Commonwealth of Virginia

Virginia Port Authority

Report on Recommendations regarding the Establishment of an Economic Development Grant Zone

January 24, 2013

Background/Narrative

Transportation and economic development are inseparable subjects. A vibrant, multi-modal transportation network is a strong catalyst for investment and job creation. As both foreign and domestic firms consider competing states, cities and counties for new or expanded industrial locations, transportation of people (commuting, corporate travel) and freight is a critical consideration. Of course, a variety of available economic development incentives also represents a priority interest for many companies.

Over the last 15 years, the competition among states has escalated dramatically in pursuit of marquee economic development projects. Look no further than the automotive industry. Both foreign and domestic automotive manufacturers have fled the "Rust Belt" in favor of the Southeastern U.S. BMW, Hyundai, Mercedes-Benz and others have invested hundreds of millions of dollars in Southeastern states, creating tens of thousands of jobs, and accepting incentive packages that often approach the value of the actual investment. In many cases, proximity to, and support from, a competitive global seaport is a prerequisite for such projects. Considering that an automotive plant location generates a significant multiplier effect as vendors and suppliers seek to locate in proximity, projects of this magnitude can generate tens of thousands of container moves and associated breakbulk/RoRo traffic (see BMW – South Carolina – Port of Charleston). Recognizing the importance of building a customer base by inducing local brick and mortar investment, ports increasingly find themselves drawn into the economic development arena.

In Virginia, the area west of the Port, including parts of Suffolk, Isle of Wight and the Route 460 Corridor, has been identified as a prime location for Port-related investment. Target, QVC, Cost Plus World Markets, Ace Hardware and Green Mountain Coffee are among the existing, or announced, clientele. As Virginia's competing ports – namely Charleston and Savannah – have moved aggressively to execute economic development strategies including, but not limited to, incentivizing specific sites offering port proximity, it has become increasingly apparent that the Virginia Port Authority, in cooperation with the Virginia Economic Development Partnership and various regional and local entities, requires a similar strategy and tools.

Please see the attached spreadsheet of port-related incentives on the East Coast. Our biggest port competitor, South Carolina, has an $8 million dollar discretionary fund for use in attracting port-related industry to South Carolina. Georgia offers between $2,500 and $5,250 per job for port businesses increasing cargo and expanding for locating in Georgia. Florida offers between $5,000 and $9,000 per job for port users expanding or locating in Florida. Maryland uses its Enterprise Zone Program to offer incentives in focus areas to increase investment around the port. They offer both an incentive for real property investment and either $1,500 per job or $9,000 per job if located in a distressed area.

With a total of $4.925 million available year for port tax incentives yearly, Virginia currently has the lowest per-job incentive available for port-related industry expanding or locating in the state. The Virginia International Trade Facility Tax Credit (ITF) allows a $3,500 credit per qualified new job or 2% of the qualified capital investment for port users that increase their cargo through the Port of Virginia by at least 10%. However, there is only $250,000 available in this pot each year. In the first application cycle for tax year 2011, the ITF program capped out with only two applicants. The Virginia Tobacco Commission has not yet funded the increased funding for port users locating or expanding in the Tobacco Region. The addition of the Port of Virginia Economic and Infrastructure Development Zone per-job grant dollars would give the Port of Virginia the tools needed to compete with other ports on the East Coast for jobs and investment by port users.

Proposed Guidelines for the Port of Virginia Economic Development and Infrastructure Development Zone have been drafted by the Virginia Port Authority in partnership with the Virginia Economic Development Partnership as required per the Code and those are also attached for review.

DRAFT PORT OF VIRGINIA ECONOMIC AND INFRASTRUCTURE DEVELOPMENT GRANT PROGRAM GUIDELINES

PURPOSE:

The Port of Virginia Economic and Infrastructure Development Zone Grant Program (POV Zone Grant) provides a grant to localities to incentive companies to locate new maritime-related employment centers or expand existing centers in specified localities in order to encourage and facilitate the growth of the Port of Virginia in accordance with criteria established by legislation. The statutory provisions for the POV Zone Grant can be found at Section 62.1-132.3:2 of the Code of Virginia.

GUIDING PRINCIPLES:

POV Zone Grants are made at the discretion of the Executive Director of the Virginia Port Authority with the expectation that grants awarded to a locality will be used to assist a Port of Virginia shipper to locate a new operation or expand an existing operation within the following localities: Brunswick, Chesterfield, Charles City, Clarke, Dinwiddie, Frederick, Gloucester, Greensville, Henrico, Hanover, Isle of Wight, James City, Mecklenburg, Montgomery, New Kent, Prince George, Southampton, Surry, Sussex, Warren, and York; and the Cities of Chesapeake, Colonial Heights, Emporia, Hampton, Hopewell, Newport News, Norfolk, Petersburg, Poquoson, Portsmouth, Richmond, Suffolk, Virginia Beach, Williamsburg, and Winchester. (See attached map. VPA Zone communities are shaded dark green.)

Subject to appropriation this grant is available from January 1, 2013 until June 30, 2020 and the maximum amount available. The maximum amount of grant allowable per qualified company in any given fiscal year (July 1 – June 30) is $500,000 and the maximum amount of grants allowable among all qualified companies is any given fiscal year is $5 million.

An otherwise POV Zone Grant qualified company that claims employees or capital expenditures for the Major Business Facility Job Tax Credit (Code of Virginia Section 58.1-439) or International Trade Facility Tax Credit (Code of Virginia Section 58.1-439.12:06) may not receive a POV Zone Grant for those same jobs or for the same facility.

ELIGIBILITY REQUIREMENTS

Applicants Must Meet the Definition of Qualified Company:

A Business entity that meet all four criteria:

i) Locates or expands a facility with the Zone

ii) Creates at least 25 new, permanent full-time positions for qualified full-time employees at a facility with the Zone during its first (full) year of operation within the Zone or during the year when the expansion occurs.

iii) Is involved in maritime commerce or export or imports manufactured goods through the Port of Virginia; and

iv) Is engaged in one or more of the following: the distribution, freight forwarding, freight handling, goods processing, manufacturing, warehousing, crossdocking, transloading, or wholesaling of goods exported and imported through the Port of Virginia; ship building and ship repair; dredging; marine construction; or offshore energy exploration and extraction.

Applicants Must Meet the Definition of a Qualified Permanent Full Time Position for New Jobs Created:

This is a job of indefinite duration, created by a qualified company as a result of operations within the Zone. It requires a minimum of 35 hours of an employee's time per week for the entire normal year of the company's operations, and a normal year should consist of at least 48 weeks or a position of indefinite duration that requires a minimum of 25 hours of an employee's time per week for the portion of the taxable year in which the employee was initially hired. Only new jobs created by the company within The Zone will count.

- Seasonal or temporary positions or jobs created when a position is shifted from an existing location in the Commonwealth to the qualified company's location within the zone do not count as a new job.
- Building and grounds maintenance and security personnel are considered ancillary and do not count toward the new job number.
- Qualified, new, full-time, trade-related contractors that are hired by the company and are housed within the Zone may count as new jobs. These include freight-forwarders, customs house brokers, truck drivers, and foreign trade zone contractors. Any others not listed here may be presented to the Virginia Port Authority for consideration.
    - If the qualified company within the zone wishes to count contractor jobs toward its new jobs target for this grant, the company will be responsible for gathering and disseminating to the locality and VPA information regarding those jobs, including whether they are "net new jobs" in the Commonwealth.

- A qualified full-time employee does **not** include an employee:
  - (i) For whom a tax credit was previously earned pursuant to The Major Business Facility Job Tax Credit or International Trade Facility Tax Credit by a related party or a trade or business under common control.
  - (ii) Who was previously employed in the same job function at an existing location in Virginia by a related party or
  - (iii) Whose job function was previously performed at a different location in Virginia by an employee of a related party or a trade or business under common control.

DETERMINATION OF GRANT AMOUNT AND CONDITIONS:

Beginning January 1, 2013, but not later than June 30, 2020, and subject to appropriation, any qualified company that locates or expands a facility within the Port of Virginia Economic and Infrastructure Development Zone shall be eligible to apply for a **one-time grant** from the Fund per new, qualified, permanent full-time employees hired during its first full year of operation within the Zone or during the year in which the expansion occurs in an amount determined as follows:

- $1,000 per job for 25 – 49 new employees
- $1,500 per job for 50 – 74 new employees
- $2,000 per job for 75 – 99 new employees
- $3,000 per job for 100 or more new employees

The maximum amount of grant allowable per qualified company in any given fiscal year is $500,000.

The maximum amount of grants allowable among all qualified companies in any given fiscal year is $5,000,000.

The fiscal year runs from July 1 – June 30.

APPLICATION PROCESS:

A qualified company along with the county or city in which the company is located must apply to the Virginia Port Authority by March 31 in the year immediately following the location or expansion of a facility within the Zone. Applications should consist of three documents: (1) a letter sent by the chief appointed official of the Zone city or county in which the company is locating or expanding to the Executive Director of the Virginia Port Authority (VPA) and (2) a letter send by the company to the Executive Director of the VPA. (3) Sample cargo verification through the Port of Virginia website.

(1) It is expected that the letter from the community will use the following format and include the following information:
- A summary statement presenting the importance of the project to the community.
- Location of the project including industrial park and company address
- Total capital investment
- Description of the project, including:
  - Whether it is the expansion of an existing company or a new investment
  - Company name and information (website, stock exchange ticker, other relevant facts)
  - Type of operation (i.e. manufacturing, distribution, etc.)
  - Headquarters location
  - Virginia operations (if any exist)
  - Employment impact on current operations in Virginia
  - Date the facility became operational or expansion occurred
- Jobs created within the first year of operation or year of expansion
- A statement regarding other Virginia incentives this company will receive for this project or other projects in the past and whether the company met its past obligations with regards to Virginia incentives.

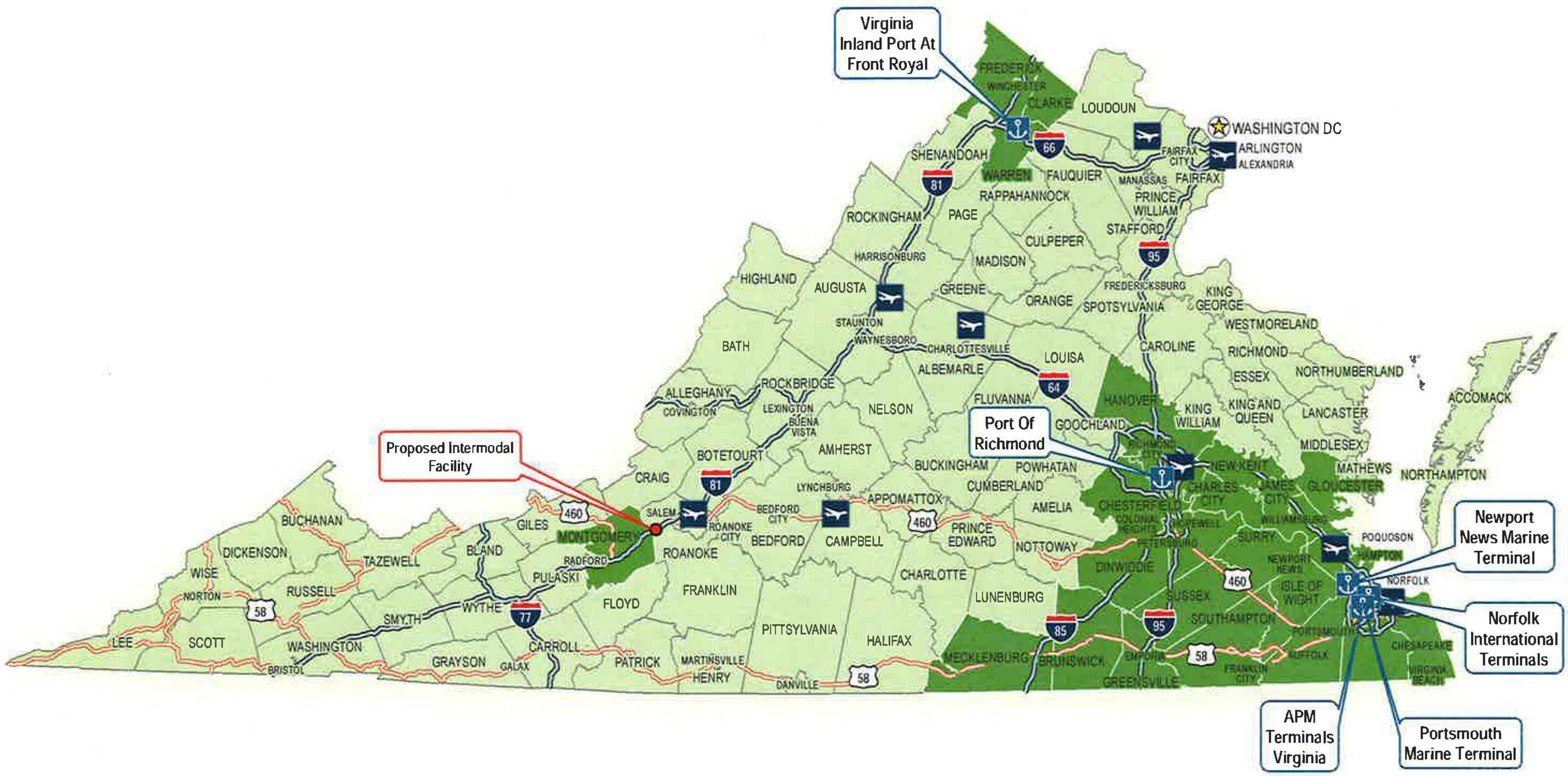
(2) It is expected that the letter from the company will use the following format and include the following information:
- A list of the new qualified positions created during the first full year of operation or the year the company expanded including position titles and whether they are full-time contractors.
- An affirmation that the proposed project will not result in a closing, loss of jobs, consolidation, or change to any existing operations in Virginia for the next 12 months;
- An affirmation that the company has not closed, downsized, consolidated, or laid off employees at existing operations in Virginia within the past 12 months prior to the application date, or, if it has, additional assurances regarding the stability of the new jobs and capital investment.

Together with the letter from the company described above, the company may be asked to provide three years of historical financial statements covering the three years prior to the application, and three years of pro forma financial statements, covering the three years following the application. If the company has been in business less than three years, it may be asked to provide the historical financial statements that may be available. VPA's Executive Director may request additional financial information from the company, including financial information and satisfactory evidence of a company's financial stability. It is likely that such information will be requested and reviewed prior to a decision on whether to award the grant funds.

(3) The company must upload data for the number of containers imported or exported through the Port of Virginia during the first year of operation or the year the company expanded. http://www.portofvirginia.com/development/cargo-verification.aspx

Memorandum of Understanding with the Virginia Port Authority:

The company must enter into a Memorandum of Understanding in which the company agrees to keep the number of employees for which it requested grant funds for at least 36 months. If it fails to do so, it will return the entire grant or a portion thereof to the Virginia Port Authority.



* City of Franklin is currently not included in the zone.

PORT OF VIRGINIA ECONOMIC AND INFRASTRUCTURE DEVELOPMENT ZONE

DEVELOPMENT ZONE
COUNTY BOUNDARY
VIRGINIA PORT
COMMERCIAL AIRPORT
INTERSTATE
US HIGHWAY

0 25 50 100
Miles

Sources: Esri 2011, VEDP 2012, VGIN 2011

BEST Legislation

Georgia's "Business Expansion Support" Act

Only Four Great Ports Give You A Helping Hand...
Exploring the Advantages of BEST via Georgia's Ports

Overview

In a tough global market, you need every competitive break you can get. For over 50 years, the Georgia Ports Authority (GPA) has been a prime catalyst in attracting business to the state, developing ways to give business every advantage possible. Georgia's "Business Expansion Support" Act, or BEST, is a major force in expanding business in Georgia. BEST provides attractive, state-supported incentives to create jobs and help businesses realize high returns on investment.

Opportunities

Georgia can leverage all of its distinct advantages as a port-state to give you targeted, highly competitive tax incentives, all designed to bring significant incentives and jobs while expanding port traffic.

The Georgia Ports Authority was created in part to provide economic benefits to business statewide. The GPA's value to every Georgian grows as it handles even higher volumes of trade.

Georgia's public and private port terminal operators provide high-quality, value-added services for business. As traffic handled by Georgia's ports increases, even more services continue to be offered.

Benefits

BEST makes all of Georgia's counties more attractive locations for new and existing businesses to add jobs.

The benefits of BEST include:

- Enables smaller counties to compete aggressively for business by offering higher job tax credits while maintaining the various threshold levels of jobs and investments required for different tiers.
- Empowers Georgia communities to capture new jobs and investment by offering attractive incentives.
- Encourages existing port-users to expand jobs and investment in Georgia and heighten the volume of traffic and trade through Georgia's ports.
- Promotes increased use of GPA, as well as private terminal facilities, making Georgia ports more attractive to shippers and handlers, thus creating more alternatives for Georgia businesses.

The Port Authority Tax Bonus

Through BEST, the "Port Authority Tax Bonus" is available for industries that locate, or expand, in Georgia and utilize Georgia's ports. This incentive offers additional job tax credits to businesses for each of 4 tiers of counties that add the required threshold of jobs and increase their port traffic through Georgia's port facilities by 10% in one year from the base level.

The base level of port traffic is set at 75 tons, 10 TEUs or five containers. The total tax credit amount cannot exceed 50% of the taxpayer's state income liability for a single year. These credits can be carried forward 10 years if jobs and port traffic remain in service and above the base-level increases.

County Designation	TIER 1	TIER 2	TIER 3	TIER 4
Mandatory Job Creation	5	10	15	25
Tax Credits Per New Full-Time Job	$3,500	$2,500	$1,250	$750
Joint Development Authority Bonus	$500	$500	$500	$500
Port Authority Bonus	$1,250	$1,250	$1,250	$1,250

Total Potential Incentives	$5,250	$4,250	$3,000	$2,500

Eligible industries include manufacturing, warehouse / distribution, processing, telecommunications, tourism and research & development.

Additional incentives are available for less-developed Tier 1 counties.

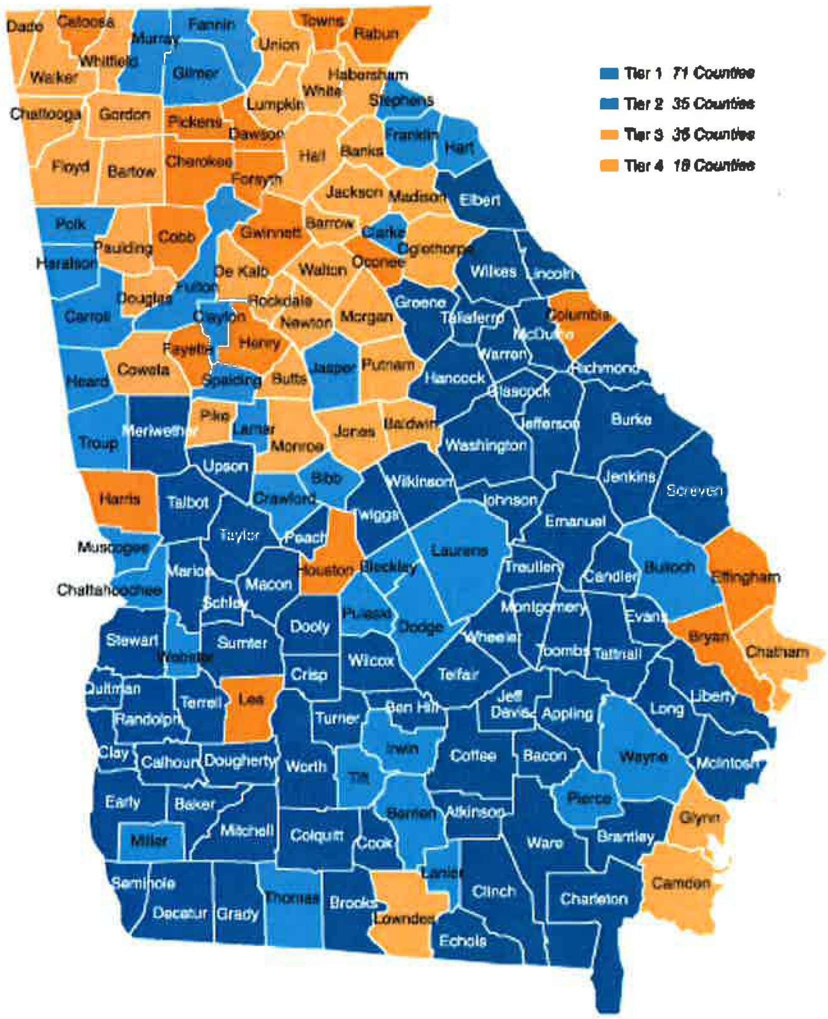
The Georgia Ports Authority also assists prospective and existing industies with identification of international and domestic customers for ocean-going freight. We also provide inland shipping / trucking rates to prospects in an effort to identify cost benefits of moving cargo through Georgia's ports.

For more information please contact:

Stacy B. Watson
General Manager of Economic & Industrial Development
Georgia Ports Authority
800.342.8012 (912.964.3879)
Fax 912.966.3615
swatson@gaports.com

Pamela Goshay
Corporate Tax Conferee
Georgia Department of Revenue
Ph. 404.417.2441
Pamela.goshay@dor.ga.gov
etax.dor.ga.gov/inctax/taxcredits.aspx

(TEU, or Twenty-Foot Equivalent Unit: a standard unit of measure utilized to calculate container throughput. Example, 1 forty-foot container equals 2 TEUs)



Site Map | Privacy Statement | Terms & Conditions | Login

EAST COAST PORT INCENTIVES

State	Port Incentive Name	Short Description	Discretionary/Statuatory	Port Incentive Administrator	Money Available
Florida	Qualifited Target industry Tax Refund	The Qualified Target Industry Tax Refund incentive is available for companies that create high wage jobs in targeted high value-added industries. This incentive includes refunds on corporate income, sales, ad valorem, intangible personal property, insurance premium, and certain other taxes. Pre-approved applicants who create jobs in Florida receive tax refunds of $3,000 per net new Florida full-time equivalent job created; $6,000 in an Enterprise Zone or Rural Community (county). For businesses paying 150 percent of the average annual wage, add $1,000 per job; for businesses paying 200 percent of the average annual salary, add $2,000 per job; businesses falling within a designated high impact sector or increasing exports of its goods through a seaport or airport in the state by at least 10 percent in value or tonnage in each year of receiving a QTI refund, add $2,000 per job. http://laws.flrules.org/files/Ch_2010-136.pdf	Statuatory	Office of Tourism, Trade and Economic Development	$5,000 - $9,000 per job for a port user depending on location
Georgia	The Port Authority Tax Bonus	Through the Business Expansion Support Act (BEST), the "Port Authority Tax Bonus" is available for industries that locate, or expand, in Georgia and utilize Georgia's ports. This incentive offers additional job tax credits to businesses for each of 4 tiers of counties that add the required threshold of jobs and increase their port traffic through Georgia's port facilities by 10% in one year from the base level. The base level of port traffic is set at 75 tons, 10 TEUs or five containers. The total tax credit amount cannot exceed 50% of the taxpayer's state income liability for a single year. These credits can be carried forward 10 years if jobs and port traffic remain in service and above the base-level increases. http://www.gaports.com/SalesandMarketing/EconomicIndustrialDevelopment/BESTLegislation.aspx	Statuatory	Georgia Ports Authority/Georgia Department of Revenue	$2,500 - $5,250 per job based location see attached chart and map.
Maine	No incentives for freight movement at Maine's three Ports. Only the Small Harbor Investment Program (SHIP).	Promotes Economic Development by assisting municipalities in improving or creating facilities, such as; public wharves, piers, landings, dredging, and boat ramps. There is a required 20% local share under this program http://www.maine.gov/mdot/freight/ship1.php	Discretionary (grant program)	Maine DOT	Dependant upon applications received. About $2 million is the most spent on the program in one year since its inception in 1996.
Maryland	Maryland uses its Enterprise Zone Program to offer property tax and job creation credits in Baltimore to encourage development around the Port of Baltimore. This is a statewide program as is Virginia's but higher incentives concentrated in Baltimore City and Prince George's County specifically to attract business around the Port. Program pays out the most money	Businesses in Baltimore City or Prince George's County enterprise zones may be eligible for the following tax credits: Real property tax credits – Ten-year, 80% credit against local real property taxes on a portion of real property improvements. (does not decline as it does with the standard benefit).Personal property tax credits – Ten-year, 80% credit against local personal property taxes on new investment in personal property within a focus area.Income tax credits – a one-time $1,500 credit per new employee. For economically disadvantaged employees, the credit is $9,000 per employee over three years. http://baltimoredevelopment.com/enterprise-zones	Statuatory (tax credit)	Baltimore Development Corporation	Varies - based on number of applicants

Massachussetes	Harbor Maintenance Tax Credit	A corporation subject to corporate excise may claim a dollar-for-dollar state tax credit equal to the amount of "qualifying harbor maintenance tax" (HMT) it pays to the federal government for "port use" at one of three Massachusetts ports during the taxable year. The eligible ports for loading and unloading of commercial cargo located in Massachusetts are limited to Boston, Gloucester and Fall River. Only for break-bulk and containerzied cargo. Bulk cargo not eligible. http://www.massport.com/port-of-boston/About%20Port%20of%20Boston/PortTaxCredit.aspx	Statuatory (tax credit)	Massachusetts Department of Revenue	There is no cap for the program or per tax payer listed in the Massachussets constitution.
New York/New Jersey	The incentives used by PANYNJ seem to be situational and used to encourage a certain type of action by a shipper for a short period of time.	One example is the rail usage incentive. $25 per TEU for use of rail above the preceeding year. This was used in 2009 after PANYNJ invested capital on rail upgrades. It doesn't seem to be available any longer. http://www.panynj.gov/port/	They are not in NY or NJ code but are the same for all shippers	Port Authority of New York/New Jersey	Varies by program
North Carolina	North Carolina Port Tax Credits	Businesses who pay North Carolina state income tax and use North Carolina ports can qualify for tax credits on both inbound and outbound cargo. The credit is earned on cargo wharfage and handling fees paid to the N.C. State Ports Authority which exceed the average for over three tax years. The credit applies to taxes due to the state - up to 50% of the total tax liability for each tax year. Any unused credit may be carried forwarded up to five years for a total credit of up to $2 million. http://www.ncports.com/nc-state-ports-authority/tax-credits/ http://www.ncleg.net/enactedlegislation/statutes/pdf/bysection/chapter_105/gs_105-151.22.pdf	Statuatory (tax credit)	North Carolina Port Authority/Department of Revenue	No cap per tax year. Maximum cumulative tax credit per taypayer is $2 million
South Carolina	Port Volume Increase Credit	South Carolina provides a possible credit against income taxes or withholding taxes to entities that use state port facilities and increase base port cargo volume by 5% over base-year totals. To qualify, a company must have 75 net tons of non-containerized cargo or 10 loaded TEUs transported through a South Carolina port for their base year. http://www.scstatehouse.gov/sess116_2005-2006/bills/3885.htm	Discretionary	South Carolina Coordinating Council for Economic Development has sole discretion to determine credit amount. The Council consists of the heads or board chairs of 11 state agencies concerned with economic development: S.C. Department of Commerce, State Ports Authority, S.C. Department of Parks, Recreation & Tourism, S.C. Department of Agriculture, S.C Technical College System, S.C. Research Authority, S.C. Department of Employment and Workforce, S.C. Department of Revenue, Jobs for Economic Development Authority, S.C. Department of Transportation and Santee Cooper.	$8 million total available yearly

Virginia	Port Volume Increase	Tax credit of $50 per TEU to Virginia taxpayers engaged in manufacturing goods or the distribution of manufactured goods via The Port of Virginia and have increased their port volume by 5% in a single year over their base year port cargo volume.	Statuatory (tax credit)	Virginia Port Authority	$3.2 million per year
	International Trade Facility	Income tax credit equal to $3,500 for every employee hired by Virginia shippers that results from increased cargo of 10% moving through a Virginia Port Authority- operated cargo facility, OR 2% of any capital investment made by a Virginia shipper to facilitate increased cargo moving through the Port of Virginia.	Statuatory (tax credit)	Virginia Department of Taxation	$250,000 per year (capped out in first application cycle for tax year 2011.)
	Barge and Rail Usage	Tax credit of $25 per TEU or 16 tons of noncontainerized cargo for the usage of barge/rail to move cargo.	Statuatory (tax credit)	Virginia Department of Taxation	$1.5 million per year
	Port of Virginia Economic & Infrastructure Development Zone	Governor's Amendment #88 in 2013/2014 Biennium Budget and Codified Pending Appropriation, available January 1, 2013 to 2020 Grant for port users new to or expanding in the zone (see attached map): $1,000 per job for 25 new jobs $1,500 per job for 50 new jobs $2,000 per job for 75 new jobs $3,000 per job for 100 new jobs	Statuatory (grant program)	Virginia Port Authority	$5 million proposed