

**REPORT OF THE
JOINT SUBCOMMITTEE STUDYING**

**Local Incentives Provided to
Private Businesses for
Economic Development
Purposes [HJR 75 (2008)]**

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



HOUSE DOCUMENT NO. 10

**COMMONWEALTH OF VIRGINIA
RICHMOND 2009**

MEMBERS

The Honorable Mark L. Cole, Chair
The Honorable Mary Margaret Whipple, Vice Chair
The Honorable Thomas C. Wright, Jr.
The Honorable G. Manoli Loupassi
The Honorable Stephen C. Shannon
The Honorable David L. Englin
The Honorable R. Creigh Deeds
The Honorable Robert Hurt
The Honorable Jody M. Wagner
Mr. Timothy Baroody

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Executive Summary

House Joint Resolution 75, agreed to during the 2008 Session of the General Assembly, established a joint subcommittee to study to study local incentives provided to private businesses for economic development purposes. The study resolution charges the joint subcommittee to (i) determine all incentives that localities are permitted to provide to private businesses; (ii) evaluate the impact of such incentives on smaller local competitors of the businesses provided the incentives; and (iii) evaluate the effectiveness of the incentives that are provided. The joint subcommittee was required to complete its work in time for the 2009 Session of the General Assembly.

The Joint Subcommittee held three meetings during the 2008 interim. Several presentations were made relating to a wide variety of issues affecting the use of incentives by local governing bodies including an overview of the types of incentive programs that are currently in use and the role of Economic Development Authorities and Regional Economic Development Marketing Councils. The Joint Subcommittee also received input from the private sector, local government economic development professionals and other interested parties. Particular focus was given to efforts at the state level to assist localities in expanding broadband access, which is essential to attracting businesses. Another focus was evaluating the impact of incentive programs on existing businesses in the locality that do not get the incentives.

At its last meeting the Joint Subcommittee reviewed two legislative proposals aimed at addressing the appropriate use of economic incentives. The first proposal would have prohibited a locality from expending funds or otherwise providing advantages to a private entity unless it is determined that such funds or advantages are necessary to induce the private entity to act in the manner which the locality is attempting to induce, such as relocating to the locality or expanding operations. The second proposal would have prohibited a locality from providing economic incentives to (i) a private entity that is already located in the locality unless it is likely that the private entity would relocate outside of the locality without the incentive, or (ii) a private entity located outside of the locality unless it is likely that the private entity would not relocate within the locality without the incentive. Despite extended discussion no consensus was reached on either of the proposals.

**REPORT OF THE
JOINT SUBCOMMITTEE STUDYING
LOCAL INCENTIVES PROVIDED TO PRIVATE BUSINESSES FOR
ECONOMIC DEVELOPMENT PURPOSES**

**To: The Honorable Timothy M. Kaine, Governor of Virginia,
and
The General Assembly of Virginia**

**Richmond, Virginia
June 2009**

I. Study Authority and Scope.

House Joint Resolution 75 (**Appendix A**), agreed to during the 2008 Session of the General Assembly, established a joint subcommittee to study local incentives provided to private businesses for economic development purposes. In conducting its study, the joint subcommittee shall (i) determine all incentives that localities are permitted to provide to private businesses; (ii) evaluate the impact of such incentives on smaller local competitors of the businesses provided the incentives; and (iii) evaluate the effectiveness of the incentives that are provided.

The joint subcommittee is comprised of 11 members: five members of the House of Delegates to be appointed by the Speaker of the House of Delegates in accordance with the principles of proportional representation contained in the Rules of the House of Delegates; three members of the Senate to be appointed by the Senate Committee on Rules; one nonlegislative citizen member who shall be a local government economic development official to be appointed by the Speaker of the House of Delegates; and one nonlegislative citizen member who shall be a small-business owner to be appointed by the Senate Committee on Rules. The Secretary of Finance or his designee shall serve *ex officio* with voting privileges. The joint subcommittee is required to complete its work in time for the 2009 Session of the General Assembly.

II. Work of the Joint Subcommittee.

A. June 23, 2008

The initial meeting of the Joint Subcommittee Studying Local Incentives Provided to Private Businesses for Economic Development Purposes was held on June 23 in Richmond in the General Assembly Building. The subcommittee elected Delegate Mark Cole as Chair and Senator Mary Margaret Whipple as the Vice-Chair. The charge of the subcommittee is to (i) determine all incentives that localities are permitted to provide to private businesses; (ii) evaluate

the impact of such incentives on the smaller, local competitors of the businesses receiving the incentives; and (iii) evaluate the effectiveness of the incentives that are provided.

After the introduction of members, the subcommittee received two presentations relative to its charge.

Presentations

The first presentation was given by Gary McLaren, Deputy Director of the Virginia Economic Development Partnership Authority. **(Appendix B)** The objective of the presentation was to provide an overview of incentives that localities in the Commonwealth are permitted to offer.

Mr. McLaren stated that there are five primary location factors that businesses include in their consideration of locations: available workforce, suitability of the site or building, general infrastructure, business climate, and quality of life. Many businesses have developed weighted indexes to quantify these factors. He stated that different industries may consider these factors in different ways. For example a manufacturing business considering a plant facility may place more emphasis on the workforce while a corporate headquarters move may be more interested in the business climate and quality of life factors.

Mr. McLaren then discussed common incentives at the local level that he grouped in six general categories.

1. Product (the land for the site, utilities roads and zoning).
2. Tax and utility rates and classifications.
3. Grants.
4. Loan programs and/or financing.
5. Creation of special zones, such as technology zones, tourism zones, etc.
6. Project management assistance.

Next Louellen Brumgard, Deputy Director, Virginia Department of Housing and Community Development provided a brief overview of the Virginia Enterprise Zone Program. **(Appendix D)** Ms. Brumgard stated that the objective of the Program is to provide a means to stimulate job creation, private investment and revitalization through a combination of state and local incentives. The individual enterprise zones are designated by the Governor based on a competitive application process. While the competition for the designations is open to all localities, the review criteria are designed to favor distressed localities. Fifty percent of the score is based on three-year averages of the localities unemployment rate, median adjusted gross income, and percentage of public school students receiving free or reduced price lunches.

Based on legislation passed during the 2005 Session, the Program has transitioned from tax credits to grants. There are two grants offered, one for job creation and one for real property investment. Ms. Brumgard noted that funding is subject to appropriation and that currently the grants are being pro-rated. The Program benefits both large and small businesses. Two-thirds of applicants for job creation grants have less than 100 employees and one-third have less than 25 employees. Regarding real property investment grants, Ms. Brumgard indicated that one-third of the applicants had investments of less than \$250,000. A map indicating the location of the enterprise zones (**Appendix E**) and a table of existing grants (**Appendix F**) was provided to the joint subcommittee.

Topics for future meetings

After the presentations, the subcommittee discussed possible topics for future meetings. A consensus was built around the following topics:

- i) Information on what other states are doing in terms of local incentives with emphasis to be placed on surrounding states and states with which Virginia is in regular competition for businesses.
- ii) Discussion of whether there are reliable measures for determining the effectiveness of incentives.
- iii) An overview on the activities of the state's fourteen Economic Development Authorities.
- iv) Information on what is being done to assist localities in rural and other areas to expand broadband infrastructure and access.
- v) Information on the use of incentives from the perspective of economic development professionals.
- vi) Evaluation of the impact on the existing businesses that do not get the incentives.

The subcommittee will poll its members for the next meeting date. Handouts, including agendas, from the meeting and future meetings can be accessed on the joint subcommittee's website at <http://dls.state.va.us/incentives.htm>.

B. August 18, 2008

The second meeting of the Joint Subcommittee Studying Local Incentives Provided to Private Businesses for Economic Development Purposes was held on August 18 in Richmond in the General Assembly Building.

Broadband Access

Karen Jackson provided the joint subcommittee with an update on the work of the Governor's Broadband Technology Roundtable. One of the main objectives of the Roundtable is

to develop a toolkit to assist communities with broadband planning and deployment. Ms. Jackson stated that the Roundtable consists of 72 members including local, national, and international leaders with a strong track record of innovation in the telecommunications industry. The members are divided into the following workgroups focusing on specific elements of the broadband equation: i) measurement (adoption and availability); ii) technology; iii) applications; iv) business models; and v) outreach.

Ms. Jackson stated that the objective was not for Virginia to become a telecom provider competing with the private sector. Rather than the State taking over the process for localities, the desire in Virginia is for the state to provide support and keep the process community-driven. This could be done by providing resources and a community toolkit. The toolkit includes a broad range of technologies to allow individual communities and localities to determine what is best for them. She also noted that strategies should be explored to lower expenses, such as encouraging cooperation between owners of communications towers. Legislation allowing the use of state police towers was cited as an example of cooperation.

Ms. Jackson invited the joint subcommittee members to visit the Roundtable's website: http://www.otpba.vi.virginia.gov/roundtable_background.shtml. The final report of the Roundtable is due in September 2008.

At the close of Ms. Jackson's remarks, Bryan David, Executive Director of the Region 2000 Economic Development Council, addressed the joint subcommittee. (**Appendix G**) He stated that the internet is taking the place of most other technologies and broadband access is a key component to high-speed internet performance. A major problem is the "death by distance" or the last mile conundrum. The further a location is from a major population center then the less likely that location will have broadband access. Mr. David stated that this situation is similar to how access to electricity was provided across the country--big cities first and expanded to less populated areas second. The "death by distance" problem results in unserved and underserved communities. Delegate Shannon asked Mr. David if he could give some idea of where the Virginia stood geographically in terms of broadband access. Mr. David replied that there were more unserved and underserved areas than there were served areas.

Mr. David continued by stating that the goal of a successful program should be to reduce or delay capital costs and start-up expenses for Internet Service Providers (ISP). For many providers, the capital costs and start-up expenses for bringing internet access to an unserved or underserved area are prohibitive in the face of the small return. Delegate Shannon noted that there were creative ways to defray upfront costs from the perspective, such as permitting infrastructure rental. He cited the example Franklin County, which prepaid 13 years of its telecom costs to the ISP that then used that money to purchase capital equipment. Mr. Baroody asked Mr. David if he thought there would be more localities offering incentives to ISPs. Mr. David responded that he did see more incentive programs as the business, government and education sectors are becoming more willing to work together.

Mr. David then stated that the components of success for increased broadband access are use of public and private vertical assets, low cost financing of equipment, and reduced rates for backhaul connections.

Regional Economic Development Marketing Councils

Mr. David then moved to his presentation on Virginia's Regional Economic Development Marketing Councils. Fifteen of these regional organizations operate in the state working with the Virginia Economic Development Partnership. The mission of the individual councils is to keep interested parties informed about what is available in the covered region. Mr. David stated that the organizations serve as an information conduit. Senator Whipple asked if the councils are geared toward new prospects as opposed to assisting businesses already existing in the region. Mr. David replied that while the major focus is on new prospects, the new business must be complementary to existing businesses.

Delegate Wright observed that there are times when new businesses have been recruited into areas where they are not needed and to the detriment of existing businesses. If the incentive deal falls through it can result in a community losing out. There is an unfair advantage to big outside businesses and a tendency to want to bring them to communities where they are not needed. Mr. David responded that in his region the focus was on complementary businesses.

Senator Whipple asked what kinds of businesses are typically sought. Mr. David stated that typically communities are seeking workforce development; instead of new businesses, they really want new people.

Economic Development Authorities

Sandi McNinch, General Counsel, Virginia Economic Development Partnership Authority, provided the joint subcommittee with an overview of the powers and activities of Virginia's Economic Development Authorities (EDA). **(Appendix H)** Localities are authorized to establish such entities to assist in economic development activities. Most counties and cities in Virginia have created authorities. Generally, a local economic development authority consists of seven members appointed by the local governing body and includes local business leaders and other civic-minded individuals. Ms. McNinch noted that some authorities have substantial operations and economic development programs administered by professional staff. On the other hand, there are also authorities that have not met in years.

Ms. McNinch stated that the enabling statute provides to the board of an economic development authority the powers to assist the locality including some specific powers that are not available to the locality. These powers are an important economic development toolbox and include the ability to make grants to a business, sell or lease land and buildings without a public hearing, and issue industrial development bonds and make loans to businesses. Ms. McNinch noted many localities use authorities as sounding boards when establishing economic development policies and programs. Many authorities face common challenges that serve to hinder their economic development activities. There is a lack of a full understanding of how or when to use the authorities effectively. In addition, there are very few sources of cash and funding. Finally, there is no authority to structure regional solutions including revenue sharing among localities.

Senator Whipple noted that EDAs can be extremely helpful to localities. For example if a county owned a parcel of land and it wanted to sell or lease the parcel to a business, the county

would have to hold a public hearing and possibly comply with the Public Procurement Act. If the EDA owned the parcel, it could be sold or leased without a hearing. In some instances, a locality will deed the parcel to the EDA to allow the transaction to move forward more timely.

Delegate Wright asked how enterprise zone designations fit into the work of EDAs, noting that communities tend to prize getting the designation. Ms. McNinch stated that the designation provides two main things. First, the locality may use a menu of practices to foster development including reduced permit fees, a fast-tracked permit review process and provision of access to public utilities. Second, the designation provides participation in a state-level grant program. Delegate Wright asked if any consideration is given in the process regarding whether there is a need for a new business in a community especially when it may be to the detriment of existing businesses. Ms. McNinch stated that the designation is awarded on a competitive basis and that no entity has the power to tell a business where to locate. There are times, however, that the locality or authority can suggest that there are places where it thinks the business should locate. Ms. McNinch also noted that sometimes a new business may want to operate near existing businesses.

Delegate Wright stated that he was aware of a situation where local incentives were used to bring in a major retailer and to buy out existing retailers. Before the deal was complete the major retailer pulled out and now the community was left with no retailers. He asserted that localities and their EDAs should be required to give some consideration to the existing business structure of the community or locality when determining whether to provide incentives to bring in outside businesses.

At the conclusion of Ms. McNinch's presentation, Chairman Cole brought the meeting to a close. He noted that the joint subcommittee members will be polled for the next meeting.

C. November 12, 2008

The third and final meeting of the joint subcommittee was held on November 12, 2008, in Richmond at the General Assembly Building.

Incentivizing Small Business Development

Tim Early, President of the Hampton Roads Technology Council, provided a presentation on incentivizing the development of small businesses in the state. **(Appendix I)** The Council was founded in 1997 and is one of the 10 councils comprising the Virginia Technology Alliance. Mr. Early stated that small businesses created 93.5% of all jobs in America between 1989 and 2005. Small businesses face for major challenges: lack of sufficient funding, regulatory requirements, unleveraged economic development entities, and the use and acceptance of technology. Mr. Early provided suggestions for addressing these challenges.

Financial challenges: These challenges hinge on the lack of investor confidence, local government limitations, and the availability of current financial resource. Mr. Early provided the following suggestions for meeting these challenges:

- Use 3% of state retirement pool or a bond issue to match up to 40% of Virginia angel investments for Virginia startup;
- Issue bonds to build a credit guarantee fund to back 20% of bank loans;
- Permit and guarantee a percentage of Higher Education Research Foundations to make investments;
- Fully fund for current Enterprise Zones;
- Fully funding the Qualified Equity and Subordinate Debt Investments Tax Credit
- Consider matching grants, such as 25-50%, for Small Business Innovation Research projects

Regulatory challenges: Elimination of the 0-level credit requirement on utility reimbursement and requiring utilities to pay their wholesale price for energy that consumers sell back.

Unleveraged economic development entities: Creation of a statewide marketing program to (i) encourage entrepreneurship and (ii) embrace technology through the use or product and service enhancements.

Use of technology: Development of a searchable database of Virginia manufacturers, assemblers, and shippers and the encouragement of state agencies to use new technologies.

Virginia Economic Developers Association

At the conclusion of Mr. Early's presentation, Matthew James, President of the Economic Developers Association (VEDA), accompanied by VEDA Vice President Susan Deusebio, addressed the joint subcommittee. **(Appendix K)** Mr. James stated that VEDA is the primary source of strong and effective education and networking for economic development professionals across the state. VEDA's membership consists of over 630 members comprising state, local and regional professionals, related industry professionals and others interested in economic development.

Mr. James stated that a pro-business, competitive tax structure is essential to any successful economic development project. He noted that localities cannot offer income or sales tax breaks and that most local government generates the bulk of funding from property taxes. He further stated that the state Constitution prohibits localities from providing any abatement of local property taxes, which puts Virginia localities at a disadvantage as many competitor states do not have such a restriction. In addition, local resources for incentives are limited because of public education and public safety commitments that take precedence. Mr. James proceeded to provide an overview of the range of local incentive programs including the fast-tracking of land use and development processes, and the establishment of local technology and enterprise zones. He also stressed the need for collaboration between localities and the state government including joint marketing activities and joint proposals to prospects.

Review of the comments of Roger Provo

Chairman Cole then directed the attention of the joint subcommittee to written comments submitted by Roger Provo. **(Appendix J)**

Mr. Provo asserted that the economic climate necessitates the need to use incentives to encourage the development of new businesses that create new revenue for communities and new jobs that pay a living wage. While incentives should be used to encourage business developments such as the Cannon project in Newport News, they should not be used to support ventures such as the new Capitol Ale House or Wegmans Store in Fredericksburg. He suggested the following requirements be added to incentive packages:

A new business should demonstrate that it will create jobs that will pay a living wage for a community;

The new business should be required to demonstrate it is generating new revenue for the community;

Any businesses seeking incentives should be given special consideration if they are locating in a redevelopment project area or an economically depressed area; and

Legislation should be passed to prevent localities from using the Economic Development Authorities to get around the 10-year limit for incentives.

Review of legislative proposals

The joint subcommittee reviewed two legislation proposals addressing the use of economic development incentives. **(Appendix L)** The first draft, LD 2311, would prohibit a locality from expending funds or otherwise providing advantages to a private entity unless the locality made a specific finding that the funds or advantages were necessary to persuade the entity to act in the manner which the locality was attempting to induce.

The second draft, LD 2312, would (i) prohibit a locality from providing an economic incentive to a private entity that is already located in the locality unless it is likely that the private entity would relocate outside of the locality without the incentive and (ii) prohibit a locality from providing an economic incentive to a private entity located outside of the locality unless it is likely that the private entity would not relocate within the locality without the incentive. No motion was made to endorse either legislative draft.

Respectfully submitted,

The Honorable Mark L. Cole, Chair
The Honorable Mary Margaret Whipple, Vice Chair
The Honorable Thomas C. Wright, Jr.
The Honorable G. Manoli Loupassi
The Honorable Stephen C. Shannon

The Honorable David L. Englin
The Honorable R. Creigh Deeds
The Honorable Robert Hurt
The Honorable Jody M. Wagner
Mr. Timothy Baroody

HJR 75 (2008)

APPENDICES

2008 SESSION

ENROLLED

HOUSE JOINT RESOLUTION NO. 75

Establishing a joint subcommittee to study local incentives provided to private businesses for economic development purposes. Report.

Agreed to by the House of Delegates, February 8, 2008

Agreed to by the Senate, March 4, 2008

WHEREAS, there are several ways in which a locality is permitted to give grants, tax incentives, and other assistance for economic development purposes to private businesses that locate or expand operations in the locality, including the incentives permitted under the Enterprise Zone Grant Program; and

WHEREAS, some of the criteria for some incentives are restricted to large businesses with large numbers of employees and large amounts of investments; and

WHEREAS, such incentives may place smaller, long-standing businesses at a competitive disadvantage; and

WHEREAS, measurements may be lacking to determine whether the incentives have affected business decisions to locate or expand in the locality; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint subcommittee be established to study local incentives provided to private businesses for economic development purposes. The joint subcommittee shall have a total membership of 11 members that shall consist of eight legislative members, two nonlegislative citizen members, and one ex officio member. Members shall be appointed as follows: five members of the House of Delegates to be appointed by the Speaker of the House of Delegates in accordance with the principles of proportional representation contained in the Rules of the House of Delegates; three members of the Senate to be appointed by the Senate Committee on Rules; one nonlegislative citizen member who shall be a local government economic development official to be appointed by the Speaker of the House of Delegates; and one nonlegislative citizen member who shall be a small-business owner to be appointed by the Senate Committee on Rules. The Secretary of Finance or her designee shall serve ex officio with voting privileges. Nonlegislative citizen members of the joint subcommittee shall be citizens of the Commonwealth of Virginia. Unless otherwise approved in writing by the chairman of the joint subcommittee and the respective Clerk, nonlegislative citizen members shall only be reimbursed for travel originating and ending within the Commonwealth of Virginia for the purpose of attending meetings. If a companion joint resolution of the other chamber is agreed to, written authorization of both Clerks shall be required. The joint subcommittee shall elect a chairman and vice-chairman from among its membership, who shall be members of the General Assembly.

In conducting its study, the joint subcommittee shall (i) determine all incentives that localities are permitted to provide to private businesses; (ii) evaluate the impact of such incentives on smaller local competitors of the businesses provided incentives; and (iii) evaluate the effectiveness of the incentives that are provided.

Administrative staff support shall be provided by the Office of the Clerk of the House of Delegates. Legal, research, policy analysis, and other services as requested by the joint subcommittee shall be provided by the Division of Legislative Services. Technical assistance shall be provided by the Department of Taxation. All agencies of the Commonwealth shall provide assistance to the joint subcommittee for this study, upon request.

The joint subcommittee shall be limited to four meetings for the 2008 interim, and the direct costs of this study shall not exceed \$8,800 without approval as set out in this resolution. Approval for unbudgeted nonmember-related expenses shall require the written authorization of the chairman of the joint subcommittee and the respective Clerk. If a companion joint resolution of the other chamber is agreed to, written authorization of both Clerks shall be required.

No recommendation of the joint subcommittee shall be adopted if a majority of the House members or a majority of the Senate members appointed to the joint subcommittee (i) vote against the recommendation and (ii) vote for the recommendation to fail notwithstanding the majority vote of the joint subcommittee.

The joint subcommittee shall complete its meetings by November 30, 2008, and the chairman shall submit to the Division of Legislative Automated Systems an executive summary of its findings and recommendations no later than the first day of the 2009 Regular Session of the General Assembly. The executive summary shall state whether the joint subcommittee intends to submit to the General Assembly and the Governor a report of its findings and recommendations for publication as a House or Senate document. The executive summary and the report shall be submitted as provided in the

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procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports and shall be posted on the General Assembly's website.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may approve or disapprove expenditures for this study, extend or delay the period for the conduct of the study, or authorize additional meetings during the 2008 interim.

Local Government Incentives

Local Economic Development Incentives
Study Committee

June 23, 2008

Mission Statement

To enhance the quality of life and raise the standard of living for all Virginians, in collaboration with Virginia communities, through aggressive business recruitment, expansion assistance, and trade development, thereby building the tax base and creating higher income employment opportunities.

Primary Location Factors

- Workforce
- Sites/Buildings
- Markets/Transportation/Infrastructure
- Business Climate
- Quality of Life

Economic Development: A Competitive Environment

- Nations, states, regions and communities often compete for a limited number of projects in high-value sectors
- Successful communities must differentiate themselves in the marketplace
- Incentives are used to close the deal and meet unique needs
- Different communities/levels of government target different sectors

Where's the Gain?

- State and local economic developers look at different revenue streams

State	Local
Personal Income Tax (jobs)	Real Property Tax (investment)
Sales Tax	Sales Tax
Corporate Income Tax	Personal Property Tax/BPOL/M&T

Common Local Incentives

- Product: Land, with Utilities, Roads and Zoning
- Tax and Utility Rates and Classifications
- Grants
- Loan Programs / Financing
- Special Zones
- Project Management Assistance

“Product”

- Quick access to land and/or building that is ready to go – No surprises, No delays
- Reduced-cost or free, properly zoned land
- Reduced-cost or free rent on a building
- Roads and rail to site
- Utilities to site
- Environmental challenges found and fixed

Tax and Utility Rates and Classifications

- Adjust levels or classifications of taxes to benefit particular types of taxpayers
- Adjust levels of utility fees and other local fees to benefit particular users
- In both cases, all taxpayers/users in the new class will pay the same tax rate or fees, but the bracket may cover just one company

Grants

- Up-front cash grants
 - Usually accompanied by a clawback obligation if performance targets not met
- Cash grant programs for certain behaviors
 - Façade Improvement Grants
 - E-Commerce Business Assistance Grants
- Cash grants over time
 - Often an amount each year tied to a % of the local tax revenues from a defined development or area

Loan Programs & Financing

- Many localities/regions have loan programs for local businesses
- Local IDAs/EDAs can act as conduits for issuance of Industrial Development Bonds
- Creation of CDAs can quicken the pace of infrastructure development in an area

Special Zones

- State and local Enterprise Zones
- Technology Zones
- Tourism Zones
 - In each of these zones, locality may offer incentives and regulatory flexibility
 - Reduced permit fees or user fees or BPOL tax
 - Special zoning consideration, fast-tracking
- Community Development Authority districts /
Tax Increment Financing districts

Single Source for Project Assistance

- Local Economic Development Professional:
 - Is expected to know everything about a community and its workforce
 - Is expected to marshal local, state and federal assets as needed for a project
 - Is expected to assist with making introductions among local vendors, contractors and suppliers

AN INVENTORY OF LOCAL-LEVEL INCENTIVES¹

1. *Good Government:* The best local incentive of all is good government. A knowledgeable business person will recognize the value of good infrastructure and good schools provided at fair tax rates. That business person will also look for a fairly consistent level of services and a stable tax structure.

2. *Cash Grants:* By providing moneys to be administered through the local industrial development authority or economic development authority (an “IDA/EDA”) or other conduit, a locality can provide indirectly what it could not provide directly; i.e. cash grants to a private entity for economic development purposes. See §§15.2-953, 15.2-1205 and 15.2-4905. Often, the cash grant is stated as being a percentage of the local taxes paid by the business over the course of a few years. If it is stated this way, the business must pay its taxes, then the locality may choose to pay the cash to the IDA/EDA, then the IDA/EDA may choose to pay the cash to the business, for the purpose of promoting economic development in the locality.

3. *Land Grants/Sales:* A locality may acquire and give land to an IDA/EDA for economic development purposes without regard to the usual requirements for the disposition of surplus property. The acquisition may not be by condemnation. See §15.2-4917. The IDA/EDA may sell, lease or give that land to a private entity for economic development purposes. See §15.2-4905 5. and 6.

The sale of the land to the private entity need not be at fair market value. An IDA/EDA may give the land to the private entity or may negotiate for any sales price, so long as that gift or sales price is being negotiated for economic development purposes. See §15.2-4905 6. Similarly, the scheduled lease payments from any private entity leasing facilities from an IDA/EDA need not reflect fair market rental values. See §15.2-4905 5.

Under §15.2-1802, a town may acquire, lease or sell land within its boundaries or within three miles of its boundaries to be used for the development of business and industry. The town must follow the typical procedures for acquiring land and must hold a public hearing, but may not acquire such land by condemnation.

4. *Industrial Parks and Shell Buildings:* An IDA/EDA may own, develop and manage an industrial park and shell buildings. It may sell, lease or give lots in the park or the shell buildings to private entities for economic development purposes. See §§15.2-4901 (ninth paragraph) and 15.2-4905 5. and 6.

§15.2-941 authorizes localities and other political subdivisions to participate in the “Virginia Shell Building Initiative.” Generally, under this program administered by the Virginia Economic Development Partnership (VEDP), a loan is made to a locality to develop a shell building to be held available for sale to an economic development prospect. The interest on the loan is paid by

¹ Prepared by the Virginia Economic Development Partnership. Adapted from Bonnie France, John O’Neill, Sandra McNinch, et al. *Economic Development Incentives in Virginia: A Local Practitioner’s Handbook*. Local Government Attorneys of Virginia Committee, Special Project. April, 2004.

the program until the maturity of the loan, generally five years, by which time it is hoped that the locality would be able to sell the shell building.²

5. *Loan Programs:* Many IDA/EDAs and regional economic development organizations have loan programs and loan guarantee programs for businesses locating to or growing in their communities. See a partial listing in the Capital Resources Directory compiled by the Virginia Small Business Financing Authority (VSBFA), which can be found at www.dba.virginia.gov/financing. Taxable and tax-exempt industrial development bond (“IDB”) financing is also available through IDA/EDAs or the VSBFA for qualifying businesses. See §15.2-4908 and §2.2-2287. An IDA/EDA may forgive loan payments for economic development purposes. See §§15.2-4905 13. and 15.2-4908.

6. *Local Enterprise Zones; Earmark Funds for Economic Development:* A locality may create a local enterprise zone. The local enterprise zone can be a State enterprise zone or a technology zone. The increase in machinery and tools taxes in the zone over a base amount may be diverted into a fund to be used to enhance, among other things, economic development efforts in the zone. In an enterprise zone, a locality may provide regulatory flexibility on zoning and permitting and may provide other incentives. See §58.1-3245.6 *et seq.*

7. *Technology Zones and Tourism Zones:* A locality may create a technology zone, which may also be a local enterprise zone, in which it may grant tax incentives for up to ten years, may provide regulatory flexibility on zoning and permitting and may provide other incentives. Technology zones may dedicate a portion of real estate or machinery and tools taxes for purposes benefitting economic development within the zone. Tourism zones offer nearly the same benefits, but may offer the incentives for twenty years instead of ten and may not dedicate a portion of tax revenues to economic development or tourism purposes. There is no requirement that the businesses taking advantage of the incentives in a technology or tourism zone be technology or tourism companies. See §§58.1-3850 and 58.1-3851.

8. *Special Tax Classifications:* Levels of machinery and tools taxes and other tax classifications can be created that will benefit a particular type of taxpayer. Any business falling within the classification will qualify for the benefit. See Article X, Section 1 of the Constitution of Virginia and §58.1-3008. Different classifications are permitted for different types of property. See Chapter 35, Title 58.1 of the Virginia Code. VEDP keeps information on the tax classifications and rates used by localities and by other states. See the VEDP website at www.yesvirginia.org.

9. *Special Utility and Other Fee Classifications:* Levels of utility fee and other local fee classifications can be created that will benefit a particular type of user. Any user falling within the classification should qualify for the benefit. *Caution:* If the user is a significant user of the utility or other local service, creating a special fee classification may have an impact on the tax-exempt status of any bonds issued to finance the utility or other service assets.

² VEDP administered more than \$10 million worth of subsidized loans to localities to build shell buildings in ten communities. The Initiative also assisted communities with design and engineering consultants to ensure quality design. With the assistance of VEDP’s marketing, these facilities became homes to several successful companies, bringing additional employment and tax revenue to communities. The projects that located in these buildings brought more than \$84 million worth of capital investment and created almost 1,700 jobs. Funding for this program has ended, but localities and IDA/EDAs have the power to construct shell buildings if they choose.

10. *Infrastructure – Utilities and Telecom:* A common incentive is an obligation to extend publicly owned/operated water, wastewater, natural gas, telecommunications/fiber, stormwater management and other utility lines to the project site and, in some cases, onto the project site. For utility systems that are not publicly owned/operated, the undertaking by the locality may be to cooperate with the private utility company to smooth the way for the utility company's expansion of its system.

A locality may acquire, establish, operate and extend water, wastewater, natural gas, electric and other public utilities within or outside the limits of the locality. See §15.2-2109 *et seq.* Many localities offer water, wastewater, stormwater and refuse services through their public service authorities. See Articles 1 through 5, Chapter 51, Title 15.2 of the Virginia Code.

There are significant restrictions of the ability of localities to provide cable services. See §§15.2-2108.3 and 2108.4. Localities that operate electric distribution systems are authorized to provide telecommunications systems and certain localities that operate telecommunications systems are authorized to provide certain indirect services. See §15.2-2160.

11. *Zoning and Land Use Actions:* Local governments can adopt overlay districts in their zoning ordinances which may provide for uses that are desirable to targeted businesses of preclude uses which a targeted business would find undesirable as an adjoining use. These districts can also have setbacks and other standards which encourage targeted uses. The locality must be mindful of the constraints of land use law on the creation of such districts, such as being consistent with the comprehensive plan avoiding making the zoning landowner-specific so that it comes illegal spot zoning; and providing uniform regulations for each class or kind of buildings and uses in a district. Notwithstanding those constraints, the locality has substantial flexibility. The locality would be wise to include an economic development chapter or plan as a part of its comprehensive plan to provide a foundation for such a district and other economic development initiatives.

Also the locality can choose to expedite the processing of land use applications, i.e. zoning and special use applications, preliminary and final subdivision and site plans and building permits. A locality would be prudent to develop a policy identifying a class of targeted businesses which could take advantage of such expedited processing. Obviously, statutory requirements of planning commission review or public hearings must be met.

The locality should not waive development fees for a targeted business but can use one of the other tools available, e.g., a pass through IDA/EDA, to fund said fees. The locality could provide for an installment payment of fees by the targeted industry but again this should be pursuant to a policy.

The targeted industry may be interested in expediting the construction of its facilities through the use of outside (third party) plan reviewers and inspectors to handle those reviews and inspections which are required by the locality's development regulations and the building code. The locality can accommodate this but should do so pursuant to a policy which requires adequate certifications of the outside inspectors and filing of certified reports for review by the locality's

inspectors and reviewers. (For example, Fairfax County has specific authority for establishment of a broad program in this regard. See §15.2-851.)

12. *Tax Exemptions for Renovation of Commercial/Industrial Structures:* Under §58.1-3221, localities may provide for the partial exemption from taxation of real estate on which any structure or other improvement no less than twenty years of age, or fifteen years of age if the structure is located in an enterprise zone, has undergone substantial rehabilitation, renovation or replacement for commercial or industrial use. The partial exemption may not exceed an amount equal to the increase in assessed value resulting from the rehabilitation, renovation or replacement of the structure as determined by the commissioner of revenue or other local assessing officer or an amount up to fifty percent of the cost of rehabilitation, renovation or replacement as determined by ordinance. These structures may be on land in need of brownfields remediation.

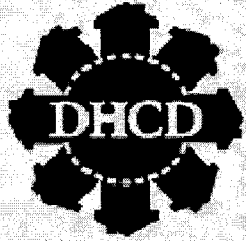
13. *Separate Tax Classification for Energy-Efficient Buildings:* Under §58.1-3221.2, localities may choose to levy a tax on energy-efficient buildings at a rate below the rate for the taxation of other real estate.



Department of Housing and Community Development

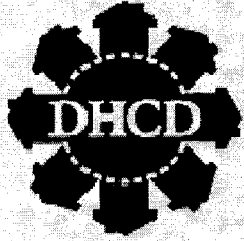
Overview of the Virginia Enterprise Zone Program for the Joint Subcommittee Studying Local Incentives to Private Businesses for Economic Development

June 23, 2008



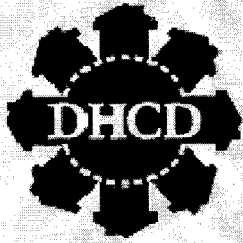
Virginia Enterprise Zone Program

- Means to stimulate job creation, private investment, and revitalization
- Geographical area of county or city
- Governor designates based on a **competitive** application
- Combination of state and local incentives are offered



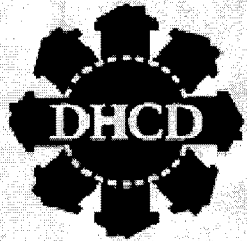
Virginia Enterprise Zone Program

- 30 maximum number of zones per 2005 statute
- Currently 57 zones
- Zone competitions occur as existing zones expire
- 2015 anticipated to reach 30 zones
- Designation is for up to 10 years; two 5 year renewals



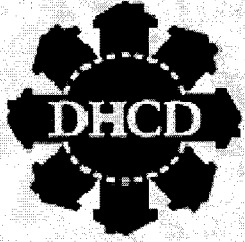
Virginia Enterprise Zone Program

- Designation competitions are open to any locality, even those whose zones expired
- Designations targeted to distressed localities
- 50 percent of score is based on three-year averages:
 - unemployment rate
 - median adjusted gross income
 - percentage of public school students receiving free or reduced price lunches
- Also consider impact of designation & implementation



Virginia Enterprise Zone Program

- 2005 transitioned from tax credits to grants:
 - Job Creation Grant
 - Real Property Investment Grant
- Subject to annual appropriation
- Pro-ration

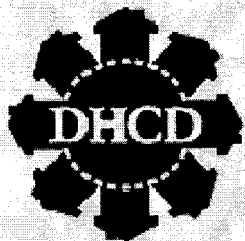


Virginia Enterprise Zone Program

Real Property Investment Grant

- Based on investment
 - Less than \$5 million = 20%, up to \$125,000
 - \$5 million or more = \$250,000 maximum

- Eligibility investment thresholds
 - \$50,000 for rehab or expansion
 - \$250,000 for new construction



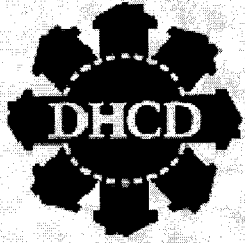
Virginia Enterprise Zone Program

Job Creation Grants

- Based on wages and provision of health benefits
 - \$800 per position -- 200 % of federal minimum wage
 - \$500 per position -- 175% of federal minimum wage

- Maximum grant over 5 years = \$1.4 million

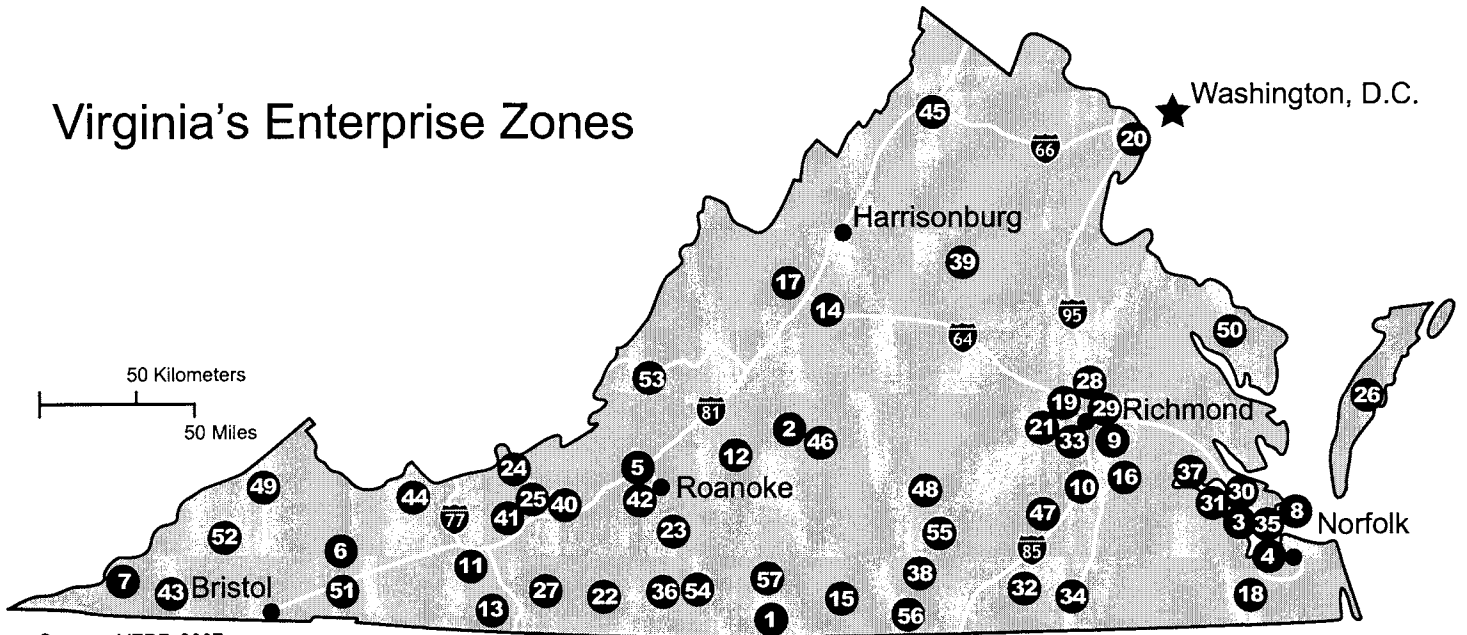
- Positions in retail, personal service and food and beverage **NOT** eligible



Virginia Enterprise Zone Program

- Benefits large **and** small businesses
- Real Property Investment Grants
 - 1/3 of applicants had investments less than \$250,000
 - 13 % were less than \$100,000
- Job Creation Grants
 - 2/3 of applicants have less than 100 employees
 - 1/3 have less than 25

Virginia's Enterprise Zones



Source: VEDP, 2007

- | | | |
|--|---|--|
| 26 Accomack/Northampton | 37 James City | 16 Prince George |
| 20 Alexandria | 50 Lancaster/Northumberland/
Richmond/Westmoreland/
Kilmarnock/Warsaw | 25 40 Pulaski |
| 53 Alleghany/Clifton Forge/
Covington | 7 Lee | 41 Town of Pulaski |
| 12 Bedford | 55 Lunenburg/Kenbridge/Victoria | 19 29 Richmond City |
| 32 Brunswick/Lawrenceville | 2 46 Lynchburg | 28 Richmond City/Henrico |
| 27 Carroll/Hillsville | 36 54 Martinsville/Henry | 5 42 Roanoke |
| 48 Charlotte/Lunenburg/
Prince Edward | 56 Mecklenburg/Clarksville | 23 Rocky Mount |
| 21 33 Chesterfield | 38 Mecklenburg/South Hill/
LaCrosse | 6 Saltville/Smyth County |
| 1 Danville | 24 Narrows | 43 Scott |
| 49 Dickenson/Clintwood/Haysi | 3 30 31 Newport News | 51 Smyth/Washington/Chilhowie/
Glade Spring |
| 47 Dinwiddie/Petersburg | 4 Norfolk/Portsmouth | 17 Staunton |
| 13 Galax | 39 Town of Orange | 18 Suffolk |
| 34 Greenville | 22 Patrick/Stuart | 44 Tazewell |
| 15 Halifax/South Boston | 10 Petersburg | 45 Warren |
| 8 35 Hampton | 57 Pittsylvania/Danville | 14 Waynesboro |
| 9 Hopewell | | 52 Wise |
| | | 11 Wythe |

Virginia Enterprise Zone Grants

Rewarding Investment – Revitalizing Communities

Qualification for the listed incentives is based on the calendar year and administered annually. All applicants (businesses and real properties) must be located within an enterprise zone.

GRANT ¹	BENEFIT	ELIGIBILITY REQUIREMENT	APPLICATION FORMS	GRANT TERM
Job Creation Grant	<ul style="list-style-type: none"> ▪ Up to \$500/year per net new permanent, full-time position earning at least 175% of the Federal minimum wage with health benefits. ▪ Up to \$800/year per net new permanent full-time position earning at least 200% of federal minimum wage with health benefits. 	<p>Creation of at least four net new permanent full-time positions.</p> <p>Net new permanent full-time positions created over the four-job threshold that meet wage and health benefit requirements are eligible.</p> <p>Excludes retail, personal service, or food and beverage positions.</p>	<p>Required application forms:</p> <ul style="list-style-type: none"> ▪ EZ-JCG ▪ JCG Worksheet ▪ W-9 ▪ CPA Attestation Report 	<p>Available for a five-consecutive year term for net new permanent full-time positions above the four-job threshold which meet the wage and health benefit requirement.</p>
Real Property Investment Grant	<ul style="list-style-type: none"> ▪ Up to \$125,000 per building or facility for qualifying real property investments of less than \$5 million. ▪ Up to \$250,000 per building or facility for qualifying real property investments of \$5 million or more. 	<p>Commercial, industrial, or mixed-use buildings or facilities.</p> <p>For rehabilitation and expansion, at least \$50,000 incurred in qualified real property investments.</p> <p>For new construction, at least \$250,000 incurred in qualified real property investments.</p>	<p>Required application forms:</p> <ul style="list-style-type: none"> ▪ EZ-RPIG ▪ Final Certificate of Occupancy/approved Final Building Inspection/or Third Party Inspection Report ▪ Mixed-use building form (if applicable) ▪ Tenant form (if applicable) ▪ Multiple owner form (if applicable). ▪ W-9 	<p>Capped per building or facility at a maximum of \$250,000 within a five-consecutive year term.</p>

¹ Grants awarded may be subject to pro-ration should requests exceed grant funds allocated.

			▪ CPA Attestation Report	
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Hand-delivered application materials and all required documentation are due to DHCD by **close of April 1, 2008**. UPS and FedEx type delivery are considered hand delivery and must reach the offices at the Virginia Department of Housing and Community Development by the close of business on April 1. Applications (and all required attachments) delivered via the U.S. Postal Service must be postmarked by April 1.

Applications for the 2007 grant year are available at <https://dmz1.dhcd.virginia.gov/EZApplication/>.



HJR 75 Joint Subcommittee Incentives for Broadband Infrastructure

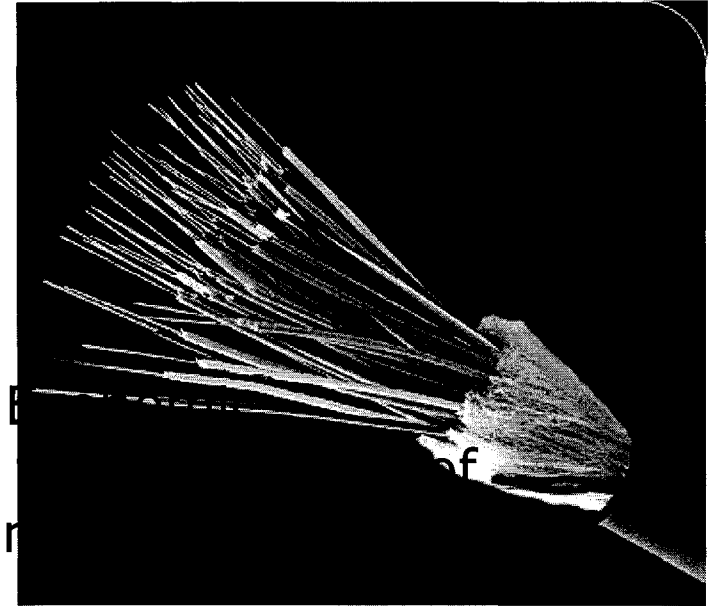
R. Bryan David
Executive Director
Region 2000 Economic Development Council

“In a paper published in 1936, the British mathematician Alan Turing proved that a digital computer, which at the time existed only as a theoretical machine, could be programmed to perform the function of any other information-processing device. And that’s what we’re seeing today. The Internet, an immeasurably powerful computing system, is subsuming most of our other intellectual technologies. It’s becoming our map and our clock, our printing press and our typewriter, our calculator and our telephone, and our radio and TV.”



— Nicholas Carr, *"Is Google Making Us Stupid"*, *Atlantic Monthly*, July/August 2008

Implications for Economic Development



“Fundamental elements of a Tech-based Economic Development (TBED) program include high quality telecommunications systems and high speed Internet connections.”

— *State Science & Technology Institute (SSTI)*

“...employment and economic output...[are] strongly related to broadband deployment, particularly in certain service sectors, such as finance, education, and healthcare. Surprisingly, even manufacturing employment appears to be related to broadband penetration.”

— *Crandell, Lehr, and Litan,
“The Effects of Broadband Deployment on Output and Employment:
A Cross-sectional Analysis of U.S. Data”,
Issues in Economic Policy (The Brookings Institute),
July 2007*

Incentives for Broadband Access

- “Death by distance” – “Last mile” conundrum
- Cannot be solved solely by public sector
- No formal incentive program available (or needed?)
- Goal is to reduce (or delay) capital costs and start-up expenses for ISP’s
- Components of success:
 - use of public and private vertical assets
 - low cost financing of equipment
 - reduced rates for backhaul connections
- Public/private sharing of financial risk is key

POWERS OF IDAs / EDAs

**Presentation to the Joint
Subcommittee Studying Local
Incentives**

August 18, 2008

IDAs / EDAs

- **CREATED UNDER THE INDUSTRIAL DEVELOPMENT AND REVENUE BOND ACT, CHAPTER 49, TITLE 15.2, CODE OF VIRGINIA**
- **PRIOR TO 2004, CALLED INDUSTRIAL DEVELOPMENT AUTHORITIES**
- **SINCE 2004, MAY BE CALLED ECONOMIC DEVELOPMENT AUTHORITIES**
- **POWERS ARE IDENTICAL, THE ONLY DIFFERENCE IS IN THE NAME**

BASIC STRUCTURE

- **POLITICAL SUBDIVISIONS OF THE COMMONWEALTH**
- **MOST COUNTIES AND CITIES AND SOME TOWNS HAVE CREATED AUTHORITIES, CAN CREATE JOINT AUTHORITIES**
- **GENERALLY, 7 MEMBERS, APPOINTED BY LOCAL GOVERNING BODIES, 4-YEAR TERMS**
- **TYPICALLY, LOCAL BUSINESS PEOPLE**

ACTIVITY LEVELS

- **SOME AUTHORITIES HAVE SUBSTANTIAL OPERATIONS WITH PROFESSIONAL STAFFS THAT RUN THE ECONOMIC DEVELOPMENT PROGRAMS FOR THOSE LOCALITIES**
- **SOME AUTHORITIES HAVEN'T MET IN YEARS**
- **MOST ARE IN THE MIDDLE – MEET MONTHLY OR QUARTERLY TO ASSIST WITH ECONOMIC DEVELOPMENT PROJECTS AND POLICIES**

BROAD POWERS

- **GENERAL ABILITY TO ASSIST WITH ECONOMIC DEVELOPMENT**
- **SPECIFIC POWERS NOT AVAILABLE TO THE LOCALITY**
 - **MAKE GRANTS**
 - **SELL OR LEASE LAND AND BUILDINGS WITH NO PUBLIC HEARING**
 - **ISSUE IDBs AND MAKE LOANS TO BUSINESSES**
- **PROPER ANIMATING PURPOSE**

COMMON ACTIVITIES

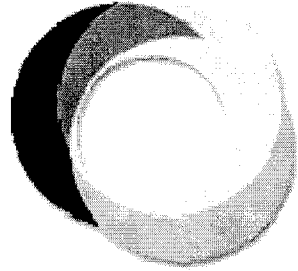
- **ADMINISTER GRANT AND INCENTIVE PACKAGES FOR THE LOCALITY**
- **INDUSTRIAL PARKS AND SHELL BUILDINGS**
- **FINANCING PROGRAMS, INCLUDING:**
 - **THE ISSUANCE OF IDBs FOR PRIVATE ENTITIES**
 - **THE ISSUANCE OF REVENUE BONDS ON BEHALF OF THE LOCALITY**
 - **LOAN PROGRAMS, USUALLY FOR SMALL BUSINESSES**

SETTING POLICY

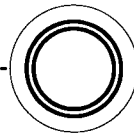
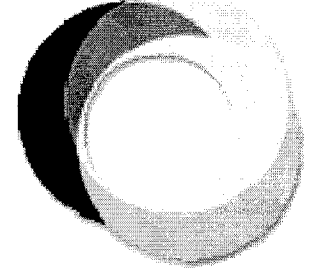
- **MANY LOCALITIES USE AUTHORITIES AS SOUNDING BOARDS FOR DEVELOPING ECONOMIC DEVELOPMENT POLICIES AND PROGRAMS**
- **MANY LOCAL ECONOMIC DEVELOPMENT PROFESSIONALS USE AUTHORITY MEMBERS TO ENCOURAGE ECONOMIC DEVELOPMENT SUPPORT FROM LOCAL ELECTED OFFICIALS**

CHALLENGES

- **LACK OF UNDERSTANDING OF HOW OR WHEN TO USE AUTHORITIES EFFECTIVELY**
- **LACK OF CASH**
- **LACK OF POWER TO STRUCTURE REGIONAL SOLUTIONS, INCLUDING REVENUE-SHARING**

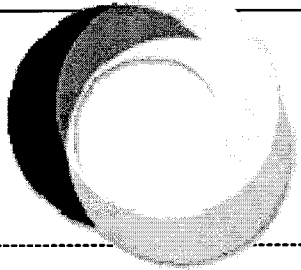


Incentivizing Small Business Development

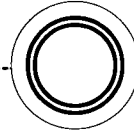


**SUGGESTIONS FOR ASSISTING THE
CREATION AND GROWTH OF SMALL
BUSINESSES**

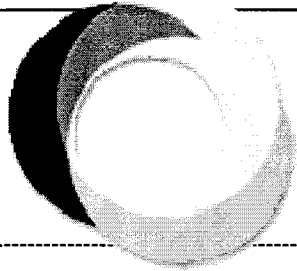
**Tim Early
President
Hampton Roads Technology
Council**



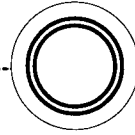
Hampton Roads Technology Council



- Founded in 1997
- 1 of 10 Virginia technology councils comprising the Virginia Technology Alliance
- Comprised of both technology and non-technology companies and individuals
- Approximately 100 companies ranging from M&S to Bio to IT to Alternative Energy
- Operates two technology incubators
- Reaches almost 4,000 individuals weekly
- Enables IT user groups and the Defense & Homeland Security Consortium

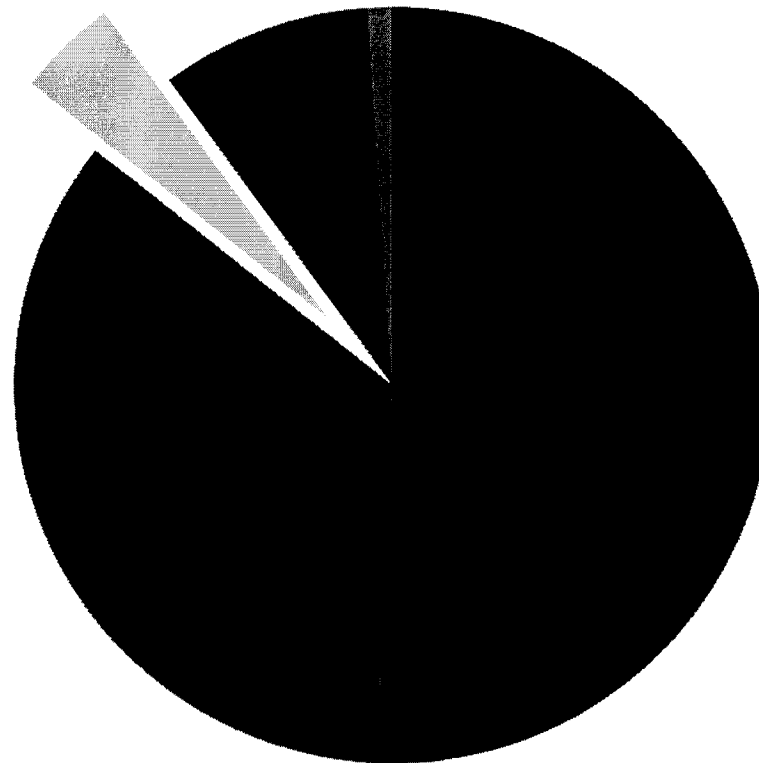


Inequality for Small Business

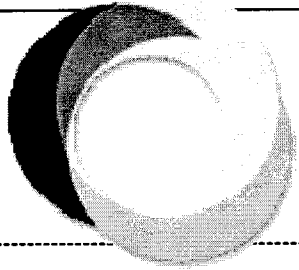


Small business has created 93.5% of all jobs in America from 1989 to 2005

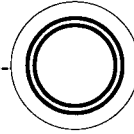
Percentage of total extramural Federal R&D Expenditures Received by Academia and Businesses (NSF FY-2005)



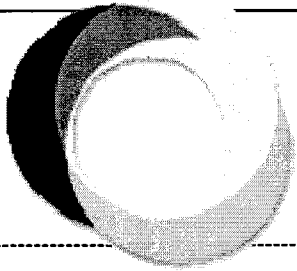
- Large Businesses > 500 Employees
- Universities
- Small Businesses <500 Employees
- Non-Profits
- States and Foreign



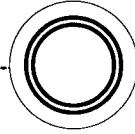
Community / Entrepreneur Paradigm



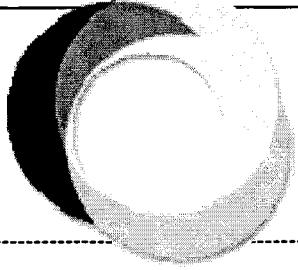
- Small business growth as a product of community cooperation
- Community tools to foster small business growth
- Successful localities
 - Effective leadership at top of ED operations
 - Adequate human resources
- Needed capital



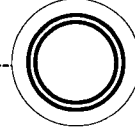
Challenges



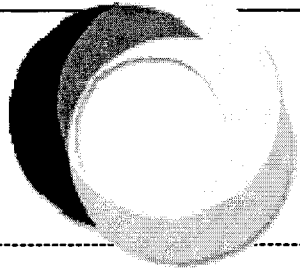
- Lack of Sufficient Financing
- Regulation
- Unleveraged Economic Development Entities
- Acceptance of Technology



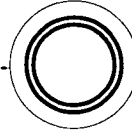
Financing Challenges



- Lack of investor confidence
- Local governments' limited abilities
- Availability of current financial resources
- What is needed:
 - Investor guarantees
 - Identification of additional sources of capital
 - Facilitation of the sources of capital / entrepreneur relationship

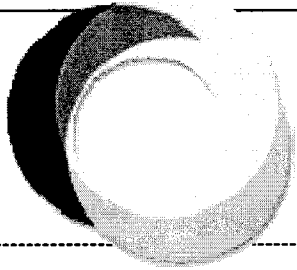


Suggestions

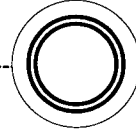


Financial

- Use 3% of state retirement pool or a bond issue to match up to 40% of Virginia angel investments for Virginia startups;
- Issue bonds to build a credit guarantee fund to back 20% of bank loans...similar to SBA;
- Facilitate ability, as well as permit and guarantee a percentage, of Higher Education Research Foundations to make investments

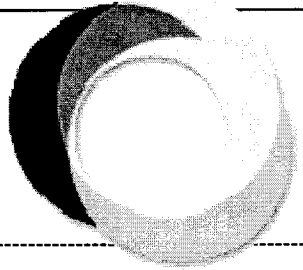


Suggestions

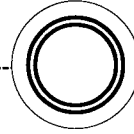


Financial

- Fully fund Enterprise Zones
- Adjust Enterprise Zone funding
- Fully fund the Qualified Equity and Subordinated Debt Investments Tax Credit
- Consider matching grants (such as 25% to 50%) of SBIR's

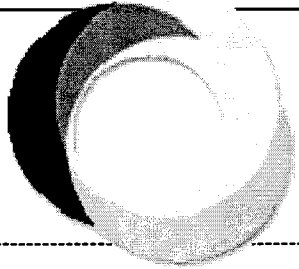


Suggestions

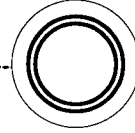


Regulation

- Eliminate the 0-level credit requirement on utility reimbursement
- Utilities should pay their wholesale price for energy that consumers sell back

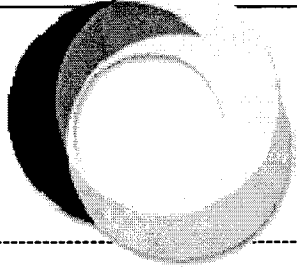


Suggestions

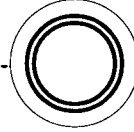


Economic Development

- Create statewide marketing program encouraging entrepreneurship
- Create statewide marketing program encouraging embracing technology through use or product/service enhancements



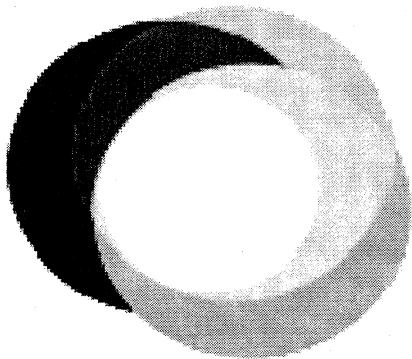
Suggestions



Use of Technology

- Develop a searchable database of Virginia manufacturers, assemblers, and shippers
- Use of new technologies by State agencies

**Thank you for your time
and consideration**



**HAMPTON ROADS
TECHNOLOGY COUNCIL**

**Comments of Rodger Provo
to the HJR 75 Joint Subcommittee Studying Local Incentives Provided
to Private Businesses for Economic Development Purposes
10/27/08**

Mr. Wade -

I want to thank you and others for the opportunity to share my thoughts with all of you relative to private company incentives. Because of a scheduling conflict that requires that I be in Washington, DC for the day of November 12th, I will not be able to attend the Joint Subcommittee meeting in Richmond that morning. In lieu of my attending that meeting, I am offering these ideas for you to share with the subcommittee and others involved in this project:

1. The country's and state's economic climate is such that we need to use incentives to encourage the development of new businesses that create new revenue for communities and new jobs that pay a living wage.
2. Incentives should be used to encourage business developments such as the Cannon projects in Newport News, but not ventures such as the new Capitol Ale House or Wegmans Store in Fredericksburg.
3. We need more discretion in the use of tax concessions, as we discussed, so that such investments are made in businesses that generate positive new growth for the state and our communities.
4. I think communities often pursue the restaurant-retail industry for new revenue because of the return for them pursuant to the state tax code -- thus they are willing to make major concessions for such opportunities -- which national companies are aware.
5. the reality is that the economic conditions in the country are such that we have to many restaurants and retail stores that have under utilized valuable land in many communities, contributed to our congestion problems, created an employment base that locks people into poverty and are in a constant battle to steal customers and revenue from competitors, often nearby, which has caused us to have many "dead shopping corridors" in older suburban areas and new problems not to unlike those found in the older cities
6. I would offer these proposals for requirements for incentives:
 - a) A new business must demonstrate it will create jobs that will pay a living wage for a community
 - b) Such a business should be required to demonstrate it is generating new revenue for the community

c) Businesses seeking incentives should be given special consideration for this concession if they are locating in redevelopment project or an economically depressed area

d) there is a loop hole in state law that is allowing localities to use their EDA's to get around the 10 year limit for such concessions that needs to be plugged

I am a commercial real estate broker and developer based in Fredericksburg. I have done projects around the state. My career has included being an executive for the broadcast division of the old Washington Star Station Group, executive editor of two newspapers in Northern California and an assistant to former Gov. A. Linwood Holton. My real estate work has included a variety of projects involving hotels, industrial buildings and plants, office buildings and developing a 130 acre mixed use project adjoining our regional medical center in Fredericksburg. I hope these thoughts are useful. Thanks for the call.

Sincerely,

Rodger Provo
Fredericksburg, Virginia

Local Economic Development Incentives – From the Local Perspective

November 12, 2008

HJR 75 Joint Subcommittee
Studying Local Incentives

Virginia Economic Developers Association

Presentation by

Matthew James, President, VEDA

(Peninsula Council for Workforce Development)

Susan Deusebio, Vice President, VEDA

(Hanover County Department of Economic Development)



Virginia Economic Developers Association

- The voice in Virginia for shaping economic development public policy
- A primary source of strong and effective education and networking for economic development professionals.
- 630+ Members: Local, Regional, & State Economic Development professionals; related industry professionals; education; workforce agencies, and others interested in economic development

Presentation Overview

- Types of Incentives
- Accountability
- Interaction with State Economic Development Agencies

Local Incentives - Background

- First and foremost, a pro-business, competitive tax structure is essential
- Local governments generate most money from property taxes
- No ability to offer income or sales tax breaks
- Virginia Constitution prohibits local property tax abatements (many competitor states are unrestricted)
- Limited resources for incentives because of public education and public safety commitments

Local Incentives - Programs

- Local governments do control land use and development permitting processes
- Fast track approval processes are very attractive to prospects – time = money
- Some communities waive or reduce various development fees for large projects

Local Incentives - Programs

- Technology zones – allow BPOL, other fee reductions within specified areas
- Local enterprise zones – local governments must offer incentives in state designated zones
- State funding match – Governor's Opportunity Fund requires dollar-for-dollar match to participate

Local Incentives - Accountability

- Performance agreements
- Clawbacks for non-performance
- Public hearings
- Formal incentive program criteria

Interaction with State

- Economic development is about collaboration
- Joint marketing activities
- Joint proposals to prospects
- Interaction on incentive policy

THE END

Thank You For Your Time and Attention

Questions?



SENATE BILL NO. _____ HOUSE BILL NO. _____

1 A BILL to amend and reenact § 15.2-940 of the Code of Virginia, relating to powers of local
2 governments; economic incentives.

3 **Be it enacted by the General Assembly of Virginia:**

4 **1. That § 15.2-940 of the Code of Virginia is amended and reenacted as follows:**

5 § 15.2-940. Expenditures for promoting resources and advantages of locality.

6 A. Any locality may, in its discretion, expend funds from the locally derived revenues of the
7 locality for the purpose of promoting the resources and advantages of the locality. Such purpose shall
8 include, without limiting the generality thereof, watershed projects and expenditures in connection
9 therewith.

10 B. Notwithstanding any other provision of law, no locality may expend funds or otherwise
11 provide advantages to a private entity unless it is determined that such funds or advantages are necessary
12 to induce the private entity to act in the manner which the locality is attempting to induce.

13 #

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9 therewith.

10 B. Notwithstanding any other provision of law, no locality may provide an economic incentive to
11 a private entity that is already located in the locality unless it is likely that the private entity would
12 relocate outside of the locality without the incentive.

13 C. Notwithstanding any other provision of law, no locality may provide an economic incentive to
14 a private entity located outside of the locality unless it is likely that the private entity would not relocate
15 within the locality without the incentive.

16 #

