

Report on the Expenditures of the Small Business Jobs Grant Fund and Anticipated Needs for Small Business Development to Monitor the Effective Use of these Funds

Fiscal Year ending June 30, 2018

The *Small Business Jobs Grant Fund* (SBJGF) was created by HB 943. Introduced in 2010 by Delegate Steve Landes and enacted that same year by the General Assembly, the bill provided grants to eligible small businesses that created at least five net new full-time positions and made a minimum capital investment of at least \$100,000 within a twenty-four (24) month period. A small business was defined in the original legislation as having 250 or fewer employees or \$10 million dollars in average annual revenues. In order to qualify for the grant under the original legislation, an eligible small business was required to make a new capital investment of at least \$100,000 and to pay a minimum entry-level wage rate per hour of at least 1.35 times the annual federal minimum wage.

In 2017, the General Assembly passed HB 1969, which lowered the minimum required new capital investment from \$100,000 to \$50,000. Additionally, that legislation reduced the definition of a small business from 250 or fewer to 50 or fewer employees in its base year and required average annual gross receipts of \$3 million or less averaged over the previous 24-month period. The legislation also reduced the percentage of out-of-state revenues a recipient business must earn from 50 percent to 35 percent.

SBJGF is managed by the Virginia Department of Small Business and Supplier Diversity (SBSD) pursuant to §2.2-1615 of the *Code of Virginia*. SBJGF helps support private sector job creation by encouraging the expansion of existing Virginia small businesses and the start-up of new business operations in Virginia. This is accomplished by providing grants ranging from \$500 to \$2,000 for each net new full-time position. Grant funds are used to offset training and recruiting costs associated with the expanded employment. Grant commitments are based upon expected job creation and expected capital investment; however, grants are not funded until the small business has met the minimum requirement of five (5) net new jobs and \$50,000 new capital investment. To be eligible for assistance for SBJGF, a company must:

- Be for-profit and meet the small business definition.
- Create jobs in the following business sectors:
 - Manufacturing;
 - Distribution Centers;
 - Corporate Headquarters for a company with multiple facilities;
 - Research and Development;
 - Information Technology Services exclusively for businesses; and
 - Inbound Call Centers.
- Pay a minimum entry-level wage rate equal to 1.35 times the federal minimum wage (currently \$9.79). In areas that have unemployment of two or more times the state level, this wage minimum requirement may be waived.
- Provide full-time jobs with benefits for Virginia residents.

Fiscal Year Results:

	Total
Total Jobs Created (during FY18)	80
Central	5
Northern	63
Southside	0
Southwest	5
Hampton Roads	2*
Valley	5

*Although only two jobs were reflected for the Hampton Roads region, that project had created the minimum five required jobs in a previous fiscal year.

	Total
Total Projects (during FY18)	10*
Central	1
Northern	6
Southside	0
Southwest	1
Hampton Roads	1
Valley	1

*At the end of FY18, there were sixteen (16) projects for which SBJGF commitments had been issued. Of these sixteen projects, six projects had grant commitments but the companies had yet to meet the minimum job creation and capital investment requirements. As a result, no grant disbursements were issued during the fiscal year to those companies. Of these 16 active projects, five (5) were minority-owned companies and three (3) woman-owned.

	Total
Total Grant Reimbursements (FY18)	\$70,857.42
Central	\$10,694.70
Northern	\$53,758.72
Southside	\$ 0.00
Southwest	\$ 0.00
Hampton Roads	\$ 2,100.00
Valley	\$ 4,304.00

Total jobs funded by SBJGF during this period paid an average wage of \$27.13 per hour or \$56,430.10 annually. This generated approximately \$3,364.00 in annual state income tax revenues per job. The program’s goal is to recover the Commonwealth’s investment within one year through the income and sales taxes paid by each new job created. With an average reimbursement rate of \$885.72, the program’s payback period for the investment was approximately 3.15 months. This incentive program is performance-based. A small business will not receive the grant until the creation of the net new jobs and the \$50,000 new capital investment has been documented.

Challenges

The program eligibility requirements limit the universe of potential small business applicants. To qualify, an applicant must meet the small business definition, operate in one of six business sectors, generate significant revenues from outside Virginia, increase employment by 10% or more, and make a significant capital investment that does not reduce their labor needs. The change in the definition of a small business from 250 down to 50 made it more difficult to identify eligible businesses. Currently, a business must increase their existing workforce by 10% in order to qualify for assistance versus a 2% increase in employment under the former eligibility rules. For many applicants, and prospective applicants, satisfying the required \$50,000 capital investment is also a challenge.

In some cases, prospective users of the program may meet the minimum capital investment requirement by purchasing equipment that ultimately decreases the company’s labor requirements by improving productivity. As an example, Virginia Artesian Bottling Company made a \$100,000 capital investment in bottling equipment but that equipment ultimately reduced the company’s need for labor. As a result, the company only hired three full-time employees rather than the required minimum of five new jobs.

Use of the program has also been impacted by changes in technology. For example, when the program first started, it was common for smaller IT companies to purchase their own physical servers, thereby meeting the minimum capital investment requirement for the program. However, because of recent technological advances, it is now more cost effective for these smaller companies to utilize cloud-based services such as Amazon Web Services, Microsoft Azure or Google Cloud.