



Commonwealth of Virginia

Office of the Governor

Jim Cheng

Secretary of Commerce and Trade

December 3, 2013

The Honorable Walter A. Stosch
Chair, Senate Finance Committee
Senate of Virginia
P.O. Box 396
Richmond, VA 23218

The Honorable Lacey E. Putney
Chair, House Appropriations Committee
House of Delegates of Virginia
P.O. Box 406
Richmond, Virginia 23218

Dear Senator Stosch and Delegate Putney:

Pursuant to Item 104 #C of Chapter 806 of the 2013 Acts of Assembly, attached is a report examining the placement and structure of the Virginia Jobs Investment Program (VJIP) to “[d]etermine whether the Virginia Jobs Investment Program Funds are best managed within the Department of Business Assistance or within the Virginia Economic Development Partnership or whether the separate sub-funds would be more effectively utilized by the two separate agencies whose missions focus on different sectors of the Commonwealth's business community.” This is an update to the previously filed report in October.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Cheng", written over a white background.

Jim Cheng

Background

As a continuation of Governor Bob McDonnell's Government Reform and Restructuring initiative started in 2010, the 2013 Session of the General Assembly enacted Chapter 482 of the 2013 Virginia Acts of Assembly creating the Department of Small Business and Supplier Diversity (DSBSD), effective January 1, 2014, by consolidating the powers and duties of the Department of Business Assistance (DBA) and the Department of Minority Business Enterprise (DMBE). In addition, the Governor proposed legislation to move the Virginia Jobs Investment program from the Virginia Department of Business Assistance to the Virginia Economic Development Partnership that manages the major economic development incentive programs for the Commonwealth – supported by the Virginia Chamber of Commerce, Virginia Economic Developers Association and the National Federation of Independent Businesses, among others. The General Assembly included budget language in Chapter 806 of the Acts of the Assembly to review the VJIP program and “whether the Virginia Jobs Investment Program Funds are best managed within the Department of Business Assistance or within the Virginia Economic Development Partnership or whether the separate sub-funds would be more effectively utilized by the two separate agencies whose missions focus on different sectors of the Commonwealth's business community.”

Workforce development is the top issue facing existing Virginia businesses and those being recruited to the Commonwealth. The Virginia Jobs Investment Program (VJIP) encourages the expansion of existing Virginia businesses and the start-up of new business operations in Virginia by addressing the top concern of existing businesses and economic development prospects – finding and developing a skilled workforce. VJIP helps offset recruiting and training costs incurred by companies that are either creating new jobs or implementing technological upgrades. In addition to offering direct funding, VJIP also provides assistance with workforce-related challenges and organizational development workshops.

There are five components of VJIP:

- **Small Business Jobs Grant Fund Program (SBJGF):** assists Virginia small businesses in job creation;
- **Small Business New Jobs:** supports the establishment or expansion of Virginia's small businesses;
- **Small Business Retraining:** improves the efficiency of small businesses through workforce retraining;
- **Virginia New Jobs:** supports the expansion of existing Virginia companies and new facility locations involving competition with other states or countries; and
- **Workforce Retraining:** provides consulting services and funding to assist companies and businesses with retraining their existing workforces to increase productivity.

The Virginia New Jobs program has been the top distributor of funding to businesses for the past four years. This program and the Workforce Retraining program are the two VJIP programs not specifically focused on small businesses, and the combined funding distribution of these two programs reflects about 80 percent of VJIP's payments to businesses over the past four years.

Incentive requests through the Virginia Economic Development Partnership (VEDP) and the local economic development offices represent about 80 percent of the VJIP funding distribution. Distribution is consistently made through requests from regional economic development offices, directly from the companies who are creating jobs, and community colleges.

How VJIP Works

The Virginia Jobs Investment Program (VJIP) is an important and effective business development incentive that has supported economic development efforts throughout the Commonwealth since 1965. VJIP and VEDP staff have built strong working relationships and have worked together effectively to recruit economic development projects of all sizes and types to Virginia. Although the VEDP and VDBA staff works well together, there are inefficiencies in having staff from both VEDP and VBDA deployed around the Commonwealth to serve local businesses – especially at a time when we are working to make government programs more efficient and effective. Although only a small portion (15 percent) of the economic development projects the Virginia Economic Development Partnership (VEDP) handles in a given year receive any discretionary incentives nearly all that do receive such incentives (96 percent) benefit from VJIP.

For purposes of VJIP and its other programs, VDBA considers a business entity with less than 250 employees to be a “small business.” Using this criterion, it is helpful to note that in the last four fiscal years, nearly half of the projects that came to or grew in Virginia with the assistance of VEDP met VDBA’s definition of small businesses. VEDP understands small businesses and assists small businesses on a regular and consistent basis.

Fiscal Year	Total Number of VEDP-Assisted Projects	Number of VEDP-Assisted Projects with Small Businesses	Resulting Percentage
2010	122	54	44%
2011	212	118	56%
2012	148	63	43%
2013	163	85	52%
Total	645	320	50%

While the budget language guiding this report may lead one to believe VJIP and VEDP have missions to serve different sectors of the Commonwealth’s business community – VJIP and VEDP have both served the entire business community since their inceptions.

VJIP is an incentive frequently promoted by VEDP to the business community and prospects. It is a valuable tool in the economic development toolbox. It is often the only form of assistance available to small businesses or even larger employers whose expansions may not meet the criteria for other discretionary incentive programs – and it addresses one of the most important needs in the formation, retention, expansion and recruitment of business in the Commonwealth: workforce development.

Deployment of Staff; Sharing of Business Information

Primarily through its Business Expansion Division, VEDP covers the Commonwealth to help existing Virginia businesses, large and small, grow and prosper. This is done through a combination of VEDP employees who field-based in areas outside of Richmond and VEDP employees who travel from Richmond to localities on a regular basis. These employees keep in touch with existing Virginia businesses of all sizes, gain an understanding of the company's growth strategies and needs, gather relevant information from these companies, and offer appropriate assistance, whether from VEDP or other entities of the Commonwealth (such as the Department of Environmental Quality or the Virginia Department of Transportation). Quite similarly, VDBA's VJIP employees cover the Commonwealth to offer recruiting and training assistance to companies coming to or growing in the Commonwealth. Some of the VJIP employees are field-based in areas outside of Richmond, while other VJIP employees service their clients from Richmond. These VJIP employees keep in touch with existing Virginia businesses of all sizes, gather relevant information from these companies, and offer appropriate assistance, whether from VDBA or other entities of the Commonwealth. In both cases, VEDP and VDBA employees are looking for opportunities to assist with business expansions, to encourage supply chain opportunities, and to put local businesses in touch with potential vendors, suppliers and customers.

There is a long history of VEDP and VJIP working well together to provide services to particular business clients. If VEDP learns of a company that would benefit from VJIP, or any other program offered by the VDBA, VEDP will put the company in contact with VDBA. Quite similarly, if VJIP learns of a company that would benefit from the business expansion services offered by VEDP, VJIP will put the company in contact with VEDP.

VEDP and VJIP employees are, in many respects, covering the same ground – meeting with companies around the Commonwealth to gather information and to offer assistance. Greater efficiencies will be obtained by more seamlessly coordinating the efforts of these dedicated employees. Rather than duplicating calls on the same companies, employee outreach can be more effectively coordinated and potentially increase the number of companies supported. A single point of contact for these businesses would create a better opportunity for success.

Interactions with Local Economic Developers

Currently, if a local economic developer is working with a company on a new project or an expansion project with VEDP, and if VJIP may be offered as an incentive for the company, the local economic developer will need to stay in contact with both VEDP and VDBA to ensure the incentive is offered and accessed. This results in duplication of effort by the local economic developer and creates confusion for both economic development allies and the business client regarding who to call under which circumstances.

By having one project manager as the primary point of contact on all of the incentives most likely to be offered to the company, there will be less confusion for the economic development allies and the business clients. They will know who to call to get an issue resolved or to follow-up on a particular project.

Preparation of Proposals

If discretionary incentives are being offered by VEDP (which occurs in approximately 15 percent of its projects), VEDP prepares a written proposal to the company outlining the incentives being offered by the Commonwealth and detailing the actions expected of the company to qualify for the incentives. VJIP is offered to approximately 96 percent of the companies otherwise receiving discretionary grants through VEDP. If the incentives are being provided by a state entity other than VEDP, the need to collect data from the other state entity to include in the proposal can delay the proposal process. For a fast-breaking economic development project, this delay can mean trouble in delivering a proposal on a time-line desired by the company.

Opportunities for Efficiencies

VEDP manages nine other grant programs that are available to businesses across the Commonwealth. The Joint Legislative Audit and Review Commission said, in its 2012 “Review of State Economic Development Incentive Grants,” that VEDP incorporates many effective practices into the grant programs that it administers. JLARC said that other programs, including VJIP, could be improved by adopting some of the same practices.

Although the VJIP program offers elements of operational efficiency, VEDP could build in some different metrics and practices for tracking performance by VJIP grantees. This improved tracking could allow for better opportunities to gauge the effectiveness of the VJIP program.

Stakeholder Discussion

In discussions with stakeholders, VJIP is a perfect incentive for business attraction and expansion. To separate the components of VJIP between two agencies would confuse the customer, divide resources and increase costs – calling for moving the Small Business New Jobs, Small Business Retraining, Virginia New Jobs and Workforce Retraining to VEDP where the customer will work with one project manager. Consideration should be given to maintaining the Small Business Jobs Grant Fund Program with the new DSBSD.

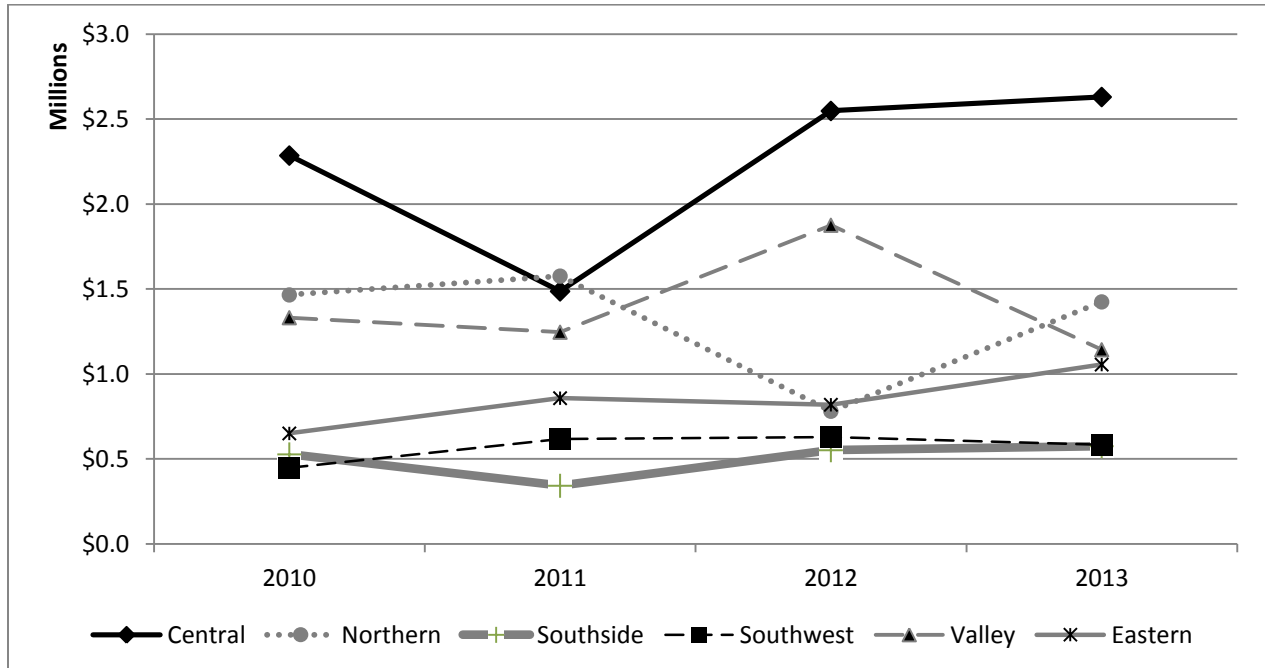
In addition, economic developers and businesses look to VEDP for help and the market presence of VEDP and relationships formed by project managers would capitalize even more with the addition of management of all major incentives.

Once the project is secured by the Commonwealth and locality – there are also reports necessary for the incentive award. The movement of VJIP to VEDP where the business will only have to report to one agency will strengthen and streamline reporting – and reduce the cost of doing business in the Commonwealth.

VJIP Funding Distribution for the Last Four Fiscal Years (2010 through 2013)

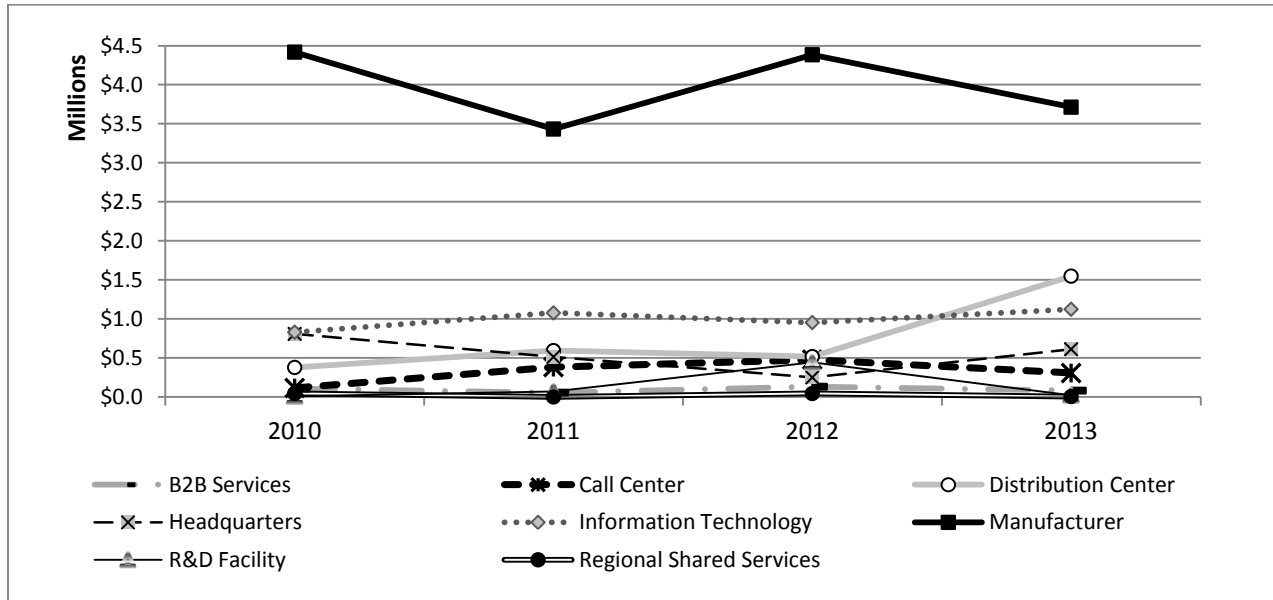
The following is an accounting of how the funding has been distributed for the last four fiscal years by region, industry sector, size of company, size of grant and agency through which the incentive request was generated.

VJIP Funding Distribution by Region



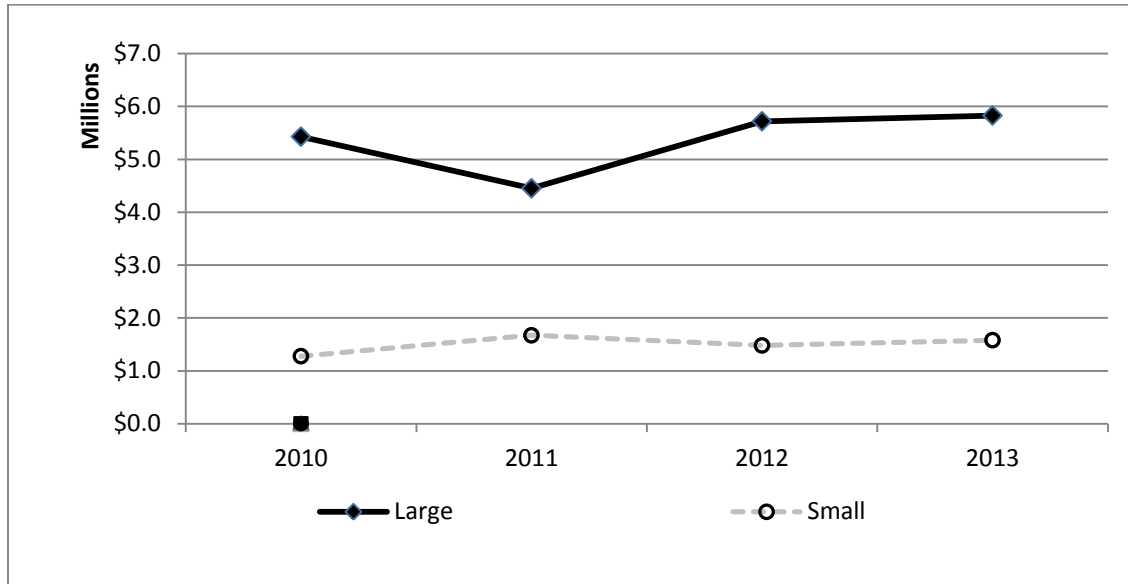
FY	Central	Northern	Southside	Southwest	Valley	Eastern	Grand Total
2010	\$2,285,580	\$1,465,424	\$527,080	\$448,174	\$1,331,445	\$650,344	\$6,708,049
2011	\$1,486,587	\$1,576,279	\$342,367	\$615,919	\$1,246,103	\$857,789	\$6,125,044
2012	\$2,548,140	\$780,923	\$551,399	\$627,399	\$1,875,557	\$818,965	\$7,202,382
2013	\$2,630,126	\$1,424,440	\$575,241	\$582,957	\$1,142,702	\$1,055,464	\$7,410,932
Total	\$8,950,434	\$5,247,067	\$1,996,087	\$2,274,449	\$5,595,807	\$3,382,563	\$27,446,406

VJIP Funding Distribution by Industry Sector



FY	B2B Services	Call Center	Distribution Center	Headquarters	Information Technology	Manufacturer	R&D Facility	Regional Shared Services	Totals
2010	\$106,411	\$115,007	\$378,075	\$807,664	\$830,241	\$4,417,994	\$8,000	\$44,658	\$6,708,049
2011	\$55,828	\$382,064	\$593,762	\$513,064	\$1,077,106	\$3,432,925	\$70,294	\$0	\$6,125,044
2012	\$131,907	\$477,952	\$517,519	\$250,370	\$953,632	\$4,384,570	\$442,483	\$43,949	\$7,202,382
2013	\$81,332	\$306,161	\$1,548,005	\$611,525	\$1,123,938	\$3,712,886	\$21,413	\$5,671	\$7,410,932
Total	\$375,478	\$1,281,185	\$3,037,361	\$2,182,624	\$3,984,917	\$15,948,374	\$542,190	\$94,278	\$27,446,406

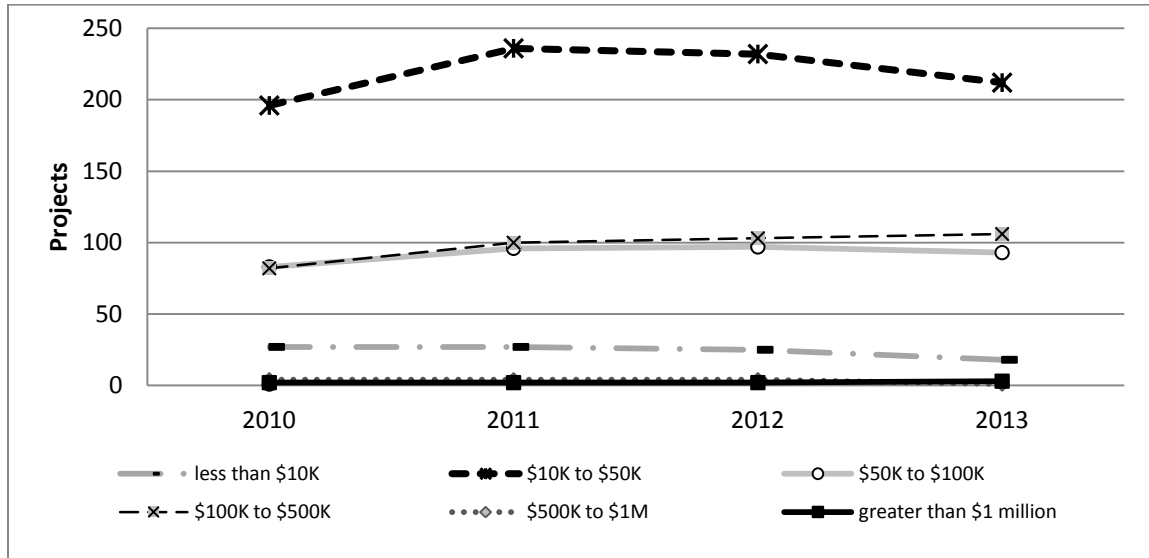
VJIP Funding Distribution by Size of Company



FY	Large	Small	Grand Total
2010	\$5,429,967	\$1,278,081	\$6,708,049
2011	\$4,452,428	\$1,672,615	\$6,125,044
2012	\$5,720,757	\$1,481,625	\$7,202,382
2013	\$5,829,903	\$1,581,029	\$7,410,932
Total	\$21,433,055	\$6,013,351	\$27,446,406

**For the purpose of this funding “small” are companies are defined as companies with less than 250 employees at the start of the project.

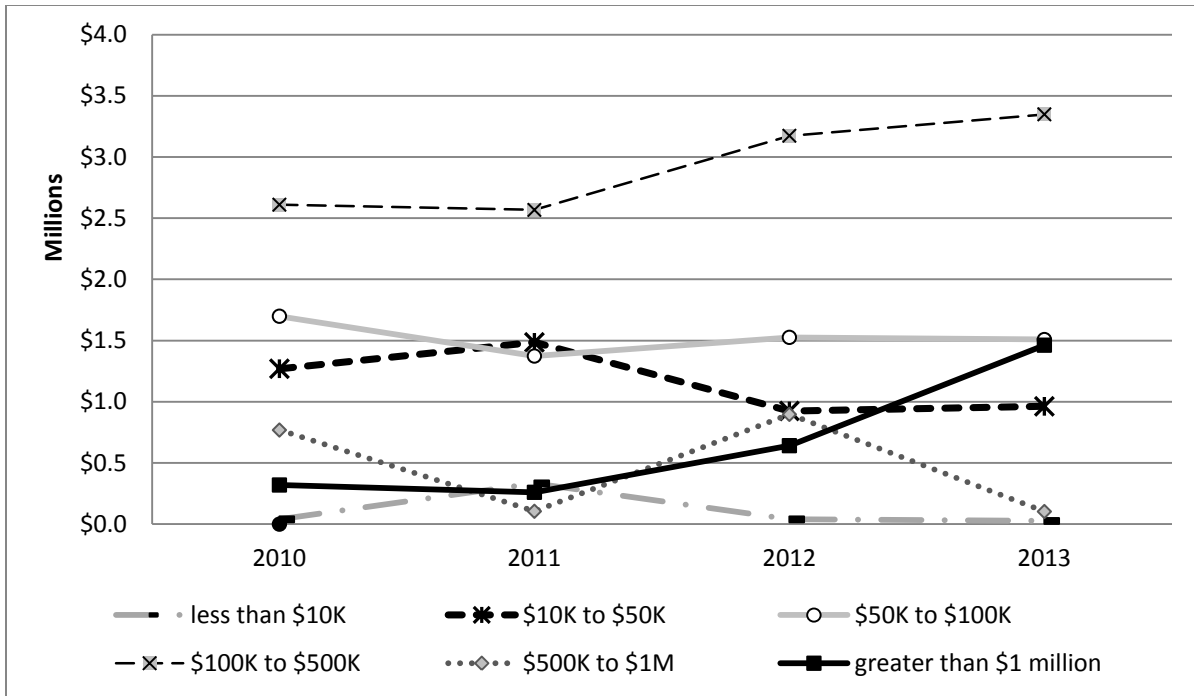
VJIP Funding Distribution by Size of Grant



FY	< \$10K	\$10K to \$50K	\$50K to \$100K	\$100K to \$500K	\$500K to \$1M	>\$1 million	Total
2010	27	196	83	82	4	2	394
2011	27	236	96	100	4	2	465
2012	25	232	97	103	4	2	463
2013	18	212	93	106	1	3	433
Total	97	876	369	391	13	9	1,755

Average Grant Size by Fiscal Year

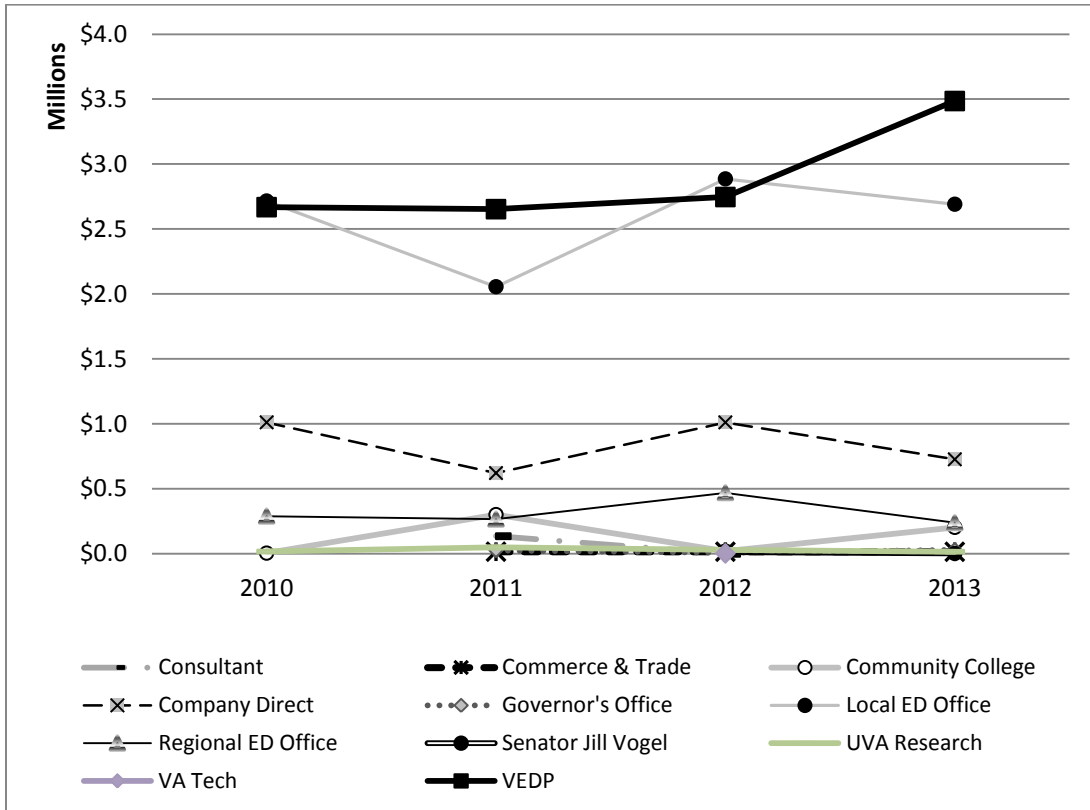
FY	Total
2010	\$76,242
2011	\$79,836
2012	\$86,660
2013	\$91,974



FY	less than \$10K	\$10K to \$50K	\$50K to \$100K	\$100K to \$500K	\$500K to \$1M	greater than \$1 million	Grand Total
2010	\$39,593	\$1,269,949	\$1,698,964	\$2,610,617	\$768,926	\$320,000	\$6,708,049
2011	\$332,943	\$1,485,484	\$1,373,593	\$2,567,763	\$105,012	\$260,250	\$6,125,044
2012	\$39,117	\$924,875	\$1,526,443	\$3,173,763	\$896,848	\$641,337	\$7,202,382
2013	\$26,010	\$962,794	\$1,508,337	\$3,348,266	\$103,168	\$1,462,356	\$7,410,932
Total	\$437,663	\$4,643,101	\$6,107,337	\$11,700,409	\$1,873,953	\$2,683,943	\$27,446,406

In our analysis, VJIP projects were grouped by the amount of the project budget (rather than the amount spent) to determine the size of the grant. VJIP projects are rarely awarded for amounts exceeding \$500,000 (4-6 projects over \$500,000 per year). Project budgets have increased over the past four years from an average project budget of \$76,242 in FY 2010 to \$91,974 in FY 2013. The majority of grants are awarded to companies for projects with budgets between \$10,000 and \$50,000.

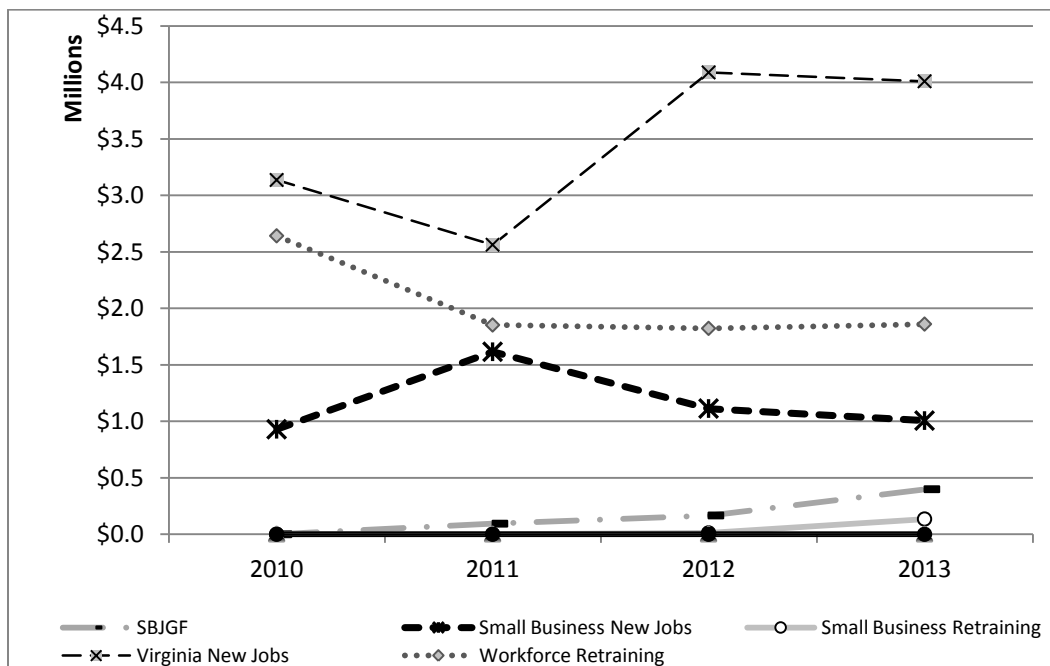
VJIP Funding Distribution by Agency through which the Incentive Request was Generated



FY	Consultant	Commerce & Trade	Community College	Company Direct	Governor's Office	Local ED Office	Regional ED Office	Senator Jill Vogel	UVA Research	VA Tech	VEDP	Grand Total
2010			\$5,248	\$1,011,678		\$2,716,079	\$289,423		\$17,100		\$2,668,520	\$6,708,049
2011	\$135,451	\$16,083	\$301,832	\$621,733	\$25,950	\$2,056,095	\$265,839		\$49,031		\$2,653,029	\$6,125,044
2012	\$0	\$16,133	\$20,960	\$1,011,367	\$7,226	\$2,886,304	\$469,331	\$12,000	\$29,300	\$3,250	\$2,746,511	\$7,202,382
2013		\$15,502	\$203,582	\$727,004	\$31,314	\$2,691,258	\$238,560	\$2,400	\$15,700		\$3,485,611	\$7,410,932
Total	\$135,451	\$47,719	\$531,622	\$3,371,782	\$64,490	\$10,349,737	\$1,263,153	\$14,400	\$111,131	\$3,250	\$11,553,670	\$27,446,406

VJIP Funding Distribution by Component Programs

- **Small Business Jobs Grant Fund Program (SBJGF):** assists Virginia small businesses in job creation.
- **Small Business New Jobs:** supports the establishment or expansion of Virginia's small businesses.
- **Small Business Retraining:** improves the efficiency of small businesses through workforce retraining.
- **Virginia New Jobs:** supports the expansion of existing Virginia companies and new facility locations involving competition with other states or countries.
- **Workforce Retraining:** provides consulting services and funding to assist companies and businesses with retraining their existing workforces to increase productivity.



FY/Program	SBJGF	Small Business New Jobs	Small Business Retraining	Virginia New Jobs	Workforce Retraining	Fiscal year total
2010	\$0	\$929,659	\$0	\$3,136,295	\$2,642,095	\$6,708,049
2011	\$94,022	\$1,615,814	\$0	\$2,562,686	\$1,852,522	\$6,125,044
2012	\$166,526	\$1,113,103	\$12,000	\$4,087,914	\$1,822,840	\$7,202,382
2013	\$398,925	\$1,006,435	\$135,090	\$4,009,657	\$1,860,824	\$7,410,932
Total	\$659,473	\$4,665,010	\$147,090	\$13,796,552	\$8,178,281	\$27,446,406

The Virginia New Jobs program has been the top distributor of funding to businesses for the past four years. This program and the Workforce Retraining program are the two VJIP programs not specifically focused on small businesses, and the combined funding distribution of these two programs reflects about 80 percent of VJIP's payments to businesses over the past four years.

FY/Program	SBJGF	Small Business New Jobs	Small Business Retraining	Virginia New Jobs	Workforce Retraining	Fiscal year total
2010	0%	14%	0%	47%	39%	\$6,708,049
2011	2%	26%	0%	42%	30%	\$6,125,044
2012	2%	15%	0%	57%	25%	\$7,202,382
2013	5%	14%	2%	54%	25%	\$7,410,932
Four year percentage	2%	17%	1%	50%	30%	N/A
Four year total	\$659,473	\$4,665,010	\$147,090	\$13,796,552	\$8,178,281	\$27,446,406

Conclusion

Merging VJIP into VEDP will provide better, more comprehensive client service to existing Virginia businesses, prospective Virginia companies, and Virginia economic development allies, enhancing Virginia's reputation as a top state to do business. It will provide the most business-friendly and effective incentive offering process by having this successful workforce assistance program housed at the state's leading economic development organization. Support for small businesses will be retained. By streamlining Virginia's economic development incentive offerings, VEDP will be prepared to align VJIP with existing business outreach and marketing efforts, leading to more jobs and more investment for the Commonwealth. Decreasing duplicative economic development efforts and optimizing state resources will enhance the Commonwealth's ongoing government reform and efficiency efforts. Consideration should be given to maintaining the Small Business Jobs Grant Fund Program (assists Virginia small businesses in job creation) with the new DSBSD.