



Final Report – October 16, 2010

Introduction

On January 16th 2010, immediately after his inauguration, Governor Bob McDonnell signed Executive Order One, creating the Governor's Economic Development and Job Creation Commission. He charged the Commission Co-Chairs, Lieutenant Governor Bill Bolling and Senior Economic Advisor Bob Sledd, and the Commission members with developing innovative and achievable policy recommendations to further develop an environment for job creation and economic growth in Virginia.

To accomplish its mission, the 64 members of the Commission were organized into eight subgroups focused on key industry sectors and elements of economic development in Virginia:

1. Business Recruitment and Development
2. Economically Distressed Areas
3. Energy
4. Manufacturing
5. Small Business
6. Technology
7. Tourism
8. Workforce Development

The subgroups were assigned Commission staff and given the support of agency representatives pertinent to the subject matter of the subgroup.

Over the last five months, the Commission members have worked tirelessly with agency representatives and stakeholders from across the Commonwealth to analyze Virginia's economic development programs and agencies, assess competitive initiatives in other states and consider existing tax and regulatory impediments to job creation.

The Commission subgroups used volumes of research, hours of discussion and their vast personal expertise to develop a series of comprehensive recommendations to strengthen key strategic industries in Virginia, better position the private sector and entrepreneurs to grow their business and create new jobs and make Virginia a more competitive national and international business destination. The complete reports of the Commission subgroups, including significant additional detail on all of the recommendations, are available on the Jobs Commission website – www.ltgov.virginia.gov/initiatives/jcc.

The final report of the Commission attempts to prioritize and condense the subgroup recommendations around a set of common themes to address deficiencies in Virginia's economic development systems and position Virginia to better create jobs and provide greater prosperity for Virginians.

Analysis

While Virginia is consistently ranked as the most business friendly state in America, the Commission subgroups identified through research, personal experience and discussion with agency representatives and other stakeholders several general areas where Virginia's economic development systems, programs and infrastructure are insufficient to meet current and future needs of business. Some of these common deficiencies include:

- Virginia's innovation economy lacks appropriate coordination with higher education institutions and infrastructure needed to capitalize and commercialize on future emerging technologies and industries.
- Key sectors such as small business, tourism and biotechnology, among others, have historically lacked the attention, resources and tools commensurate with their return on investment, value to Virginia's economy and capacity to create jobs.
- Virginia must more effectively align higher education, workforce development and incentive programs with strategic regional and statewide priorities and assets.
- Virginia's workforce development system lacks the coordination and leadership to adequately provide the workforce needed to support new and existing businesses and be prepared for the jobs of the future.
- Budget reductions during previous Administrations have negatively affected Virginia's existing economic development programs, incentives and marketing initiatives.
- Virginia's tax structure affects some businesses unevenly and unfairly, stifles capital investment and perpetuates competitive disadvantages in key industries.

The Commission report contains 50 specific recommendations to address these and other challenges. The proposals promote greater coordination and efficiencies in our economic development systems, investment in proven job creating programs and establishment of innovative new incentives to grow existing business and industry. These recommendations will position Virginia to remain competitive nationally and internationally in the emerging, evolving 21st century economy.

The recommendations are grouped into seven themes to address the opportunities identified by the Commission.

1. Growing Virginia's Innovation Economy
2. Transforming Academic Institutions into Economic Engines

3. Business Growth and Development
4. Training Workers for Virginia Businesses
5. Coordinated, Efficient and Effective Economic Development Strategies
6. Promoting the Virginia Brand
7. Virginia's Business Tax Policy

Some of the Commission recommendations are achievable through administrative or legislative action, while others represent long-term goals of the subgroups that will require additional refinement, discussion and development with affected stakeholders and legislators and consideration of budgetary impact.

Governor McDonnell and the Commission leadership understand by increasing revenue growth through economic growth, this leads to additional resources for education, health care, transportation, public safety and other essential programs. Increased funding for economic development programs with proven return on investment will ultimately generate more revenue to pay for the other core services of state government.

This final report is a comprehensive roadmap for enhancing economic development, creating jobs and strengthening Virginia's position as the best place for business in America. From the development of emerging industries and collaboration with higher education to expanding existing industries and building a highly-skilled workforce to more effective and responsive systems and superior marketing, the Commission has presented a detailed blueprint to best position Virginia business and industry to create jobs and economic opportunity for all Virginians.

Growing Virginia's Innovation Economy

Virginia is non-competitive in the development and commercialization of evolving and emerging technologies that are the cornerstone of a 21st century innovation economy. In 2006, Virginia ranked last among our peer competitor states for per capita patents awarded. As the 2007 SRI International Report recognized, "Virginia possesses important assets and initiatives related to innovation, but the Commonwealth has not reached its potential."

Additionally, Virginia lacks the necessary infrastructure and collaboration between research universities and industry to maximize and capitalize on ideas and concepts put forward by emerging technology entrepreneurs.

Virginia's existing environment is prohibitive to the development of emerging and innovative companies. However, Virginia does possess the assets – business climate, higher education assets, existing industry and entrepreneurial spirit – to position itself as a leader in the innovation economy.

For the next Apple, Google or Facebook to start in Virginia instead of California or Massachusetts, Virginia needs to establish a structure to increase collaboration and coordination between industry, higher education and emerging technology entrepreneurs.

Several states currently offer innovative solutions to this problem by leveraging private sector participation and revenue streams separated from the general appropriations process. In order for Virginia to become competitive and eventually a leader in the innovation economy, we must create a structure to provide capital and knowledge centers for the development and commercialization of advanced technology companies in the Commonwealth.

To grow Virginia's innovation economy, the Commission recommends the following:

1. Emerging Technology Fund
2. *VentureVirginia*
3. Advanced Technology Convertible Loan Fund
4. Refundable Research and Development Tax Credit

Emerging Technologies Fund

While the Commission does not believe the role of government is to select winners and losers in the marketplace, government can serve as a catalyst for leveraging the entrepreneur, Virginia's higher education research assets and private-sector funding through a program such as an emerging technologies fund (similar to a program in Texas). This would provide a structure and funding to encourage evolving technologies that create industries of the future.

Such a fund would address research commercialization awards to grow new businesses and existing businesses and accelerate entrance of new products and services to the marketplace; provide institutions of higher education and companies engaged in research a source of matching

funds for outside funding; and provide research superiority acquisition grants to create an eminent scholars program.

An emerging technology fund would help fill an imperative strategic gap in Virginia's current array of business incentives. By encouraging research-based technologies, Virginia can support existing and new small, medium and large businesses. The Fund would be governed by a board of technology experts and potentially be divided into three areas:

- Research Commercialization Awards - grow new small businesses/existing businesses; accelerate entrance of new products/services to the workplace;
- Research Award Matching - provide institutions of higher education/companies engaged in research a source of matching funds for outside funding opportunities; and
- Research Superiority Acquisition Grants - provide source of funds for bringing the best and brightest researchers.

An emerging technology fund will provide a comprehensive structure to foster the development and commercialization of the best emerging technology companies through capital, collaboration and industry expertise and be a signal to the national innovation, knowledge-based economy that Virginia is the best place to start their next business.

While the Commission envisions an emerging technology fund as an umbrella approach to developing Virginia's innovation economy, the Commission subgroups also recommended other initiatives that could be complementary to or included in this fund.

VentureVirginia

In order to compete in today's economy, it has become increasingly important to find innovative ways to lure capital investment dollars. A *VentureVirginia* program would incentivize high wage job creation and public-private partnerships to catalyze entrepreneurial investment in high growth, advanced technology industries in the Commonwealth. These high-growth, 21st century companies pay higher wages and have larger multiplier ratios than traditional businesses in Virginia.

Consistent with the approach taken by *InvestMaryland*, a *VentureVirginia* program would offer tax credits to insurance companies that expedite payment of their state taxes. For every \$1 of tax credits to insurance companies offered by the Commonwealth, insurance providers that pay taxes to the state can receive an up-front discount on the credit for investing in the program. The concept is similar to the Small Business Investment Credit offered by Delegate Merricks during the 2010 Session of the General Assembly. This program would get capital flowing to high growth, high wage, advanced technology firms now when they need it the most.

Other approaches to fund the *VentureVirginia* Program might include the above and some combination of: (1) extending the above-described tax credit to corporations outside of the insurance industry; (2) extending a tax credit to high net worth individuals seeking participation in a diversified portfolio of early stage investments by a combination of return and tax incentive;

and (3) matching funds from state loans which are repaid with interest, similar to the Enterprise Capital Funds program in the UK.

The funds raised by the *VentureVirginia* program would be targeted at programs that commercialize qualified advanced technologies in Virginia. The funds raised would be used for technology-based economic development initiatives that encourage investment in seed-stage technology and life sciences companies.

VentureVirginia will provide an influx of capital and deal flow today when the economy needs it the most. This program will generate state and local taxes, attract out of state venture capital funds and create high-paying, full time jobs with no immediate fiscal impact to the state.

Advanced Technology Convertible Loan Fund

Based on a successful North Carolina program, this program would provide additional investment capacity to the CIT GAP Fund, an initiative that makes seed-stage equity investments in Virginia-based technology and life science companies with a high potential for achieving rapid growth and generating significant economic return. This program would loan up to \$500k paid out over 12-18 months based upon developmental milestones of qualified, advanced technology companies.

Refundable Research and Development Tax Credit

Virginia is one of only twelve states that do not offer a Research and Development (R&D) tax credit. Small research-intensive advanced technology companies often take ten or more years to get a product to market. Tax credits are extremely helpful to provide capital, especially if they are refundable or transferable.

The Commission proposes a Virginia R&D Refundable Tax Credit, equal to 1-6% of the federal credit, scaled based upon the R&D investment, with a special 6% credit for qualified advanced technology start-ups and early-stage firms. A special incentive (and additional 6-10%) could be added if the research is performed by a Virginia university. For qualified start-ups and early-stage firms with 50 or fewer employees, the state will refund in cash 65% of the value of R&D credits that cannot be used for lack of tax liability, in lieu of a carry-forward option.

The R&D Tax Credit will end Virginia's competitive disadvantage by adding this important incentive tool for advanced technology firms and provide needed capital for technologies invented at Virginia universities that would otherwise never be commercialized, create jobs or add to the tax base.

Transforming Academic Institutions into Economic Engines

While Virginia has one of the best higher education systems in America, our colleges and universities' economic development potential is severely underutilized. The Commission believes that our universities' research and development capabilities and collaboration with the private sector are deficient and recognizes the need to make fundamental changes in how we disseminate information with our institutions of higher education excellence.

While the Commission's recommendations to grow Virginia's innovation economy are an important part of utilizing higher education for economic development, it is only one part of the role our academic institutions can play to help create jobs and grow Virginia's economy.

In order to remain competitive in the high growth industries of today's market, Virginia must maximize the existing assets of our higher education system. With improved collaboration between the business community and the research and development initiatives of universities, Virginia can provide a nurturing environment for new and existing businesses and a workforce ready to meet the demands of evolving industries.

There is currently no method to comprehensively identify and tie the pockets of excellence in our higher education system to business outcomes. Lack of catalyzed coordination among the universities is lost opportunity. Virginia has the potential to cultivate a reputation for creative and distributed innovation leading to job creation and new capital investments benefitting all regions of the Commonwealth.

To transform academic institutions into economic engines, the Commission recommends a series of proposals including:

1. Centers of Excellence
2. Energy Based Research
3. Energy Education and Energy Degrees
4. Agriculture Research
5. Agriculture and Veterinary Graduates

Expand Initiatives Such as Industry "Centers of Excellence"

The Commission recommends establishing research-based collaborations or "Centers of Excellence" between private industry and our research universities as an effective way to boost Virginia's economic development performance.

An example of such a center, the Commonwealth Center for Advanced Manufacturing (CCAM), represents a model for devising additional centers that align with our target markets and leverage our universities' expertise into these areas. The model has been proven internationally and other states are developing similar approaches to help them compete in the innovation economy.

The key is having private industry in a leadership role to help establish and validate targeted markets and direct research efforts in a manner most likely to have commercialization and resulting job creation benefits. Building on inherent strengths within Virginia, the energy and information technology markets are highlighted as natural targets for additional centers of excellence.

Energy-Based Research Coordination

Virginia's natural resources together with the strategic leadership by provided by Governor McDonnell have positioned Virginia to be the "Energy Capital of the East Coast." However, increased coordination between higher education, the Commonwealth and industry is needed to maximize that potential.

The five energy centers being established by the Virginia Tobacco Commission provide an opportunity to create a synergy in this area and to better handle intellectual property issues for higher education. This is an opportunity to increase energy entrepreneurship and put Virginia on the map as an innovative technology economy. In addition, an emerging technologies fund, as previously recommended, will provide strategic and flexible incentive opportunities as it relates to quickly evolving, energy technologies.

The Commission recommends maximizing the investment in clean energy research and development in the following ways: 1) Universities Clean Energy Development and Economic Stimulus Foundation; 2) establishing the Virginia Energy Initiative to bring together research capabilities of our major research universities under one canopy to help focus efforts on developing energy technologies and energy jobs for the 21st century and; 3) supporting the work of the Virginia Coastal Energy Research Consortium (VCERC) and the Virginia Offshore Wind Development Authority's efforts to grow Virginia's offshore wind development and supply chain industries.

Energy Education and Energy Degrees

While higher education can play a greater role in energy research, our four-year colleges and universities and community colleges should bolster and expand their energy-related degree programs.

Between the possible expansions of Dominion's North Anna nuclear power station, potential uranium mining in Pittsylvania County and the existing nuclear work of Babcock & Wilcox, AREVA and Northrop Grumman, nuclear resources are positioned to be an increasingly significant energy resource for Virginia.

To prepare for the high-skill, high-paid nuclear jobs, the Commission recommends expanding university programs in areas such as nuclear power, energy engineering and environmental management, including nuclear engineering and nuclear technician programs.

While Virginia Tech, the University of Virginia and Virginia Commonwealth University have begun to move in this direction, this area is a void in the workforce.

Additionally, community colleges should expand jobs training in high growth areas such as energy auditing and efficiency, utility and related trade activities and renewable system operation and maintenance.

Agriculture Research

Agriculture is the #1 industry in Virginia employing over 500,000 people and a key economic development driver in many economically distressed communities in Virginia. The Commission recommends investing in agriculture and forestry research and outreach to ensure the economic viability and growth of the agribusiness industry.

At Virginia's two land grant universities, Virginia Tech and Virginia State University, focused research is conducted on improving human and animal health and nutrition, enhancing the quality of the environment, reducing the effects of major infectious diseases, developing value-added products, building viable communities, and preventing chronic diseases such as obesity, heart disease, and diabetes. Through the Virginia Cooperative Extension, this knowledge is put into the hands of farmers, foresters, and agribusiness men and women to advance economic development.

Agriculture and Veterinary Medicine Programs

Virginia must ensure higher education opportunities for agriculture, forestry and veterinary medicine students by finding solutions for accepting more students with an interest in those fields to Virginia Tech and Virginia State University. Virginia is losing its own students to other states who have larger programs and accept more students. Taxpayers have invested in their K-12 education and a solution needs to be found to ensure these students remain in the Commonwealth to further their agriculture and veterinary education.

Virginia must also actively support the recruitment and retention of large animal veterinarians in Virginia. A moderate to severe shortage of food animal veterinarians both in the private and public sector over the next 20 years has been predicted, especially in the Southern and far Southwest areas of the Commonwealth.

Potential solutions may include support for federal legislation addressing the issue, growing the Virginia-Maryland Regional College of Veterinary Medicine, access to Industrial Development Authority funds for establishment of veterinary practices in rural areas and inclusion as an area supported by the Tobacco Commission.

Business Growth and Development

Developing emerging technologies and an innovation economy are crucial to the future economic prosperity of Virginia. However, to remain competitive and create jobs and opportunity for Virginians today, we must invest in and develop key existing industries and economic development infrastructure to recruit new business to Virginia.

Some key industries have historically lacked the attention, resources and tools commensurate with their return on investment, value to Virginia's economy and capacity to create jobs. To help these existing industries grow and provide an attractive environment for new businesses to locate in Virginia, we must maximize and further develop our existing assets and resources.

The Commission offers the following recommendations to assist business development in certain strategic sectors of Virginia's economy:

1. Technology
 - a) Incubator and Commercialization Centers
 - b) Advanced Technology Relocation Fund
 - c) Biotechnology Wetlab Facility Construction
2. Small Business
 - a) Small Business Investment Tax Credit
 - b) Virginia Small Business Financing Authority
3. Tourism
 - a) Tourism Development Grant Program
 - b) Tourism Development Micro Loan Fund
 - c) Motion Picture Grant and Tax Credits
 - d) Winery Development Tax Credit
4. Revitalization and Redevelopment
 - a) Virginia Main Street Program
 - b) Brownfield Redevelopment
 - c) Industrial Site Revitalization
5. Port of Virginia Tax Credit

Technology

Technology Incubators and Commercialization Centers

Knowledge-based businesses are often founded by scientists, engineers and other technology-oriented individuals who may have had little or no experience in starting a business or in dealing with business challenges. According to the National Business Incubation Association (NBIA), businesses started in organized incubators utilizing industry best practices have a much higher success and survival rate.

- 87% of companies started in an incubator program are still in business after 5 years.

- Companies started outside of organized incubators have a 30% failure rate after 2 years and over 50% in 5 years.
- 90% of companies started in incubator programs tend to remain in the community.

Knowledge-based companies often face unique challenges including protecting their intellectual property, regulatory hurdles, dependency on non-traditional sources of capital, and exit strategies such as licensing or joint ventures with very large multi-national companies. However, these companies tend to a high rate of job creation many with high average wages.

A technology incubator or commercialization center would partner with local governments, commercial real estate owners, vendors, suppliers and others who see and support the economic development benefits and the long term potential for return on investment. The Commonwealth would typically support salaries and operating costs of the incubator with a high degree of leverage from the other sources, both direct and indirect, in order to construct a program that meets industry best practices.

Incubator programs would be targeted for areas of the state where the potential to create and expand knowledge-based companies and jobs in targeted high technology sectors has the greatest potential for success. This type of program would be developed using proven standards and metrics and through partnerships and affiliated agreements and would result in a 5:1 return on state investment. Incubators would likely result in new technology companies, each bringing highly skilled, high paying and sustainable jobs.

Advanced Technology Relocation Fund

As previously mentioned, Virginia has few incentive tools that specifically target small and mid-sized successful, high growth, high wage technology companies. The Advanced Technology Relocation Fund would provide an effective vehicle that could be marketed to attract innovation economy companies from Maryland, North Carolina, Pennsylvania and other states.

The Fund would develop a targeted relocation strategy for small, high-growth, advanced technology companies and appropriate funds to off-set equipment and employee relocation costs. Because of the size and cost of equipment in biotechnology and other advanced technology industries, a small company cannot afford to move or purchase new equipment to relocate in Virginia despite the more favorable tax and regulatory environment in the Commonwealth.

The Fund would provide discretionary grant awards for relocation of high wage executives or equipment and furnishings from old location to new location and expenses incurred in exiting old business location and establishing the new office location in Virginia. Recipients would be required to headquarters to the state and commit to remaining in Virginia for a pre-determined term.

Through a minimal investment in the Relocation Fund, Virginia could attract out-of-state advanced technology companies, create high-paying and sustainable jobs and quickly realize a significant return on investment through payroll, corporate income and sales taxes.

Biotechnology Wetlab Facility Construction and Loan Guarantee Fund

Biotechnology research and production facilities are highly specialized with an extreme cost differential over normal office and light industrial facilities. Most biotechnology companies are still small (early to mid-stage) with high research and development costs and significant capital needs. A lack of available facilities that can be outfitted to meet the needs and to finance the improvements of biotech companies is an impediment to the growing life sciences industry in Virginia.

While the investment made by Governor McDonnell and the General Assembly in 2010 into the biotechnology industry was a positive first step, Virginia needs to create a program to construct wet laboratory shell facilities in various regions of the Commonwealth where opportunity exists to attract life science and biotechnology companies from out-of-state and retain growing in-state companies who require specialized laboratory research space.

The Commission recommends establishing a fund to assist with the development of 2-3 biotechnology shell facilities. These facilities would be designed to accommodate wet lab users or be used for annual lease payments in a PPEA proposal for a specific project with high chances of success. In addition, the program can be structured so that once the facilities are built and fully leased they could be sold to real estate investors with the proceeds being earmarked to a revolving fund to build new facilities over time.

By expanding Virginia's inventory of wet labs and biotechnology research and production facilities, Virginia will create new biotech industry jobs in Virginia by alleviating shortage of wet lab space for biotech companies in the Commonwealth, attracting companies by having facilities in place versus showing prospects raw undeveloped land and competing with peer states currently implementing various loan and lease guarantee or grant programs.

Small Business

In the current economic environment, small businesses have found access to financing more difficult to obtain than in any other time in recent history. Credit and equity investment are vital to small businesses to support new business growth, encourage expansion of existing businesses and create jobs in Virginia.

The reasons behind the difficulty in small businesses accessing credit and equity are varied. Some businesses say that access to credit and equity have tightened, while some lenders and investors say demand has decreased as businesses have become more cautious. Some equity providers feel there are fewer viable business plans that can generate the returns necessary to justify the investment risk. Others blame the federal financial regulatory environment and believe that tougher regulatory standards have made banks less interested in taking risk because of the increased capitalization required by a downgraded loan.

To address small businesses capital challenges, the Commission recommends establishment of a Small Business Investment Tax Credit and additional support for the Virginia Small Business Financing Authority.

Small Business Investment Tax Credit

During the 2010 General Assembly session, Delegate Don Merricks introduced the Virginia Small Business Investment Credit (VSBIC). The VSBIC would have provided for the creation of private investment funds to be invested in small businesses located in Virginia. Private capital would be raised from outside entities (insurance companies) to be invested in qualified companies in accordance with certain guidelines. This program is similar to the *VentureVirginia* recommendation earlier in this report.

Delayed tax credits from the state would then be issued to the outside entities for their investment in these private investment firms. Private investment managers are required to invest the capital in Virginia businesses quickly to get the capital working within the economy before the tax credits become due.

To qualify to access the capital a company must have headquarters in Virginia, employ fewer than 100 people and agree to remain in Virginia for a predetermined period of time after investment.

Similar programs are in place in 9 other states: AL, CO, FL, LA, MO, NY, TN, TX and WI, plus DC. These programs have resulted in over \$2.2 billion in capital for small businesses and created over 21,000 jobs.

Enhanced Funding for Virginia Small Business Financing Authority

Additional utilization, funding and flexibility for the Virginia Small Business Financing Authority (VSFBA) and its multiple loans and financing tools will help Virginia entrepreneurs attract more banking partners, make more direct loans and meet a variety of small business credit needs.

VSFBA utilizes several tools and programs to help small businesses with financing. The Loan Guaranty, Virginia Capital Access and Tobacco Capital Access programs are designed to assist banks and credit unions in extending working capital lines of credit and refinancing needs in a non-bureaucratic and efficient method. The Economic Development Loan Fund is a direct loan program that provides gap funding between private debt financing and private equity.

VSFBA has also proven to be an efficient and effective use of state funds. Based on direct and indirect job creation from projects financed by the VSFBA, the Commonwealth has historically received a \$5.81 return on investment after the first year for every state dollar loaned. In addition, through the revolving loan and program requirements, VSFBA has leveraged private credit and equity dollars at a ratio of 29:1 for every state dollar invested.

For example, a one-time \$5 million appropriation would allow VBSFA to assist more than 200 additional small businesses and generate \$35 million in private equity and credit in the first year the loans are made.

Tourism

Tourism Development Grant Program

Tourism is big business in Virginia. In 2008, 60 million visitors came to Virginia, generating \$19.2 billion in economic impact, supporting 210,000 jobs and providing \$1.28 billion in state and local taxes. Virginia currently ranks 8th in domestic visitation spending and 14th in international visitation. The return on investment for tourism is immediate and proven. For every \$1 spent on tourism marketing, the Commonwealth receives \$5 in additional state and local tax revenue. Every \$90,000 in tourist spending creates 1 new job.

To create the complete tourism experience, product development is essential. However, in many parts of Virginia, tourism product is aging or lacking and there is little hope of significant tourism development in the near future. For example, comprehensive research conducted by the Tourism Subgroup confirmed that Virginia Beach needs a large entertainment venue, Norfolk needs a convention hotel and Patrick County needs small to midsize lodging. However, these and other needed projects around the state are stagnant due to the lack of available credit and other adverse market conditions that discourage investment.

Virginia offers an array of incentive and development programs for many industries, but few programs exist to support tourism business development. The Commission believes there is an appropriate role for the state, in partnership with local governments, to assist with tourism-related development projects. The creation of a Tourism Development Grant Program (TDGP) would stimulate the construction, tourism and banking industries, position our marketing campaigns to capitalize on economic recovery and provide for a standardized process for future tourism and non-state agency funding requests.

The TDGP provides a vehicle to fill gap financing needs for certain locality endorsed tourism development projects that fulfill a predetermined tourism product need.

The TDGP would combine aspects of several existing programs to create a revenue stream from the retention of 1% of state and local tax revenues generated by the project and a matching developer contribution. The retention of state and local taxes and the developer's contribution are limited only to the footprint of the project and do not affect or impact any other facilities, businesses or taxpayers in the locality.

The revenue stream would fund grants to repay a private gap loan as contractually agreed to by the developer and locality. If the loan is retired prior to the agreed upon period, the property is sold or the project is refinanced, the developer contribution will no longer apply and all state and local tax revenue generated by the project will return to their respective general funds.

The TDGP will allow major projects, like an entertainment center in Virginia Beach, and smaller projects, as bed and breakfast in a wine region, that will create jobs, grow the economy, strengthen the complete tourism experience and generate millions in state and local tax revenue that otherwise would not exist.

Benefits:

- This program does not raise taxes, use existing General Fund revenues or divert resources from other programs.
- There is no financial risk exposure to state and does not affect bond rating or debt capacity.
- Requirement of locality sponsorship and endorsement mitigates political issues.
- Serves as an immediate job creator for construction and tourism industries.
- Creates an “open for business” message to help attract national development interest.
- This program is a hybrid of existing programs already approved or offered by state.
- Benefits all localities in Commonwealth: large and small, urban and rural.

Tourism Development Revolving Micro Loan Fund

While all localities and projects will have the opportunity to access and utilize the Tourism Development Grant Program, the Commission recognizes that the TDGP may not be an ideal fit for all tourism development projects. The committee recommends the creation of a Tourism Development Revolving Micro Loan Fund designed to provide direct loans and/or loan guarantees to small tourism development projects. The Loan Fund would be capitalized with a one-time General Fund appropriation and would provide low-interest small and micro-loans in the range of \$25,000 to \$500,000. Interest would be paid to the Loan Fund, which would grow over time.

Governor’s Motion Picture Opportunity Fund and Tax Credits

A vibrant film production industry can be a powerful catalyst for tourism, economic development and job creation. In addition to national and international exposure, a 2005 VCU study concluded that every dollar invested in Virginia’s film incentive program returns an average of 14 dollars in economic impact to Virginia.

Film production is driven by incentives and in recent years our competitor states have adopted significantly larger programs than Virginia, For example, while Virginia has \$4.5 million in tax credits and grants, Georgia and North Carolina have unlimited tax credits, Pennsylvania has \$42 million, Tennessee has \$20 million and West Virginia has \$10 million – all per year.

Because of this competitive deficiency, Virginia has lost at least 12 major films to other states with a total economic impact of \$367 million since 2006. Additionally, from 2007 to 2009

Virginia lost more than 2,000 film industry jobs, a 43% decrease, while national film employment increased by 4%.

For Virginia to continue to attract film production, create film industry jobs and increase economic impact and state and local tax revenue, the Commission recommends an increased investment in film incentive grants and/or tax credits to build on recent investments and successes and make Virginia more competitive with other states' programs.

Winery Development Tax Credits

Virginia is the 5th largest producer of wine in America and sales increased by 13% in the last fiscal year. According to figures from the most recent economic impact study, the Virginia wine industry employs approximately 3,000 people and contributes almost \$350 million to the Virginia economy on an annual basis. The study reflected the impact of 120 wineries in 2005; today, there are nearly 180 licensed wineries in Virginia.

The average price per ton of Virginia fruit is over \$1500, nearly three times the cost of a ton of fruit grown in California. The average cost for installing an acre of vines is over \$15,000 in Virginia. In addition, Virginia vineyards and wineries must import at great cost all of the rootstock, barrels, glassware and other implements required for wine production. These factors stifle winery development and increase per bottle cost, adding to a market perception that the cost of Virginia wine is out-of-step with its quality.

To lessen this burden and further capitalize on momentum in the industry, Virginia should establish a 25% tax credit program to incentivize winery and vineyard establishment or expansion. The tax credits should be salable or otherwise transferable and would be applied against Virginia state income tax.

For instance, Virginia averages 8 to 10 new wineries and independent vineyards per year. The average cost of installing a vineyard is \$15,000 per acre and the minimum planting should be five acres. If Virginia provides a 25% tax credit for the total cost of vineyard planting per year, the tax credits could be capped at \$187,500 per year.

Revitalization and Redevelopment

To promote revitalization and economic development in distressed areas of Virginia, the Commonwealth should provide financial and tax incentives to enhance the economic feasibility of reusing vacant, abandoned and derelict structures. These structures include factories, warehouses, strip malls, stores, businesses and other blighted properties in commercial districts located in both rural and urban areas of the Commonwealth.

The erosion of the traditional economic base in economically distressed areas of Virginia has left behind many abandoned and derelict commercial, industrial and neighborhood properties. Distressed areas, both small towns and inner cities, have been impacted by the

closure of manufacturing, textile, tobacco and furniture plants. These properties serve not only as a reminder of the loss of former economic vibrancy, but as a barrier to future economic growth.

Without public intervention, the private sector will continue to be hesitant to take the risks associated with redeveloping these blighted properties. The scale of the interventions required to reverse years of decline is often beyond the fiscal capacity of the distressed areas or the potential new tenants.

Virginia Main Street Program

The Virginia Main Street program promotes economic and physical revitalization of historic downtowns and neighborhood commercial districts. The Main Street program utilizes a comprehensive, incremental approach to revitalization built around a community's unique heritage and attributes.

Using local resources and initiatives, Main Street helps communities develop their own strategies to stimulate long term economic growth and pride in the traditional community center and downtown area. The Main Street Program has a proven track record of economic development and a demonstrated return on investment.

Jobs created expanded or retained	14,386
Small businesses created, expanded or retained	4,926
Private investment	\$638 million

Current state funding is used to provide communities and businesses in Main Street localities access to design assistance and other professional services. Additional funding and resources should be allocated to expand and enhance the Virginia Main Street program to include additional communities in economically distressed areas and to consider services beyond the immediate Main Street area within those communities.

Brownfield Cleanup and Redevelopment

Brownfields are often a major impediment to redevelopment in distressed areas, especially older cities. The term brownfield means the expansion, redevelopment or reuse of any property that may be complicated by the presence or potential presence of a hazardous substance, pollutant or contaminant. To begin addressing this issue, the General Assembly adopted the Virginia Brownfield Restoration and Land Renewal Act in 2002.

This legislation was designed to better facilitate the cleanup and redevelopment of brownfield sites. However, no funding has been allocated for these efforts. If funded, it could be used to assess the environmental liabilities of brownfield sites, promote the restoration and redevelopment of brownfield sites and address environmental problems or obstacles to reuse so that these sites can be effectively marketed to new economic development prospects.

Since August 2003, 60 sites have already utilized the Act for redevelopment. These projects represent more than \$700 million in created value, along with hundreds of jobs created or saved. With funding for site assessment and/or remediation, many more sites would come into play as developers leverage the funding.

Significant results have been achieved from a similar combined liability reduction and assessment program in Pennsylvania. The Commonwealth should provide matching grants to localities to perform Phase I environmental studies. These studies would provide prospective private sector developers with specific information regarding environmental liability and risk thereby helping to address the unknown cost of redevelopment.

Industrial Site Revitalization

Many distressed communities throughout Virginia continue to be negatively impacted by the closure of manufacturing, textile, tobacco and furniture plants. These buildings and structures are often vacated leaving a negative economic and aesthetic impact on communities. Virginia should consider providing direct financial or tax incentives to encourage investment in revitalizing these vacated structures. This program could be modeled after the North Carolina State Mill Rehabilitation Tax Credit.

The North Carolina Mill Rehabilitation Tax Credit is considered a major economic development initiative that enhances the economic reuse feasibility of many former industrial sites. The North Carolina program provides incentives for restoring and reusing large vacant industrial, agricultural and utility buildings. State tax credits are available for the rehabilitation of income and non-income producing historic mill properties.

A recent report published by Preservation North Carolina reveals that rehabilitation and reuse of historic mills and buildings bring substantial benefits to North Carolina communities. Virginia should consider establishing a similar program to provide incentives to revitalize vacant industrial buildings. Funding could be routed through the existing Derelict Structures Fund or through the creation of a stand-alone tax credit. Properties identified would need to be part of a broader community revitalization strategy and selected based on the committed private sector investment.

Virginia Port Tax Credit

The Port of Virginia is a major economic engine for the Commonwealth and a key factor in attracting businesses to Virginia. Of the new manufacturing and warehouse distribution project announcements in fiscal year 2009-2010, 22% are confirmed users of the Port of Virginia. The Commonwealth should pursue incentives to increase the use of the Port of Virginia by Virginia manufacturers.

South Carolina currently has a successful tax credit program in place to incentivize manufacturers to locate to or expand within the state and use the Port of Charleston. Virginia

must remain competitive with its neighboring ports in order for the manufacturing industry to continue to thrive in the Commonwealth.

The Commission recommends a Virginia Port Income Tax Credit for utilizing Virginia Ports for export and import of materials and finished goods relative to the Virginia based manufacturing operations.

A Virginia Port Tax Credit will provide Virginia-based manufacturers a competitive shipping cost advantage relative to peer competitors in other states. Virginia ports apply a standard tariff irrespective of base of operations. As an example, this standard system charges a Pennsylvania manufacturer the same rates as a Virginia manufacturer. Incentivizing Virginia-based manufacturers to do business with the Port of Virginia will lower costs, make Virginia more competitive and help create new manufacturing jobs.

Training Workers for Virginia Businesses

While this report has offered significant and important recommendations to grow Virginia’s innovation economy, transform academic institutions into economic engines and enhance business growth and development in Virginia, none of these initiatives will be successful without a competent, qualified and trained workforce to support these new businesses and new jobs.

For existing businesses to expand and new businesses to locate in Virginia, they must be able to find the skilled workers to meet their company’s needs. Virginia must be able to deliver a prepared workforce that can adapt to the changing economy. The economic prosperity of Virginia depends on a responsive workforce that has specialized and advanced training, cutting-edge skill sets and higher levels of education.

Secondary and post-secondary graduates need to have a combination of hard skills including the theory and applied technology, and soft skills, including the ability to effectively read, write, compute and communicate, to become trainable employees for specific jobs and re-trainable as those positions change.

Currently, Virginia has many of the appropriate tools to build a quality workforce. However, the state lacks leadership, coordination and accountability in its workforce development infrastructure. There are many agencies and groups involved in workforce development and the Commission recognizes the need for streamlining and collaboration between them for Virginia’s workforce system to be successful. The Commission also recognizes the need for performance measures on the system as a whole to determine effectiveness.

To train workers for Virginia businesses, the Commission offers the following recommendations:

1. Align workforce development with economic development strategies
2. Align job demand and workforce development efforts
3. Greater use of Career Pathways Programs, including apprenticeship, on-the-job training and other “Earn While You Learn” models
4. Establishment of a senior administration leadership position
5. Improved policy development and performance reporting
6. Expanded teaching of economics in high school
7. Expedite veterans and military into healthcare and technology workforce
8. Fully fund commitment to non-credit courses at community colleges

Align Workforce Development with Economic Development Strategies

A state coordinated career pathways system will provide businesses with assurance that the workforce delivery system will meet both their immediate start-up and long-term needs. The

Commission recommends that curriculum at the community colleges and four-year institutions be aligned with statewide and regional economic development strategies.

In addition, the Commission recommends that there be a sole entity charged with working with existing and new businesses to appropriately direct them to existing programs in order to fully leverage state, federal, and local investments in workforce training programs and to ensure that such programs are focused on the needs of business.

Greater Alignment Between Job Demand and Workforce Development Efforts

The rapidly evolving global economy of the 21st century is driven by the increasing pace of technology and innovation. Being competitive depends predominantly on the capacity to generate and apply knowledge, which is determined by the quantity and quality of the available workforce.

To meet this challenge, Virginia’s workforce development and delivery system must accurately identify current needs and forecast future demands based on business requirements and data-based modeling. The system must ensure that corresponding skills training is readily available and easily accessible through the community college system, educational and training providers and One-Stop Career Centers.

The Commission recommends purchasing, creating or expanding an information technology solution, similar to the existing Wizard program, which will provide user-friendly and up-to-date information to students and job seekers on the programs and technologies currently utilized by employers both in their region and across Virginia. To match the evolving and growing needs of business, Virginia must help align job-seekers with the occupations and sectors in the greatest demand.

Expanded Career Pathways Programs, Including Apprenticeship, On-The-Job Training, and Other “Earn While You Learn” Models

Given the accelerating integration of advanced technologies in both products and processes and the associated rapid growth in skills requirements in today’s workplace, employers need educators to provide them with individuals who are trainable for a multitude of positions during their careers.

The Commission recommends the continued implementation of the state’s Career Pathways System in all of the Commonwealth’s educational programs through the following actions:

- Support, promote and more widely implement programs that prepare students for higher academic success.
- Encourage greater collaboration between secondary and post-secondary institutions and employers including the registered apprenticeship program and “Earn While You Learn”

programs.

- Continued promotion of dual enrollment classes that allow students to enroll in college-level courses for credit while still in high school.

As Virginia places a greater emphasis on Science, Technology, Engineering and Math (STEM) education and STEM-related careers, we will have qualified educators to teach science, technology, engineering and mathematical related classes. The Commission supports the increased efforts by colleges, universities and local school divisions to train more teachers to enter Career and Technical Education (CTE) and STEM programs.

Senior Level Leadership Role

Greater coordination among education, workforce development, businesses and economic development in Virginia is fundamentally an issue of executive level leadership. Some suggestions to address this challenge include creation of a Secretary of Workforce Development, while others have suggested that the management and coordination of workforce programs should be in one secretariat - either Education or Commerce and Trade.

The issue of senior level leadership to carry out the responsibilities of the Chief Workforce Development Officer is crucial to the streamlining, prioritization and organization of Virginia's workforce delivery system. Existing gaps in Virginia's workforce development include:

- The system is complex and involves many players, and not all stakeholders have been engaged in a meaningful way.
- The roles, responsibilities and expected interactions between the various players sometimes overlap and conflict, which is understandable and sometimes healthy; however, not all components of the system work together resulting in duplication of effort and perpetuation of organizational silos.
- Not enough employers understand the services offered by the system and in many cases, employers are still not actively engaged.
- There are potential inefficiencies associated with the lack of integrated technologies, duplication of activities and the overhead associated with a fragmented system.

The Commission recommends designation of a senior-level official to carry out the responsibilities assigned to the Chief Workforce Development Officer and for coordinating the state's workforce development and skills training initiatives in support of the Commonwealth's economic development activities.

Policy Development and Performance Reporting

The Virginia Workforce Council (VWC) is a 29 member business-led board that acts as the principal advisor to the Governor and provides strategic leadership to the state regarding the workforce development system and its efforts to create a strong workforce aligned with employer needs. The VWC is also charged with serving as the State Board for the federal Workforce Investment Act (WIA) and setting policy and standards for the local Workforce Investment Boards (WIBs) and One-Stop Career Centers.

Although the VWC has made considerable progress during the past several years to identify gaps in Virginia's workforce development and delivery system, challenges remain including the need for a quantitative view of the whole system at the state or regional level to facilitate performance accountability.

The Governor and the VWC should establish measures to evaluate the effectiveness of the local workforce investment boards and conduct annual evaluations of the effectiveness of each local workforce investment board. These evaluations should consider items such as (i) employment; (ii) employment retention; (iii) competency-based and industry-certified skills certification; (iv) Career Readiness Certificate achievement; (v) integration with secondary education institutions' Work Readiness Skills programs; (vi) integration with the Virginia Community College Middle College program; and (vii) Science Technology Engineering and Mathematics (STEM) educational opportunities for women, minorities and youth.

Economics in High School

The Commission joins the Virginia Council on Economic Education (VCEE) in supporting the statewide network of college and university based Centers for Economic Education. The Centers for Economic Education provide K-12 educators with local resources and facilitate ongoing collaborative efforts to help them prepare for teaching economic courses as a condition for graduation for all high school students.

Retired Military and Healthcare Workforce

Virginia's significant military presence creates a pipeline of skilled and trained veterans and former military personnel in the workforce after their service is completed. These individuals often have significant experience in high demand fields such as healthcare, machinery and technology.

Virginia should recognize the existing credentials of highly trained and experienced former military health professionals, machinists and other skilled trades and allow substitution of certain military training and service for formal education, certification or clinical experience requirements. Additionally, Virginia should identify opportunities to more effectively recruit and more seamlessly integrate former military personnel into our skilled workforce.

Additionally, the Commission leadership recommends the following initiatives to help address the growing demands on the healthcare workforce:

- Improve opportunities for “dual enrollment”.
- Allow students to matriculate into a health science program at the start of each semester rather than once a year.
- Improve awareness of health career training and re-training through high schools, community colleges and higher education.
- Standardization of college-based curriculum and course numbers.

Non-Credit Funding

State law charges the Virginia Community College System as the state agency with primary responsibility for coordinating workforce training at the postsecondary education to associate degree level. The community college system is also responsible for ensuring that all training and educational resources are being fully utilized to prepare the state’s workforce. Consideration should be given to phasing in state support of non credit skills development courses at the 30% level as envisioned in the Appropriation Act. Currently, non credit skills development courses are only being funded at the 5% level.

Coordinated, Efficient and Effective Economic Development Strategies

While the Commission has offered comprehensive strategies to grow Virginia's innovation economy, improve business development and recruitment, increase collaboration between higher education and industry and enhance our workforce delivery system, the Commission recognizes several areas where the state's economic development organizations and related processes could work better and more efficiently, including:

- Fulfillment of current programs and promises
- Reform, reorganization or streamlining of processes
- Better collaboration and cooperation

Businesses, especially small businesses, need to be focused on growing their company and creating jobs, not regulatory red tape and burdensome bureaucracy. By making some processes easier and more streamlined, the business community can thrive and grow, spurring economic growth and job creation. In addition, the state must fund its current programs in order to maintain credibility and continue to assist businesses with financing needs.

The Commission offers the following recommendations to keep existing program commitments, streamline economic development systems and make state government more responsive and user-friendly for businesses:

1. Enterprise Zone Program
2. Agriculture Enterprise Zone Program
3. Regional economic development collaboration
4. Definition of economically distressed areas
5. Incentive reform
6. Increased flexibility of Governor's Opportunity Fund
7. Regulatory permitting
8. Regulatory notification
9. Sports Advisory Commission

Fully Fund Virginia's Enterprise Zone Program

In recent years the Virginia Enterprise Zone Program has not been able to fully meet qualified businesses' grant application amounts. In fiscal year 2010, Enterprise Zone grants were prorated at 62 cents on the dollar. Essentially, this means that a company that anticipates receiving \$200,000 after making a significant multi-million dollar real property investment in an Enterprise Zone would receive only \$124,000. Virginia must fulfill delivery of promised incentives to companies which have delivered on jobs and investments. Failure to fully meet incentive obligations carries negative consequences for Virginia's business climate.

Enterprise Zones are a significant tool in economic development arsenals across the nation. More than 38 states have an enterprise zone program, including some of Virginia's competitors: Maryland, North Carolina and South Carolina. Although the Enterprise Zone

concept and incentives vary from state-to-state, the existence of one in a locality is often used by business location consultants as a screening criterion in site selection. In Virginia, the program is targeted toward distressed localities, as defined by high unemployment, a high percentage of students receiving free and reduced lunches and low household income.

Currently, there are 57 Enterprise Zones designated across the state. For the 2010 Qualification Year, 214 zone investors received \$10.6 million in real property investment grants from the Enterprise Zone program. Private investment in qualified real property investments in Enterprise Zones totaled more than \$500 million. Forty-one businesses received \$1.2 million in Job Creation grants which created 923 net new, full-time jobs.

Fully funding the Enterprise Zone program will restore credibility and enable the Commonwealth to honor its full commitments to companies locating in these distressed areas of Virginia.

Re-Establish and Fund a Virginia Agriculture Enterprise Zone Program

The total economic impact of agribusiness (agriculture and forestry-related) industries in Virginia is \$79 billion, including a value-added impact of \$37 billion, which constitutes approximately 9.9% of Virginia's gross domestic product (GDP). The total employment impact exceeds 500,000 jobs, which is over 10% of the state's workforce. In order to sustain and grow this sector of Virginia's economy, the Commission recommends re-establishing and funding a Virginia Agriculture Enterprise Zone Program to incentivize job creation and economic development in the agribusiness industry.

The Virginia Agriculture Enterprise Zone Act was originally passed by the 2005 General Assembly to attract, promote, retain and encourage the expansion of agricultural and farm businesses involved in the growth, production, processing, manufacturing, distribution, wholesale and retail sales of agricultural and food products in designated areas in the Commonwealth. Unfortunately, funding has not been provided to implement the program.

An Agriculture Enterprise Zone Program would allow a "qualified agricultural businesses" and "qualified farm businesses" located within agricultural enterprise zones to apply to the Virginia Department of Agriculture and Consumer Services (VDACS) for assistance in developing business plans and grant funding for implementation of those business plans.

Improving Economic Development Efforts Through Regional Collaboration

The Commonwealth could improve economic development efforts through regional collaboration and cooperation. While the state should not mandate regionalism, it should have targeted incentives that encourage local economic development offices to cooperate within regions. By collaborating, duplication of services is eliminated, cost for services is shared and messages in the marketplace have a larger voice.

- The state incentive programs should encourage regional cooperation in economic development. For example, eligibility criteria could be lowered or bonus points awarded for incentives to assist economic development projects where tangible regional cooperation exists, or where the project aligns with a regional target sector.
- Realignment of existing state resources could be the financial carrot to address workforce issues. Stronger state guidance of federal dollars currently flowing through the Workforce Investment Act program could be one such example to address workforce training systems.
- Leveraging partnerships with local and regional entities such as the Virginia Tobacco Commission, regional non-profit Foundations, or other federal programs, such as those of the Economic Development Administration, could be improved at relatively little cost to the Commonwealth.
- Increased local marketing partnerships with agencies such as VTC or VDACS could leverage more visibility in sectors of strategic regional importance.
- Partnerships with strategic businesses could be formed, where the marketing outcome of the company aligns with the marketing outcome of the region. For example, connecting selected companies in the advanced manufacturing sector with those regions for which advanced manufacturing is a target sector, and sharing the cost of a special media outreach, could result in more effective positioning of the region.

Competitive and Strategic Incentives for Business Expansion and Recruitment

Virginia needs competitive and strategic incentives that support existing business expansions as well as new business locations in the Commonwealth. While traditional programs, like the Governor’s Opportunity Fund (GOF), Virginia Jobs Investment Program (VJIP) and the Enterprise Zone Program have served Virginia well over the past decade, our competition is continuously improving and enhancing their offerings as well. Virginia needs to remain innovative and creative in its use of incentives and allow greater flexibility in the program designs to be able to address changes in the marketplace. Such flexibility and enhancements could include:

- Phasing out of certain existing by-right alternative energy tax credit programs in return for more targeted, negotiated grant programs that align with Virginia’s competitive advantages.
- Reduce or eliminate the arbitrary eligibility standards used for programs such as the Governor’s Opportunity Fund. Projects should benefit from the program, regardless of size, if they can demonstrate that they produce a positive return on the state’s investment. Further, restrictions on how the GOF monies can be used by an eligible company should be removed. At the same time, Virginia must put into place strict requirements for the repayment of incentive funds for companies and projects that do not meet their job creation and capital investment commitments.

Consistent Definition of Economically Distressed Areas

To effectively target state resources for community and economic development, Virginia must have a standard definition of economically distressed areas. Although some similarities exist, the definition of economically distressed in Virginia varies by state agency, program and funding source. The Commonwealth must provide consistent and uniform guidance to state agencies to define and identify economically distressed localities.

Federal, state and local agencies target programs to economically distressed areas and adopt various methods, data points and criteria to determine distressed. There is a broad range of indicators for determining economic distress, including: unemployment, income, population, outmigration, housing conditions and educational attainment. Currently, agencies select from these and other indicators to determine its definition of distressed.

After a review of definitions utilized by other states and agencies, the standard definition of “economically distressed” in Virginia should use the core criteria of average unemployment rates, median adjusted gross income, persons in poverty and fiscal stress of locality.

The Commission recommends establishing a working group to analyze the data associated with the criteria listed above to accurately define economically distressed in the Commonwealth. This initiative should be led by the Secretary of Commerce and Trade with input from appropriate stakeholders. The proposed definition should focus primarily on utilization by community and economic development programs in Virginia.

Environmental and Regulatory Permit Reform

Many manufacturers have indicated that the lengthy and complicated process to receive necessary permits is becoming a greater economic and compliance challenge.

For example, a recent competitive business expansion project was put in jeopardy when the company was told it would take 6-8 weeks to have a permit issued by the Virginia Department of Environmental Quality (DEQ). The situation was brought to the attention of DEQ leadership and was quickly rectified. In fact, the company received the necessary permits 48 hours later and has since announced their expansion in the Commonwealth.

DEQ recently directed the chief deputy to serve as a business community liaison and provide assistance with job creating projects. This position works closely with the Virginia Economic Development Partnership, the Chief Jobs Creation Office and the Secretary of Commerce and Trade. The chief deputy meets with all economic development prospects to deliver the message that the department is open and easy to work with and to offer them a point of contact to assure them that they will receive prompt response.

In order to develop a simpler, more efficient permitting process, the Commission recommends the following:

- Develop more general permits and customized permit applications and post these customized applications on DEQ’s website in a user friendly manner.
- Utilize the Lean process (EPA business model that focuses on elimination of waste and redundancy) for a review of DEQ’s air permitting program with the goal of improving efficiency and timeliness.
- Undertake a stakeholder process to find ways to reduce the time it takes to get to final approval. As the Commission has heard through testimony, delays often occur because of incomplete applications. One recommendation is to encourage a pre-application meeting so applicants know what is necessary to complete the application correctly the first time.
- Encouraging the Chief Deputy of DEQ, in their role as business community liaison, to implement practices beneficial to manufacturers looking to expand their operations or relocate their business to Virginia. Continuity in this position is vital to help manufacturers through an often difficult process that can be prohibitive to job creation and investment.

Regulatory Notifications

Small business owners often struggle to learn and keep up to date on ever-changing state laws, rules and regulations that govern their business. The creation of small business specific advisories or notifications to announce when state laws or regulations change would prove beneficial to small business owners, allowing them to spend more time focused on creating jobs and running a successful business.

For example, Illinois has recently passed the Small Business Advisory Act. This act requires every State agency to make available on the internet a small business advisory page. In addition there is a notification system put in place to inform the small business community of each new rule or change in requirements affecting small businesses.

This could be a perfect tool to have on the Business One Stop website. An alert system could be created where those small businesses and individuals could enroll to be notified when a regulatory change is made affecting small businesses. The Commission recommends Virginia incorporate a similar program and notification system in our Business One Stop program to make it easier for small businesses to be aware of regulatory changes.

Sports Advisory Council

The Commission recommends a continued study and consideration of ways to expand and maximize Virginia’s sports marketing initiatives, including additional uses for existing sports venues such as Martinsville Speedway, recruitment of additional sporting events and franchises to Virginia and the creation of a Sports or Motor Sports Advisory Council.

Promoting the Virginia Brand

Virginia has consistently been ranked by Forbes, CNBC, Pollina and others as the No. 1 or No. 2 state in America for business. In 2009, the “Virginia is for Lovers” slogan was both inducted into the National Advertising Walk of Fame for Iconic Slogan and recognized by Forbes.com as one of the top ten marketing campaigns of all time.

While independent third-party validation of our competitive business climate and tourism message resonates, without a coordinated and substantial voice in the marketplace the validations have limited effect.

Shifting federal policies can create an overlaying context of loss of competitiveness for the states, making it even more important for the promotion of Virginia’s economic assets to be reinforced in our domestic and international marketing. Communication about Virginia assets – higher education, workforce, transportation and fair taxation policies – build on our most important message of the stable business climate. Our message will resonate well if it is visible and differentiated from others.

A lack of coordinated marketing across all industries and agencies of government became apparent over the course of the Commission’s work. Virginia must properly and consistently market its assets in order to see the maximum return on investment. By successfully marketing the qualities and programs Virginia already possesses, our message will broadcast loud and clear: Virginia is the best state to do business, vacation, get an education and raise a family.

The Commission offers the following recommendations to address marketing deficiencies in state agencies and key industries and maximize the impact of the Virginia brand domestically and internationally:

1. Chief Marketing Officer
2. Domestic and International Business Marketing
3. Small Business Information Services
4. Dedicated Tourism Marketing Funding
5. Wine Region Wayfinding
6. Virginia Grown Products
7. Declaration of Innovation

Chief Marketing Officer

Virginia lacks consistent branding throughout the Commonwealth. All state agencies have varying messages, imagery and logos. Virginia does not effectively capitalize on the iconic “Virginia is for Lovers” brand or potential marketing collaboration among state agencies for cost savings, efficiencies and a stronger brand.

The Commission recommends the creation of a Chief Marketing Officer (CMO) for the Commonwealth. The Chief Marketing Officer is responsible for ensuring coordination and

consistency of state marketing activity. This is accomplished by providing direct support to state government organizations and offering marketing specific resources and tools to enable state programs to successfully meet their marketing and outreach objectives. State marketing activity is also guided by marketing policies, standards, and guidelines developed by the CMO that support the goals of efficiency, economies of scale and consistency.

State marketing investments should be designed to build equity in the “Virginia is for Lovers” brand, an iconic brand that has received national recognition for over 40 years. A comprehensive brand platform will enable the Commonwealth to easily, cost effectively and comprehensively address a number of recommendations of key deliverables to support sales and marketing efforts throughout the state. This will create efficiencies and eliminate redundancies within all state agencies’ marketing and promotional efforts and budgets, while presenting a cohesive brand that builds upon each agency’s independent efforts.

The Commission believes the establishment of a CMO will enable the state to quickly move forward with consolidated and focused spending to achieve the greatest results and align dollars to support individual market initiatives.

Competitively Promote Virginia’s Inherent Attributes Domestically and Internationally

The Commission recommends a strategic marketing plan, tied to a measurable results matrix delivering a return on investment, be the context in which VEDP’s marketing and operational budget are increased so Virginia’s inherent attributes are marketed effectively both domestically and internationally. The marketing plan should build on VEDP’s current plan, but should be supported by sustained and long-term funding. Since 2002, funding for outreach marketing (staff and programs) at VEDP has decreased significantly; the real value of the loss of this support means that Virginia has fallen even further behind its competitors.

Steps were made in the first year of the McDonnell Administration to begin rebuilding domestic and international marketing, including allocating funds toward establishing a presence in China, India and additional presence in Europe. The Commission supports continuing the momentum these initial steps will create.

Small Business Information Services

The Department of Business Assistance (DBA) is designed to be the Commonwealth’s primary agency to assist smaller businesses with financing, business information and workforce needs.

The DBA budget has decreased by 56% from 2002-2010 and has experienced a 51% staff reduction (34 FTE) from 2006-2010. With limited resources the agency is doing its best to administer and market their popular business information and support programs, including Entrepreneur Express and Growing Your Business, but more assistance is necessary to increase awareness and delivery of the programs to support more small businesses.

It should not go unnoticed that the current budget for DBA has been increased significantly by Governor McDonnell and the General Assembly, which is a positive step forward to bolster Virginia's services for small businesses.

The Commission recommends the following to expand Virginia's services to and marketing for small businesses:

- Consider realignment of the Small Business Development Centers (SBDCs) with DBA to expand and more effectively coordinate and deliver the services offered by the state.
- Expand media advertising and marketing related expenses and restore cuts to DBA's general funds for fiscal year 2012.
- Enhance the Virginia Business One Stop website into a First and Only Stop for Virginia's Small Businesses by increasing the information, resources and assistance available to entrepreneurs to ensure that there is truly only one stop required to get a business up and running with minimal delay. This recommendation is also being advanced by the Government Reform Commission.
- Promote Virginia as the "Best State in America to Open a *Small Business*." While much attention is given to the opening or relocation of Fortune 500 companies in Virginia, little is said about the many thriving Virginia small businesses. Because 98% of all businesses in Virginia are small businesses and 75% of new job growth in the Commonwealth comes from small businesses, Virginia should more aggressively market and celebrate our small business entrepreneurs and their successes.

Dedicated Funding Source for Virginia Tourism Corporation (VTC)

Tourism is big business in Virginia. Sixty million visitors from the US travel to Virginia annually creating a \$19 billion economic impact, supporting more than 200,000 jobs and providing nearly \$1.3 billion in taxes. Tourism is also small business. More than 93% of the industry is made up of small businesses.

Furthermore, 63% of the businesses in the VTC database have marketing budgets of less than \$25,000 annually. The state's investment in tourism marketing is critical to the vitality of the industry and the benefits it provides to its citizens. A recent study conducted by SIR of the tourism industry needs in the state indicate 66% cite marketing support from government as essential for the industry to be more competitive and lucrative.

Because VTC's marketing budget is based on a general fund appropriation and tied to the political process, tourism marketing effectiveness has been hampered by erratic appropriations. Successful marketing campaigns build upon themselves year over year, which makes the existing volatile funding structure exceptionally inefficient and costly. Additionally, VTC's current appropriation is insufficient to reach crucial out-of-state markets.

The Commission recommends establishing a formula funding mechanism for the VTC based on a percentage of state tax revenue generated from tourism-related taxes. Over the last 10

years, VTC's annual General Fund appropriation has averaged 1.33% of total state tourism-related taxes as defined by the U.S. Travel Association.

An increase of the industry's 10 year average from 1.33% to 1.6% will keep Virginia in line with competitor states with similar tourism initiatives, allow VTC to expand their award winning marketing campaign to the lucrative, high return markets of Philadelphia and New York and fulfill Governor McDonnell's mandate to double the tourism budget to \$30 million during his administration.

With VTC's current budget of \$14.5 million, Virginia realizes a \$518 million economic impact, supporting 5,600 jobs and generating \$34.6 million in taxes. If the formula funding was implemented and reached Governor McDonnell's goal of a \$30 million annual appropriation, Virginia will realize an annual economic impact of \$1 billion, generating \$70 million in state and local taxes and supporting 11,500 jobs.

Wayfinding Winery Signage Program

Highway and road signage is critical to the development of wineries and the wine industry. Because many wineries are on rural roads and off major thoroughfares, directional wayfinding gateway signage is necessary to increase awareness of wineries and the Virginia wine industry and to get visitors into the wineries and tasting rooms. However, under current regulations, gateway signage is not permitted at the entrance to Virginia's viticulture areas and the cost and requirements of the Tourist Oriented Directional Signage program keep it from fully meeting the needs of the wine industry.

VDOT currently has two pilot implementations of the wayfinding signage program in the Historic Triangle and Stafford County. This program incorporates gateway signage welcoming visitors to a region and supplemental signage connecting tourist destinations to the gateway signage. VDOT staff has indicated that without increased staff resources, the wayfinding program will not be available on a statewide level for at least another two years.

The Commission recommends that VDOT be provided the resources needed to expand the pilot wayfinding program on a statewide level. This will address the wineries' frequent requests for both gateway signage and integrated, recognizable directional signage to tourist locations.

Marketing Virginia Grown Products

Agribusiness is the #1 industry in Virginia providing is \$79 billion in economic impact, including a value-added impact of \$37 billion, which constitutes approximately 9.9% of Virginia's gross domestic product (GDP). The total employment impact exceeds 500,000 jobs, which is over 10% of the state's workforce.

The Commonwealth can better market Virginia's agriculture and forestry industries by serving Virginia grown and produced products at all state sponsored events and by adequately funding existing promotional programs in VDACS.

Every job created in agriculture and forestry related industries results in another 1.5 jobs in the Virginia economy. Every dollar generated in value-added results in another \$1.75 value-added in the Virginia economy. During FY 2009-2010 VDACS' business development and recruitment activities resulted in economic development projects that contributed \$66 million in capital investment and included the creation or retention of hundreds of full time, part-time and seasonal jobs in Virginia's agricultural and forestry sectors.

VDACS also manages the "Virginia Finest" and "Virginia Grown" programs to help consumers and retailers know they're buying the very best the state has to offer. These programs are used by several thousand farms and value-added food and beverage producers. As an example of the economic activity generated by these programs, consumers can locate Virginia Grown agricultural products, farms, farmers' markets, Community Supported Agriculture locations and value-added food and beverage products using an agency managed search engine. The website receives approximately 24,000 unique web hits per month from customers looking for locally grown farm products.

To improve promotion and marketing of Virginia agriculture, the Commission recommends:

- Serving Virginia agriculture products at all state sponsored events.
- Expansion of international marketing of Virginia agriculture and forest products through new marketing offices in China, India and Europe, including agriculture and forest products in all Governor's international trade missions and better identifying, applying for, and utilizing available federal grant funding for marketing and selling products internationally.
- Providing additional support for VDACS' "Virginia Grown" and "Virginia's Finest" marketing programs along with efforts to identify and expand into emerging markets.
- Enhancing agri-tourism promotions for the many diverse agriculture industry events, activities and products.

A Declaration of Innovation

Many key stakeholders in the state and national technology community are unaware of the incentives available in Virginia. For example, the Angel Investor Tax Credit was announced earlier this year, yet many angel investors, company CEOs and legal and tax advisors who serve early stage companies are not aware of it.

To realize the potential ROI of greater investment and jobs creation, the Commonwealth needs a marketing plan to reach early stage company investors, and key influencers such as start-up company executives, legal and accounting professionals who are key team players in company formation and growth.

A “Declaration of Innovation” will include proclamations and promotions on Virginia’s commitment to the innovation economy and emerging technologies including being “Open for Research and Development” and “Open for Technology Company Formation”.

At the announcement and signing of the “Declaration of Innovation”, the Governor can be joined by CEOs and entrepreneurs of innovative technology companies from early stage to established companies, and particularly larger companies that have announced recent R&D and new technologies.

The Declaration could also include announcements of innovation prizes including public/private partnerships to offer a prize in the form of start-up capital or scholarship for a young person who invents an innovative technology product that solves problems.

While not as glamorous as other state’s hundred-million dollar funding announcements, this action recognizes the current budgetary challenges facing state government and utilizes existing and proven resources to deliver low-cost, high-value solutions to ensure that Virginia establishes an efficient operating model that produces a national reputation for facilitating innovation.

Virginia's Business Tax Policy

Economic development is dynamic and ever-changing and the competition between regions, states and countries for new jobs and investment is intense. As a result, Virginia must continuously examine government policies, particularly our tax policies, to ensure that Virginia maintains its competitive standing.

The Commission subgroups examined several areas of tax policy, including the corporate income tax, machinery & tools tax, business, professional and occupational licensing (BPOL) tax and the accelerated single sales factor transition. For each policy, several factors were considered, including purpose, fiscal impact to the state and local governments, fairness on specific industries, competitiveness with surrounding states and potential impact on economic growth and job creation.

As can be expected with tax policy issues, after lengthy discussion and consideration the subgroups found in some instances that arriving at consensus was difficult and additional research and data was needed.

The Commission offered the following analysis and recommendations on certain business related tax issues:

1. Corporate income tax
2. Machinery & Tools tax
3. Accelerated single sales factor
4. BPOL tax
5. Comprehensive comparative study of total tax burden on certain industries

Corporate Income Tax/Aligning Taxation with Long-Term Growth Sectors

Virginia is fortunate to have long enjoyed a stable tax environment and relatively low tax rates – in fact, our corporate income tax rate has remained flat at 6% since 1972. Both of these factors have been essential to the Commonwealth's ranking as one of the best places to do business. Yet those rankings are ever changing and actions being taken in other states and overseas can erode Virginia's historical position and leave the state at a competitive disadvantage.

While not the sole factor in determining corporate locations, tax policies are instrumental in corporation decisions as to where to invest scarce capital or in determining where entrepreneurs start their new businesses. Capital is mobile and flows to where the returns are the greatest.

There is a concern that the structure of Virginia's tax system can potentially act as a disincentive to further investment and job creation in the Commonwealth, particularly in light of actions being taken by competitors to streamline and harmonize tax policies. Our state corporate tax rate, combined with the federal corporate tax rate, is among the highest in the world, thus

discouraging investment here as opposed to overseas, where companies may also realize other cost efficiencies such as labor costs, transportation or access to raw materials. At the same time, the Commission realizes and appreciates that each of these taxes provides a vital funding stream to support programs at the state and local level. However, studies have suggested lowering the corporate income tax could have a positive impact on job creation and investment in Virginia.

At the direction of the General Assembly, the Joint Legislative Audit and Review Commission (JLARC) is examining Virginia's corporate income tax and the impact a reduction of the tax could have on economic development activities. The study results will not be available until November 2010, after the completion of the Governor's Commission on Economic Development and Job Creation.

The Commission also cautions against a reduction in the corporate income tax that would simultaneously be paired with the creation of new taxes, or changes to existing taxes, that could serve as a disincentive to job creation and investment. Such actions could diminish the impact of the change. Further, Virginia must continue to closely monitor the activities of other jurisdictions as they contemplate similar policies to ensure Virginia's competitive edge.

In the absence of the study results, the Commission is challenged in making a definitive recommendation on what should be done about Virginia's corporate income tax rate and did not come to a consensus recommendation. Nevertheless, the Subgroup offers the following guidance for consideration by Governor McDonnell as those results become clearer:

- A reduction in the corporate income tax rate should be considered so long as the reduction can be specifically linked to new job creation and new investments by employers in the Commonwealth. Such a decision could be made following the completion of an independent, dynamic modeling analysis of the likely impact of a change in the corporate tax rate.
- The revenue the Commonwealth receives from the corporate income tax, even if the level stays at the current rate, should be dedicated to economic development-related activities, including, but not limited to marketing, incentives, and higher education research and development efforts.

Machinery & Tools Tax

Several of Virginia's competitive states have repealed their machinery and tools (M&T) tax, including Alabama, Kentucky, North Carolina, South Carolina and Georgia. While Virginia has taken recent legislative actions to assist manufacturers, including the development of a mega-site fund and maintaining Ch. 199 exemptions, Virginia must offer manufacturers a competitive tax environment which will result in job creation and larger capital investment.

The M&T tax was identified in 2005 as a \$200 million disparity on manufacturers as compared to the effective tax rate of all other industries in Virginia. Ultimately, the Commission's goal is to create a low cost solution that corrects these imbalances and increases

the capital investments, competitiveness and job creation in the manufacturing industry in Virginia.

The Commonwealth has clearly stated that manufacturing facilities are an economic priority. Unfortunately, the more manufacturers invest in new technologies and equipment, the more taxes they end up paying. The future success of the manufacturing industry will be based upon higher wages, higher skills, greater global competition and greater investments in new technology.

Additional Recommendations Regarding the Machinery & Tools Tax

The Commission does not take lightly the fiscal impact that elimination of the M&T Tax would have on local governments. Estimates have placed that fiscal impact at \$200 million. At a time when revenues across all levels of government are unpredictable, the Commission understands that repeal could create a financial hardship for many local governments.

While the Commission believes a repeal of the M&T Tax is in the best interest for both manufacturers and the Commonwealth, they would like to offer additional recommendations relating to the M&T Tax to be enacted immediately while the Machinery and Tools Tax is phased out over a longer period of time and replacement sources of revenue are identified.

- All new investments in M&T are not taxable for the first three *tax* years of use after the purchase, transfer or restart date. This policy would motivate industry to purchase new equipment and tools, transfer machinery and tools from out-of-state to Virginia and/or restart idled machinery and tools.
- All in-service M&T over 10 years old would be assessed at a maximum value of 1% of the original cost until idled or disposed of (local rates and taxing methodology must remain constant until all existing taxable assets have aged to the 1% level). All machinery and tools, whether idled or not prior to reaching 10 years, would qualify once its age exceeds 10 years. Machinery and tools taxable under this provision would qualify regardless of prior ownership.

While less appealing to the industry than a repeal of M&T, this approach would allow Virginia to position itself as attractive for manufacturers considering Virginia as compared to the West Coast, Northeast, and Southern locations such as Alabama, Georgia, Kentucky, North Carolina, South Carolina and Tennessee.

Accelerated Single Sales Factor

Beginning in 2011, Virginia will allow manufacturers to transition to a single sales factor. The single sales factor is to be fully phased in by 2014. Manufacturers who elect to use the single sales factor will be locked into a three-year irrevocable election and are required to certify that their average weekly wages for full-time employees are greater than the lower of the state or local average weekly wages in their industry.

Using a single sales factor is beneficial to companies with material amounts of capital and labor in a state. The sales percentage is usually significantly smaller than the property and payroll percentages for manufacturers who ship out of state.

Transitioning to the single sales factor from 2011 to 2014 is expected to save manufacturers a total \$55.7M in state income tax over a 4 year period. Immediate implementation would increase the savings by an additional \$64.3M. When fully implemented, the single sales factor is expected to result in an annual tax savings of \$30M.

BPOL Tax

The BPOL tax has a long history in the Commonwealth of Virginia. License taxes were one of the primary methods for obtaining revenues at the adoption of the federal constitution. Due to Virginia's share in the costs for the War of 1812, license tax rates were increased, and the types of businesses subject to taxation were expanded. By 1850, the policy of levying a license tax on practically all well-established businesses and professionals was adopted. While BPOL was initially a flat-fee that varied by type of business, the system was changed in the 20th century to taxes that are based on the gross receipts of businesses. In 1996, BPOL tax was significantly amended to help ensure more uniform local administration.

Because the BPOL tax is based on gross receipts, many small business owners believe it is unfair not to consider the burden on businesses when the tax is a derivative of total profits. For example, the BPOL tax is biased against new businesses, which typically experience losses in their early years.

The Commission heard from numerous small business owners whose companies lost money in a fiscal year but were still required to pay a BPOL tax. One such testimony was from a small businessman whose company lost \$75,000 last year and still paid almost \$5,000 in BPOL taxes.

Additionally, because BPOL taxes are administered by localities, inconsistent rules and lack of best practices exist from jurisdiction to jurisdiction that create significant administrative challenges business owners and franchisers.

A general improvement would be to make BPOL taxes more consistent and uniformly applied across localities. For example, a similar system to sales tax structures would allow the state to collect BPOL tax revenue and return them to localities. This approach can potentially reduce competition between Virginia jurisdictions for economic development expansion opportunities. Similarly, businesses with multiple locations across the state may prefer a centralized location for tax matters rather than interacting with multiple local governments.

Any changes to the current BPOL system should address the inherent issue of taxing gross receipts regardless of business profitability while maintaining the revenues for local governments' operations. The Commission understands that repealing BPOL taxes without

finding additional revenue sources would be difficult in the current budgetary environment and does not take lightly the static fiscal impact that elimination would have on local governments.

Therefore, the Commission recommends that the Department of Taxation collect for two years the necessary information to determine the fiscal impact if Virginia taxed small businesses on their relative profitability as opposed to gross receipts.

Once the Department of Taxation has collected the proper data and is able to provide an accurate fiscal impact of reforming BPOL from a gross receipt to a net profit tax, the Commission recommends that Virginia moves BPOL from the current formula of gross sales to a net profit model that is fair and truly represents a company's success.

Comprehensive Tax Study of Targeted Industry

Through the discussions of tax policy affecting certain industries, there was significant consideration of how a tax compared to that specific tax in other states, localities or industries. However, there was little discussion of the overall tax burden on specific industries in Virginia compared to those industries in other states.

The Commission leadership recommends conducting a comprehensive study of the overall tax burden on specific targeted industries such as manufacturing and technology in Virginia compared to our competitor states. The study will not only consider corporate income, M&T and BPOL taxes, but the total tax burden including property tax, sales tax, income tax and others. This will provide a more thorough analysis of which taxes are competitively detrimental to Virginia businesses and prohibitive to job creation and expanding industry.