SENATE FINANCE AND APPROPRIATIONS COMMITTEE: SUBCOMMITTEE ON ECONOMIC DEVELOPMENT AND NATURAL RESOURCES

January 19, 2021
SELECTED ECONOMIC DEVELOPMENT ACCOMPLISHMENTS IN VIRGINIA IN FY20 AND BEYOND

A Solid Year for Business Development – in Spite of the Pandemic

Collaborative Leadership and COVID-19 Response and Economic Recovery

Creation of World-Class Virginia Talent Accelerator Program

Development of Virginia’s First Comprehensive International Trade Plan

Strong Liftoff for Historic Tech Talent Investment Program

Completion of Novel, First-in-the-Country Site Characterization Initiative

Progress on Rural Development Opportunities

Pictured (left to right):
Microsoft Corporation Rendering, Fairfax County; Governor Ralph Northam and Secretary Brian Ball; Morgan Olson, Danville; Virginia International Gateway, Portsmouth; Virginia Tech Innovation Campus Rendering, Alexandria; Southern Virginia Megasite at Berry Hill, Pittsylvania County; Radford University
ECONOMIC RECOVERY UPDATE & OUTLOOK
PANDEMIC-ERA EMPLOYMENT LOSSES HAVE VARIED SIGNIFICANTLY ACROSS REGIONS OF THE COMMONWEALTH

Employment change from February to November 2020
% | absolute employment change, not seasonally adjusted

-8.0% | -0.8%

Statewide avg: -6.4

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics; VEDP analysis
DESPITE IMPROVEMENTS SINCE APRIL, VA EMPLOYMENT REMAINS BELOW FEBRUARY 2020 LEVELS IN ALMOST ALL MAJOR SECTORS

Virginia employment change since February 2020 by major sector
% non-farm payroll employment change from Feb.-Nov. ’20, seasonally adjusted

<table>
<thead>
<tr>
<th>Sector</th>
<th>Lowest employment level</th>
<th>Current employment level</th>
<th>% non-farm -50%</th>
<th>-40%</th>
<th>-30%</th>
<th>-20%</th>
<th>-10%</th>
<th>0%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Leisure and hospitality</td>
<td></td>
<td></td>
<td>438.1</td>
<td>246.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Non-essential retail¹</td>
<td></td>
<td></td>
<td>185.0</td>
<td>109.7</td>
<td></td>
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<td></td>
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<tr>
<td>Mining &amp; logging</td>
<td></td>
<td></td>
<td>47.3</td>
<td>32.8</td>
<td></td>
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<td></td>
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<tr>
<td>Education and health services</td>
<td></td>
<td></td>
<td>0.7</td>
<td>0.1</td>
<td></td>
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<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td>68.4</td>
<td>34.2</td>
<td></td>
<td></td>
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<tr>
<td>Information</td>
<td></td>
<td></td>
<td>16.0</td>
<td>3.2</td>
<td></td>
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<tr>
<td>Government</td>
<td></td>
<td></td>
<td>3.6</td>
<td>-</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Other services</td>
<td></td>
<td></td>
<td>56.9</td>
<td>24.2</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Financial Activities</td>
<td></td>
<td></td>
<td>10.6</td>
<td>4.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Wholesale trade</td>
<td></td>
<td></td>
<td>3.6</td>
<td>0.6</td>
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<td></td>
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<tr>
<td>Professional and business services</td>
<td></td>
<td></td>
<td>49.1</td>
<td>28.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation, warehousing and utilities</td>
<td></td>
<td></td>
<td>7.4</td>
<td>8.3</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Essential retail¹</td>
<td></td>
<td></td>
<td>2.7</td>
<td>10.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Construction</td>
<td></td>
<td></td>
<td>6.3</td>
<td>18.1</td>
<td></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

¹Essential / non-essential retail employment change based on assumptions from national trends due to lack of data at state level

Source: Current Employment Statistics; VEDP analysis
COVID-19 EMPLOYMENT STRESS IN VIRGINIA GOES WELL BEYOND THE UNEMPLOYED POPULATION

<table>
<thead>
<tr>
<th>Impacted populations</th>
<th>Jan-Nov change</th>
<th>Jan-Nov % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost primary job – actively looking</td>
<td>89,840</td>
<td>76%</td>
</tr>
<tr>
<td>Lost secondary job</td>
<td>99,095</td>
<td>30%</td>
</tr>
<tr>
<td>Involuntary reduction of hours</td>
<td>120,712</td>
<td>179%</td>
</tr>
<tr>
<td>Not actively looking, but want a job</td>
<td>12,200</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Total impacted population</strong></td>
<td><strong>321,847</strong></td>
<td><strong>108%</strong></td>
</tr>
</tbody>
</table>

COVID-19 ECONOMIC SHOCK HAS DISPROPORTIONATELY IMPACTED LESS EDUCATED, MINORITIES, WOMEN, AND LOWER WAGE EARNERS

Change in U.S. employment by average industry earnings
Non-farm payroll jobs, Jan.-Nov. '20, indexed to Jan. '20 employment levels

Virginia workers earning less than $20/hour\(^1\)

- **22\%**
  - Have a Bachelor's degree or higher (vs. 77\% of workers earning >$40/hr)

- **45\%**
  - Are non-white / Hispanic (vs. 30\% of workers earning >$40/hr)

- **55\%**
  - Are women (vs. 35\% of workers earning >$40/hr)

\(^1\)Employed persons in 2019, based on wages income earned in previous 12 months
Source: Current Employment Statistics; American Community Survey microdata retrieved using IPUMS; VEDP analysis
STATEWIDE, EMPLOYMENT IS CURRENTLY PROJECTED TO REACH PRE-COVID-19 LEVELS BY MID-2023

Forecasted quarterly employment as % of pre-COVID-19 baseline
Total non-farm payroll employment\(^1\), indexed to actual 2019 Q4 employment

Source: Moody’s Analytics (December baseline forecast); Census Bureau; VEDP analysis
OUTSIDE VIRGINIA'S URBAN CRESCENT, THE RECOVERY IS EXPECTED TO LAG BY ALMOST FOUR YEARS

Forecasted quarterly employment as % of pre-COVID-19 baseline
Total non-farm payroll employment¹, indexed to actual 2019 Q4 employment

¹Locality forecast data have been corrected to match statewide employment forecasts; data differs slightly due to methodological differences in Moody’s state and sub-state models
Source: Moody’s Analytics (December baseline forecast); Census Bureau; VEDP analysis
OPPORTUNITIES TO ACCELERATE ECONOMIC RECOVERY
VIRGINIA WILL BE WELL-POSITIONED FOR HEALTHY GROWTH IN POST-PANDEMIC AMERICA

Cloud Computing • Data Centers • Autonomous Systems • E-Commerce • Food-and-Beverage Processing • Commercial Trucks • Delivery Vehicles • Logistics • Broadband Investments
THE COMMONWEALTH STRATEGIC ECONOMIC RESTORATION ROADMAP IS DESIGNED AROUND FOUR BIG OPPORTUNITIES

Capture manufacturing reshoring and new supply chain opportunities

Accelerate Digital Virginia (cloud computing, software, data centers)

Seize telework transition opportunities, with special focus on rural & small metro regions

Retool and reskill Virginia's (unemployed) workforce for post-COVID career opportunities
VEDP’S BUDGET INITIATIVES
# COMMONWEALTH STRATEGIC ECONOMIC RESTORATION BUDGET REQUESTS FOR FY22

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Impact</th>
<th>Add. Investmt. ($M) FY22</th>
<th>Economic Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Expand Virginia Talent Accelerator Program</strong></td>
<td>Expansion would support statewide coverage of the program. Program ranked in the top 3 after one year. VA will secure projects with 3,000-6,250 additional rural/small metro jobs/year by 2022.</td>
<td>4.7</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>B. Restore Virginia Jobs Investment Program (VJIP)</strong></td>
<td>Restoration would continue the use of the most commonly used economic development incentive to capture the reshoring wave.</td>
<td>2.0*</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>C. Expand Virginia Business Ready Sites Program</strong></td>
<td>Investment in site development will ensure that Virginia is well positioned to capture project wins as the economy recovers, and more companies onshore their operations to reduce the risk of future pandemic-related supply chain disruptions.</td>
<td>5.0*</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>D. Create the office of education and labor market alignment</strong></td>
<td>Creation of the office would provide a unified, consistent source of information and analysis on linkages between education and employment outcomes. These data insights will enable policymakers and educators to effectively respond to the talent needs of Virginia’s economy.</td>
<td>0.5*</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>E. MEI Custom Grant</strong></td>
<td>Microsoft Corp. will invest $64 million to establish a new software development and R&amp;D regional hub, which will create 1,500 new jobs.</td>
<td>5.6*</td>
<td>✓</td>
</tr>
</tbody>
</table>

*Included in the Governor’s introduced budget
Virginia Talent Accelerator Program:
Accelerates facility expansions through direct training and recruitment services that are fully customized to a company’s unique products, processes, equipment and culture

Virginia Jobs Investment Program:
Reduces a company’s talent development costs through funding and coordination with regional partners to streamline company recruitment and training
THE EXPANSION OF THE VIRGINIA TALENT ACCELERATOR PROGRAM IS CRITICAL TO SUPPORT THE POTENTIAL OF 5K NEW JOBS

Virginia Talent Accelerator Program Projects

Projects Announced or Underway
Projects in Pipeline

Source: VEDP Data from 1/11/2021

2,016 jobs
Will be created by projects underway or announced

3,218 additional jobs
Could be created by promising pipeline projects, including:

- 700 jobs | Southern Region
- 541 jobs | Hampton Roads
- 415 jobs | Hampton Roads
- 400 jobs | Multiple Regions
- 232 jobs | Southern Region
- 220 jobs | Southern Region
- 213 jobs | Southern Region
- 186 jobs | Central Region
- 156 jobs | Central Region
- 155 jobs | Hampton Roads
VJIP’S SIGNIFICANT IMPACT FOR TRAINING VIRGINIANS FOR SKILLED, HIGH-WAGE OPPORTUNITIES

**Valley**
Number of Projects: 121
Projected Jobs Created or Retrained: 12,683
Pledged Capital Investment: $2.1B

**Northern**
Number of Projects: 106
Projected Jobs Created or Retrained: 21,677
Pledged Capital Investment: $788M

**Southwestern**
Number of Projects: 61
Projected Jobs Created or Retrained: 6,106
Pledged Capital Investment: $364M

**Central**
Number of Projects: 88
Projected Jobs Created or Retrained: 9,319
Pledged Capital Investment: $1.15B

**Southern**
Number of Projects: 48
Projected Jobs Created or Retrained: 4,101
Pledged Capital Investment: $363M

**Hampton Roads**
Number of Projects: 62
Projected Jobs Created or Retrained: 15,620
Pledged Capital Investment: $932M

Note: The VJIP Retraining Program was suspended for new projects in FY19
Source: VEDP Internal Data as of 01/08/2021
A LACK OF PREPARED SITES HAS COST VIRGINIA BILLIONS OF DOLLARS IN CAPITAL INVESTMENT AND NEARLY 20,000 JOBS

Virginia’s industrial sites by readiness and size

Site Development Facts

Over 90% of Virginia’s sites are not project ready¹

Every year, the lack of prepared sites is a top reason why Virginia loses projects

Peer states are investing more than Virginia²
  - North Carolina: $29M
  - South Carolina: $37M
  - Tennessee: $9M

¹Full sites or business parks with over 25 contiguous acres included in the Enhanced Site Characterization Initiative
²Based on peer state 2018 and 2019 annual reports
THE OFFICE OF EDUCATION AND LABOR MARKET ALIGNMENT WOULD INFORM CRUCIAL QUESTIONS FOR MANY STAKEHOLDERS

**Policymakers**
- What is the current market balance for each occupation and educational/training program?
- What program shortages or gaps can be addressed through effective policy?
- What are programs where employment outcomes are highly uneven or generally poor?
- How can we reduce underemployment in Virginia?

**Employers**
- Will I have the talent supply I need now and in the future?
- Where can I go in Virginia to find graduates of programs that are important to my business?
- What credentials demonstrate the skills needed for my entry level and senior level hires?

**Higher education institutions (community colleges and 4-year institutions)**
- Amongst our graduates, how do employment outcomes differ across regions based on socioeconomic status and race?
- How well do our programs align with regional and state employer demand?
- Which programs should our institution enhance?

**Students, prospective students, families, and K-12 educators and guidance counselors**
- What are careers that align well with my interests and skills?
- What are the educational pathways to gain entry to those careers?
- What are employment outcomes for programs that align with my career interests?

**Current job seekers and job coaches**
- What are the available jobs that I can get with my current education and experience, including number of openings and earnings?
- What companies are hiring for occupations for which I'm qualified?
- What are additional jobs for which I could be competitive were I to pursue additional education, and what kind of education?
Established in 1975, Microsoft is a publicly held corporation with revenues surpassing $125 billion and nearly 156,000 employees worldwide. The company enables digital transformation for the era of an intelligent cloud and an intelligent edge. Microsoft has had a presence in Virginia since 2002, with corporate locations in Reston and the Richmond area as well as an enterprise data center in Mecklenburg County. The company’s new software development and R&D regional hub in Fairfax County also includes a new retail space for engaging directly with customers.

New Jobs | 1,500

We’ve had a presence in Reston for many years now, and this expansion will allow Microsoft to deliver even more solutions from a region known for its innovation and passion for technology.

Terrell Cox
Microsoft Corp.
May 27, 2020

Capital Investment | $64M
VEDP’S LEGISLATIVE INITIATIVES
## LEGISLATIVE INITIATIVES FOR 2021 GENERAL ASSEMBLY SESSION

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Impact</th>
<th>Additional investment required ($M) FY22</th>
<th>Economic Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. SB1418 (McPike)</strong> Waive or reduce the capital investment requirement and/or local match for teleworking jobs on job creation grant programs (e.g., COF)</td>
<td>Help Virginia attract and grow higher-paying jobs focused in the technology sector and other traded sectors in all regions of the Commonwealth.</td>
<td>0.0</td>
<td>✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>B. HB1967 (Bagby)</strong> Align VJIP to the Virginia Minimum Wage Act</td>
<td>Continue to attract higher paying jobs across the Commonwealth while aligning with the diversity of economies throughout Virginia.</td>
<td>0.0</td>
<td>✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>C. SB1314 (Hashmi)</strong> Create the office of education and labor market alignment to provide information and analysis on linkages between education and employment outcomes</td>
<td>Create the office which would provide a unified, consistent source of information and analysis on linkages between education and employment outcomes. These data insights will enable policymakers and educators to effectively respond to the talent needs of Virginia’s economy.</td>
<td>0.5*</td>
<td>✓ ✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>D. SB1156 (Howell)</strong> MEI Custom Grant Legislation ‣ Microsoft</td>
<td>Microsoft Corp. will invest $64 million to establish a new software development and R&amp;D regional hub, which will create 1,500 new jobs</td>
<td>5.6*</td>
<td>✓</td>
</tr>
</tbody>
</table>

*Included in the Governor’s introduced budget
THANK YOU

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Appendix
A. WAIVE OR REDUCE THE CAPEX REQUIREMENT AND/OR LOCAL MATCH FOR TELEWORKING JOBS

Overview:
- The COVID-19 crisis has forced many companies and individuals to shift to a remote working (i.e., telework) environment. It is likely that increased teleworking will persist over pre-COVID levels given increased comfort with teleworking technology and arrangements among workers/managers and shifting worker/employer perspectives on teleworking
- Waive or reduce the capital investment and/or local match requirements to accommodate teleworking positions in the Commonwealth

Recommendations:
- Amend VA Code §2.2-621 so that administering entities may waive capital investment or local match requirements for job creation incentives for new or expanding projects where 75% of the jobs would be remote, so long as such jobs pay 120% of wages as defined in the Virginia Minimum Wage Act

Impact:
- Attract and create new telework jobs for Virginia
- This recommendation would allow companies that create new telework positions to benefit from the incentives already available to companies creating “on-site” jobs. Specifically, this recommendation would encourage companies to seek out new talent for high-paying, remote jobs. This could benefit existing residents and/or attract new residents
- With each incremental teleworker resulting in roughly $9,000 annually in incremental state and local tax revenue, this recommendation would return real financial benefits for the Commonwealth
B. ALIGN VJIP TO THE VIRGINIA MINIMUM WAGE ACT

Overview:
- Due to the changes to the Virginia Minimum Wage Act in the 2020 Session (HB395/SB7), the requirements for wages of this program would eventually fall behind the state minimum wage after the first increase outlined in the Code
- Legislation would change the Virginia Jobs Investment Program wage requirements from being based on the federal minimum wage to align with the Virginia Minimum Wage Act that will increase as of May 1, 2021

Recommendations:
- Amend VA Code §2.2-2240.3. to require qualifying companies to pay 1.2 times the minimum wage as defined by the Virginia Minimum Wage Act

Impact:
- This change will continue to provide an incentive to companies that will be offering wages above the state minimum wage as intended

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Current VJIP Requirements</th>
<th>Virginia Minimum Wage</th>
<th>New VJIP Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1, 2021 – December 31, 2021</td>
<td>$9.79</td>
<td>$9.50</td>
<td>$11.40</td>
</tr>
<tr>
<td>January 1, 2022 – December 31, 2022</td>
<td>$9.79</td>
<td>$11</td>
<td>$13.20</td>
</tr>
<tr>
<td>January 1, 2023 – December 31, 2024</td>
<td>$9.79</td>
<td>$12</td>
<td>$14.40</td>
</tr>
<tr>
<td>January 1, 2025 – December 31, 2025</td>
<td>$9.79</td>
<td>$13.50</td>
<td>$16.20</td>
</tr>
<tr>
<td>January 1, 2026 – December 31, 2026*</td>
<td>$9.79</td>
<td>$15</td>
<td>$18</td>
</tr>
</tbody>
</table>

*By October 1, 2026, and annually thereafter, an adjusted state hourly minimum wage will be established. The adjusted state hourly minimum wage will be the sum of (i) the amount of the state hourly minimum wage rate that is in effect on the date such adjustment is made and (ii) a percentage of the amount that is equal to the percentage by which the United States Average CPI-U, as calculated by the U.S. Department of Labor, has increased during the most recent calendar year for which such information is available.
C. CREATE THE OFFICE OF EDUCATION AND LABOR MARKET ALIGNMENT

Overview:
- Even prior to COVID-19, there existed an urgent need for decision makers to have a better understanding of the linkages between education and employment outcomes.
- COVID-19 revealed significant gaps in Virginia’s ability to quickly and consistently leverage real-time data on economic activity to inform policy decisions.
- SCHEV, in partnership with VEDP, is proposing the creation of an office of education and labor market alignment, also known as the Virginia Office of Education Economics.
- All players in the space need to develop a more robust understanding of the connections between education and the labor market.

Recommendations:
- Establish an office of education and labor market alignment to coordinate data analysis on workforce and higher education alignment and translate data to partners.

Impact:
- The office will provide a unified, consistent source of information and analysis on linkages between education and employment outcomes.
- Data generated by the office will provide insights empowering policymakers and educators to effectively respond to the talent needs of Virginia’s economy, while better enabling individuals to navigate the complex, often confusing connections between education and the labor market.
- The insights provided by this office will be a crucial to Virginia leading the way on talent.
D. ENACTING PROJECT PARAMETERS FOR MEI APPROVED MICROSOFT EXPANSION

Overview:
- On May 27, 2020, Governor Ralph Northam announced that Microsoft Corp. will establish a new software development and R&D regional hub
- The company will occupy 400,000 square feet in the Reston Town Center in Fairfax County for its new location, anticipated to be ready for employees in summer 2021. The plans include a new retail space for engaging directly with customers
- The legislation would codify the Technology Development Grant Program for Microsoft Corp. meeting the terms of the incentive package offered and then accepted in March of 2020

Recommendations:
- Creates the Technology Development Grant Fund for the award of grants to Microsoft including its affiliates that make a capital investment of at least $64M in an eligible locality and creates 1500 new jobs

Impact:
- For the FY21-22 biennium, the fiscal impact will be $5.6M in FY22. The impact is based on the payment schedule as outlined in the proposed legislation and MOU. The total award of the grant shall not exceed $22.5M, subject to total or partial recapture if the qualified company does not meet the performance metrics agreed to in a memorandum of understanding with the Commonwealth
- This project will result in 1,500 new jobs and $64M capex in the Northern Virginia region