



COMMONWEALTH of VIRGINIA

Office of the Governor

James S. Cheng
Secretary of Commerce and Trade

October 15, 2010

The Honorable Charles J. Colgan
Chairman, Senate Finance Committee
10677 Aviation Lane
Manassas, Virginia 20110

The Honorable Lacey E. Putney
Chairman, House Appropriations Committee
Post Office Box 127
Bedford, Virginia 23451

Mr. Fred Malek
Chairman, Governor's Commission on Government Reform and Restructuring
1259 Crest Lane
McLean, Virginia 22101

Dear Messrs. Chairmen:

I am writing to report on the examination of the potential to merge the Department of Business Assistance and the Virginia Economic Development Partnership as required by Item 95 C. of the Appropriations Act for Fiscal Year 2011 and 2012.

Upon the examination of this issue, it is my belief the Department of Business Assistance and the Virginia Economic Development Partnership should remain separate and distinct. It is the intention of this Administration to provide the tools to the Department of Business Assistance to make this an effective and efficient agency to assist small business and existing business as envisioned in the enabling legislation. With the steps taken by Governor McDonnell in the 2010 Session, with the bi-partisan support of the General Assembly, we see this agency as integral to the sustainability and prosperity of small business in the Commonwealth. Particularly during these challenging economic times, to change course would diminish the capabilities to help shape the environment for economic growth in Virginia.

Sincerely,

A handwritten signature in black ink, appearing to read "James S. Cheng".

James S. Cheng

JSC: csc



Commonwealth of Virginia
Office of Governor Bob McDonnell

Examination of the Secretary of Commerce and Trade
on the Potential for the Merging of the
Department of Business Assistance & Virginia Economic Development Partnership

to

The Honorable Charles J. Colgan
Chairman, Finance Committee of the Senate of Virginia

The Honorable Lacey E. Putney
Chairman, Appropriations Committee of the Virginia House of Delegates

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Chairman,
Governor's Commission on Government Reform and Restructuring

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The Honorable James S. Cheng
Secretary of Commerce and Trade

Item 95 #1c of the 2010 Appropriations Act directed the Secretary of Commerce and Trade to “*examine the potential to merge the Department of Business Assistance and the Virginia Economic Development Partnership. This examination shall include, but not be limited to, an analysis of duplication of efforts, the potential for administrative efficiencies, and the opportunity for better coordination of economic development programs. The Secretary shall also consider the ability to more effectively address the needs of business with fewer than 250 employees, to include creation of more small businesses in the Commonwealth, the training and workforce needs of small businesses, and other incentives to assist existing and prospective small business entities. The Secretary shall communicate his findings to the Governor’s Commission on Government Reform and Restructure established by Executive Order 2 (2010) and the Chairmen of the House Appropriations and Senate Finance Committees by October 15, 2010.*”

During the 1995 and 1996 Sessions of the General Assembly, the Virginia Department of Economic Development was dismantled and separated into the Virginia Department of Business Assistance and the Virginia Economic Development Partnership. The responsibilities of the two agencies could be summarized as the Department of Business Assistance providing customer service and workforce development training for new and existing business – with an emphasis on small business assistance; and the Virginia Economic Development Partnership as the marketing arm of the Commonwealth to “encourage, stimulate, and support the development and expansion of the economy of the Commonwealth.” Both agencies are integral to the development of new business opportunities and prosperity of existing businesses in the Commonwealth. While working in partnership on many ventures, the two operations are distinct and necessary, as outlined below:

Department of Business Assistance

§ 2.2-902. Duties of the Department; state agencies to furnish information.

A. The Department shall serve as the liaison between the Commonwealth's existing business and state government in order to promote the development of Virginia's economy. To that end, the Department shall:

1. Provide for training or retraining of individuals for specific employment opportunities at new or expanding business facilities in the Commonwealth;
2. Develop and implement programs to assist small businesses in the Commonwealth in order to promote their growth and the creation and retention of jobs for Virginians;
3. Establish an industry program that is the principal point of communication between basic employers in the Commonwealth and the state government that will address issues of significance to business;
4. Make available to existing businesses, in conjunction and cooperation with localities, chambers of commerce, and other public and private groups, basic information and pertinent factors of interest and concern to such businesses;

5. Develop statistical reports on job creation and the general economic conditions in the Commonwealth; and

6. Manage the Small Business Jobs Grant Fund created pursuant to § 2.2-904.2.

B. All agencies of the Commonwealth shall assist the Department upon request and furnish such information and assistance as the Department may require in the discharge of its duties.

In 2010, the Small Business Jobs Grant Fund was created by the Virginia General Assembly, increasing the role of the Department of Business Assistance in funding for small business job creation, § 2.2-904.2:

B. There is hereby created in the state treasury a permanent nonreverting fund to be known as the Small Business Jobs Grant Fund (the Fund). The Fund shall be comprised of (i) transfers from the Virginia Jobs Investment Program funded in Item 98 of the 2010-2012 Appropriation Act and (ii) any other moneys designated for deposit to the Fund from any source, public or private. Interest earned on moneys in the Fund shall remain in the Fund and be credited to it. Any moneys remaining in the Fund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Fund. The Fund shall be managed and administered as a part of the Virginia Jobs Investment Program established within the Department.

C. Moneys in the Fund shall be used solely for the purpose of providing grants to small businesses that create at least five new full-time positions within any 12-month period. A small business meeting the conditions of this section shall be eligible to receive a grant from the Fund ranging from \$500 to \$2,000 per each new full-time position that has been created based on criteria established by the Department pursuant to subsection E. However, in no case shall a small business be eligible for grants for more than 50 new full-time positions created within the 12-month period.

In awarding grants, priority shall be given to small businesses creating new full-time positions in areas with an annual average unemployment rate of more than 125 percent of the statewide average unemployment rate.

Virginia Economic Development Partnership

§ 2.2-2238. Economic development services.

A. It shall be the duty of the Authority to encourage, stimulate, and support the development and expansion of the economy of the Commonwealth. The Authority is charged with the following duties and responsibilities to:

1. See that there are prepared and carried out effective economic development marketing and promotional programs;

2. Make available, in conjunction and cooperation with localities, chambers of commerce, industrial authorities, and other public and private groups, to prospective new businesses basic information and pertinent factors of interest and concern to such businesses;

3. Formulate, promulgate, and advance programs throughout the Commonwealth for encouraging the location of new businesses in the Commonwealth and the retention and growth of existing businesses;
4. Encourage and solicit private sector involvement, support, and funding for economic development in the Commonwealth;
5. Encourage the coordination of the economic development efforts of public institutions, regions, communities, and private industry and collect and maintain data on the development and utilization of economic development capabilities;
6. Establish such offices within and without the Commonwealth that are necessary to the expansion and development of industries and trade;
7. Encourage the export of products and services from the Commonwealth to international markets;
8. Advise, upon request, the State Board for Community Colleges in designating technical training programs in Virginia's comprehensive community colleges for the Community College Incentive Scholarship Program pursuant to § 23-220.4; and
9. Offer a program for the issuance of export documentation for companies located in Virginia exporting goods and services if no federal agency or other regulatory body or issuing entity will provide export documentation in a form deemed necessary for international commerce.

History of Examining the Merger of DBA and VEDP

As you may know, the 2010 examination is not the first time the issue of merging the Department of Business Assistance (DBA) and Virginia Economic Development Partnership has been contemplated by the Office of the Secretary of Commerce and Trade. In 2008, the Secretary of Commerce and Trade examined a potential merger between the Department of Business Assistance with the Department of Minority Business Enterprise and/or the Virginia Economic Development Partnership. The Secretary concluded consolidation should not take place. In addition, legislation has been put forward to abolish the Department of Business Assistance and merge services into the Virginia Economic Development Partnership and has been unsuccessful in 2008, 2009 and most recently in the 2010 Session of the Virginia General Assembly.

2010 Activity Related to the Virginia Department of Business Assistance

The Department of Business Assistance is the state agency that supports small business activity in the Commonwealth. In the 2010 Session of the General Assembly, after several years of cutbacks, Governor McDonnell sought and received the support of increased funding for administrative costs, an increase of \$1 million in the Loan Guarantee Program, \$1 million for the implementation of the Business One Stop Program, and increasing the Virginia Jobs Investment Program by \$3.5 million for the Department of Business Assistance. In addition, the Small Business Jobs Grant Fund was created by the Virginia General Assembly, increasing the role of the Department of Business Assistance in funding for small business job creation – which is being monitored for effectiveness of serving the small business community.

In addition, the Governor’s Commission on Economic Development and Job Creation’s Subgroup on Small Business recommended the bolstering of the Department of Business Assistance (bold and italicized below) in their final report:

Making Virginia the Best Place in America for Small Business – Virginia’s 230,000 small businesses are the heart and soul of Virginia’s economy, comprising 98 percent of all existing businesses and 75percent of new job growth in the Commonwealth. However, small business owners and entrepreneurs face a unique set of challenges including access to capital, permitting, regulation and business development services.

The Commission subgroups offer the following comprehensive recommendations to meet Governor McDonnell’s goal to make Virginia the best place in America to own and operate a small business:

- Small Business Investment Tax Credit/“Venture Virginia”- provide tax credits to investors who make capital investment in certified small businesses or venture capital investment in targeted industries such as bio-technology or life sciences.
- *Additional resources for Virginia Small Business Financing Authority to provide loans and loan guarantees to small businesses.*
- *Enhancement of “Business One Stop” website into a “First and Only Stop” by increasing the information, resources and assistance available, including integration*

of “How to Start or Expand a Small Business” guide and information on local requirements.

- *Expand DBA’s Business Information Center programs designed to help entrepreneurs start and grow their businesses.*
- *Develop electronic notification systems and online resources to alert small business owners and entrepreneurs of regulatory and legislative changes that affect their businesses.*

The Secretary of Commerce and Trade also asked for and received from the Department of Planning and Budget an updated impact assessment from the 2008 study. As we are in the midst of the fiscal year, these numbers are preliminary in nature.

FY 2011 Impact Assessment

of

Merging of the Department of Business Assistance (DBA) and its duties to the Virginia Economic Development Partnership (VEDP)

Current Operating:

- In the current Budget Act, Chapter 874, DBA has an appropriation of \$16.07 million in FY 2011 (\$14.80 million from the general fund and \$1.27 million in nongeneral fund appropriation) and 42 FTEs (35 from the general fund and seven nongeneral fund).
- In the introduced budget bill, VEDP has an appropriation of \$19.94 million, from the general fund, in FY 2011. VEDP is not subject to an authorized position level.
- DBA appropriations details are in Item 98 of the current Budget Act.
- VEDP appropriation details are in Item 114 of the current Budget Act.

Fiscal Implications:

Potential Expenditure Impact for the DBA:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2011	(559,000)	(35.00)	GF
		(7.00)	NGF
2012	(440,117)	(35.00)	GF
		(7.00)	NGF
2013	(440,117)	(35.00)	GF
		(7.00)	NGF
2014	(440,117)	(35.00)	GF
		(7.00)	NGF
2015	(440,117)	(35.00)	GF
		(7.00)	NGF

- Since the merger study was completed, state agencies have sustained budget reductions. These reductions impact the amount of potential savings. The study also concluded that while a merger could generate some savings, there was no compelling evidence that the current structure is insufficient to meet the needs of Virginia's businesses.
- DBA is responsible for four primary functions: the Virginia Jobs Investment Program which is an incentive program supporting the creation of new jobs in the Commonwealth; programs designed to help existing businesses grow their sales by establishing new client markets, especially in state and local procurement; programs that encourage new business formation by providing technical assistance to entrepreneurs on state licensing, permitting, registration and regulatory requirements and by providing developmental opportunities for entrepreneurs, this includes the one-stop business permitting program;

and the Small Business Financing Authority, which promotes Virginia businesses by increasing access to capital through the creative application of public and private financing. These functions would transfer to VEDP.

- The general fund savings associated with the merger are largely due to the elimination of five positions. The elimination of these positions would generate approximately \$559,000 in net savings in FY 2011 (\$809,000 in salary and benefits less Workforce Transition Act and other severance costs of approximately \$250,000). In addition to the elimination of five filled positions, 30 general fund staff would move from DBA to VEDP in the consolidation.
- The reason that savings in future years is less (-\$440,117 per fiscal year) is due to the 2010 General Assembly's action of reducing by DBA's administrative appropriation by \$474,513 in starting in FY 2012.
- According to the Department of Human Resources Management, in the event an employee of DBA chooses not to accept a position with VEDP that employee would be eligible for severance benefits. It is not known how many employees may choose to not accept employment by VEDP.

Other Comments:

- If merged, VEDP would have most of the functions similar to the state's former Department of Economic Development, which consisted of the state's economic development and tourism programs consolidated into one state agency. Legislation enacted by the 1995 General Assembly (Chapter 638) established VEDP as an independent authority. By statute, VEDP is charged with encouraging, stimulating and supporting the development and expansion of the Commonwealth's economy by providing economic development services, conducting research, and developing a comprehensive economic development strategy. Legislation enacted by the 1996 General Assembly (Chapters 598 and 599) abolished the Department of Economic Development and transferred a portion of its functions to VEDP, and established DBA and transferred to it the Department of Economic Development's small business and financial services, existing industry development and workforce services programs.
- As a state agency, DBA is subject to the same oversight as other state agencies. All appropriation and expenditures for DBA's programs are tracked in the state's financial systems. The agency is also subject to all of the state's policies, including personnel, procurement, and travel. After DBA's responsibilities are absorbed by VEDP, its programs will no longer be reported in the state's financial systems.

- For FY 2011-2012, Governor McDonnell provided additional funding to the Department of Business Assistance for economic development initiatives:
 - Increase funding in FY 2011 by \$ 1million for the loan guarantee program.
 - Increase funding in FY 2011 by \$ 3.5 million for the Virginia Jobs Investment Program.
 - Provide \$500,000 in funding for FY 2011 and FY 2012 for the Business One Stop Program.

Conclusion: Upon the examination of this issue, the Department of Business Assistance and the Virginia Economic Development Partnership should remain separate and distinct. It is the intention of this Administration to provide the tools to the Department of Business Assistance to make this an effective and efficient agency to assist small business and existing business as envisioned in the enabling legislation. With the steps taken by Governor McDonnell in the 2010 Session, with the bi-partisan support of the General Assembly, we see this agency as integral to the sustainability and prosperity of small business in the Commonwealth. Particularly during these challenging economic times, to change course would diminish the capabilities to help shape the environment for economic growth in Virginia.