

SENATE OF VIRGINIA

# Senate Finance Committee

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## **Economic Development Incentives**

Overview of Incentive Programs, Recent  
Trends and Oversight Actions

June 15, 2017

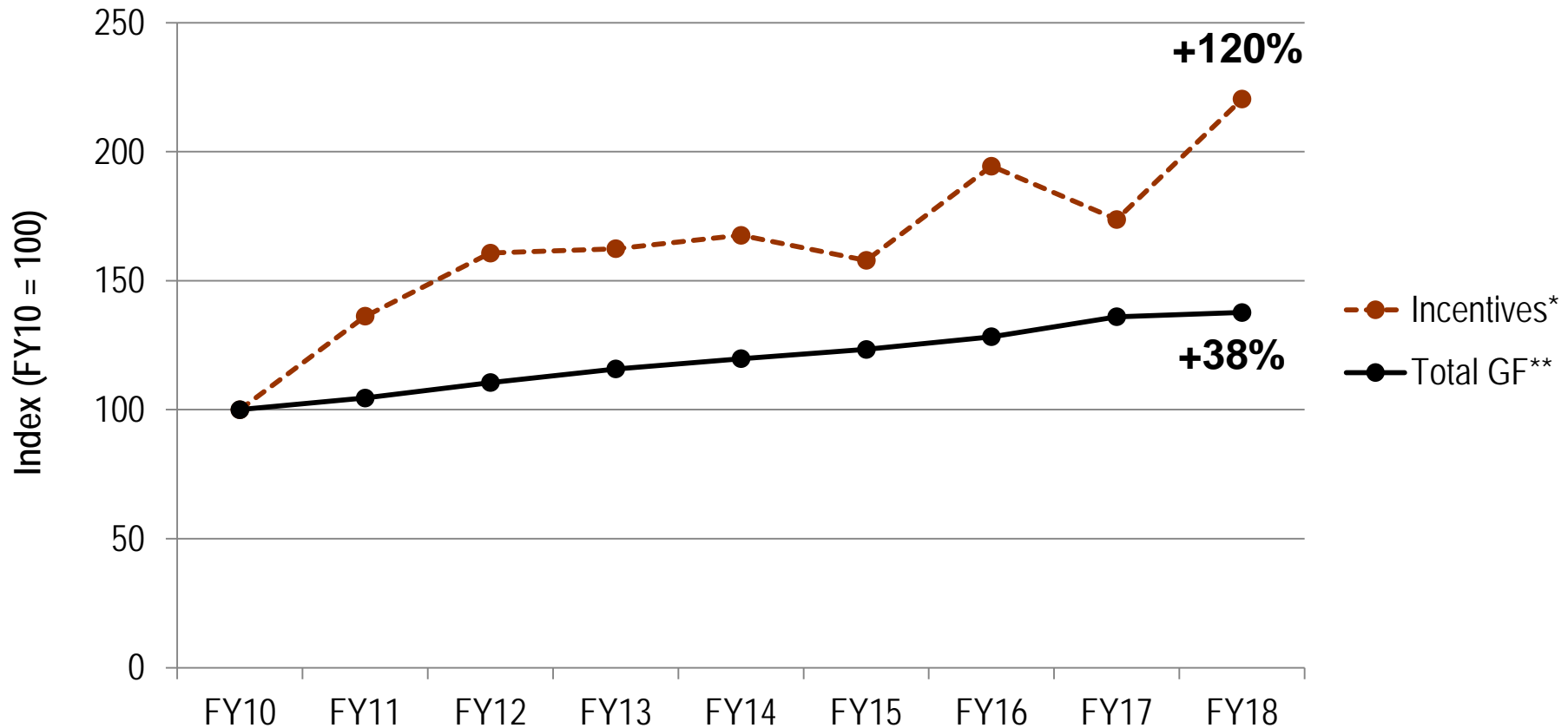


# Key Points

- Funding for economic development grants has grown more rapidly than overall general fund spending. FY 2018 funding is more than twice FY 2010 levels.
- Virginia offers many incentive programs designed to achieve different objectives. These incentives are spread across multiple agencies.
- To date, there has been no ongoing, comprehensive accounting of all economic development incentives and no regular reporting on the extent to which performance metrics are met.
- The General Assembly has recognized the need for increased oversight and accountability, but so far, efforts aimed at better management and reporting of incentives have had mixed results.



# Funding for Incentives Has Grown Faster than General Fund Spending



\* Includes custom grants, COF, EZ, Biofuels, VBHRC, VJIP, AFID, IRF, Brownfields, SBIGF, SBJGF, CRCF, GAP, VRIF, GMPOF, Ready Sites and GO Virginia.

\*\* Total general fund operating appropriations.

Source: Appropriation Acts



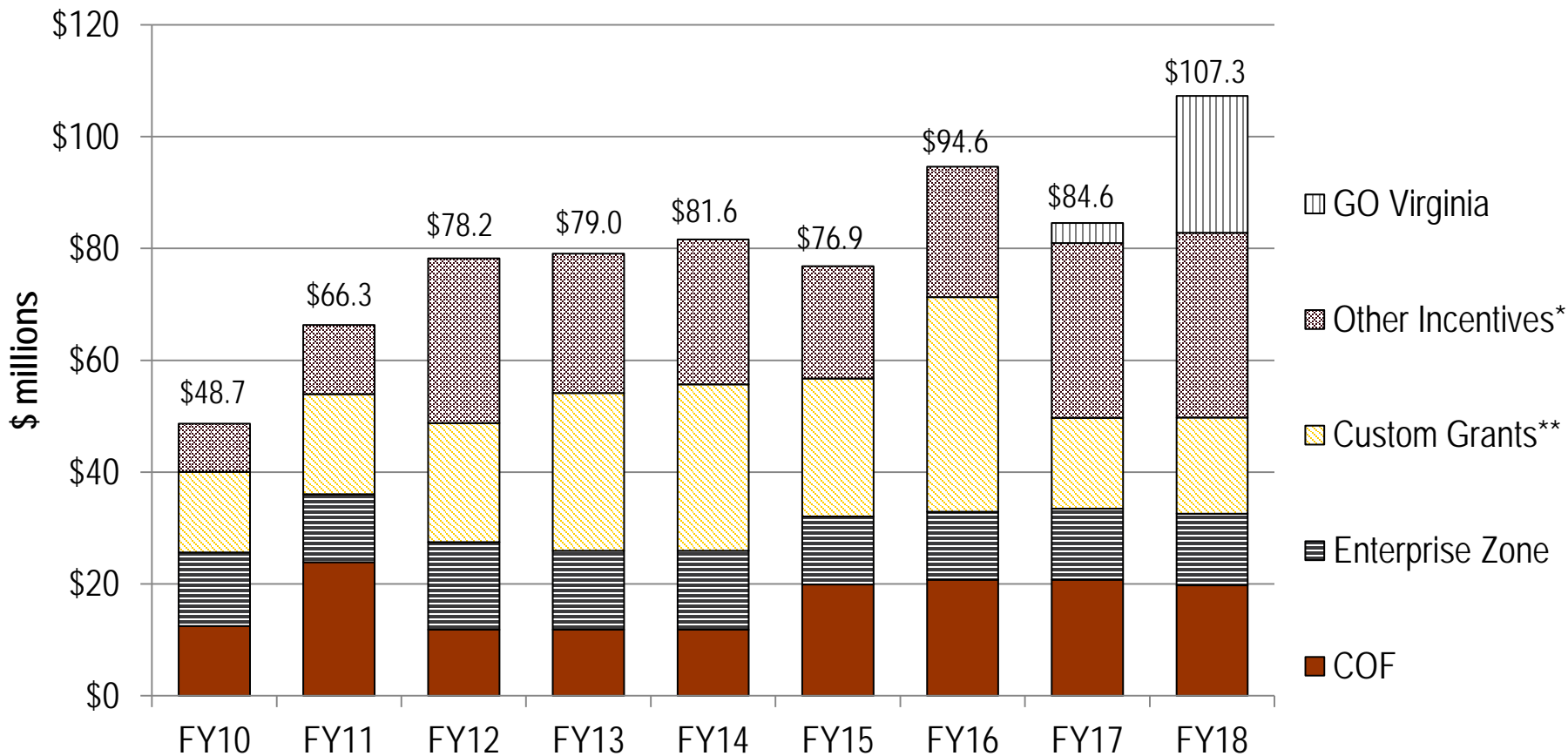
# Many Incentive Programs Designed for Different Objectives

## Five basic categories:

1. Ongoing incentive grant programs are intended to incentivize business location and expansion in Virginia.
  - These grants are awarded to multiple entities throughout the year based on each program's guidelines.
  - Examples include the Commonwealth's Development Opportunity Fund (COF) and the Virginia Jobs Investment Program (VJIP).
2. Custom performance grants require special legislation and are designed to incentivize a specific company to expand or locate in Virginia.
  - Examples include Tranlin, Newport News Shipbuilding and Amazon.
3. Go Virginia is a unique business-led initiative that incentivizes regional collaboration.
4. Other grants tend to be narrowly focused for a specific industry or business activity, such as tourism, research or site development.
5. Tax incentives are designed to encourage economic activity through tax credits, sales and use tax exemptions and other concessions.



# Funding for Incentive Grants: Fiscal Years 2010-18



\* Other Incentives: Includes Biofuels, VBHRC, VJIP, AFID, IRF, Brownfields, SBIGF, SBJGF, CRCF, GAP, VRIF, GMPOF and Ready Sites.

\*\* Custom Grants: Includes Semiconductor, SRI, Rolls-Royce, NNS (2), and Tranlin.

Source: Appropriation Acts.



# Ongoing Incentive Grant Programs

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<p><b>Commonwealth's Development Opportunity Fund (COF)</b></p> <ul style="list-style-type: none"> <li>• Discretionary "deal closing" grants (or loans), to encourage business location or expansion.</li> <li>• Grants are paid to the locality and require a 100% local match (cash or in-kind).</li> <li>• Clawback provisions are half based on investment and half based on jobs.</li> <li>• Standard Eligibility: \$5 million capital investment and 50 jobs paying at least the local prevailing wage; or, \$100 million and 25 jobs. Lower requirements for distressed localities.               <ul style="list-style-type: none"> <li>○ Distressed (unemployment <u>or</u> poverty): \$2.5 million capital investment and 25 jobs paying 85% of prevailing wage.</li> <li>○ Double Distressed (unemployment <u>and</u> poverty): \$1.5 million and 15 jobs paying 85% of prevailing wage.</li> <li>○ Exception to wage requirement in distressed localities is permitted at Governor's discretion.</li> </ul> </li> <li>• Generally, one-third of appropriation must be awarded to localities with higher than average unemployment.</li> </ul>	\$20.8	\$19.8
<p><b>Enterprise Zone Grants</b></p> <ul style="list-style-type: none"> <li>• Job Creation and Real Property Improvement Grants to qualified businesses that locate or expand in designated areas.</li> <li>• Eligibility is based on capital investment, job creation and wages paid with lower thresholds applicable to areas with high unemployment.</li> <li>• The program is consistently oversubscribed with qualified recipients receiving prorated grant awards.</li> <li>• Administered by the Department of Housing and Community Development (DHCD).</li> </ul>	\$12.7	\$12.8
<p><b>Virginia Investment Partnership Grant (VIP)</b></p> <ul style="list-style-type: none"> <li>• Discretionary cash grants available to existing Virginia manufacturers and R&amp;D companies that meet capital investment thresholds and either increase or maintain employment levels.</li> <li>• \$25 million minimum capital investment (per guidelines).</li> <li>• Guidelines require 50% local match beginning in FY 2016.</li> <li>• Grants are generally paid in five equal annual installments beginning 24 to 36 months after performance is verified.</li> <li>• Capped at \$6 million per year.</li> </ul>	\$2.7	\$2.2



# Ongoing Incentive Grant Programs

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<p><b>Virginia Jobs Investment Program (VJIP)</b></p> <ul style="list-style-type: none"> <li>Cash grants intended to incentivize business location or expansion by offsetting the costs of workforce training.</li> <li>Three programs: (1) new jobs; (2) workforce retraining; and (3) small business new jobs and retraining.</li> <li>Eligible jobs must pay at least \$9.79/hour (1.35X federal minimum wage).</li> </ul>	\$5.7	\$5.7
<p><b>Virginia Economic Development Incentive Grant (VEDIG)</b></p> <ul style="list-style-type: none"> <li>Discretionary cash grants used to incentivize corporate headquarters, administrative or service sector operations.</li> <li>Used infrequently. No awards in FY 2016; two in FY 2015; and one in FY 2014.</li> <li>Grant amounts authorized in tranches: (1) awards prior to July 1, 2010 are limited to \$6 million per year and \$30 million in aggregate; (2) an additional \$30 million authorized for awards after July 1, 2010 fully committed, and (3) the 2017 Appropriation Act authorizes an additional \$4 million for awards after July 1, 2017.</li> <li>Grants are paid in no fewer than five installments beginning in the third year after performance is verified.</li> </ul>	\$4.2	\$1.6
<p><b>Major Eligible Employer Grant (MEE)</b></p> <ul style="list-style-type: none"> <li>Discretionary cash grants of up to \$25 million intended to incentivize exceptionally large economic development projects.</li> <li>Rarely used; last awarded in FY 2006.</li> <li>Minimum of \$100 million capital investment and 1,000 jobs; job target may be lowered if wages exceed the local prevailing wage.</li> <li>Payments are paid in five to seven annual installments beginning three years after performance.</li> </ul>	\$1.8	\$1.8
<p><b>Agriculture and Forestry Industries Incentive Grant (AFID)</b></p> <ul style="list-style-type: none"> <li>Administered by Virginia Department of Agriculture and Consumer Services.</li> <li>Discretionary grants (or loans) to political subdivisions for the purpose of attracting new and expanding agriculture and forestry processing / value-added facilities using Virginia-grown products.</li> <li>Modeled after the Commonwealth's Development Opportunity Fund.</li> </ul>	\$1.8	\$1.0

**Nongeneral Fund Programs:**

- Tobacco Region Opportunity Fund



# Custom Performance Grants

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<p><b>Advanced Shipbuilding Production Grant</b></p> <ul style="list-style-type: none"> <li>• Custom performance grant program to assist Newport News Shipbuilding in competing for the production of 12 Columbia-class ballistic missile submarines to replace the 14 retiring Ohio-class subs.</li> <li>• \$46 million authorized during 2016 GA based on the expectation of up to 1,000 new jobs and \$750 million in new capital investment.</li> <li>• First payment planned for FY 2018.</li> </ul>	\$0.0	\$6.0
<p><b>Pulp, Paper and Fertilizer Advanced Manufacturing Performance Grant (Tranlin)</b></p> <ul style="list-style-type: none"> <li>• \$20 million custom performance grant with payments planned FY 2017 through FY 2023.</li> <li>• Project is behind schedule. Current budget delays first and second year payments by one year.</li> </ul>	\$0.0	\$2.0
<p><b>Advanced Shipbuilding Training Facility Performance Grant</b></p> <ul style="list-style-type: none"> <li>• Custom performance grant program (Newport News Shipbuilding).</li> <li>• \$32.7 million paid over five years. First payment in FY 2013. Final payment in FY 2017.</li> </ul>	\$7.2	\$0.0
<p><b>Rolls-Royce Custom Performance Grants</b></p> <ul style="list-style-type: none"> <li>• Aerospace Engine Manufacturing Performance Grant - \$35 million.</li> <li>• Aerospace Engine Manufacturing Supplier Cluster Bonus Performance Grant - \$5 million.</li> <li>• Aerospace Engine Manufacturer Workforce Training Grant - \$8.8 million.</li> </ul>	\$0.4	\$0.0
<p><b>Semiconductor Memory or Logic Wafer Manufacturing Performance Grant</b></p> <ul style="list-style-type: none"> <li>• Custom performance grant program (Qimonda, Micron).</li> <li>• Last payment appropriated in FY 2016.</li> </ul>	\$0.0	\$0.0





# GO Virginia

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<p><b>Virginia Growth and Opportunity Fund Grants</b></p> <ul style="list-style-type: none"> <li>Includes \$5.9 million in capacity building funds, \$10.9 million for grant funding allocated to regions based on population, and \$11.3 million in competitive grant funding.</li> <li>Administered by the Virginia Growth and Opportunity Board.</li> </ul>	\$3.6	\$24.5
<p><b>Virginia Collaborative Economic Development Performance Grant</b></p> <ul style="list-style-type: none"> <li>Grants to localities to offset local investment when two or more localities collaborate to attract economic development projects.</li> <li>Grants are subject to appropriation and limited to 45% of payroll withholding resulting from the new jobs.</li> <li>Capped at \$20 million in aggregate for any one fiscal year.</li> <li>Administered by the Virginia Growth and Opportunity Board.</li> </ul>	\$0.0	\$0.0

## GO Virginia Capacity Building Funds:

- The 2017 Appropriation Act provides \$400,000 in FY 2017 for each of the nine GO Virginia regional councils to do organization building and gap analyses with no local match requirement.
- \$250,000 per region is allocated in FY 2018 with a required local match.
- Any capacity building funds not used by the regional council may be carried over and added to the region's share of the \$10.9 million allocated for grants based on population.



# Other Grants: Research

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<p><b>Virginia Research Investment Fund (VRIF)</b></p> <ul style="list-style-type: none"> <li>Grants to promote research, development and commercialization efforts in the Commonwealth in projects with a high potential for economic development and job creation opportunities.</li> <li>Administered by the State Council of Higher Education for Virginia (SCHEV).</li> <li>Grants are evaluated and awarded by the Virginia Research Investment Committee (VRIC).</li> </ul>	\$4.0	\$8.0
<p><b>Virginia Biosciences Health Research Corp (VBHRC)</b></p> <ul style="list-style-type: none"> <li>Pass-through funding provides for grants of \$200,000 to \$800,000 per project to accelerate translational research and commercialization of life science technologies.</li> <li>Must have two universities and an industry partner to be eligible for grants.</li> <li>Funding also supports development of a statewide clinical trials network focusing on brain science.</li> </ul>	\$2.5	\$3.8
<p><b>Commonwealth Growth Accelerator Fund (GAP)</b></p> <ul style="list-style-type: none"> <li>Provides seed- and early-stage investment funding with an equity or near-equity position in Virginia-based technology, life science, and clean tech companies.</li> </ul>	\$2.9	\$3.1
<p><b>Commonwealth Research Commercialization Fund</b></p> <ul style="list-style-type: none"> <li>Administered by the Innovation and Entrepreneurship Investment Authority (CIT).</li> <li>Provides funding for grants to support proof-of-concept technology development; grants to leverage private or federal funding, including Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) awards; and, assistance to public higher education institutions to attract top quality research faculty and technologies to Virginia.</li> </ul>	\$2.6	\$2.8



# Other Grants: Film and Tourism

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<b>Governor's Motion Picture Opportunity Fund</b> <ul style="list-style-type: none"> <li>• Grants available to production companies to incentivize film and TV production in Virginia. Grant amounts are based on actual Virginia expenditures (same as refundable film tax credit):               <ul style="list-style-type: none"> <li>○ Base amount is 15% of spend with a bonus of 5% for filming in a distressed area.</li> <li>○ Additional 10-20% for employing VA residents, depending on spending level.</li> <li>○ Additional 10% for employing first-time actors or production crew.</li> </ul> </li> </ul>	\$6.0	\$3.0
<b>Virginia Tourism Corporation Marketing Leverage Program</b> <ul style="list-style-type: none"> <li>• Grants to stimulate new tourism marketing programs (not development) through the creation of tourism partnerships and to extend the "Virginia is for Lovers" campaign.</li> <li>• Awards are up to \$10,000 with a 1:1 match; or up to \$50,000 with a 2:1 match</li> </ul>	\$1.7	\$1.7
<b>Virginia Tourism Growth Fund</b> <ul style="list-style-type: none"> <li>• Cash grant to support medium-sized tourism development projects where a locally-identified void exists.</li> <li>• Awards are up to 15% of the total capital investment of the project, and all awards require a 100% local match.</li> <li>• FY 2018 funding was eliminated during the 2017 General Assembly.</li> </ul>	\$0.5	\$0.0
<b>Air India</b> <ul style="list-style-type: none"> <li>• Cash grant intended to incentivize nonstop air service from India to Dulles.</li> <li>• Three-year agreement totals \$1.25 million.</li> </ul>	\$0.0	\$0.4

## Tourism Development Financing Program

- Provides "gap financing" for qualifying tourism development projects using a portion of state and local sales tax revenues.
- Entitles an authorized tourism project to the state revenues generated by a 1% state sales tax and local revenues equal to 1% local sales tax on transactions taking place on premises (1.5% for projects of regional significance).



# Other Grants: Site Development

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<p><b>Industrial Revitalization Fund</b></p> <ul style="list-style-type: none"> <li>• Grants or loans to local governments and regional or local economic or industrial development authorities for the strategic redevelopment of vacant and deteriorated industrial properties.</li> <li>• Maximum award is \$600,000, and all awards require a 100% local match.</li> <li>• All projects are required to have a deed covenant/restriction or a lien for ten years.</li> <li>• Administered by DHCD.</li> </ul>	\$2.0	\$2.0
<p><b>Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund</b></p> <ul style="list-style-type: none"> <li>• Grants or loans to local governments to promote the restoration and redevelopment of former industrial or commercial sites affected by environmental contamination.</li> <li>• Awards are up to \$50,000 for site assessment and planning, and up to \$500,000 for site remediation.</li> <li>• All awards require a 100% local match.</li> <li>• The Virginia Resources Authority administers the fund, and the Virginia Economic Development Partnership directs the distribution of awards in consultation with the Department of Environmental Quality.</li> </ul>	\$2.0	\$2.3
<p><b>Business Ready Sites Program</b></p> <ul style="list-style-type: none"> <li>• Cash grants for site characterization and site development with the goal of developing a pool of industrial sites which are properly zoned, permitted and ready to be developed for productive use.</li> <li>• Sites are evaluated and categorized into five tiers based on readiness.</li> <li>• Grants require a 100% local match and a signed performance agreement.</li> <li>• Administered by the Virginia Economic Development Partnership.</li> </ul>	\$0.8	\$0.6



# Other Grants: Transportation

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<p><b>Port of Virginia Economic and Infrastructure Development Zone Grant Program</b></p> <ul style="list-style-type: none"> <li>Grants to qualifying companies that locate or expand in the Commonwealth, create at least 25 new jobs, is involved in maritime commerce through the Port of Virginia, and is engaged in certain qualifying industries such as manufacturing or distribution.</li> <li>Grants are made at the discretion of the Executive Director of the Virginia Port Authority.</li> </ul>	\$2.0	\$2.0

**Nongeneral Fund Programs:**

- Transportation Partnership Opportunity Fund
- Economic Development Access Program
- Rail Enhancement Fund



# Other Grants: Small Business

Ch. 836: GF Appropriation by Program (\$ millions)	FY 2017	FY 2018
<p><b>Small Business Jobs Grant Fund</b></p> <ul style="list-style-type: none"> <li>Cash grants of \$500 to \$2,000 per each new full-time job to help small businesses in offsetting the cost of hiring new employees or retraining existing employees.</li> <li>Available to small businesses in eligible business sectors with 250 or fewer employees that make a new capital investment of at least \$100,000 and create five or more new jobs paying at least \$9.79 per hour (1.35X federal minimum wage).</li> <li>Administered by the Department of Small Business and Supplier Diversity.</li> </ul>	\$0.0	\$0.0
<p><b>Small Business Investment Grant Fund</b></p> <ul style="list-style-type: none"> <li>Grants to assist Virginia's small businesses seeking to raise equity to capitalize their growth.</li> <li>Maximum \$250,000 or 10% of an eligible investor's qualified investment in an eligible small business.</li> <li>Administered by the Virginia Small Business Financing Authority.</li> </ul>	\$1.0	\$0.8
<p><b>Economic Development Loan Fund</b></p> <ul style="list-style-type: none"> <li>Provides loans to eligible businesses and Industrial Development Authorities to fill the financing gap between private debt financing and private equity with the intent of creating new jobs and additional economic benefit.</li> <li>Loan amounts are capped at the lesser of \$500,000 or 40% of the total project cost (or up to \$1 million in distressed areas).</li> <li>Eligible borrowers must have \$10 million or less in revenues; or a net worth of \$2 million or less; or have fewer than 250 employees; or be a 501(c) nonprofit.</li> </ul>	N/A	N/A

**Other Virginia Small Business Financing Authority Programs:**

- SWaM “microloan” fund
- Conduit issuer for Industrial Development Bonds
- Credit Enhancement Programs (Capital Access, Loan Guaranty and Cash Collateral)



# Tax Incentives

- While the decision to award a grant usually involves an assessment of the Commonwealth's return on investment, tax incentives are generally available to any taxpayer who meets the statutory requirements.
- Tax incentives may include:
  - Income tax credits
  - Sales and use tax exemptions
  - Other income tax incentives
    - Single sales factor apportionment for manufacturers
    - Single sales factor apportionment for data centers
    - Venture capital account subtraction
    - Qualified business long-term capital gains subtraction
    - Zero G Tax Act subtraction
- The Department of Taxation reports annually on the amount of tax credits claimed, but there exists virtually no reporting on the value of sales and use tax exemptions or other tax incentives.



# Tax Incentives: Income Tax Credits

Tax Credit (\$ in millions)	Annual Cap	Claimed in FY 2016
<b>Research and Development Expenses Tax Credit</b> <ul style="list-style-type: none"> <li>• 10% of the difference of the taxpayer's qualified research expenditures (QRE) for the current taxable year and 50% of the average QRE for the immediately preceding three taxable years.</li> <li>• Refundable for taxpayers with \$5 million or less in QRE, limited to \$45,000 taxpayer (or \$60,000 if done in conjunction with a Virginia public or private university), and capped at \$7 million per year.</li> <li>• For taxpayers with more than \$5 million in QRE, credit is limited to 75% of tax liability an capped at \$20 million.</li> <li>• Expanded significantly in 2016.</li> </ul>	\$27.0	\$4.7
<b>Motion Picture Production Tax Credit</b> <ul style="list-style-type: none"> <li>• Refundable tax credit for a motion picture company that films in Virginia.</li> <li>• Base credit is 15% of expenditures with a bonus of 5% for filming in a distressed area.</li> <li>• Additional 10-20% for employing VA residents, and additional 10% for employing first-time actors or production crew.</li> </ul>	\$6.5	\$5.5
<b>Coalfield Employment Enhancement Tax Credit</b> <ul style="list-style-type: none"> <li>• Tax credit for coal producers based on the seam thickness, the amount of coal sold, or the amount of coalbed methane produced.</li> <li>• This credit expired on January 1, 2017. Portions of a second coal tax credit (§ 58.1-433.1) remain in effect.</li> </ul>	None	\$23.4
<b>Virginia Coal Employment and Production Incentive Tax Credit</b> <ul style="list-style-type: none"> <li>• Tax credit equal to \$3 for each ton of coal purchased and consumed by an electricity generator that is located in Virginia, provided that such coal was mined in Virginia.</li> <li>• The provision allowing credits to be allocated to coal producers and claimed on a refundable basis (85% to coal producers and 15% to VCEDA) expired on July 1, 2016. The credit can now be claimed by electricity generators only, and it is not refundable.</li> </ul>	None	\$3.1
<b>Qualified Equity and Subordinated Debt Investments Tax Credit ("Angel Investor" Tax Credit)</b> <ul style="list-style-type: none"> <li>• Equal to 50% of cash investment in a qualified business in the form of equity or subordinated debt.</li> <li>• Limited to \$50,000 per taxpayer</li> </ul>	\$5.0	\$2.4





# Tax Incentives: Income Tax Credits

Tax Credit (\$ in millions)	Annual Cap	Claimed in FY 2016
<p><b>Recyclable Materials Processing Equipment Credit</b></p> <ul style="list-style-type: none"> <li>• Tax credit equal to 20% of purchase price paid for machinery and equipment used predominantly in or on the premises of manufacturing facilities or plant units that produce items of tangible personal property from recyclable materials.</li> <li>• Amount claimed may not exceed 40% of a taxpayer's tax liability.</li> </ul>	\$2.0	\$2.1
<p><b>Port Volume Increase Tax Credit</b></p> <ul style="list-style-type: none"> <li>• Tax credit for taxpayers that increase port cargo volume by a minimum of 5% in a calendar year.</li> <li>• Credit is equal to \$50 for each TEU, unit of roll-on/roll-off cargo, or 16 net tons of noncontainerized cargo above the base year port cargo volume.</li> <li>• To qualify, a taxpayer must be engaged in the manufacturing of goods or the distribution of manufactured goods and use port facilities in Virginia.</li> <li>• Limited to \$250,000 per taxpayer.</li> </ul>	\$3.2	\$0.9
<p><b>Barge &amp; Rail Usage Tax Credit</b></p> <ul style="list-style-type: none"> <li>• Tax credit equal to \$25 per 20-foot equivalent unit (TEU), 16 tons of noncontainerized cargo, or one unit of roll-on/roll-off cargo moved by barge or rail rather than by trucks or other motor vehicles on the Commonwealth's highways.</li> <li>• To qualify, a taxpayer must be doing business in Virginia and be engaged in port-related activities, have the sole discretion and authority to move cargo containers originating or terminating in Virginia, and use maritime port facilities located in Virginia.</li> </ul>	\$0.5	\$0.6
<p><b>International Trade Facility Tax Credit</b></p> <ul style="list-style-type: none"> <li>• Tax credit equal to either (i) \$3,500 per qualified full-time employee that results from increased qualified trade activities by the taxpayer or (ii) an amount equal to 2% of the capital investment made by the taxpayer to facilitate the increased qualified trade activities.</li> <li>• To qualify, taxpayers must be engaged in port-related activities and transport at least 10% more cargo through maritime port facilities in Virginia during the taxable year than was transported during the preceding taxable year.</li> </ul>	\$1.25	\$0.3



# Tax Incentives: Income Tax Credits

Tax Credit (\$ in millions)	Annual Cap	Claimed in FY 2016
<b>Major Business Facility Job Tax Credit</b> <ul style="list-style-type: none"> <li>\$1,000 per qualified full-time employee over the threshold amount for the establishment or expansion of a major business facility in Virginia.</li> <li>To qualify, the business must create at least 50 jobs (or 25 jobs if located in an economically distressed area or enterprise zone).</li> </ul>	None	\$0.8
<b>Farm Wineries and Vineyards Tax Credit</b> <ul style="list-style-type: none"> <li>25% of qualified capital expenditures made in connection with the establishment of new Virginia farm wineries or vineyards and capital improvements made to existing Virginia farm wineries or vineyards.</li> </ul>	\$0.25	\$0.2
<b>Worker Retraining Tax Credit</b> <ul style="list-style-type: none"> <li>Tax credit equal to 30% of all expenditures paid or incurred by an employer for eligible worker retraining up to \$100 per employee annually.</li> <li>If the eligible worker retraining consists of courses conducted at a private school, the credit is an amount equal to the cost per qualified employee, up to \$200 per qualified employee annually (\$300 if retraining includes retraining in a STEM or STEAM discipline).</li> </ul>	\$2.5	\$0.2
<b>Enterprise Zone Business Tax Credit</b> <ul style="list-style-type: none"> <li>Replaced with a grant July 1, 2005. Taxpayers who entered agreements before this date may continue to claim the credit through 2019.</li> </ul>	\$7.5	\$0.1
<b>Biodiesel and Green Diesel Fuels Producers Tax Credit</b> <ul style="list-style-type: none"> <li>Tax credit for biodiesel fuel or green diesel fuel producers of \$0.01 per gallon of biodiesel or green diesel fuels produced.</li> <li>Limited to \$5,000 per taxpayer.</li> </ul>	None	*[Only \$689 claimed.]
<b>Green Job Creation Tax Credit</b> <ul style="list-style-type: none"> <li>\$500 for each new green job created in Virginia with a salary of \$50,000 or more.</li> <li>Green jobs include employment in industries relating to the field of renewable, alternative energies.</li> <li>Limited to \$175,000 (350 jobs) per taxpayer.</li> </ul>	None	*[Only \$333 claimed.]



# Tax Incentives: Sales and Use Tax Exemptions

- Numerous sales and use tax exemptions exist to benefit existing businesses and to encourage businesses to locate or expand in the Commonwealth.
- The value of these exemptions is not routinely reported because the amount of tax not paid is generally not collected from taxpayers and must instead be estimated.
- Some of the economic development-related sales and use tax exemptions include:
  - ✓ Data center equipment
  - ✓ Film, TV and audio production inputs
  - ✓ Railroad rolling stock
  - ✓ R&D Expenses
  - ✓ Virginia spaceport users
  - ✓ Airline common carriers
  - ✓ Taxi cab parts and radios
  - ✓ Printed materials for out-of-state distribution
  - ✓ Industrial materials for production
  - ✓ Aviation parts and supplies
  - ✓ Ships and vessels
  - ✓ Pollution control equipment and facilities
  - ✓ Semiconductor manufacturers
  - ✓ Semiconductor wafers exemption
  - ✓ Railroad common carriers
  - ✓ Media providers exemption
  - ✓ Uniform rental and laundry businesses
  - ✓ Out-of-state nuclear facility repair



# Increased Oversight Efforts Have Mixed Results

- As the breadth and cost of economic development incentives has grown, so has legislative concern about oversight.
- In 2009, the General Assembly enacted HB 2550 (Cox) which created the Major Employment and Investment (MEI) Project Approval Commission to provide a process for legislators to review and grant preliminary approval of incentive packages.
- The 2010 Appropriation Act (Chapter 874) re-organized economic development funding to make it easier to identify how much was dedicated to incentive grants.
  - Created a new “agency” called Economic Development Incentive Payments (EDIP) to increase transparency and cluster more of the funding in one place in the budget.
  - Many programs remain housed in other agencies.
- In 2011, the General Assembly passed SJ 329 (Howell) directing JLARC to study the effectiveness of economic development incentive grants in Virginia. Published in 2012, the study found, among other things:
  - The use of effective practices varied across agencies, and nearly all programs could adopt additional practices to improve outcomes.
  - No comprehensive information encompassing all grant programs was available.



# Increased Oversight Efforts Have Mixed Results

- In 2012, the General Assembly passed HB 777 (Landes) creating the Joint Subcommittee to Evaluate Tax Preferences.
  - The Subcommittee is charged with overseeing the evaluation of all of Virginia’s tax preferences, including those designed to encourage economic development.
  - In five years, the Subcommittee has examined about a dozen tax preferences mostly unrelated to economic development.
- In 2014, the General Assembly enacted HB 1191 (Massie) which created a process to evaluate and report on all incentives issued in the prior three years, as well as a look-back at projects five years after completion.
  - Members were concerned that while metrics were in place to gauge whether an incentive appeared to be a good investment beforehand, no examination was being made on the back-end.
  - Published reports have not fully satisfied all aspects of legislative intent.
- The 2016 Appropriation Act (Chapter 780) established an ongoing oversight function within JLARC to review and evaluate economic development initiatives on a continuing basis.
  - Only a small subset of incentives will be subject to in-depth review each year.
  - First reports due this fall.



# Increased Oversight Efforts Have Mixed Results

- The 2016 budget added language that disallows advancing sunset dates on sales tax exemptions and tax credits beyond June 30, 2022.
  - Also requires the Department of Taxation to report on the revenue impact of all credits and exemptions set to expire on or before June 30, 2022, by November 1, 2020, and every five years after.
  - Does not affect tax incentives that don't have sunset dates.
- In 2016, the General Assembly passed HJ 7 (Byron) directing JLARC to conduct a management and accountability review of the Virginia Economic Development Partnership (VEDP). The study found numerous deficiencies including:
  - VEDP's unstructured approach to administering incentive grants may leave the state vulnerable to fraud and poor use of limited resources.
  - Lack of systematic coordination of statewide economic development activities undermines impact of state's total investment.
- In 2017, The General Assembly passed HB 2471 and SB 1574 which restructures the VEDP board, improves governance and oversight, and strengthens VEDP's administration of state incentive grants.



# Expanded Role of the MEI Commission

- The MEI Commission is comprised of five members of the House Appropriations Committee or the House Finance Committee and three members of the Senate Finance Committee, with the Secretaries of Finance and Commerce and Trade serving as ex-officio members.
- At the time the MEI Commission was conceived, members were concerned that by the time the General Assembly had the option to approve incentive packages requiring new legislation, the deals had often already been offered and agreed to.
- Originally the MEI Commission reviewed only projects which required legislative action to authorize new incentives or to amend existing incentives.
  - Many large incentive packages remained outside the purview of legislation if the package combined incentives from existing sources like COF, VJIP, tax credits, exemptions, etc.
- In 2015, HB 1842 (James) expanded the MEI scope to include any incentive package where the total value of all incentives, including tax incentives, exceeds \$10 million.
- In 2017, the VEDP restructuring bill requires the MEI Commission to approve if more than one extension to a performance agreement is offered.
- Also in 2017, HB 2347 (Byron) requires MEI review of any exception to the COF policy which prohibits incentivizing a business that locates or expands in one locality while simultaneously closing or reducing employment in another Virginia locality.



# Final Observations

- Economic development spending has expanded faster than overall GF spending; however, quantifying the benefit of those increases has proved challenging.
- Despite significant efforts to increase transparency and accountability, some basic questions remain difficult to answer. For example,
  - In any given year, of all the projects that reached a performance milestone, how many met their targets, how many were granted extensions, how many are required to repay or delay grant payments?
  - How much do sales and use tax exemptions cost in foregone revenue?
- At the same time, some *Code*-mandated reporting may be redundant or non-value-added.
- New JLARC oversight will provide insight into the effectiveness of incentive programs, but in-depth evaluations are conducted over a six to eight year cycle.
- The subcommittee may wish to consider additional actions aimed improving management and oversight while optimizing the Commonwealth's investments in economic development. Such as,
  - Reorganizing and consolidating incentive programs in the Appropriation Act.
  - Revising reporting requirements to increase usefulness and minimize redundancy.
  - Analyzing select incentive programs vis-à-vis competitor states to maximize impact.

