

# ECONOMIC DEVELOPMENT IN THE COMMONWEALTH: INITIAL IMPRESSIONS AND FUTURE OPPORTUNITIES

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Senate Finance Subcommittee on  
Economic Development and Natural Resources  
January 31, 2017

**VIRGINIA ECONOMIC  
DEVELOPMENT PARTNERSHIP**

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# TOPICS FOR TODAY'S DISCUSSION

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- Initial impressions of Virginia and VEDP
- Tentative aspirational goals
- JLARC implementation plan (draft)
- Incentives administration – past, present, future
- CEO priorities for first 90 days

# INITIAL IMPRESSIONS OF VIRGINIA

- Widely considered one of the best states for business...but most business climate rankings have fallen since 2008
- Incredible human capital, infrastructure, and geographic assets
- Well-regarded higher ed institutions and K12 systems...yet rural horseshoe area lags (like most of rural America)
- Population growth recently dominated by NOVA...while nearly half of localities declined (similar to NC, SC, GA, many others)
- Impressive port and airport infrastructure
- Federal government-related jobs drive much of Virginia's economy...and recently have resulted in growth slowdown
- Virginia now forecasted to grow at roughly the Southern average

# ECONOMIC DEVELOPMENT IN VIRGINIA

- Professional, nonpartisan VEDP model can enable continuity as well as attraction/retention of quality talent and expertise
- VEDP long regarded as one of better state EDOs (especially in its first 10 yrs.)
- VEDP's Trade and Research divisions among the best in America
- Workforce dev.: VJIP smaller, less full-service than top peers (e.g., GA, LA)
- Tiny marketing/advertising/lead generation budget compared to leading peers
- Compared to most other states, Virginia's tax code does not encourage job creation and business investment (see Tax Foundation "Location Matters")
- Virginia has smaller statutory and discretionary incentive offerings than some Southern competitors, which particularly hurts development in rural Virginia
- Most regional EDOs outside big metros are woefully underfunded, while some big urban/regional EDOs have equivalent resources to VEDP in some areas
- VEDP more recently has suffered from JLARC-cited operational challenges and partnership shortcomings with local, regional, and state-level partners

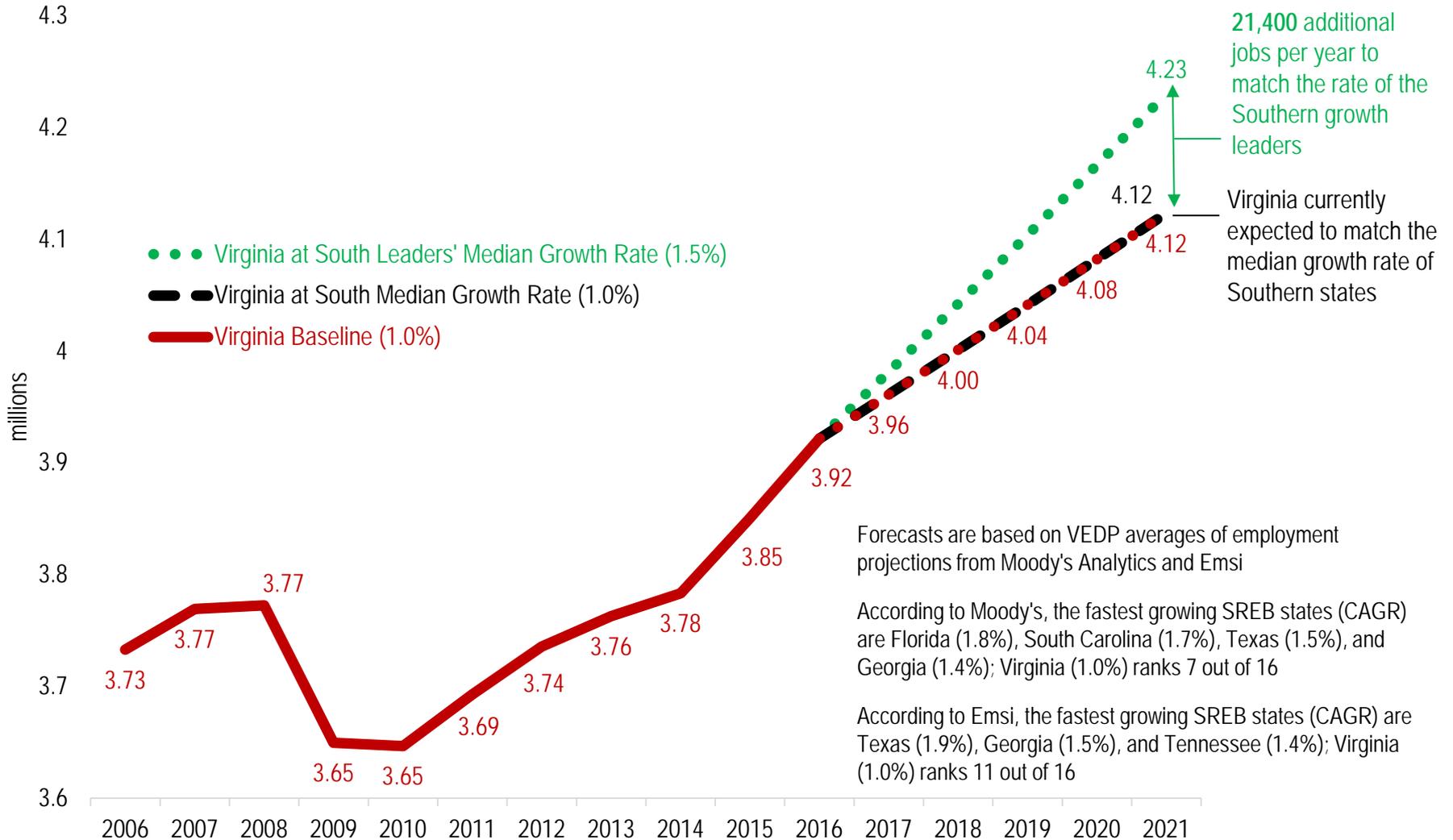
# FIVE TENTATIVE ASPIRATIONAL GOALS

1. Over time, position VA to achieve an employment growth rate among that of the top 3 Southern states (top 5 in US)
2. Ensure that every region in Virginia participates in the growth of the commonwealth (i.e., all in positive territory)
3. Restore Virginia to its previous lofty perch in national business climate rankings of states (i.e., average in top 3)
4. Reestablish VEDP as America's premier state EDO
5. Do all of this in a very collaborative way, working closely with local, regional, and state partners

# TENTATIVE GOAL NO. 1: FASTER GROWTH



Virginia Employment Growth 2006 - 2021



# IMPLICATIONS OF FASTER GROWTH...

- More economic opportunity
- More sales for small businesses
- Consistent population in-migration
- Better retention and attraction of college graduates
- Lower poverty levels
- More congressional seats
- More tax revenue to fund important priorities like infrastructure investment and higher education... without raising tax rates

# TENTATIVE GOAL NO. 2: SHARED GROWTH

- Several of Virginia's regions (e.g., southwest, southside) recently have experienced negative population growth, even as the commonwealth overall has grown
- Virginia's economic success ideally would be evaluated not just based on growth of the commonwealth overall but also on whether each region grows
- Much of VEDP's upcoming strategic planning process will focus on this aspiration

# TENTATIVE GOAL NO. 3: TOP RANKINGS

- While Virginia undoubtedly is one of America's best places for business, the commonwealth hasn't ranked no. 1 in multiple state business climate rankings for several years
- The modest decline in VA's average position in national business climate rankings since 2009 largely has been driven by three key factors:
  - Slower economic growth
  - Rising relative business cost rankings (e.g., tax burden for new corp. investment)
  - Modest decline in business executive perception surveys (partly marketing-related)
- Getting back on top will take a focused, multi-year effort with public and private stakeholders working in concert
- Virginia Chamber of Commerce is making this a top priority

# TENTATIVE GOAL NO. 4: TOP STATE EDO

- VEDP was cutting edge when it was formed and for much of its early history (principally for its first decade or so)
- However, other states have become far more aggressive in economic development, bolstering customized workforce programs, marketing investments, and incentive offerings
- Other state EDOs also have developed more robust incentive administration programs to ensure consistent performance reporting and clawback administration
- Getting back on top will require targeted investments, improved planning/execution (see JLARC report), and more emphasis on the “P” in VEDP

# TENTATIVE GOAL NO. 5: COLLABORATION

- Economic development is a team sport
- Collaboration, coordination, alignment, and partnership will be key focus areas for VEDP in the future
- Key partners will include (examples):
  - Local and regional EDOs
  - Governor and General Assembly
  - Port of Virginia
  - Airports and spaceport
  - Rural Center
  - Tobacco Region Revitalization Commission
  - GO Virginia
  - Higher education institutions
  - State, regional, and local chambers of commerce and trade associations

# JLARC RECOMMENDATIONS

- JLARC identified a variety of operational, administrative, planning, coordination, and execution issues
- Addressing these issues will be one of my top priorities this year
- VEDP staff agrees with the strong majority of the findings and recommendations (as do I)
- Administrative improvements are already underway in several areas and all should be completed by end of the calendar year
- Some recommendations may be impacted by GA actions
  - Incentives administration and compliance
  - Internal audit function
  - Board of Directors composition/responsibilities
  - Strategic planning
  - Marketing/business development planning
  - International Trade integration

# STATUS OF JLARC-IDENTIFIED REPAYMENT OBLIGATIONS

- JLARC identified 23 COF projects for which VEDP-provided data suggested the firms underperformed without a VEDP repayment demand (total est. clawback: \$8.7M)
- **Preliminary** review of these 23 projects suggests the potential clawback amount will be relatively small, for 3 primary reasons:
  - For seven (7) projects, VEDP data provided to JLARC did not correspond to the executed contract requirements. With corrected contract values, six of these projects appear to have fully met their commitments.
  - In several cases, VEDP provided confirmation that the companies met their COF commitments because, for example: (1) the firm underperformed relative to one or more contract terms but generated more economic value than required (typically more payroll); or, (2) the company offset its clawback amount by not accepting another previously committed incentive of equal or greater value to which it remained eligible.
  - The total estimated \$8.7 million in repayment obligations did not account for the fact that COF contracts typically require reimbursement proportionate to underperformance.

# INCENTIVES ADMINISTRATION AT VEDP

- **Past (pre-2016)**
  - No full-time staff focused exclusively on incentives administration
  - Due diligence on companies performed principally by project manager
  - VEDP occasionally allowed companies to meet obligations outside strict contract terms
  - Solid state ROI analyses (note: this continues to present and future states)
- **Present (mid-2016 to today)**
  - One full-time staff member dedicated to incentives monitoring
  - Project Review and Credit Committee reviews/approves due diligence for all discretionary incentives
  - VEDP occasionally allowed companies to meet obligations outside strict contract terms
- **Future (post-2017 GA session)**
  - Dedicated incentives administration team with 3 full-time staff (pending funding)
  - Strict adherence to code and contract terms (e.g., project close-out confirmed with company only after strict contract terms have been met; no offsets)
  - No second performance period extensions (unless GA allows via code amendment)
  - Public website with detailed performance information on all COF recipients

# PRIORITIES FOR MY FIRST 90 DAYS

- Cultivating relationships with economic development VIPs in Virginia – executive branch and GA leaders; local and regional EDO leaders; top VEDP partner organizations (e.g., Rural Center, Port of Virginia, Tobacco Commission, SCHEV)
- Refining a JLARC implementation plan and building a collaborative working relationship with JLARC staff
- Designing and kicking off a comprehensive strategic planning process for VEDP, with substantial board and stakeholder engagement
- Staying closely engaged with the GA during the session to work toward a positive outcome for Virginia relative to VEDP
- Developing an initial understanding of VEDP's operations and Virginia's regions

JLARC RECOMMENDATIONS FOR VEDP: REVISED DRAFT IMPLEMENTATION SCHEDULE

VEDP Fully or Substantially Agrees with JLARC Recommendation

VEDP Partially Agrees with JLARC Recommendation

JLARC Recommendation for General Assembly Consideration

| No. | JLARC Recommendation<br>Brief Description                                    | Implementation Obstacles |                      |                           |                             | VEDP Implementation        |        |        |        | Comment  |
|-----|--|--------------------------|----------------------|---------------------------|-----------------------------|----------------------------|--------|--------|--------|--|
|     |  | New Funding Required     | Serious FOIA Concern | VEDP Authority Inadequate | Percent Complete (estimate) | Target Completion Quarter* |        |        |        |  |
|     |  |                          |                      |                           |                             | Mar-17                     | Jun-17 | Sep-17 | Dec-17 |  |
| 1   | Create a robust strategic plan for VEDP, with stakeholder engagement         | no                       | YES                  | no                        | 5%                          |                            |        |        | X      | Planning process will fully kick off once board makeup is finalized    |
| 2   | Create staff onboarding program; regularly assess staff training needs       | TBD                      | no                   | no                        | 50%                         | X                          |        |        | X      | VEDP currently has no staff focused on professional development        |
| 3   | Develop and implement formal, written policies/procedures to guide staff     | no                       | no                   | no                        | 50%                         | X                          |        |        | X      | VEDP scope often calls for professional judgment and/or flexibility    |
| 4   | Ensure supervisors provide staff expectations in a timely manner             | no                       | no                   | no                        | 90%                         | X                          |        |        | X      | Nearly all PDs confirmed; managers to provide regular updates          |
| 5   | Revise VEDP performance metrics to reflect activities, quality, impact       | no                       | no                   | no                        | 5%                          |                            |        |        | X      | IEDC, other state EDOs, and VA stakeholders will inform this effort    |
| 6   | Clarify CRM data fields and provide training to ensure data integrity        | no                       | no                   | no                        | 50%                         |                            | X      |        | X      | Intro. training created; fields being clarified; refinements TBD       |
| 7   | Ensure that staff conform to VEDP policies on working hours                  | no                       | no                   | no                        | n/a                         |                            |        |        |        | Outlier issues addressed; working hours policy being enforced          |
| 8   | Track staff time/allocation; use data to improve efficiency/effectiveness    | no                       | no                   | no                        | n/a                         |                            |        |        |        | Mgmt. has req'd. open use of Outlook calendars w/ who/what/when        |
| 9   | Request IEDC review of staff performance metrics; report results to board    | no                       | no                   | no                        | 0%                          |                            | X      |        |        | This will be incorporated into VEDP's strategic planning process       |
| 10  | Include adherence to policies in staff reviews, with penalties for variances | no                       | no                   | no                        | 25%                         | X                          |        | X      |        | All employees for FY17 reviews; new folks in 3/6-mo. reviews           |
| 11  | Survey partners to identify opportunities to improve service, coordination   | no                       | no                   | no                        | 5%                          |                            |        | X      |        | IEDC, other state EDOs, and VA stakeholders will inform this effort    |
| 12  | Create and adhere to a detailed annual marketing plan with metrics           | no                       | YES                  | no                        | 10%                         |                            | X      |        |        | Public release of detailed mktg. strategies would disadvantage Va.     |
| 13  | Annually deliver training to marketing staff to ensure consistent alignment  | no                       | no                   | no                        | 5%                          |                            |        | X      |        | Training will be informed in large part by marketing plan              |
| 14  | Regularly evaluate effectiveness of mktg. efforts; report results to board   | no                       | YES                  | no                        | 25%                         |                            |        |        | X      | Will leverage data analytics and feedback from staff and partners      |
| 15  | Update sites/buildings database to conform to IEDC standards                 | TBD                      | no                   | no                        | n/a                         |                            |        | X      |        | Full list not practical; site consultant outreach will drive additions |
| 16  | Improve transparency of project-related reporting to board                   | no                       | no                   | no                        | 50%                         |                            |        |        | X      | Board reporting expanded; more to be added with board input            |
| 17  | Clarify, measure success of coordination b/w mktg. and trade divisions       | no                       | no                   | no                        | 5%                          |                            | X      |        |        | VEDP will develop an coordination agreement to clarify approach        |
| 18  | Expand data collection for companies utilizing trade programs                | no                       | no                   | no                        | 5%                          |                            | X      |        |        | Trade metrics will be incorporated into VEDP overall metrics           |
| 19  | Develop written policies/procedures for evaluating projects for incentives   | no                       | no                   | no                        | n/a                         |                            |        |        |        | Credit review process created, but COF should not be formulaic         |
| 20  | Report annually to board on % of firms meeting reporting requirements        | no                       | no                   | no                        | 0%                          | X                          |        |        |        | Incentives administration group will handle this going forward         |
| 21  | Work with TAX and VEC to verify company performance                          | no                       | no                   | YES                       | 50%                         |                            |        |        | X      | VEC linkage in place; TAX linkage would require code change            |
| 22  | Adopt formal standards (by board) to ensure adequate incentive monitoring    | no                       | no                   | no                        | 50%                         |                            | X      |        |        | Policies recently updated but will be refined based on JLARC input     |
| 23  | GA may wish to direct Commissioners of Revenue to provide data to VEDP       | no                       | no                   | YES                       | n/a                         |                            |        |        |        |  |
| 24  | Develop (w/board approval) and consistently enforce/report on clawbacks      | no                       | no                   | no                        | 25%                         |                            | X      |        |        |  |
| 25  | Ensure (via board) that performance extensions are justified/documentated    | no                       | no                   | no                        | 100%                        |                            | X      |        |        | VEDP accedes to JLARC that 2nd COF extensions won't occur              |
| 26  | Create dedicated incentives administration division w/ at least 3 employees  | YES                      | no                   | no                        | 33%                         |                            |        | X      |        | Further staffing additions contingent upon budget resources            |
| 27  | Develop a website to report on status/performance of incentives recipients   | no                       | no                   | no                        | 10%                         |                            |        |        | X      | Existing incentives site will be enhanced with suggested data          |
| 28  | GA may wish to consider creating a Board of Economic Development             | n/a                      | maybe                | n/a                       | n/a                         |                            |        |        |        |  |
| 29  | GA may wish to consider providing staff for Board of Economic Dev.           | n/a                      | n/a                  | n/a                       | n/a                         |                            |        |        |        |  |
| 30  | GA may wish to consider directing agencies to collaborate with the BoED      | n/a                      | maybe                | n/a                       | n/a                         |                            |        |        |        |  |
| 31  | GA may wish to consider creating a State, Regional, and Local Adv. Team      | n/a                      | maybe                | n/a                       | n/a                         |                            |        |        |        |  |
| 32  | GA may wish to consider clarifying that VEDP board is supervisory            | no                       | no                   | n/a                       | n/a                         |                            |        |        |        |  |
| 33  | GA may wish to consider establishing min. qualifications for VEDP board      | no                       | no                   | n/a                       | n/a                         |                            |        |        |        |  |
| 34  | Create an internal audit division reporting directly to the board            | YES                      | no                   | no                        | 5%                          |                            |        | X      |        | VEDP board may wish to outsource to ensure max effectiveness           |
| 35  | GA may wish to consider withholding \$1.5 million in VEDP funding            | n/a                      | n/a                  | n/a                       | n/a                         |                            |        |        |        | If permanent: VEDP layoffs, reversal of GA-directed initiatives        |

\* Where more than one quarter is selected for target completion, the second checked quarter represents an update of the original deliverable (e.g., onboarding materials will be updated to reflect the new strategic plan)