
THE HAMPTON ROADS PARTNERSHIP (HRP)

The Hampton Roads Partnership is a 90+-member, public-private organization comprised of the region's top government, business, education, civic, and military leaders. The Partnership's mission is to provide leadership on those strategic issues that will improve Hampton Roads' competitive position in the global economy.

No other organization in Hampton Roads brings together the top government, business, education, military and civic leadership to work on major strategic initiatives. Specifically, the Partnership's areas of focus include: technology-related economic development, workforce development, port development, tourism development, transportation issues, military partnering, regionalism and plight of the cities.

The Partnership represents the following ten cities, six counties and one town, equaling approximately 1.5 million citizens of Virginia:

Cities: Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg.

Counties: Gloucester, Isle of Wight, James City, Southampton, Surry and York.

Town: Smithfield.

PROJECT BACKGROUND

Since its founding as a business venture in the early 1600's, Virginia has had a long history of leadership and success in economic development. Tobacco, coal, seafood and forest products built much of the Commonwealth's early, commodity-based economy. In time, these same commodities supported new growth, through manufacturing, in areas like textiles, furniture, shipbuilding and machinery providing jobs and a viable tax base to support needed infrastructure improvements. However, manufacturing did not last as one of the Commonwealth's primary economic drivers. Virginia manufacturers soon found overseas competition to be a significant threat. Today, the service sector, particularly technology and other knowledge-based businesses, provide much of the strength for the Commonwealth's economy.

As business growth shifted from manufacturing to services, states and localities focused on developing economic assets within their boundaries. Proactive governments organized economic development entities to focus on bringing in new businesses and supporting the expansion of existing industries. Today, not only are states and localities engaged in pursuing economic development projects but national governments are as well. As such, competition for projects is greater than ever, particularly in light of the slow down in the economy that has substantially reduced the number of big economic development projects.

The Hampton Roads region has long benefited from its mid-Atlantic location, marine resources and port assets. Business in Virginia began in Hampton Roads with the founding of the

Jamestown settlement. Those roots benefited the region as it grew and thrived over the years. The historic foundation also created unique challenges for the region as its patchwork of cities, counties and towns, each with their own independent governing structures, created an environment that was often adversarial between localities. Political fragmentation at the local level has been a significant obstacle to economic growth that continues to this day.

Creation of the Hampton Roads Partnership, in 1996, recognized the fragmentation problem, and provided an effective means by which to focus as a region on important components of economic growth. The organization benefits Hampton Roads by engaging public and private sector leadership on key competitive issues facing the region. Critical to such success is well-functioning economic development efforts, both regional and local. Given Mr. DuVal's experience in economic development and governance at the local, regional and state levels, he was a natural choice to provide strategic economic development advice and guidance for this region.

The Hampton Roads Partnership contracted with Kaufman and Canoles Consulting for Mr. DuVal to prepare this report detailing a plan for improving relationships with state economic developers and providing strategic thinking with regard to economic development. On February 14, 2002, the Hampton Roads Partnership brought together the region's economic development leadership to refine a scope of work for this study of state, regional and local economic development efforts. The idea was simple -- to develop an inside view of how the state operates its economic development system, and to provide an assessment of how the state and prospects view the Hampton Roads region. This report is in response to that effort.

KAUFMAN & CANOLES CONSULTING, LLC, (KCC)

Kaufman and Canoles Consulting is a full-service consulting firm specializing in economic development, real estate development, and strategic planning for business, governmental agencies, and municipalities, primarily within the Commonwealth of Virginia. KCC is based in Hampton Roads, Virginia with offices in Newport News, Norfolk, and Richmond, and an ancillary business of the law firm of Kaufman & Canoles, P.C., (K&C) headquartered in Norfolk, Virginia (www.kaufcanconsulting.com).

Kaufman & Canoles, P.C. is the fourth largest law firm based in Virginia. With offices in Norfolk, Newport News, Virginia Beach, Chesapeake, Hampton, Williamsburg, and Richmond, Kaufman & Canoles offers comprehensive legal representation in many practice areas including; commercial and business, real estate, taxation, labor and employment, litigation, healthcare, and government contracts.

BARRY E. DUVAL

Barry DuVal is President and CEO of Kaufman & Canoles Consulting LLC. Before joining KCC, he served the Commonwealth of Virginia as Secretary of Commerce and Trade from January 1998 to December 1, 2001. Prior to his appointment by Governor Gilmore, Mr. DuVal served as the President and Chief Executive Officer of the Hampton Roads Partnership, a regional organization dedicated to making Hampton Roads more economically competitive. He also served as Mayor of the City of Newport News from 1990 to 1996.

Relevant Experience

- As Secretary of Commerce and Trade, Mr. DuVal managed 15 economic development agencies with approximately 3,000 employees.
- During his term as Secretary, Virginia set new records of economic development and announced 1,517 economic development projects representing 156,850 new jobs and \$13.7 billion in private investment. Mr. DuVal's responsibilities included negotiating state incentives to secure economic development projects.
- Spearheaded the development of "The Virginia Strategy: Prosperity into a New Century." This strategic plan guided economic development policy for Virginia from 1998-2002.
- Spearheaded the development of "The Virginia Workforce Strategy," a policy document outlining initiatives to improve the workforce in Virginia.
- During his term as Mayor, Mr. DuVal faced the challenge of diversifying a defense-based economy. He launched innovative economic development solutions that resulted in retention and expansion of existing hometown industries and the attraction of new international and national firms.

**OVERVIEW OF ECONOMIC DEVELOPMENT STRUCTURE AND PROGRAMS FOR
VIRGINIA AND HAMPTON ROADS**

TABLE OF CONTENTS

VIRGINIA’S STATE LEVEL ECONOMIC DEVELOPMENT SYSTEM.....	1
VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP (VEDP).....	2
Table 1 - State Return on Investment Analysis (Sample Worksheet).....	3
Table 2 - State Return on Investment Analysis (Sample Worksheet).....	4
ECONOMIC DEVELOPMENT TOOLS.....	5
VEDP Resources.....	5
The Governor’s Opportunity Fund (GOF).....	5
Virginia Investment Partnership (VIP).....	7
Table 3 - VIP Grants Chart (Announced VIP Grants Since Inception).....	8
TRADE.....	8
Global Market Research (GMR) Program.....	8
Virginia Leaders in Export Trade (VALET).....	9
Foreign Trade Zones (FTZ).....	10
Suffolk FTZ # 20.....	10
THE DEPARTMENT OF BUSINESS ASSISTANCE: ECONOMIC DEVELOPMENT TOOLS.....	10
Workforce Services.....	11
Worker Retraining Tax Credit.....	12
The Virginia Small Business Financing Authority (VSBFA).....	12
Industrial Development Bonds.....	12

Umbrella Bond Program.....	12
Virginia Economic Development Revolving Loan Fund.....	12
Virginia Defense Conversion Revolving Fund.....	13
Loan Guaranty Program.....	13
Virginia Capital Access Program.....	13
Export Financing Assistance.....	13
Small Business Environmental Compliance Assistance Fund.....	13
Virginia Small Business Development Center Network (VSBDC).....	14
Incentive Summary Per Job.....	14
THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT: ECONOMIC DEVELOPMENT TOOLS.....	14
Enterprise Zone (EZ) Program.....	14
General Tax Credit.....	15
Refundable Real Property Investment Tax Credit for Investment up to \$100 Million.....	15
Investment Tax Credit for Investment over \$100 Million.....	15
Job Grants.....	16
Community Development Block Grants (CDBGs).....	16
Regional Competitiveness Program.....	16
OTHER KEY ECONOMIC DEVELOPMENT TOOLS.....	17
Corporate Income Tax Rate.....	17
Major Business Facility Job Tax Credit.....	17
Recycling Equipment Tax Credit.....	17
The Workforce Investment Act (WIA).....	18
Industrial Access Road Program.....	18
Rail Industrial Access Program.....	19
Solar Photovoltaic Manufacturing Grants.....	19

VIRGINIA’S STATE AND LOCAL ECONOMIC DEVELOPMENT SYSTEM.....	19
Virginia’s State Government Role in Economic Development.....	19
How the State Generates Prospects.....	19
State Handling of Prospects.....	20
Table 4 - Relocation Evaluation Criteria Used by Companies and National Relocation Consultants.....	21
The Locality’s Role in Economic Development.....	23
State Expectations from a Locality.....	25
Characteristics of a Good Working Relationship with State, Regional and Local Economic Developers.....	25
Increasing Locality Success Rate with New Locations or Expansions.....	26
Perceptions of the Hampton Roads Region.....	26
Prospect Perception.....	26
Education.....	27
Transportation.....	27
Workforce.....	28
Regional Cooperation.....	28
Hampton Roads Site Availability.....	28
Quality of Life.....	28
Business Climate.....	28
Perceptions of Other Regions.....	29
State Perspective -- Economic Development Officials.....	29
Improving Regional Perception with Prospects and the State.....	30
Hampton Roads Regional Successes.....	31
APPENDIX.....	32
Analysis of Hampton Roads Regional Economic Development Record Compared to Other Regions in Virginia.....	32
Chart 1: Economic Development Announcements 1998-2001.....	32

Chart 2: Economic Development Announcements 1998-2001	
Per 10,000 Residents.....	33
Chart 3: Employment Announced by Region 1998-2001.....	33
Chart 4: Employment Announced Per Capita 1998-2001.....	34
Chart 5: Investment Announced 1998-2001.....	34
Chart 6: Investment Announced Per Capita 1998-2001.....	35
Chart 7: Governor’s Opportunity Fund Grants.....	36
Chart 8: Governor’s Opportunity Fund Per Capita.....	36
Chart 9: Virginia Investment Partnership Grants.....	37
Chart 10: Workforce Training Funds 1998-2001.....	38
Chart 11: Workforce Training Per Capita 1998-2001.....	38

VIRGINIA'S STATE LEVEL ECONOMIC DEVELOPMENT SYSTEM

Virginia's Secretary of Commerce and Trade manages the Commonwealth's economic development efforts under the leadership of the Governor. The Secretariat is comprised of a diverse group of agencies that support and advance economic development. These include:

- Virginia Economic Development Partnership
- Department of Business Assistance
- Department of Housing and Community Development
- Virginia Resources Authority
- Virginia Tourism Authority
- Virginia Employment Commission
- Department of Agriculture and Consumer Services
- Department of Forestry
- Department of Minority Business Enterprise
- Department of Labor and Industry
- Department of Mines, Minerals and Energy
- Department of Professional and Occupational Regulation
- Milk Commission

Of these agencies, three take the lead in Virginia's economic development program. The first is the Virginia Economic Development Partnership (VEDP) which is the lead agency for marketing the Commonwealth throughout the world. The Virginia Department of Business Assistance (DBA) manages workforce services, one of the most effective economic development incentives in the Commonwealth. DBA also provides essential bond and financial services that assist in the economic development process. The Virginia Department of Housing and Community Development (DHCD) manages several programs that include potential economic development incentives.

Not all of the agencies that play an important economic development role are in the Commerce and Trade Secretariat. The Virginia Department of Taxation oversees a host of important economic development tax credits. In addition, the Virginia Department of Transportation (VDOT) also plays a critical role in economic development with its road access programs. The Virginia Port Authority oversees the important substantial port assets in Virginia.

Incentives play a major role in the economic development decision. Moreover, all economic development incentives are rigorously evaluated to ensure they make good financial sense for both sides, and deliver a suitable rate of return for Virginia. The methodology used to calculate project return on investment is detailed later in this report. However, it is important to remember even though the state has significant resources in these various agencies, the new business location decision is in the prospect's hands. Prospects are entering the relocation process better informed on potential localities than they ever have been and the state's ability to influence that location decision has changed as a result. Contrary to popular belief, the state does not direct prospects to particular locations.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP (VEDP)

VEDP was created in 1995 by the Virginia General Assembly to serve as the focal point for state economic development services such as new business location, expansion and increased trade opportunities. Its mission is "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 expanding the tax base and creating higher-income employment opportunities."

VEDP is not a traditional state agency. Rather, it is a state authority, funded through general fund appropriations, but organized and operated like a corporation. VEDP is governed by a 15 member Board of Directors comprised of businesspersons throughout Virginia who are appointed by the Governor. The Executive Director is employed by the Board and not the state. As such, VEDP operates outside the state personnel, procurement and regulatory systems. Oversight is accomplished by requiring the VEDP Executive Director to report operationally to the Secretary of Commerce and Trade and by reporting quarterly to the General Assembly money committees on the use of incentives. This situation provides VEDP the necessary flexibility to focus on marketing Virginia while maintaining accountability to both the executive and legislative branches of government. The agency is organized into several divisions with primary focus on the Business Development and International Trade Development divisions.

VEDP's role in Virginia's economic development system is as the primary contact for businesses seeking information and assistance concerning a new business location, existing business expansion, or increased trade abroad. When a business contacts VEDP it is assigned a "project manager" from either the business development or trade division. The manager serves as a single point of contact for that business with the Commonwealth and is able to access appropriate resources from other VEDP divisions like research, financing or technology assistance. The project manager can also bring in support from other state agencies if needed by the particular prospect.

Project managers are organized under the Director of Business Development into different teams, or sections, based on core economic groupings established in VEDP's strategic plan (like technology or automotive). A "section leader" heads each business development team and reports directly to the Director of Business Development. Each section leader manages a group of project managers.

VEDP uses a carefully developed system to ensure a balanced package of incentives is developed for each prospect. A Return on Investment (ROI) analysis is used by the Secretary of Commerce and Trade and Governor in deciding whether to approve a set package of incentives. Tables 1 and 2 offer a glimpse into this process. Table 1 details the categories of information used in assessing a project. Clearly, the information collected is extensive and underscores the importance of supplying VEDP with current, accurate data.

Table 1: State Return on Investment Analysis (Sample Worksheet)

Total Capital Investment of Project:	\$ xx,xxx,xxx	Direct Construction Employees:	
Real Estate:		Number of Direct Construction Employees	xxx
Building Cost Total (Land Improvement)	\$ xx,xxx,xxx	Dollars Paid Per Hour – Construction Employees	\$ xx.xx
Labor – Construction Cost (45% of Building Cost)	\$ x,xxx,xxx	Annual Salary / Wage Per Construction Employee	\$ xx,xxx
Materials for Construction (55% of Building Cost)	\$ x,xxx,xxx	Total Direct Construction Payroll	\$ x,xxx,xxx
Machinery & Tools Value:	\$ xx,xxx,xxx	Indirect Construction Employees:	
Recycling Equipment Value	\$ N/A	Indirect Construction Employment Multiplier	x.xx
Pollution Control Equipment	\$ x,xxx,xxx	Number of Indirect Construction Employees	xxx
Total	\$ x,xxx,xxx	Indirect Construction Employment Wage Multiplier	x.xx
		Dollars Paid Per Hour – Indirect Construction Employees	\$ xx.xx
Employment & Salary / Wage Parameters:		Annual Salary / Wage Per Indirect Const. Employees	\$ xx,xxx
Average Work Hours Per Year	x,xxx	Total Direct Construction Payroll	\$ x,xxx,xxx
Average Annual Salary / Wage Growth Rate	x.xx %	Taxes:	
Direct Employment:		Virginia State Sales Tax	x.xx %
Number of Direct Employees	xxx	Portion of Income Spent on Taxable Items	xx %
Percent of In-migrant Employees – Commuting or Relocating to Virginia (% of Direct Employment)	x.xx %	State Costs:	
Number of In-migrant Employees	x	Average Cost Per In-migrant	\$x,xxx
Dollars Paid Per Hour – Direct Employees (1 st Year of Production)	\$ x.xx	Average State Cost Growth Rate	x.xx %
Annual Salary / Wage Per Direct Employee	\$ xx,xxx	Discount Rate:	
		20 Year Yield on Treasury Bonds	x.xx %
Indirect Employment		Breakeven Years:	
Indirect Employment Multiplier – (Category like Auto or Machinery Manufacturing)	x.xx	Discounted	
Total Number of Indirect Employees	xxx	Date	Year xxxx
		Year in Project	x
Total Number of Direct and Indirect Employment:	x,xxx	Undiscounted	
State Grants:		Date	Year xxxx
Community Development Block Grant (CDBG)	\$ x	Year in Project	x
Enterprise Zone Job Grant	\$ x	Corporate Income Tax Credits:	
Enterprise Zone Real Estate Grant	\$ x	Clean Fuel Vehicle Job Tax Credit	\$ x
Governor’s Opportunity Fund (GOF)	\$ xxx,xxx	Day Care Facility Investment Tax Credit	\$ x
Rail Fund	\$ xxx,xxx	Major Business Facility Job Tax Credit	\$ xxx,xxx
Road Fund	\$ x	Neighborhood Assistance Tax Credit	\$ x
Apprenticeship Program Grant	\$ x	Recycling Equipment Tax Credit	\$ x
Virginia Investment Partnership Act	\$ xxx,xxx	Workers Retraining Tax Credit	\$ x
Workforce Services / Industrial Training Grant	\$ xxx,xxx	Enterprise Zone Credits:	
Total State Grants:	\$ x,xxx,xxx	Enterprise Zone General Tax Credit	\$ x
Total State Grants and Tax Credits:	\$ x, xxx,xxx	Enterprise Zone Investment Tax Credits	\$ x
		Enterprise Zone Real Property Improvement Tax Credit	\$ x
		Total Corporate Income Tax Credits:	\$ xxx,xxx

Once the factors above are calculated, VEDP prepares a cost-benefit analysis covering different periods up to 20 years (see Table 2). State of the art economic modeling is used to arrive at a conservative estimate of the project’s likely return on the Commonwealth’s investment and break even date. Nominal and real costs and benefits are calculated using yields on the 20 year US Treasury Bond to arrive at a net present value (benefit) to the state. This analysis provides a

reasonable estimate of what to expect, but is not a guarantee. Future market conditions, effectiveness of a new project’s business plan, and changes in consumer preferences are all important factors to consider, but impossible to predict with certainty.

Table 2: State Return on Investment Analysis (Sample Worksheet)

State Costs:	5 Year Total		10 Year Total		15 Year Total		20 Year Total	
	Cumulative Total	Net Present Value *	Cumulative Total	Net Present Value *	Cumulative Total	Net Present Value *	Cumulative Total	Net Present Value *
	Grants:							
Governor’s Opportunity Fund	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Rail Fund	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Virginia Investment Partnership	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Workforce Services / Industrial Training Grant	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Credits:								
Major Business Facility Job Tax Credit	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Total State Costs:	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
State Benefits: (Income & Sales Tax)								
Revenue From:								
Direct Employment	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
Indirect Employment	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
Direct Construction Employment	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Indirect Const. Employment	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Construction Materials	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Total Benefits:	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
Net Benefit to Virginia	\$x,xxx,xxx	\$x,xxx,xxx	\$x,xxx,xxx	\$x,xxx,xxx	\$x,xxx,xxx	\$x,xxx,xxx	\$x,xxx,xxx	\$x,xxx,xxx

The preceding tables present a generic analysis with standard data points that make up the quantitative portion of the ROI calculation. Specific factors used in actual analyses will depend on the unique characteristics of each locality and a given project. This quantitative analysis provides an objective basis upon which to review a project. The full analysis performed takes into account non-financial factors as well. It remains important for each locality and region to ensure the state economic development team is aware of its strengths and sources of competitive advantage.

ECONOMIC DEVELOPMENT TOOLS

VEDP Resources

The VEDP functions as a coordinator and marketer for the economic growth in the Commonwealth and is itself an effective tool for economic development. In addition to acting as a conduit through which to access incentive funds (listed below), VEDP was one of the first in the nation to provide online site selection support, and maintains a state of the art, multi-media, site selection meeting room. These tools are valuable in showing prospects the advantages of the Hampton Roads region, as well as other regions in the Commonwealth.

The Governor's Opportunity Fund (GOF)

GOF is Virginia's deal closing fund available to secure a commitment by a company to locate or expand in the Commonwealth. It was created to enable Virginia to seriously compete with other states – or even countries – for economic development projects. GOF funds can be used for utility improvements; road and/or rail access costs exceeding existing program funds; site acquisition, preparation and construction; modifications to publicly owned buildings; grants or loans to a Housing and Redevelopment Authority, Industrial Development Authority or other public entity as permitted by law.

The size of the grant is set by the Secretary of Commerce and Trade, based on VEDP's recommendation, and is subject to the approval of the Governor. The maximum amount that can be received is 10 percent of the GOF Fund. Most grants average between two and three thousand dollars per job.

Once a prospect chooses a Virginia location, the locality selected works with VEDP to obtain the necessary funds to secure the project. GOF grant requests must be made by a locality. A formal request is made in the form of an application for GOF assistance and success is dependent on several factors including locality eligibility, the local financial support for the project, project requirements, and the availability of GOF funds. Requests must meet the following criteria:

1. Necessary job creation and investment minimums are met according to § 2.2-115 (D) “no grant or loan shall be awarded from the Fund unless the project involves a minimum private investment of \$10,000,000 and creates 100 jobs. In localities with a population between 50,000 and 100,000, the minimum private investment shall be \$5,000,000, creating 50 jobs. In localities with a population of 50,000 or less, the minimum private investment shall be \$2,500,000, creating 25 jobs. Central cities or urban cores shall be treated for eligibility purposes the same as communities of 50,000 to 100,000 population. For projects where the average wage of the new jobs created is at least twice the prevailing wage, excluding benefits, for that locality or region, the Governor shall have the discretion to require no less than one-half the number of jobs as set forth for that locality in this subsection.”
2. The locality matches the GOF financial commitment;
3. Is not an in-state relocation;

-
4. A performance agreement to ensure fulfillment of the job creation and investment promises is established between the community and the company.

As Secretary of Commerce and Trade, I supported and received General Assembly approval to increase the GOF to \$30 million in the first year of each biennium budget. In its 2002 session, the General Assembly reduced that figure to \$17 million (\$10 million in the first and \$7 million in the second year of the biennium). Similarly, workforce services, one of Virginia's most important incentives, and one that was arguably under-funded going in to the 2002 General Assembly session, was reduced an additional \$4.5 million or one third of the original funding level of \$18 million. Thus, Virginia's top two incentives have been cut significantly and may be further reduced in the future.

One of the most serious implications of these cuts is that they negatively impact pre-existing deals that depend on those funds. This is problematic for two reasons. First, companies relied on these funds as an important part of the justification for locating or expanding in Virginia. Second, these obligations do not disappear but are carried forward tapping future resources. A similar conclusion was reached in a recent Joint Legislative Audit and Review Commission (JLARC) report.

In November 2002, JLARC issued a draft report¹ examining the long-term costs and benefits of major business incentive grants made by the State as well as financial obligations the State may have made through business incentive grant programs in future years.

The report concludes that if Virginia were to eliminate funding of its two largest business incentive programs (Governor's Opportunity Fund and workforce training assistance) in a given fiscal year, there would be negative long-term consequences. Fewer new jobs (and investments in facilities) would likely be created or transferred to Virginia; instead these jobs would likely locate in other states. In two to three years, the resulting loss of individual income tax revenues would likely exceed the amount saved by cutting these programs. There would also be less corporate income tax and sales tax revenues, and less indirect economic activity from investments that accompany these business expansions.

The second issue regards past obligations of the state under these and other economic development programs. Virginia has promised some companies sizable grants in future years after the current biennium, which require new appropriations from the General Assembly. The JLARC report points out the General Assembly's flexibility in funding some or all of these obligations but does not take a particularly strong stand on the issue. I share the concern expressed by VEDP officials that not fully funding the agreed-upon amounts with companies may undercut the State's economic development efforts in the future. Essentially, the state's credibility as a business partner is on the line and the General Assembly should live up to past state commitments.

¹ Joint Legislative Audit and Review Commission (JLARC). Special Report: *State Business Incentive Grant Programs*. November 12, 2002.

Reducing the GOF is unfortunate, but it is used in only about 10 to 15 percent of all announcements. However, cutting workforce services funding (training or retraining) is debilitating as it is part of virtually every project the state puts together. The reduction in funding for workforce services significantly limits Virginia's ability to compete for projects. Moreover, it allows other states that have not cut workforce services budgets to use Virginia's cuts as a marketing tool against the Commonwealth. Cuts to workforce services sometimes forces VEDP to use scarce GOF funds, either directly or as a loan, to close important deals. When the economic climate improves, funding for the above incentives should be restored as a high priority.

Recommendations:

1. Localities must do more to encourage General Assembly funding of GOF to ensure sufficient resources are available for future expansions and new relocations. Educating Virginia's legislators on the importance of GOF should be part of a locality's legislative efforts.
2. Unless a specialized fund specifically focused on retraining is established, (this is outlined under the Department of Business Assistance) consideration should be given to broadening the use of this fund for other activities like specialized workforce training, and used to develop necessary programs in higher education to support new locations or expansions. (See recommendation 2 under the "Workforce Services," section of this document.).

Virginia Investment Partnership (VIP)

The VIP program is a discretionary economic development incentive designed to benefit those companies that have a long history with the Commonwealth. Developing long-term relationships with Virginia's corporate citizens is critical to economic development success. VIP grants are negotiated and awarded to those economic development projects that invest in Virginia and demonstrate stable or growing employment opportunities. Eligible companies must have operated in Virginia for at least five years and have either "Tier One" or "Tier Two" projects.

Tier One

Virginia companies that seek to improve manufacturing productivity or expand the use of more advanced technology through a capital investment of at least \$25 million. In order to be eligible for such assistance, stable employment levels must, at minimum, be met.

Tier Two

Under tier two, Virginia companies must make a capital investment of at least \$100 million and create at least 1,000 new jobs. In order to be eligible under tier two, the following must also be met:

1. The project must be one where Virginia is in competition with another state or country;
2. The negotiated performance grant is based on revenue to the Commonwealth from the new project;
3. Approval by the Governor;

4. No public announcement can occur prior to award of a grant;
5. Grants will not be paid until the sixth year after the capital investment and/or job creation is finalized and will be paid in five annual installments;
6. A performance agreement to ensure fulfillment of the job creation and investment promises is established between the community and the company.

Table 3 shows many of the grant announcements made using VIP grants since the program's inception. As the chart demonstrates, there is a growing demand placed on VIP to close deals due, in part, to reductions in other funds. Virginia should honor the grants already in place despite fiscal pressures.

Table 3: Virginia Investment Partnership (VIP) Grants Chart
(Announced VIP Grants since inception)

<u>Company:</u>	<u>City/County:</u>	<u>VIP Grant:</u>	<u>Capital Investment:</u>	<u>New Jobs:</u>
Volvo	Pulaski	\$3,000,000	\$148 million	1,277
Sterling Semiconductor	Fairfax	\$500,000	\$30 million	172
Sara Lee	Suffolk	\$500,000	\$93 million	100
McKee Foods	Stuarts Draft	\$425,000	\$44.8 million	200
Hershey Foods	Stuarts Draft	\$425,000	\$45 million	80-100
Ford Motor Company	Norfolk	\$3 million	\$375 million	200
Abbott Laboratories	Campbell	\$300,000	\$29 million	61
Kraft Foods	Frederick	\$300,000	\$29 million	75
Worldcom	Loudoun	\$11 million	\$180 million	Up to 8000
Star Scientific	Mecklenburg	\$500,000	\$49.9 million	315
Frito-Lay	Lynchburg	\$400,000	\$30 million	100

Recommendation:

1. Like the Governor's Opportunity Fund, this is a critical economic development tool for use by localities to secure large projects and reward long-term economic development relationships. Localities must support this fund and educate legislators on the value of this program to future local economic development success.

TRADE:

Trade is an important tool to support economic growth. The Virginia Economic Development Partnership has several programs, which provide important assistance in expanding trade opportunities for the Hampton Roads region and the Commonwealth as a whole.

Global Market Research (GMR) Program

The GMR program is designed for Virginia companies seeking to expand trade opportunities but lacking an export marketing plan to do so. The program links colleges and universities in Virginia and overseas with interested businesses to create a customized export marketing plan. Under the GMR program a team of talented business school graduate students, supervised by a

professor, works with a company to develop a marketing plan for the particular market targeted by the company. In addition, VEDP staff lends its own expert support and assistance in creating the final plan. Since 1988 the GMR program has assisted over 400 firms both small and large.

Recommendation:

1. Universities in the Hampton Roads region could participate more in this program. Both the universities and area businesses will benefit if this program is marketed correctly.

Virginia Leaders in Export Trade (VALET)

The VALET program was established as an innovative approach to helping Virginia companies increase successful entry or expansion into global markets. Each participating company must commit a minimum of \$20,000 annually toward an international export strategy. In exchange, the company obtains \$10,000 worth of services from VALET Program Partners. These partners represent an impressive team of experienced international service providers (attorneys, web designers, bankers, translators and freight-forwarders, etc) who have committed to help companies with their international export goals. Each participating company also receives \$10,000 toward the export transaction costs incurred in the course of a successful international sales effort. Private investment in the inaugural VALET program totaled over \$600,000.

The following companies were selected for the first VALET class:

- Avtec Systems, Inc. / Satellite Intermediaries / Fairfax
- Burlington Medical Supplies / Medical / Newport News
- Jefferson Mills, Inc. / Textiles / Pulaski
- KITCO / Fiber Optics / Virginia Beach
- Nuline Companies / Building Materials / Fredericksburg
- Optical Cable Corporation / Fiber Optics / Roanoke
- Specialty Blades, Inc. / Manufacturing / Staunton
- Super Radiator Coils / Industrial Radiators / Richmond
- Virginia Panel Corporation / Interface Connectors /Waynesboro

Recommendation:

1. Universities in the Hampton Roads region could participate more in this program. Both the universities and area businesses will benefit if this program is marketed correctly.

Foreign Trade Zones (FTZ)

Virginia has within its borders six general-purpose FTZs. These zones, set by the U.S. Department of Commerce, are significant assets in a locality's portfolio of tools for business development. FTZs have had a positive impact on a region's ability to attract new jobs and investments from industries that have a strong import/export component as part of their business.

FTZs enable businesses to defer US customs fees, or duties, on imported goods as long as they remain in the zone and until the goods are ready to enter the US. They provide businesses with the ability for light assembly, distribution, and storage for their trade operations. Goods can be stored for an unlimited period of time within an FTZ. Also, if imported goods are held and then exported, are broken, or can be classified as waste, then no duties are charged. Products manufactured in these zones using imported materials can have the duties paid on either the foreign parts or the final product whichever is most advantageous to the company.

Suffolk FTZ #20

The Suffolk FTZ is Virginia's first and is administered by the Virginia Port Authority. While largely in the Hampton Roads area, it has expanded to cover more than 3,300 acres including 489 acres at the Virginia Inland Port in Warren County. In addition, the Suffolk FTZ includes the marine terminals in Norfolk, Portsmouth and Newport News, the industrial parks in Suffolk, Chesapeake, Portsmouth, and Front Royal and two sites on the Eastern Shore at the Wallops Island Space Flight Center and the Accomack County Airport Industrial Park.

Recommendations:

1. Foreign trade is an effective tool for building a market and for sustained growth during economic downturns. Better understanding of this asset and deliberate marketing efforts at the local and regional level will benefit existing businesses and help draw new businesses interested in Virginia.
2. Expansion of the Suffolk FTZ should be considered by the region as an enhanced tool for economic growth.

THE DEPARTMENT OF BUSINESS ASSISTANCE: ECONOMIC DEVELOPMENT TOOLS

The Virginia General Assembly established the Virginia Department of Business Assistance (DBA) in July 1996. DBA serves existing Virginia businesses by assisting those businesses to succeed and grow. The mission of DBA is to "strengthen Virginia's economy by serving as state government's principal point of communication with Virginia businesses in order to provide access to resources that maximize the potential for their success." The agency carries out its mission through its programs and services, which include: workforce training, access to capital, and small business counseling.

Unlike VEDP, DBA is a state agency subject to all state personnel, procurement and regulatory policies. The Department is organized into five divisions: workforce services, financial services, existing business services, small business development and administration. The Governor appoints the Director of the Department of Business Assistance who reports directly to the Secretary of Commerce and Trade.

Workforce Services:

The Workforce Services Division of DBA assists companies that create new jobs with specialty services including recruitment and training. Started in 1965 as part of DBA's precursor, the Department of Economic Development, the Workforce Services Program is Virginia's 2nd oldest economic development incentive. Over the last five years, the Workforce Services Division assisted 1,832 companies in training 90,313 Virginians. This program is one of the most effective and successful economic development incentives in the Commonwealth. It reduces the human resource start-up costs for both new and expanding companies. Working side by side with company representatives, this program provides analysis, assessment services for training and recruitment, electronic media services, and support for the creation of specialized onsite training programs.

Businesses must meet all of the following eligibility requirements for workforce services support and funding:

1. Capital investment over \$1,000,000;
2. Creation of at least 25 new jobs;
3. Pay a minimum wage of \$8 per hour;
4. More than 50 percent of a company revenues must come from outside Virginia;
5. The location or expansion must be a competitive project.

Recommendations:

1. Workforce training funding is DBA's single most important economic development incentive. Localities should actively support state funding of this program with the region's General Assembly delegation. Moreover, a significant awareness campaign is needed since many General Assembly members believe that they have adequately covered workforce training through funding of the community colleges. While college funding is critical, it does not replace targeted funding through the DBA. This misperception on the part of the General Assembly has resulted in under funding of the DBA Workforce Services program such that it is operated below the level necessary to meet existing project obligations.
2. DBA administered workforce training funds should be divided into two programs. One fund would focus solely on industry expansion and recruitment. The second fund would support retraining needs of existing industry. Workforce *retraining*, while one of the most effective state tools for retaining existing businesses, has suffered by being coupled with funds for recruitment and expansion. Legislation to create just such a bifurcated system has been recommended in the past and language is available to assist in making the case to state lawmakers.

Worker Retraining Tax Credit.

While managed by the Virginia Department of Taxation, DBA certifies the courses at Virginia community colleges and private schools which are eligible for worker retraining tax credits. Businesses are eligible to receive an income tax credit for as much as 30% of worker retraining expenses for Virginia based employees. The credit is capped at \$2.5 million per employer in any taxable year. Retraining programs approved by the Virginia Apprenticeship Council are also eligible for this tax credit.

The Virginia Small Business Financing Authority (VSBFA)

The Virginia Small Business Financing Authority is an arm of DBA that provides businesses with access to capital needed for growth and expansion. The VSBFA has several important financing tools to service growing Virginia's businesses.

- **Industrial Development Bonds:** The VSBFA and local industrial development authorities can issue tax-exempt Industrial Development Bonds or IDBs. These bonds are designed to finance new or expanding manufacturing facilities and special exempt projects like solid-waste disposal facilities. They enable business with the appropriate credit rating to finance, at favorable terms and interest rates, as much as 100% of the cost of acquiring, constructing and equipping a facility. The tax-exempt bonds are also useful in enabling manufacturers to lease facilities and equipment at competitive or low rates.

Manufacturing projects cannot exceed \$10 million; however, the Governor has discretion to exempt some projects from this limitation. All IDB financed projects must meet federal tax code eligibility requirements. The VSBFA can also issue taxable bonds when useful to enable businesses to access long-term, fixed-asset financing at favorable interest rates and terms.

- **Umbrella Bond Program:** VSBFA also offers an Umbrella Bond Program, which enables companies to access the public bond market. This tool is primarily useful for smaller projects benefiting smaller companies that otherwise have limited access to the bond market.
- **Virginia Economic Development Revolving Loan Fund:** The Virginia Economic Development Revolving Loan Fund helps businesses bridge a gap between private debt financing and private equity. Loans secured by fixed assets are available to assist new and expanding companies that have at least 50 percent product sales outside Virginia. Up to \$1,000,000 in loans are available for land and building acquisition, facility construction, expansion, improvement of existing facilities or the purchase of equipment. Loan requirements and restrictions include:
 1. Creating or retaining one full-time job per \$20,000 borrowed;
 2. A maximum of 40 percent of the project cost can be financed from the fund;
 3. Cash equity of at least 10 percent of the total project cost must be provided by the company.

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- Virginia Defense Conversion Revolving Loan Fund: The Virginia Defense Conversion Revolving Loan Fund, similar to the above fund, provides financing support to defense dependent industries transitioning to commercial markets. Companies must receive at least 15 percent of revenues from U.S. Department of Defense contracts and show adverse economic impact from defense downsizing to utilize this fund. Up to \$1,000,000 in loans are available for land and building acquisition, facility construction, expansion, improvement of existing facilities or the purchase of equipment. Loan requirements and restrictions include:
 1. Creating or retaining one full-time job per \$20,000 borrowed;
 2. A maximum of 40 percent of the project cost can be financed from the fund;
 3. Cash equity of at least 10 percent of the total project cost must be provided by the company.

 - Loan Guaranty Program: The Loan Guarantee Program provides risk reduction for banks and is designed to increase the availability of short-term capital for small businesses. This program is often used by businesses needing short-term lines of credit to finance inventory or office equipment as well as short-term loans for working capital. The VSBFA can guarantee as much as \$300,000 or 75 percent of the loan, whichever is less.

 - Virginia Capital Access Program: The Virginia Capital Access Program is similar to the loan guaranty program in that it provides a type of loan insurance to a bank through the creation of special loan loss reserve accounts. These accounts are funded by loan enrollment premiums paid by the participating bank and borrower as well as matching funds provided by the VSBFA. The program enables banks to issue all types of commercial loans even though the risk of default is greater than normal.

 - Export Financing Assistance: The VSBFA has its own fund called the Virginia Export Fund, which it can use to guarantee up to 90 percent or \$750,000, whichever is less, of short-term loans made by commercial banks for specific export financial transactions. In cases where a commercial bank loan is not available because the export loan size is too small, the Virginia Export Fund can provide short-term loans for as much as \$250,000. The VSBFA also works with the Export-Import Bank of the United States (Eximbank) and the U.S. Small Business Administration (SBA) to allow easy access to federal financing programs by Virginia exporters.

 - Small Business Environmental Compliance Assistance Fund: The Small Business Environmental Compliance Assistance Fund is designed to finance environmental compliance costs with direct 3% fixed rate loans up to \$100,000. To be eligible for such loans, Virginia businesses must meet the Federal Small Business Act definition, employ 100 or fewer employees and provide some assurance of ability to repay the loan. Eligible uses of the funds include:
 1. Equipment needed to comply with the Federal Clean Air Act;
 2. Equipment required for voluntary pollution prevention (P2) measure implementation;
 3. Agricultural Best Management Practices (BMPs) equipment.

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- Virginia's Small Business Development Center Network (VSBDC): Small businesses face many challenges yet are responsible for most employment growth in Virginia. The VSBDC network provides technical and management assistance to small and medium-sized Virginia businesses. Programs include one-on-one counseling and group training covering basic and complex business topics like management, marketing, financing, and cash flow analysis. The VSBDC also provides pre-business planning support. The VSBDC network operates from 30 locations throughout Virginia. No business is more than an hour drive from an assistance center.

Incentive Summary Per Job

Virginia's economic development programs and incentives are subject to budgeting by the Governor and appropriation by the General Assembly. Funding can and does change. Significant projects can get as much as \$3000-\$4000 per job. Of this total, workforce services average \$500 per job with a maximum of \$1000 for major projects. Given recent funding levels, \$1000 per job would quickly exhaust available resources in the workforce services budget. This is a significant limiting factor in the state's economic development efforts. It is important to note that \$3000-\$4,000 per job is far less than what other competitor states offer. Alabama, fast becoming the Detroit of the South, has paid as much as \$100,000 per job to bring Honda, Mercedes and Hyundai automotive production facilities into the state. This is a significant gap that puts Virginia at a disadvantage.

THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT: ECONOMIC DEVELOPMENT TOOLS

The Department of Housing and Community Development (DHCD) is a state agency supporting Virginia's economic development through infrastructure-related incentives. DHCD provides the state economic development team with critical management of state and federal community development programs that can be used to fund infrastructure to support a new business location or expansion. It also manages the provision of tax credits for business location or expansion within designated enterprise zones. In addition, DHCD's multi-faceted responsibilities extend beyond economic development to housing, community development, urban renewal and redevelopment, homeless programs, post-disaster recovery, and even fire and building regulations. The Department is organized into divisions for Community Development, Housing, Building and Fire Regulation, and Administration which all report to a Director who is appointed by the Governor. The Director reports to the Secretary of Commerce and Trade.

Enterprise Zone (EZ) Program

Virginia's EZ program is targeted to encourage growth in economically depressed regions of the Commonwealth. The EZ program is comprised of specialized business incentives that encourage job growth and investment within the designated zones. Enterprise zones have proven to be effective tools for encouraging growth in distressed areas of the Commonwealth. Currently 56

out of 60 authorized zones have been designated as enterprise zones. These enterprise zones are geographically dispersed throughout Virginia. The remaining 4 authorized zones have been held back as an economic development “silver bullet,” -- the decisive incentive necessary to clinch a very large project like a major manufacturing facility.

A statewide cap applies to all enterprise zone incentives. Small qualified businesses have a combined annual cap of \$16 million and large qualified businesses a combined annual cap of \$3 million. EZ job grant funding is dependent on an annual appropriation by the Virginia General Assembly. If the annual total eligible credits or grants exceed the established statewide allocation, then each business receives a prorated amount. In addition to state incentives, local governments provide a variety of local investments to encourage investment in EZs.

General Tax Credit

This 10-year tax credit allows Virginia businesses to offset state income tax liability that results directly from business activity within a designated enterprise zone. Small qualified businesses investing up to \$15 million and creating up to 50 jobs over a 30-month period are eligible to receive a tax credit equal to 80 percent of their tax liability in the first tax year and 60 percent in years two through ten. Businesses investing over \$15 million and creating 50 or more jobs receive a negotiated tax credit. Businesses must pre-select which 10 consecutive years the credits will be assigned and meet the following eligibility criteria:

1. One quarter of the new, full-time employees must meet low-income standards for the area or reside within a zone.
2. Existing or relocating businesses must increase full-time employment by no less than 10 percent. One quarter of that increased employment must meet the low-income standards.

Refundable Real Property Investment Tax Credit for Investment up to \$100 million

The Refundable Real Property Investment Tax Credit can be used against state income tax equal to 30 percent of qualified enterprise zone rehabilitation project improvements. Eligible projects must invest \$50,000 or the current assessed value of the property whichever is greater. New construction projects must invest \$250,000 in qualified improvements. In addition, the facility must either be occupied by the owner or have the business make at least a portion of the leasehold improvements. Unlike the general credit, this credit is only available for the tax year the property is placed in service. The maximum credit one can accumulate is \$125,000 over any five-year period. The credit is first applied against the business' state tax liability. Any remaining credit is then refunded to the company.

Investment Tax Credit for Investment over \$100 Million

Businesses that invest more than \$100 million in facilities and machinery, and that create at least 200 new jobs are eligible to receive a negotiated state income tax credit up to 5 percent of the investment. The investment tax credit is negotiated along with the general tax credit to arrive at

a combined credit. The combined credit becomes available once the necessary investment threshold is met. Any unused credits can be carried forward until the entire credit is used.

Job Grants

This is a focused tax credit for creating new jobs in a designated zone. Businesses that create new, full-time positions can receive grants for three consecutive years of no more than \$500 per job or no more than \$1,000 if a zone resident fills a job. The maximum grant allowable to a business is \$100,000 a year for the three consecutive years. Additional job creation is required in order for businesses to qualify for additional three-year grants. If a business elects to receive this grant, it cannot receive a tax credit from the Major Business Facility Job Tax Credit.

Community Development Block Grants (CDBGs)

CDBG is a federal incentive available to eligible cities, counties, and towns in order to support local economic development activities. Most CDBG funds are competitively awarded based on the strength of the application, however, some CDBG grants are awarded on a non-competitive basis if certain requirements are met.

CDBG funds may be used for off-site activities like road and rail access, water and sewer line extensions, or new water or waste treatment facilities. CDBG funds can also be used for on-site assistance so long as it supports economic development. Such funds are subject to underwriting. In addition, CDBG funds can be used for micro-enterprise developments, business revitalization, and in some cases, shell building construction.

While CDBG is a federal program, DHCD administers the non-entitlement portion for cities and towns with populations under 50,000 and counties with populations under 200,000. The U.S. Department of Housing and Urban Development retains responsibility for administering the CDBG entitlement program for metropolitan areas.

Regional Competitiveness Program

In 1996, the Virginia General Assembly created the Regional Competitiveness Program (RCP) for the express purpose of making all regions of the Commonwealth more economically competitive. The program encourages joint efforts by multiple localities in a region and provides funding, based on competitive application, for those joint projects that address key regional economic needs. Program funds are intended to support new joint projects, but are also available for existing regional joint projects. Existing projects are required to show how they intend to increase cooperation and joint effort to address identified economic needs.

In 1997 RCP had nearly \$6 million for use in supporting regional projects. From 1998 to 2000 funding increased to nearly \$11 million. In 2002, however, the General Assembly zeroed out the program but added back \$2 million in each year of the biennium late in the session strictly to support workforce services. These funds were eliminated in the 2003 session.

Recommendation:

1. The RCP is not a traditional tool for economic development since it is not utilized at the state level as a business incentive. However, as originally conceived, as an incentive to localities within a region to cooperate, the RCP can and has had a significant impact on promoting regional cooperation, and competitiveness throughout the Commonwealth. Hampton Roads localities and the Hampton Roads Partnership itself, should work with the region's General Assembly delegation to restore the RCP to its original form and fund the program at levels comparable to the past.

OTHER KEY ECONOMIC DEVELOPMENT TOOLS

Corporate Income Tax Rate

Virginia is a strong pro-business state which is a source of competitive advantage in attracting new jobs and investment. The Commonwealth's business friendly attitude is reflected in its corporate income tax rate which is 6 percent.

Major Business Facility Job Tax Credit

Companies locating or expanding in Virginia can receive a \$1,000 corporate income tax credit for each new full-time job created. Conditions for receiving this credit are as follows:

1. Companies locating in enterprise zones must meet a 50-job threshold. All other locations must meet a 100-job threshold.
2. The \$1,000 credit is available only for those jobs that exceed the threshold. Jobs that do not qualify for this credit include maintenance workers, seasonal staff, security, and any other positions that are ancillary to the principal activities of the facility. The credit is provided in equal installments over three years or \$333 per year.
3. These credits are available for taxable years between January 1, 1995 and January 1, 2005. Credits that are not used can be carried over for no more than 10 years.

Recycling Equipment Tax Credit

Manufacturers can receive a state income tax credit for the purchase of certified recyclable material machinery and equipment for tax years January 1, 2001 through January 1, 2004. The Virginia Department of Environmental Quality is responsible for certifying that the equipment to be credited is integral to the recycling process. The credit is available for 10 percent of the total cost of the original equipment. In any tax year, the tax credit cannot exceed forty percent of the company's income tax liability; however, unused credits may be carried over for 10 years.

Those businesses making an investment of at least \$350 million before January 1, 2003 can claim a credit of 10 percent of the total cost of the original equipment. However, the credit cannot exceed 60 percent of the company's Virginia tax liability. Any unused credit can be carried forward up to 20 years.

The Workforce Investment Act (WIA)

The federal Workforce Investment Act of 1998 (H.R.1385) replaced the Job Training Partnership Act (JTPA) on July 1, 2000. This new act changes the previous federal statutes governing job training, adult education, adult literacy, and vocational rehabilitation. The new system is designed to be a more flexible, streamlined workforce development system.

The WIA established a very different means through which employment and training programs are delivered in Virginia. The new governing structure for workforce development includes state and local workforce investment boards and a specialized one-stop delivery system. WIA also changes the focus of the program from training to job placement making the Virginia Employment Commission and its job placement services more important and central to workforce development.

Some of the key features of this new workforce investment system include a state workforce investment board (called the Virginia Workforce Council) local workforce investment boards, one-stop delivery systems, and youth councils. Business representatives must constitute a majority of a local workforce investment board's membership and are therefore a key constituent group. In addition to business representation, boards also include members from educational institutions, community organizations, economic development organizations, labor groups and each of the one-stop partners. The new one-stop system will directly deliver core employment services, such as job search assistance, career counseling, workforce training funded by WIA and other federal organizations, and job market services.

Industrial Access Road Program

The Virginia Department of Transportation (VDOT) manages an important program that enables new or expanding manufacturing companies to build needed industrial access roads. Funds from this program can be used to build an access road from a public road to the company's property line. In addition, funds can be used to improve secondary roads and city streets to allow for additional traffic. Companies can receive up to \$300,000 under this program plus an additional \$150,000 if matching funds are provided. Award size is based on the total capital investment made by the company.

The local Board of Supervisors or City Council must pass a resolution requesting the funds and send to VDOT through the local VDOT engineer. The resolution must detail any utility adjustments, right of ways, environmental analysis, any mitigation, and the extent of private capital investment.

Rail Industrial Access Program

This program is similar to the road access program in that it provides railroad track access to new or expanded industries. However, it is limited to \$300,000 per year to each locality. The full \$300,000 can be used by a locality on one project; however, \$200,000 of the total amount must be matched by the locality boosting the total investment to \$500,000. These funds can be used for rail construction or improvements but not for acquisition or utility adjustment. Like the road program, a resolution is required from the local Board of Supervisors or City Council requesting the funds.

Solar Photovoltaic Manufacturing Grants

This program encourages the development and manufacture of high tech renewable energy devices in the Commonwealth. Any manufacturer that sells Virginia-made photovoltaic panels can receive an annual grant of up to 75 cents per watt of the solar panels' capacity. Starting in 2003, new or expanding companies can receive the grant for six years. The grant is scaled with 75 cents for the first two years, 50 cents the next two and 25 cents the last two years.

Recommendation:

1. The corporate tax rate in Virginia has remained the same since 1972 and – at 6 percent– is significantly lower than many other states. This fact should be incorporated into marketing materials along with other information showing Virginia as a low tax state.

VIRGINIA'S STATE & LOCAL ECONOMIC DEVELOPMENT SYSTEM

Virginia's State Government Role in Economic Development

How the State Generates Prospects

Virginia supports local economic development efforts in many different ways. One of the most important contributions the state makes is to generate quality leads on prospective businesses considering a new location or expansion. The Virginia Economic Development Partnership, or VEDP, is the state's lead marketing organization and a primary generator of such leads. VEDP receives approximately 20 – 25 percent of its prospects through national consultants and the other 75-80 percent from direct company contact . These leads are generated through a number of mechanisms.

One way VEDP generates leads is through focused advertising like the “Virginia is for Business” campaign. The campaigns utilize cable television commercials in targeted states and seek to build increased recognition of the Virginia brand in the minds of national business decision-makers. A good example of this approach is the recent “If it happens in business, it will happen in Virginia” commercials that ran on CNN and the Golf Network. The specific goal of this advertisement was to encourage business leaders to think of Virginia as a place to do business in addition to a vacation destination. Another important VEDP tool for lead generation is

its monthly marketing missions. These missions are critical to developing leads and should not be scaled back even if additional budget cuts are made.

Trade shows are also an important technique that the state uses to generate leads. This year VEDP will have a presence at between 40 to 50 trade shows, whether a formal booth or just having a project manager in attendance. International trade shows like the Hannover Fair and Cebit are always very productive for Virginia. One reason for this success is a recently adopted technique whereby meetings are arranged ahead of time with prospects during the shows. This technique proved successful both for business development and trade and will be utilized even more in the future.

Lastly, a very important change is taking place in state, regional, and local economic development in the way prospective companies and consultants select sites. The Internet is having an increasing influence on how prospects choose communities to visit. In order to remain competitive with other states, Virginia has invested a great deal of time, effort and money in developing one of the finest websites for economic development and trade in the nation. The Internet is fast becoming one of the most important information sources for prospects and site consultants.

State Handling of Prospects

Many regional and local economic development professionals – and public officials – are unclear regarding how the state handles a prospect once one has been identified. Unfortunately, some people have the mistaken belief that the state or the Governor can and does direct a prospect to a specific area of the state. The fact is that prospects ultimately control the process. Business prospect representatives outline the features of the proposed project, and in most cases know which areas within the state they would like to consider.

When a project is identified using VEDP as its primary source of contact, such as through a state generated lead, a project manager from the VEDP business development division is assigned to work on the project until it is finished. The project manager works with the company to identify as many locations in Virginia as possible that satisfy project needs. VEDP works with regional and local economic development groups to ensure information is given to prospects in a timely and accurate fashion. VEDP also maintains a state of the art, multi-media, site selection meeting room that it uses when selling prospects on various regions and localities. Then *the company*, through a process of elimination, arrives at what it believes to be the best Virginia option(s).

There are many challenges in managing a corporate relocation or expansion. Chief among them is understanding and keeping up with the prospect's changing needs throughout the process. Such changes are to be expected because the site selection process is long, usually lasting 12 to 18 months. Additionally, the factors companies use to make their decisions are diverse and numerous. Some of the major factors include skill and availability of workforce, presence of useable sites and buildings, the local business climate, adequate transportation, and the overall quality of life. Some of the more important factors are detailed in Table 4, next page.

Table 4: Relocation and Evaluation Criteria Used by Companies and National Relocation Consultants

RELOCATION EVALUATION CRITERIA USED BY COMPANIES AND NATIONAL RELOCATION CONSULTANTS
<p>Overall Operating Environment – This category provides a survey of the current real estate-related activity within the locations being evaluated.</p> <ul style="list-style-type: none">• General area overview of real estate markets - a survey of recent developments in the real estate markets of the proposed locations.• Specific development and real estate deals – information regarding real estate transactions with industry specific categories. <p>General Labor Availability and Demographics – This criterion provides demographic data that reflects the existence of a labor pool to meet prospect requirements. Labor availability and quality criteria are:</p> <ul style="list-style-type: none">• Population – the overall population in each of the potential areas.• Labor force - the total number of people eligible to work in each area.• Unemployment - the number of people out of work in each area, which represents an immediately available source of labor. <p>Labor Costs - To enable a prospect to make a more informed decision about choosing its new facility, the following labor cost evaluation criteria is:</p> <ul style="list-style-type: none">• Average wages - The average or prevailing wage information for several of the targeted positions required for the new facility.• Employee benefits - Information about the types of benefits (e.g., medical and dental insurance and holiday compensation) available to workers at competing firms in each location. <p>Labor Quality - This evaluation criterion includes several indicators of labor quality to compare the labor force in each region. Labor quality indicators include:</p> <ul style="list-style-type: none">• Education demographics - Information regarding the highest level of educational attainment by residents of specific areas. This data is divided into the following categories:<ul style="list-style-type: none">▪ No High School Diploma▪ High School Only▪ College 1-3 Years and College 4 + Years• Median age<ul style="list-style-type: none">▪ The average age of individuals residing in each area.• Median income<ul style="list-style-type: none">• The average annual salary earned by workers living in a designated area.• Employee turnover - This piece of data indicates the rate at which employees leave a company and, consequently, must be replaced with a new hire. <p>Union Activity</p> <ul style="list-style-type: none">• Union Elections• Right-to-Work Status <p>A number of sources are used to gather the information for each of the location criteria including Federal, State and local agencies, private companies, and academic institutions. The data is provided at a county/city or Metropolitan Statistical Area (MSA) level. In addition to such quantitative data, consultants also use qualitative information to compare the sites. Sources of such information include recent press articles and announcements; personal interviews, economic development and government officials, real estate professionals, utility companies, and other organizations in the potential locations.</p>

Increasingly, companies and site consultants are coming into the location process having already performed a substantial amount of research on various states and locations. Virtually all site consultants have viewed local, regional, and state websites to research locations. A growing number of companies are performing similar research. Because consultants and companies have performed their own pre-screening, they have already gone through the initial site selection stages and often decided on a particular community or communities they believe fit their needs. Usually VEDP has no way of knowing how these sites were chosen - whether by a simple website search on the Internet, personal experience with a locality or a consultant providing the sites.

This trend has lessened VEDP's ability to control the situation. However, VEDP can and does make its own recommendations based on what it understands the prospects needs to be. Typically, VEDP works with a prospect to identify five or six localities. Sometimes prospects want to limit the number of locations to the top two or three. In these situations, a locality's business climate reputation can help or hurt its chances to receive a prospect visit.

Making the cut to the top two or three locations can come down to past professionalism, ability to maintain confidentiality and reputation for providing VEDP with timely information when requested. These subjective factors can truly separate communities in final stages of the site selection process when other quantifiable factors are more or less equal. It is important to recognize that the economic development system is run by people, with impressions and judgment, and is therefore subjective. There is a natural tendency to recommend those communities with a reputation for delivering what is promised, treating prospects well, respecting prospects' time, and showing prospects only what they need. Relationships are critical to successfully bringing new jobs and investment to a particular locality. The subject of building state/region/locality relationships will be covered in greater detail in a later section. VEDP recognizes the possibility for such subjectivity and guards against it by reviewing, on a fairly regular basis, who is recommending prospects to which communities. However, it is impossible to take the human element completely out of the process. The prospect decides where to visit, just as ultimately, the prospect chooses where to locate.

If the VEDP is asked by a locality to assist with an existing prospect, it plays a strictly supporting role to that locality. It is not the policy or practice of the VEDP to attempt to "take" a prospect away from a locality - or to take credit away for an eventual relocation. It is in the best interest of regional and local economic developers to view VEDP as a resource in landing a relocation or expansion.

Recommendations:

Since VEDP still makes recommendations on sites available for relocation, it is imperative that local and regional economic development site lists are updated to VEDP for their database.

1. Because the process is impacted by subjective judgment, it is important to maintain positive, respectful and professional relationships between local, regional, and state economic development organizations.

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2. Localities are rewarded when they:
 - a) Respect a prospect's time
 - b) Provide VEDP with timely information
 - c) Treat prospects professionally
 - d) Deliver what is promised
 - e) Maintain confidentiality

 3. The Internet plays an increasingly important role in site selection by providing prospects with detailed information going into the process and lessening VEDP's ability to recommend locations. Therefore, local and regional organizations must have a well-conceived website maintained with current information. The best sites anticipate information a prospect is seeking and make it easy to gather. Such websites include features that highlight local selling points like:
 - a) Detailed listing of buildings and sites.
 - b) Availability of workforce and workforce training.
 - c) Information on the quality of primary and secondary education as well as availability of higher education.
 - d) Information on quality of life factors. Include information that speaks to the character of the community like visitor attractions and events. These features distinguish an area and give prospects a good feel for what it would be like living in the region.
 - e) Testimonials from existing businesses can send a powerful and positive message to prospects. Consultants and companies look for good, honest testimony from existing employers because they are the most believable sales persons to another company. When including testimonials, ensure they cover a diverse industry cross section as tailored to your target industries as possible. Manufacturers want to know what business is like for other manufacturers, distributors for other distributors, high tech firms for other high tech firms, etc.

 4. It is important to emphasize, the website is often a prospect's first impression of a locality, so a solid, professional site is very important.

 5. Localities should also regularly use the Internet as well to conduct research on prospects and competing states, regions and localities.

 6. Localities should continue to provide the state team with timely, current and accurate information regarding their local economic development related assets like: ready to hire workforce, workforce training programs and schools, available industrial sites and space in existing buildings, and other distinctive quality of life assets.

The Locality's Role In Economic Development

In Virginia's system of economic development, the state provides support; however, localities are responsible for the vast majority of work in bringing new economic growth to their area. State and regional marketing efforts may get a prospect to Virginia and the region, but the

locality's marketing efforts play a decisive role in getting prospects to consider local sites. This does not mean a locality is on its own, rather, economic development marketing is a joint effort between state, regional and local entities.

VEDP's "team trips," trade shows like Semicon and Hannover Fair, and the Report to Top Management all are important marketing opportunities. These events are more successful if done jointly with regions and localities. First, they are excellent opportunities for state project managers to get to know the regional and local economic developers and each community's unique assets. Also, the more regional and local marketing groups participate in marketing missions and trade shows the more successful they will be in bringing new jobs and investment. When it comes to working projects, there is a kind of transformation that takes place when a prospect changes from "browser" to a very serious business prospect. As that change takes place, another transformation occurs. The state (VEDP) begins playing a lesser role in courting the prospect while regional and local government marketing entities assume a greater role. The final "sell" is done at the regional and local level, not the state.

One prime example of the increased role of regional and local economic developers is as prospect relationship managers. Once a prospect agrees to consider a particular locality, it needs to become comfortable with that locality and its leadership. This means getting to know the Mayor and City Council, or County Board Chairman and the full Board of Supervisors. It also means meeting the City or County Administrator and the local business leadership. Developing this relationship is not something a local economic development staff can do on its own. It must be a team effort with local leadership making a conscious decision to pursue a relationship with the company.

As part of the relationship building process, a locality must work to accurately and truthfully meet a prospect's needs in a timely fashion. Perceived weaknesses can be addressed early in the process if an environment of cooperation and willingness to work with the company exists. This means avoiding a one-sided view of the locality's abilities and fully addressing project implementation, permitting and related requirements necessary to completing the project. Presenting a complete picture of the locality and the process even when unflattering is vital to developing a strong foundation of trust through honesty.

Economic development is a long-term process. Localities can benefit significantly regardless of the outcome of a particular project if they invested in building a strong relationship with the prospect company. There is significant benefit in maintaining and building on this relationship as seeds have been planted with the company that could make the locality a contender for future projects.

Recommendations:

1. Focus on building relationships. One critical piece of the prospect relationship building process is to make local elected and administrative officials available to meet and get to know a prospect. This demonstrates to a prospect the willingness to work with and grow with that prospective company.

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2. Regional business leaders should be invited as a part of the recruitment process. Private sector board members of the regional alliance should be included with prospect visits.
 3. Localities should respond to a prospect's needs in a timely fashion. This is an immediate demonstration of the prospect's importance to the locality. The State of Virginia maintains a constituent issue tracking system that ensures each constituent receives a response from the Commonwealth. Similarly, localities should establish a prospect tracking program that tracks requests for information to ensure response is given and can be used to help anticipate requests from future prospects.
 4. Regional and local economic development teams should take advantage of state marketing missions and state participation in domestic and international trade shows to better market the locality as well as to improve the working relationship between the state and local economic development teams.

State Expectations from a Locality

The Commonwealth has certain expectations from localities in the joint effort to increase economic growth. Most of these expectations will be met if localities follow previous suggestions on building relationships with prospects and the regional and state teams and keeping information up-to-date. Chief among these is the importance of maintaining websites with current information and providing similar updates directly to the regional marketing group and VEDP. Without current information on a locality, the state's ability to assist in the marketing process is greatly diminished.

Characteristics of a Good Working Relationship with State, Regional and Local Economic Developers

All of the previous recommendations should assist with this goal, however, there are some core principles. Trust is the foundation of any relationship between state, region and local economic development efforts. Virginia's economic development system breaks down without it. A good working relationship facilitates creation of a team effort that is essential to properly market sites. Virginia's economic development system works best when the local, regional and state teams understand their roles and work together in an atmosphere of trust to develop prospects, bring them to the state and get them to choose a particular locality.

Information sharing is also a critical component in a good working relationship because without it opportunities could easily be lost. Localities should be willing to share prospect information and labor data with its regional marketing group and the state. Some local economic development officials fear taking a prospect to the state because it might be "taken" from them and "given" to some other locality. This is not the policy or practice of the state. VEDP will not take a prospect brought by one locality to another unless both parties agree the prospect will not locate in the original target locality.

Increasing Locality Success Rate with New Locations or Expansions

Successful strategies for new jobs and investment begin with strong marketing supported by current information and a willingness to develop long-term relationships with a potential business. Current, accurate information provided in a timely fashion is critical to this effort. Moreover, information must be cast positively, but honestly. Underpinning all these efforts though is trust between the locality, region and the state. Ultimately, success depends on developing the necessary relationships that allow all parties to rely on and use each other's strengths to compete successfully for new projects.

Recommendation:

1. Improving state, regional and local cooperation is and must remain a top priority. As the economy forces contractions in budgets at all levels of government, state, regional and local economic development teams have a perfect opportunity to strengthen teamwork among them. This improved cooperation can better present the region to prospects and improve the economic development "batting average" when it comes to successfully landing new economic development projects.

Perceptions of the Hampton Roads Region

Up to this point, the emphasis has been on state, regional and local economic development processes, tools, relationships, and roles. While these "external" factors are necessary, there are other, "internal" factors that are probably more important. For a locality to fully implement the recommendations made thus far, and improve its chances for business relocations and expansions, it must honestly assess its strengths and weaknesses as a community. Success depends on a locality knowing and being able to sell competitive strengths in terms of workforce, transportation infrastructure, educational system, quality of life and available buildings sites – among many factors. Companies must believe the locality and region possess the necessary elements for it to prosper – incentives will not make up for a poor match between locality/region and prospect.

When performing such an analysis it is important to emphasize that cities and counties compete, grow and prosper along regional economic boundaries, not city or county boundaries. Localities should use, and in turn, promote, regional assets and image. What is the perception of the Hampton Roads region? It is helpful to examine this issue from two different viewpoints, the state's and prospects'. First, the prospect viewpoint since it is most important.

Prospect Perception

Often, prospects are not familiar with Hampton Roads beyond what they have learned from state economic developers or the research from national consultants. However, once prospects get to know the region, features they typically find most attractive are:

- Port and rail transportation systems;
- Skilled primary workforce;

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- Skilled secondary workforce (largely due to the strong military presence);
 - Pro-business environment;
 - Quality K-12 education and higher education
 - Excellent quality of life.

Perhaps most telling, prospects view Hampton Roads as one region. In their eyes, there is no “Virginia Peninsula” or “South Hampton Roads,” only one Metropolitan Statistical Area. Moreover, confusion results when upon arriving in the region, prospects must work through two different regional entities to obtain necessary site selection assistance and information such as availability of sites and buildings, labor market data, workforce training, education, regional demographics. Prospects contrast that experience with competing areas like Richmond, Charlotte, and Atlanta which all present themselves as one united region. In this regard, the region is at a competitive disadvantage with its current configuration of two regional marketing organizations. Economic development is competitive enough without creating additional challenges to overcome.

Even if prospects are made to understand, and are comfortable with, the concept of two separate regional economic development efforts, there still exists a finite amount of time available for site visits. Most prospects allow only one day for visiting all sites in a given region and some allow much less. Consuming precious time requiring prospects to sit through two separate regional presentations, taking two separate regional site tours, and attending two separate regional lunches or dinners limits everyone’s ability to present sites thereby lessening each regional organization’s effectiveness. The result is often that no organization feels they have had sufficient time to present sites or other regional assets.

Education: A prospect’s view of Hampton Roads is frequently that of a region dominated by shipbuilding and military contracting. The educational system is viewed as focusing on producing workers for those industries. The region is seen as having a very skilled workforce as a result – a perception that is quite positive. However, the region is not perceived as a strong research area with strong centers of higher education.

Prospects see the College of William & Mary as the dominant regional institution. Christopher Newport University, Eastern Virginia Medical School, Hampton University, Norfolk State University, Old Dominion University, Regent University and Virginia Wesleyan College as well as the three Community Colleges, Paul D. Camp, Thomas Nelson, and Tidewater are acknowledged contributors to the region, but are under appreciated. Fortunately, the problem seems more one of a lack of name recognition than capability. Improving this image should be a regional priority.

Transportation: Spending any time in Hampton Roads one gets a clear understanding of the regional ground transportation challenges. Nevertheless, views of transportation by prospects are generally consistent with other areas under consideration for the prospect’s needs. Prospects looking at Virginia are looking at areas all across the nation most of which have similar traffic and transportation problems. Transportation is however a quality of life factor which can have a debilitating business impact. Traffic is a concern more to current residents than prospects.

However, the region's competitive position would be strengthened by addressing its transportation challenges.

As far as transportation assets are concerned, Hampton Roads is quite strong in some areas (i.e.) the port and the extensive rail system that developed around the port. The region should continue to support expansion of port facilities. Having Norfolk Southern headquartered in the area is also seen as a positive. Air transportation is improving at both of the region's airports with the addition of lower cost air carriers. Light rail or commuter trains and high-speed rail are not issues that the average prospect considers when seeing the region. Still, in the future, they would be great assets to the region in meeting the need to move people and products in a timely cost effective fashion.

Workforce: The region is perceived as having a skilled workforce and a strong workforce development system -- particularly at the technical training level. The availability of appropriate workers and workforce training are among the key factors cited by prospects in making their site decisions. However, while workforce issues are not a liability for Hampton Roads, there is an opportunity to strengthen its program through regional coordination of workforce training.

Regional Cooperation: Prospects visiting Hampton Roads see one region. All the local political and geographic boundaries can be confusing, particularly since prospects are typically looking at many different states and regions. The "one region" perception becomes further muddled as they encounter the various economic development organizations, local leaders and regional entities. Regional organizations must continue to work together to minimize confusion that prospects may encounter. Strengthening cooperation on workforce initiatives within the region would be another step toward strengthening this regional cooperation.

Hampton Roads Site Availability: Hampton Roads is perceived as having a good mixture of sites, but it is not commonly looked at for very large new, manufacturing projects. This point is further supported by the projects that have come to this region in the past several years. Distribution facilities, call centers and industries using relatively smaller sites are most common.

Quality of Life: Hampton Roads has qualities and amenities that prospects look for in choosing a location that would be appealing to relocating executives and employees. The region is seen as having excellent recreational opportunities such as an oceanfront, marine recreational opportunities, shopping, golf, and arts and cultural offerings.

Business Climate: In general, Virginia is seen as pro-business. This perception extends throughout Virginia, including Hampton Roads, and is fueled by low corporate income taxes and a reputation of working with business. Virginia is the northernmost right-to-work state on the east coast. The challenge for the Hampton Roads region is to not squander this advantage with different local approaches to zoning, business, professional and occupational licenses (BPOL), and other factors that make up the overall business climate. The potential for overcomplicating these issues is present in other regions of the Commonwealth too. However, a more cohesive approach could be a source of competitive advantage for Hampton Roads.

Perceptions of Other Regions: Views of Hampton Roads are not necessarily different than those of other regions in Virginia. All struggle with the state's system of stand-alone counties, cities and towns. One exception is Richmond, which has successfully marketed itself as one region. Its regional economic development organization, the Greater Richmond Partnership, compiles all necessary information together on workforce availability, adequacy of workforce training, K-12 and higher education, and available buildings and sites. The Greater Richmond Partnership also ensures that VEDP has current, complete information. The success of the Greater Richmond Partnership has also forged an excellent relationship with its constituent localities. The Greater Richmond Partnership was recognized as one of the top 10 Economic Development organizations in the country for 2000 by Site Selection Magazine in May 2001. Not only were jobs and capital investment used by the magazine in choosing the top 10, but subjective factors such as innovation, customer service, leadership and value-adding programs were used as well.

State Perspective – Economic Development Officials

The Commonwealth's economic development team knows and understands the region much better than the average prospect – but even they need constant updating. VEDP sells the region largely on its port, rail and military assets. Those assets sell the region well. However, state economic development officials have a less complete appreciation of the region's higher education and scientific assets. As noted, outside the College of William and Mary, the region's colleges and universities capabilities are not well known. Similarly, there is a lack of familiarity and appreciation for world class scientific assets like Jefferson Laboratory, NASA Langley Research Center, Virginia Institute for Marine Science, Eastern Virginia Medical School, Old Dominion University, and the economic development activities within each of these entities. This unfamiliarity affects prospect perception of Hampton Roads as well.

Finally, the state perceives the region as fractured and easily succumbing to inter-locality conflict. Hampton Roads is seen as needing to improve its ability to look and act like one region. Fragmentation is more than merely a perception problem. On a metropolitan area basis, Hampton Roads' 1.5 million plus residents and significant regional assets, enable it to more effectively compete for large economic development projects than either sub-region – particularly the smaller Virginia Peninsula. Allowing the James River to split the region functionally weakens Hampton Roads' ability to sell itself in the competition for larger projects.

Recommendations:

1. Hampton Roads must focus on presenting itself to prospects as one single region. The region should examine the possibility of combining the two sub-regional economic development alliances. Minimally, to see a marked improvement in the type and number of new economic development projects, Hampton Roads regional economic development presentations must be better coordinated.
2. The region is perceived as having a strong education system; however, its full capability is under appreciated. Develop a promotional message which features these outstanding regional institutions of higher education and research and development laboratories.

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3. As the debate over high speed rail continues, it is important to do all possible to bring a leg of this rail system to the Hampton Roads region. While improving and expanding roads is one effective means of meeting the area's transportation needs, reducing traffic through alternatives like high speed and commuter rail is another means to reach the desired traffic levels.
 4. Regional entities, particularly the workforce investment boards, should work together to jointly approach the region's workforce training needs. One approach would be for each to focus on a different but complementary facet of the total regional workforce needs.
 5. Hampton Roads should examine the possibility of combining the two sub-regional workforce investment boards to more consistently, and comprehensively address the region's workforce needs.
 6. Hampton Roads should convene a panel to examine key business issues within the region such as BPOL, zoning and other factors that impact its competitive position.

Improving Regional Perception with Prospects and the State

The best way for Hampton Roads to improve its perception among prospects and state economic developers is to create one regional marketing organization. Such an entity fits the "one region" image prospects and state officials have of Hampton Roads. Moreover, focusing economic development at the regional level through a single economic development organization is an effective means of reducing regional fragmentation and the appearance of disunity. Such consolidation was accomplished – to very positive result – with the creation of the Virginia Port Authority, Hampton Roads Planning District Commission and Hampton Roads Transit. One may believe that competition between localities in economic development is good. It is not. Such competition has its place *between* economic regions, not *among* localities within a region.

Each locality must commit to supporting the regional organization regardless of the outcome of a particular opportunity. Localities must accept the fact that they may not qualify for a particular project and refrain from blaming the regional organization for the loss. Prospects generally start at the national level and then work downward eliminating states and regions until an optimal location is identified.

Together with improving regional cooperation, building a trusting relationship with the state will better position Hampton Roads for future success. Here, information and communication is critical to successful economic expansion. Hampton Roads must be more willing to trust the state with information and to work more effectively together through a regional economic development organization. The region is strong, but it is too often divided against itself. Teamwork is the key to success and it must begin upon a foundation of trust.

Hampton Roads Regional Successes

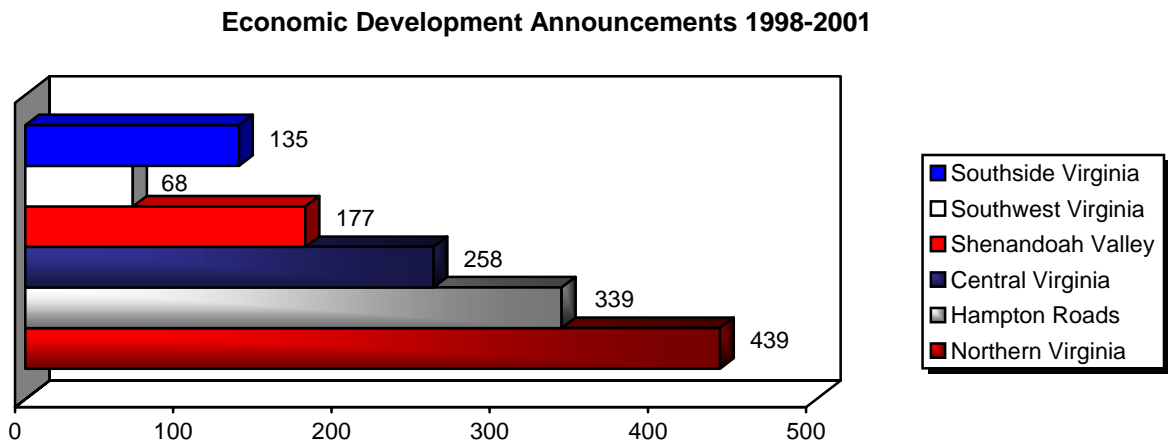
Hampton Roads has had notable success in the past due to “clustering” which has shown that an expansion or relocation in one locality can have positive spillover effects on other localities in the region. Clustering involves the focused development of specific industries or complementary industries in one particular area.

One appeal of clustering is that benefits are spread across many different localities. For example, in manufacturing the initial factory brings in supporting firms like parts suppliers and distributors. Ford’s recent expansion of its Norfolk truck plant demonstrates the benefits of clustering. When Ford decided to expand, the benefit to Norfolk was obvious. However, many of the additional suppliers that came to support Ford located in neighboring communities. The location of seat supplier Johnson Controls, Inc. in Chesapeake was a direct result of Ford’s expansion in Norfolk. Another example of the clustering effect is Canon’s location several years ago on the Virginia Peninsula. Many Canon suppliers chose to locate in Hampton and surrounding communities to support the Newport News facility.

APPENDIX : Analysis of Hampton Roads Regional Economic Development Record Compared to Other Regions in Virginia

The following charts illustrate how the Hampton Roads region compares to other regions along a variety of economic development indexes.

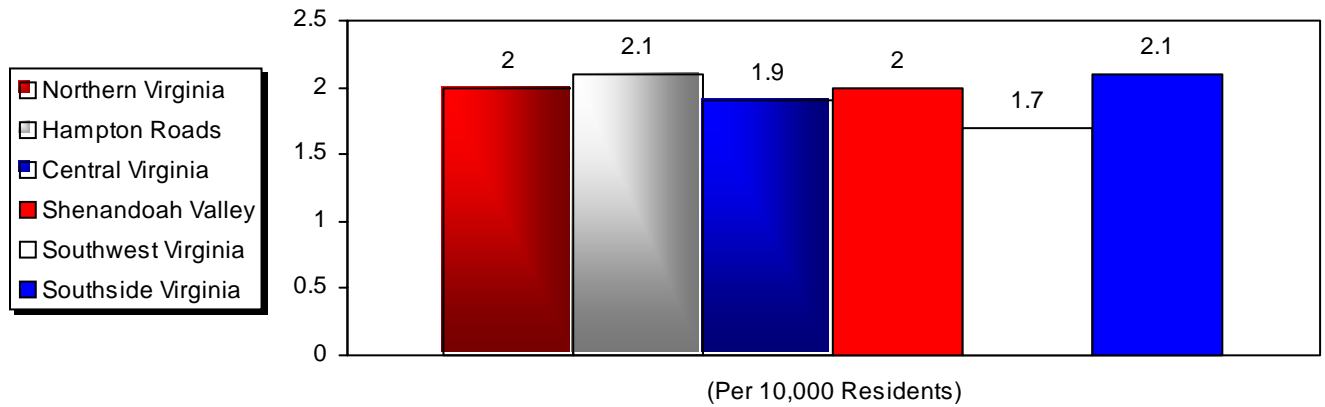
Chart 1



As Chart 1 demonstrates, during the period 1998 – 2001, Hampton Roads was second only to Northern Virginia in the total number of economic development announcements. While the difference between Hampton Roads and Northern Virginia appears significant, when normalized by population on an announcements per 10,000 residents basis, the distribution is almost level across all regions at about 2. In fact, as reflected in Chart 2, Hampton Roads is tied for first place with Southside Virginia at 2.1 announcements per 10,000 residents.

Chart 2

Economic Development Announcements 1998-2001



Charts 3-6 show how the different regions compared in new job growth (3 & 4) and investment (5 & 6). As with announcements, Hampton Roads placed second to Northern Virginia in total new jobs announced. Hampton Roads is also second in announced jobs per 10,000 residents – in a near tie with Central Virginia. An important note about these figures is that they are announced and not actual jobs. These jobs represent what businesses have said they were going to do in a particular region. These numbers are put in this report to provide a useful illustration, not a figure to be relied upon as actual jobs created.

Chart 3 - EMPLOYMENT ANNOUNCED BY REGION – 1998-2001

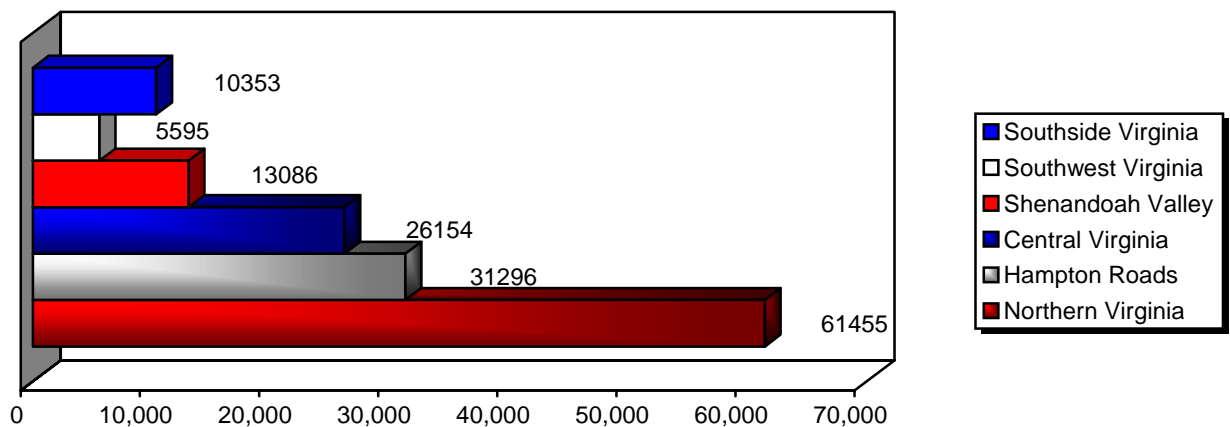
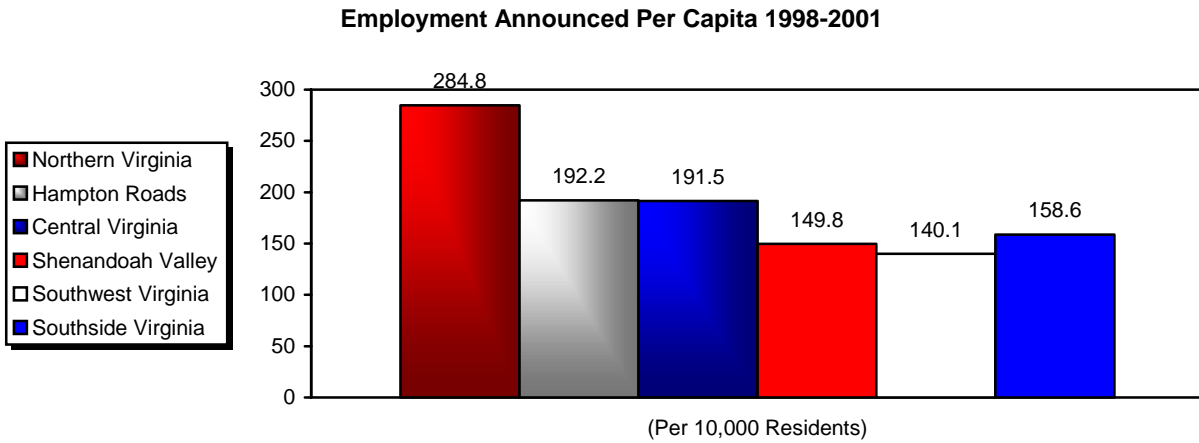


Chart 4



Investment in the region is even more surprising. Despite a respectable second place rank with respect to announced employment, Hampton Roads places third in terms of total investment and second to last for capital investment per 10,000 residents. Why is this so? The region attracts a great deal of distribution and call centers and not large manufacturing projects. Distribution and call centers have a much lower capital investment than manufacturing facilities. This is an area where the region needs to make an extra effort to improve. Virginia Investment Partnership (VIP), could be a tool to assist the region in bringing new manufacturing companies and associated capital investments.

Chart 5

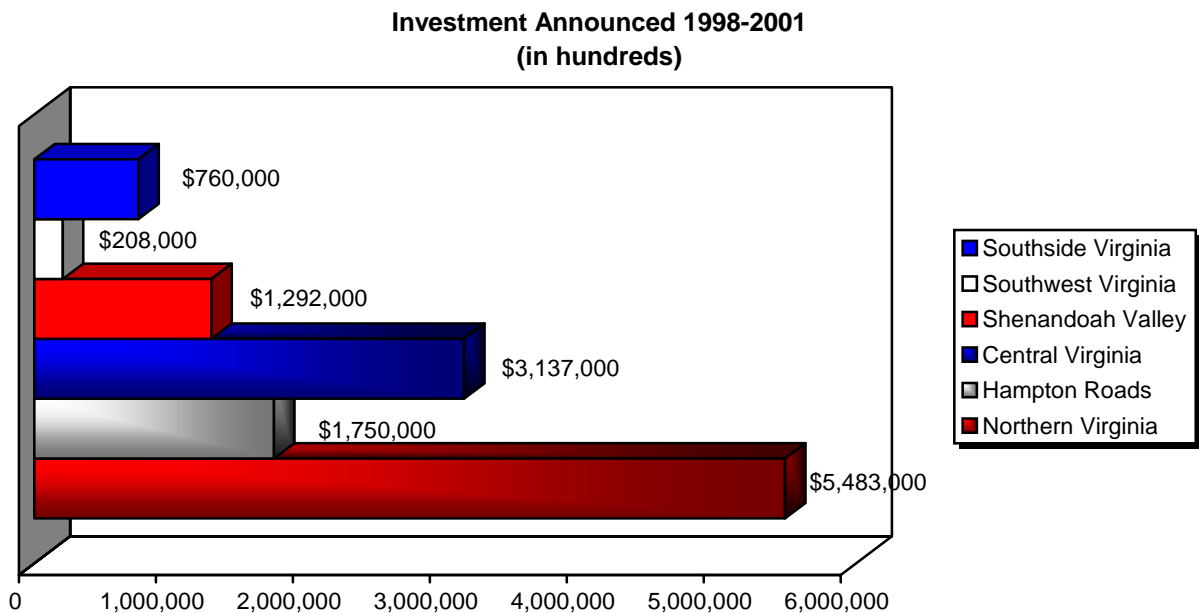
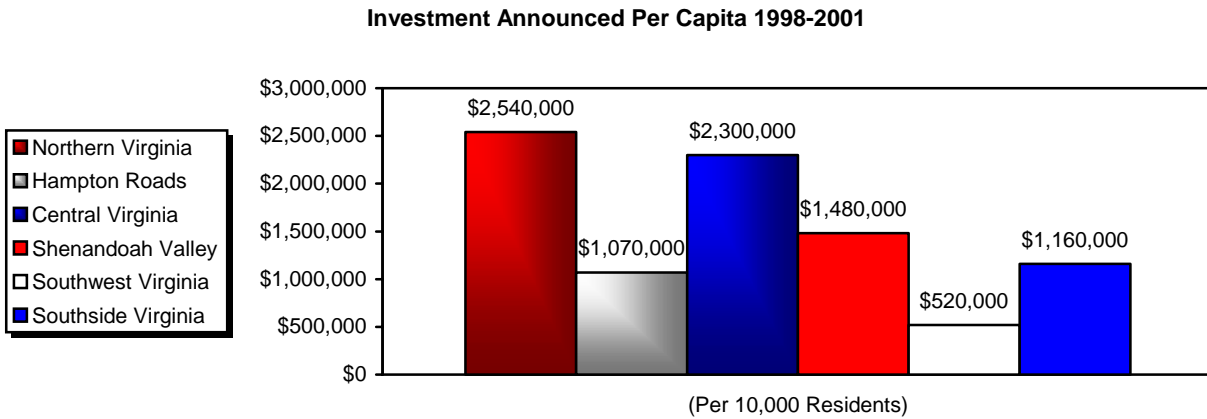


Chart 6



Another gauge of the effectiveness of Hampton Roads’ economic development efforts is the amount of Governor’s Opportunity Fund allocations it has received. As demonstrated in Charts 7 & 8, the difference is quite significant. The common view that Northern Virginia receives the majority of this funding is simply not true – either in absolute or per capita terms. One reason for Northern Virginia’s minimal use of GOF is that some of its localities choose not to provide a local match, or when they do, it is quite small.

While room for improvement exists in Hampton Roads’ use of GOF, this incentive has been useful in bringing jobs and investment to the region. The effective use of this fund to finalize agreements in the region despite growing pressure to bring jobs and investment to Southwest and Southside Virginia further demonstrates that the prospect is in control of the process and not the state.

Chart 7

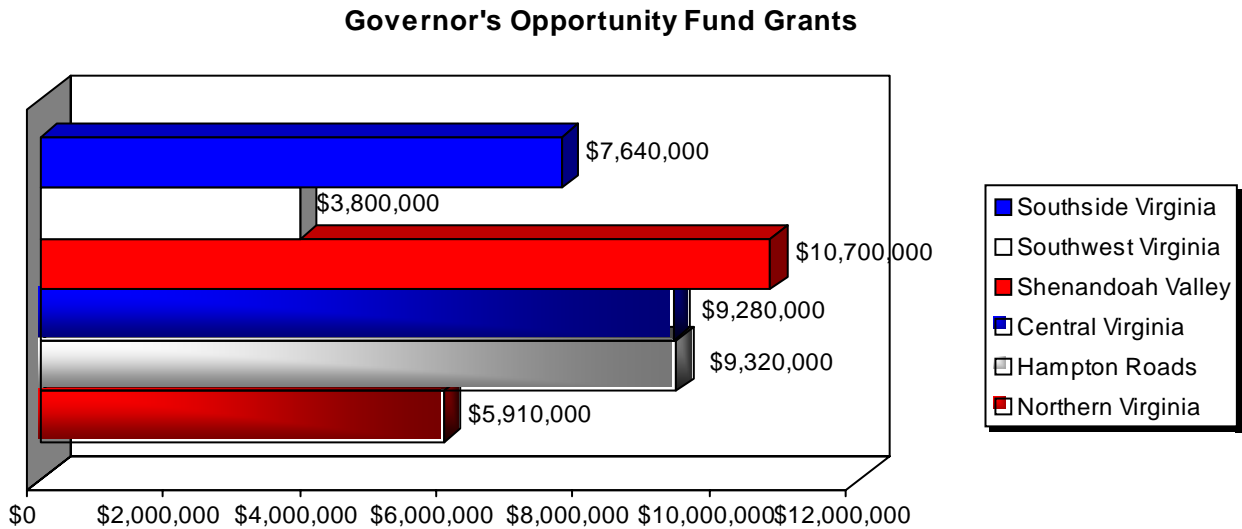
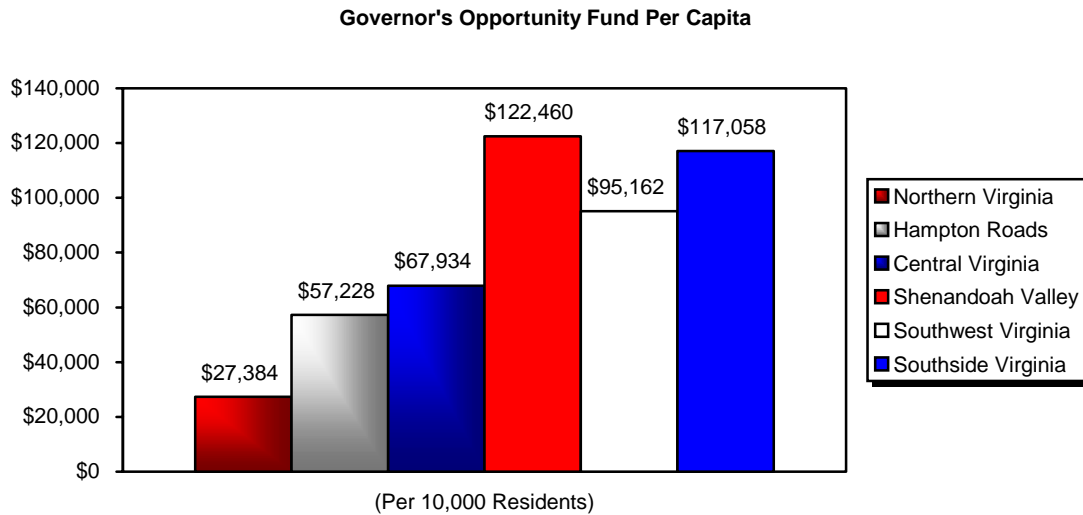


Chart 8 shows the distribution of GOF favored the western portion of the Commonwealth. This difference was not due to anything that Hampton Roads did or did not do, but was in response to the dramatic, negative economic transition that occurred – and is still occurring – in the western part of Virginia. Accordingly, bringing new jobs and investment to Southside and Southwest Virginia became a Gilmore Administrative priority. It is important to note, however, that state intervention could only assist in the economic development of the Western part of Virginia. Progress was largely due to a decision by businesses to take advantage of the increased number of available workers in that region.

Chart 8



The Virginia Investment Partnership program, begun during the Gilmore Administration, was intended to fill a need to do more in supporting existing Virginia industries. Many businesses have benefited from this program, however, as a region Hampton Roads has not taken full advantage of this program (see Chart 9). The Central and Shenandoah Valley regions dominate this category. Existing industry expansion must be the foundation of the region's economic development efforts. More effort needs to be made in Hampton Roads to utilize this program as a potential source for incentives.

Chart 9

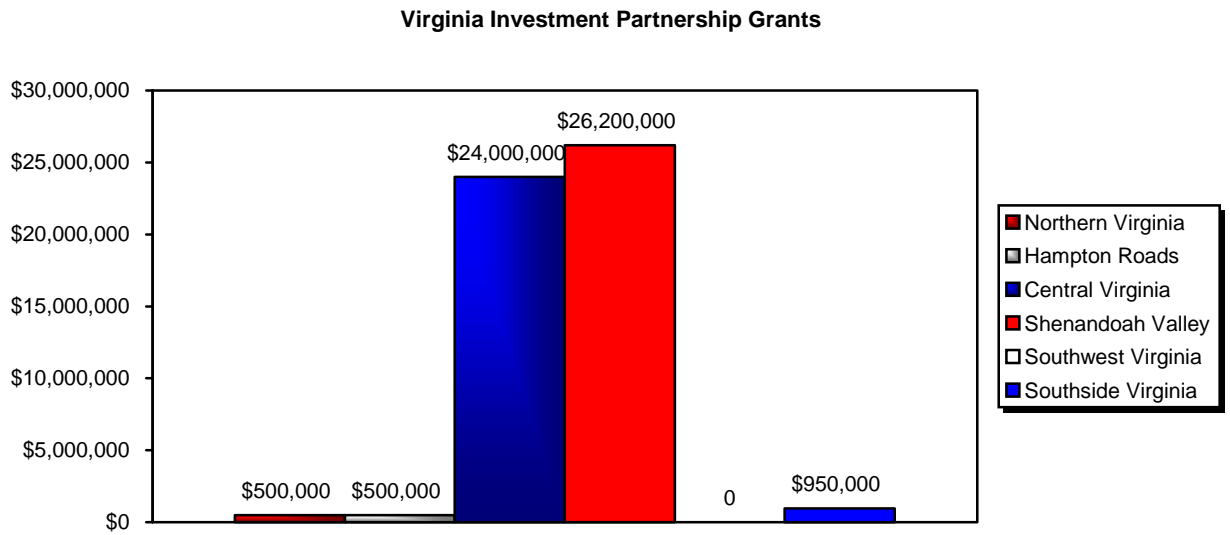
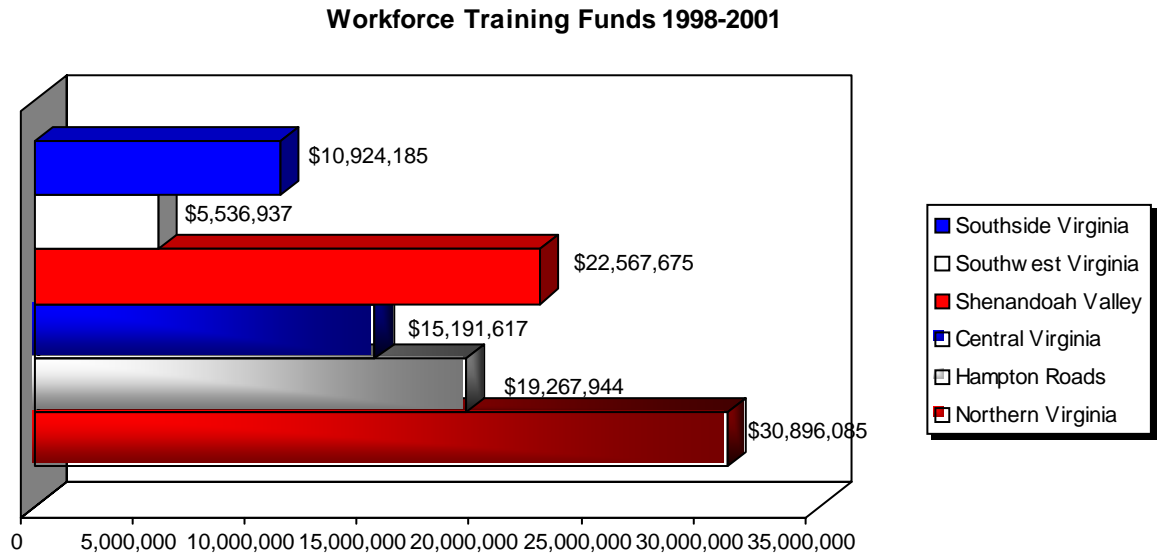


Chart 10



Workforce training has long been a priority for the region. Significant investments have been made at the regional level to advance workforce training to ensure the region had the necessary skilled workforce to improve quality of life and to attract good corporate citizens to the region. The numbers in Charts 10 and 11 are similar to the capital investment numbers. The region looks good at third, but when you compare the total funding to the per capita spending, Hampton Roads again falls to second to last.

Chart 11



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