic development* site.

C. Any access road constructed or improved under this section shall constitute a part of the secondary system of state highways or the road system of the locality in which it is located and shall thereafter be constructed, reconstructed, maintained and improved as other roads in such system.

(Code 1950, § 33-136.1; 1956, c. 161; 1962, c. 550; 1964, c. 254; 1970, c. 322; 1978, c. 299; 1980, c. 38; 1989, c. 336; 1996, cc. 85, 128; 1997, c. 89.)

Appendix C – Stakeholder Recommendations

The stakeholder group's discussions raised several issues other than the definition of eligible industries. Expansion of the eligibility criteria would have a direct effect on certain administrative aspects of the Industrial Access Roads Program. Other issues arose from the statewide survey of the program's potential users. While these items do not directly address the charge to revise the eligibility definition, it was thought appropriate to include them in this report. The majority of these recommendations can be addressed through the CTB's policy or the program's administrative process.

1. Eligible project costs should include curb and gutter, storm drainage, and a project length that would provide access to the primary entrance of the economic development site.

The Industrial Access Roads Program currently provides funding only for a rural pavement design with shoulders and ditches. In most urban areas curb and gutter and underground storm drainage facilities are required by local zoning regulations. The access program now funds only the equivalent of the rural design, and the locality must pay for the additional features. Even in rural areas, the shift from heavy manufacturing activities to the technology and service sectors has led business park developers to adopt the curb and gutter design to make the site more marketable to these types of businesses.

The current policy regarding eligible project length is a strict interpretation of the CTB's policy that states "Industrial access funds shall not be used to construct or improve roads on a privately owned plant site." If the access project will serve a parcel laterally, it is now limited to 100' past the nearest property line of the parcel, allowing an opportunity for the industry to construct an entrance, but not necessarily extending to the point where the entrance is actually to be located. In these cases, the locality or the industry must fund the cost of the additional road length needed to reach the primary site entrance.

The stakeholder group felt that the access road program would be a much more useful development tool for localities in today's economy if these changes were implemented.

2. Funding limits should be increased from \$300,000 to \$400,000 unmatched, and from \$150,000 to \$300,000 matched.

Project funding limits have remained static while project costs have increased with inflation. Implementation of the changes recommended above would also add to the eligible costs of a project. Currently, the maximum amount of industrial access funds available for a project is \$450,000, regardless of the total cost. The locality is responsible for the required match as well as all costs exceeding the combined access funds and local match. The recommended increase would provide localities an opportunity to utilize an industry's capital outlay to fund up to \$700,000 of a \$1 million project through the industrial access program, with a local match of \$300,000.

3. Increase the total appropriation for the Industrial, Airport and Rail Access Fund, or provide separate funding for the Rail Industrial Access Program and maintain the current appropriation of \$5.5 million for the Industrial Access and Airport Access Roads Programs.

Currently, the annual appropriation of \$5.5 million supports three access programs: Industrial Access Roads, Airport Access Roads and Rail Industrial Access. The entire appropriation has been allocated to projects for the past several years. Expanding the eligibility of businesses for industrial access road funding, inclusion of additional design features and project length, and increasing the maximum allocation per project would result in the Industrial Access Roads Program consuming a larger percentage of available funds. Because projects in all of the programs are funded on a first-come, first-served basis throughout the year, the fund could be depleted much sooner and not be available to meet the desired goal of providing adequate access and assisting in attracting economic development. The Rail Industrial Access Program is addressed in a separate section of the *Code* and managed by a separate state agency so separating the funding for the programs seems reasonable. The Department of Rail and Public Transportation (DRPT), which administers the Rail Industrial Access Program, estimates that \$4 million annually, would be required to fund its program separately.

As an alternative to providing for a separate fund for road and rail access, allocation limits for each program would be established at the beginning of each fiscal year. At the beginning of the third quarter of the fiscal year, if either of the programs has funds remaining and the other program has a demand for project allocations, the limits could be removed so that either program could utilize any available funds. It is expected that increased total funding would be required to support this concept. This option would provide the benefit of allowing funds to be used by either program to address outstanding requests.

4. Bonded projects

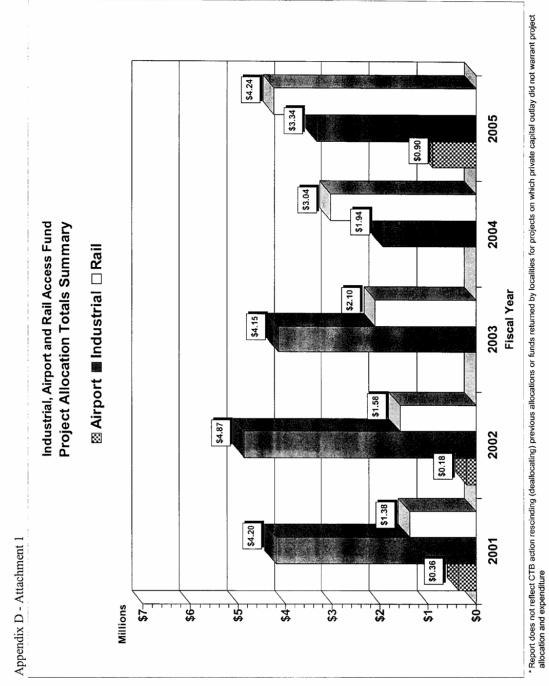
Two major issues were raised regarding administration of the bonded option for industrial access road projects and two recommendations were offered:

a. It is recommended that if an eligible industry is served by a bonded project and produces capital outlay in an amount that would offset the total amount of industrial access funds expended, the locality should receive full credit. Capital outlay credit is currently calculated according to the location of the industry's property along the access project. This applies primarily in industrial parks containing multiple parcels. If an industry occupies a site at the end of a project, its investment receives full credit toward the bonded amount. If, however, it locates on a site nearer the beginning of the project, its investment is pro-rated according to the length of road that reaches its specific site. In some instances, qualifying industries with large capital investments have chosen sites nearer the entrance to an industrial park and localities have not received full credit for the bonded amount.

b. It is recommended that at the end of the five-year bonded period any required reimbursement be made by the locality, however if eligible capital outlay occurs within the following two years, up to fifty percent of the original bonded amount be returned to the locality. The maximum bonded period for an industrial access road project is five years. If partial or no eligible capital outlay has been produced by industries locating along the project, the locality must reimburse VDOT for the corresponding amount of access funds expended on the project. The five-year period begins on the date that the access funds are allocated by the CTB. Because design and construction of a project consumes a significant part of the five-year period, the development site is not considered marketable for the entire time. In some instances an industry has committed to locate along a bonded project soon after the five-year term has expired. While five years is considered a sufficient length for the bonded opportunity, localities have requested that some consideration be given to establishing a "grace period" in which they could recoup funds repaid to VDOT. Implementation of this recommendation would also have an effect on the availability of program funds for new projects.

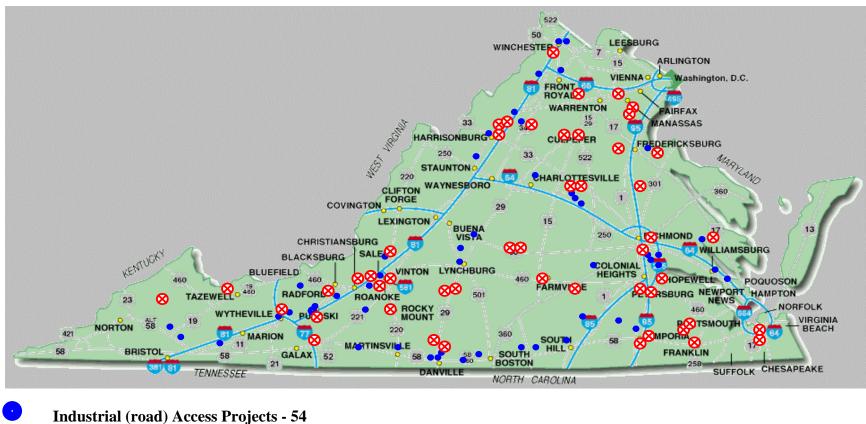
Appendix D – Background Materials

- 1. Project Allocation Totals Summary (Attachment 1)
- 2. Map Industrial Access Road and Rail Industrial Access Projects FY 2001-FY 2005 (Attachment 2)



VDOT - Local Assistance Division

Appendix D - Attachment 2



• In	dustrial (road) Access Pr	ojects - 54				
	Bristol District	6	Hampton Roads District	5	Richmond District	9
	Culpeper District	6	Lynchburg District	8	Salem District	10
	Fredericksburg District	2	NOVA District	0	Staunton District	8
Ra	ail Industrial Access Proj	ects - 48				
O 1	Bristol District	3	Hampton Roads District	7	Richmond District	6
	Culpeper District	5	Lynchburg District	7	Salem District	8
	Fredericksburg District	4	NOVA District	3	Staunton District	5

VDOT Industrial (road) and Rail Industrial Access Projects - FY 2001 through FY 2005