



Governor's Economic Development & Job Creation Commission **Subgroup Final Report – Executive Summary**

Through Executive Order One, Governor Bob McDonnell created the Governor's Economic Development and Job Creation Commission and charged the Commission Co-Chairs Lieutenant Governor Bill Bolling, Senior Economic Advisory Bob Sledd and Commission members with developing a series of innovative and achievable policy recommendations to help create jobs and stimulate economic growth in Virginia.

Over the last four months the Commission and its eight subgroups have worked tirelessly with Commission staff, agency representatives and countless 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 have 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 Virginia's private sector and entrepreneurs to grow their business and create new jobs and make Virginia a more competitive national and international business destination.

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.

While Virginia is consistently ranked as the most business friendly state in America, the Commission subgroups identified several general areas where Virginia's economic development systems, programs and infrastructure are insufficient to meet the current and future needs of business and could potentially render Virginia non-competitive in the evolving economy. 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 industries such as tourism and biotechnology 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'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.
- Small businesses and entrepreneurs continue to face significant permitting, resource and capital challenges to starting, running and expanding a business in Virginia.
- Budget reductions during previous Administrations have been disproportionately affected Virginia's existing economic development programs, incentives and marketing initiatives.
- Virginia must more effectively align higher education, workforce development and incentive programs with strategic regional and statewide goals, priorities and assets.
- Virginia's tax structure affects some businesses unevenly and unfairly, stifles capital investment and perpetuates competitive disadvantages in key industries.

The subgroup reports contain 39 specific recommendations to address these and other challenges. The proposals promote greater coordination and efficiencies in our economic development systems, invest in proven job creating programs, establish innovative new incentives to grow existing business and industry that position Virginia to remain competitive nationally and internationally in the emerging, evolving 21st century economy.

Some of the subgroup recommendations are easily 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.

Below is an overview of key subgroup recommendations. Several recommendations were endorsed by multiple subgroups. The Commission leadership will refine and prioritize these recommendations prior to the submission of the final report to Governor McDonnell on October 15th.

The final recommendations of the Jobs Commission will be those innovative, achievable initiatives that provide the highest return on investment, advance strategic economic development initiatives of the McDonnell Administration and best position Virginia business and industry to create jobs and economic opportunity for all Virginians.

Key Subgroup Recommendations

Emerging Technology Fund – Virginia is non-competitive in the commercialization of quickly evolving and emerging technologies. In 2006, Virginia ranked last among the peer/competitor states for per capita patents awarded. An Emerging Technology Fund can serve as a catalyst for leveraging the entrepreneur, Virginia's higher education research assets and private-sector funding through a program that would provide a structure and funding to encourage evolving technologies that create industries of the future. This 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 Emerging Technology Fund would be governed by a board that includes technology experts and potentially be broken down 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)
- Research Superiority Acquisition Grants (provide source of funds for bringing the best and brightest researchers).

Tourism Development Grant Program – Product development is essential to create the complete tourism experience and maximize visitation and average length of stay. This captures additional tourist spending, creates jobs and generates additional state and local tax revenue. Virginia has significant tourism product deficiencies that affect our ability to attract new and repeat visitors and extend their length of stay. Whether a bed & breakfast in the wine country, a convention hotel in Williamsburg or an entertainment center in Virginia Beach, product needs exist in all regions of Virginia. Unlike most major industries in Virginia, tourism does not enjoy tax incentives, grant programs or a dedicated funding mechanism for product development.

The Tourism Subgroup recommends the creation of a Tourism Development Grant Program (TDGP) to fill gap financing for certain locality-endorsed tourism development projects. The TDGP will provide a vehicle to fulfill locally or regionally identified tourism product needs while stimulating the tourism, construction and banking industries. The TDGP would create a revenue stream from the retention of 1% of state and local tax revenues generated by the project and a matching developer investment. The revenue stream would fund grants to repay a gap loan as contractually agreed to by the developer and locality. The TDGP would not raise taxes, use existing General Fund revenues or divert resources from other programs.

Transforming Academic Institutions into Economic Engines – While Virginia has the best higher education system in America, our colleges and universities' economic development potential is severely underutilized. The Commission subgroups believe that our universities' research and development capabilities and collaboration with the private sector are deficient and recognize the need to make fundamental changes in how we disseminate information on our institutions of higher education excellence.

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

- **Centers of Excellence** – establishment of research-based collaborations, similar to the Commonwealth Center for Advanced Manufacturing between private industry and our research universities to boost Virginia’s economic development performance.
- **Virginia R&D Refundable Tax Credit** – Establish a tax credit for R&D investment for qualified advanced technology start-ups and early-stage firms performed by a Virginia university.
- **Energy Based Research Coordination** - Maximize the investment in clean energy research and development through the Universities Clean Energy Development and Economic Stimulus Foundation.
- **Energy Education** - Expand university programs in areas such as nuclear power, energy engineering and environmental management.

Making Virginia the Best Place in America for Small Business – Virginia’s 230,000 small businesses are the heart and soul of Virginia’s economy, comprising 98% of all existing businesses and 75% of new job growth in the Commonwealth. However, small business owners and entrepreneurs face a unique set of challenges including access to capital, permitting, regulation and business development services.

The Commission subgroups offer the following comprehensive recommendations to meet Governor McDonnell’s goal to make Virginia the best place in America to own and operate a small business:

- Small Business Investment Tax Credit/“Venture Virginia”- provide tax credits to investors who make capital investment in certified small businesses or venture capital investment in targeted industries such as bio-technology or life sciences.
- Additional resources for Virginia Small Business Financing Authority to provide loans and loan guarantees to small businesses.
- Enhancement of “Business One Stop” website into a “First and Only Stop” by increasing the information, resources and assistance available, including integration of “How to Start or Expand a Small Business” guide and information on local requirements.
- Expand DBA’s Business Information Center programs designed to help entrepreneurs start and grow their businesses.
- Develop electronic notification systems and online resources to alert small business owners and entrepreneurs of regulatory and legislative changes that affect their businesses.

Training Workers for Virginia Businesses – 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. While many of the components are already in place, stronger leadership and increased coordination are essential to create a highly skilled workforce in Virginia.

The Commission subgroups believe that Virginia’s workforce development programs must be more aligned with regional and statewide economic development strategies, coordinated

with community colleges and focused on training workers to meet the existing and future needs of existing businesses and target industries in their communities. The Commission subgroups recommendations will include:

- Greater alignment between job demand and Workforce development efforts.
- Greater use of Career Pathways programs, including apprenticeship, on-the-job training, and other “Earn While You Learn” models.
- Greater coordination among education, workforce development, and economic development through designated cabinet-level leadership.
- Establish goals around which federal and state workforce programs can align outcomes, actions, performance measures and budgets to streamline overall process.
- Provide additional resources for non-credit courses at Virginia community colleges.
- Recognize the existing credentials of highly trained and experienced former military personnel and allow substitution of certain military training and service for formal certification in health and technical professions.

Coordinated, Efficient and Responsive Government – Like all functions of state government, certain economic development and marketing initiatives can be more effectively coordinated and administered to provide a greater economic benefit and cost savings to the Commonwealth.

In addition to the coordination and alignment discussed in the Higher Education and Workforce Development sections, the Commission subgroups make the following recommendations:

- **Increased Regional Collaboration** - While the state should not mandate regionalism, it should have targeted incentives for 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 and greater impact.
- **Chief Marketing Officer (CMO)** - The CMO will support state government organizations and offer marketing specific resources and tools to enable state programs to successfully meet their marketing and outreach objectives and ensure state marketing activity is also guided by the goals of efficiency, consistency and cost savings.
- **Fast-track permitting** – Increased fast-track regulatory and environmental permitting for capital investment projects involving new job creation or protecting at risk jobs.

Strategic Business Recruitment Incentives and Tax Policy – Governor McDonnell and the Commission recognize jobs are created by the private sector and government should not be in the business of picking winners and losers among businesses or industries.

However, the Commission subgroups believe Virginia needs competitive and strategic incentives that support existing business expansions and new business recruitment to create the environment for economic growth. While many of Virginia’s existing incentive programs are proven and effective, other states are continually evolving and improving their incentives. To remain competitive and maximize existing strategic advantages, the Commission subgroups offer the following recommendations:

- **Fully Funding Enterprise Zones** – The Enterprise Zone program is a popular and effective incentive for job creation and real property investments. However, the program is currently underfunded and only paying 62 cents for every dollar of a qualified project.
- **Port of Virginia Tax Credit** – Establish a tax credit to encourage Virginia companies to use the Port of Virginia for export and import of materials and finished goods relative to their Virginia based manufacturing operations.
- **Incentive Reform** – Phasing out of certain alternative energy by-right tax credit programs for more targeted, negotiated clean energy grant programs that align with Virginia’s competitive advantages.
- **Increased Incentive Fund Flexibility** – 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.

In addition to incentive programs, the Commission subgroups considered several tax reforms to help encourage economic growth, capital investment and job creation. While Virginia generally has a favorable tax environment and taxes are not the sole factor in determining corporate locations, tax policies are a factor in corporation decisions as to where to invest scarce capital or in determining where entrepreneurs start their new businesses.

Several subgroups discussed the impact of some taxes that may be considered unevenly and unfairly administered and prohibitive to capital investment and business expansion. For example, Virginia’s machinery and tools tax discourages investment in new equipment by manufacturers. The gross receipts tax (BPOL) requires taxes to be paid even if a company loses money. The BPOL tax is also assessed at different classifications of businesses in different localities. Because both are local taxes, the rates are different in each locality and some localities do not have them at all.

Additionally, 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.

The Commission subgroups also realize and appreciate that each of these taxes provides a vital funding stream to support for programs at the state and local level and the static economic impact of these taxes on state and local budgets would be significant.

JLARC is currently studying the impact of elimination of the corporate income tax and data is not currently available on the impact changing the BPOL tax from an assessment on gross receipts to an assessment on profits. The subgroups discussing corporate income and BPOL taxes believe the data and results of these studies are needed to make an informed recommendation.



Business Development/Recruitment Subgroup Final Report

In this challenging fiscal environment, now is the time for Virginia to advance our long-standing reputation as one of the best places for doing business. These are times of challenge – among the many are shifting tax and spending policies in Washington, increasingly aggressive regulatory schemes, and increased competition for business investment and jobs from other states and locations overseas.

The Business Development and Recruitment Subgroup strongly believes the Commonwealth must show bold, decisive leadership in maintaining our commitment to fostering job opportunities and a strong quality of life for all Virginians. The Subgroup considers effective economic development measures and incentives, in combination with business development and business retention focused strategies, to be vital to the continued welfare of the Commonwealth and to continuing the expectation of Virginia as the best place to do business.

The Subgroup encourages the continuation and enhancement of proven policies and practices as well as a ready embrace of balanced innovative approaches indicative of looking around the corner and changing the game. Highlighting the success of our business champions, spotlighting our key assets, as well as portraying our site, workforce and process readiness, will assure the Commonwealth is ready to seize the moment as quickly as an opportunity occurs.

In considering the key policy recommendations for consideration by Governor Bob McDonnell to implement during his term, the Subgroup was guided by the following principles:

- **Job creation must be the focus of everything we do.** Putting unemployed Virginians back to work and improving the quality of life for others must be at the center of our economic development efforts.
- **Economic development programs must be results oriented.** Programs should have measurable results and recipients of state incentives must be held accountable for meeting their commitments.
- **Virginia must meet its commitments to business and provide a sustainable fund for economic development.** Our continued reputation as the most business-friendly state relies upon us keeping our word. New and existing incentive programs must be fully funded and commitments made by the Commonwealth must be honored.
- **Our incentive programs should support existing opportunities and position Virginia for the jobs and industries of the future.** We should invest where Virginia's competitive advantage exists and can be leveraged for greater results.

- **Our incentive policies should encourage the alignment of strong workforce development systems** (K – Higher Education) that address the talent pipeline businesses need to successfully compete in a global marketplace.
- With the significant military presence in the Commonwealth, **we should better market and connect the skills of military veterans** who are entering the workforce with tremendous intelligence and capabilities **with businesses in the Commonwealth** – particularly in the areas of health care and nuclear engineering. We must also work to preserve the important military and government-related assets in the Commonwealth and seek ways to secure their future by stronger partnerships with the private sector and our education system.
- **Expanding initiatives that turn innovation into jobs and create competitive businesses** – such as industry "Centers of Excellence" and creating an emerging technologies fund – **should be a priority.**
- Time is money to business. When businesses express an interest in Virginia, we cannot tell them to check back with us in 18 months when a site is ready. **We must have an inventory of ready to go sites for business prospects.** The state could support this through a Site Readiness Fund and continued development of the mega-sites initiative.
- **Regional cooperation in economic development is more important than ever from both a cost-savings standpoint and from a marketing standpoint.** Our incentive programs should encourage regional cooperation to attract businesses and the state should develop programs to encourage localities to work together in workforce training, real estate and infrastructure development, and marketing.
- **Our incentive programs must be flexible to deal with the changing nature of corporate America.** One size does not fit all. Urban and rural communities have differences that should be recognized. Flexibility should be afforded in how incentives are aligned with regional needs, how eligibility thresholds are designed and how programs are implemented.

The Subgroup recognizes Virginia should focus our economic efforts on our inherent strengths, including the energy, information technology and cyber security, and advanced manufacturing sectors.

Following the above principles, the Business Recruitment and Development Subgroup has identified the following priority recommendations for the reasons set forth below:

- **Expand initiatives such as industry "Centers of Excellence";**
- **Competitively promote Virginia's inherent attributes domestically and internationally;**
- **Create competitive and strategic incentives for business expansion and recruitment, including an emerging technologies fund to capture research-based employment and investment in the Commonwealth;**
- **Improve economic development efforts through regional collaboration;**
- **Foster entrepreneurship through strategic tax policies for 21st century jobs; and**
- **Align the curriculum at the technical centers, community colleges and four-year institutions of higher education with the economic development strategies of the Commonwealth.**

EXPAND INITIATIVES SUCH AS INDUSTRY "CENTERS OF EXCELLENCE"

As the SRI International Report recognized, the Subgroup affirms: “Virginia possesses important assets and initiatives related to innovation, but the Commonwealth has not reached its potential.”

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 an opportunity lost.

Virginia can cultivate a reputation for creative and distributed innovation leading to job creation and new capital investments benefitting all regions of the Commonwealth. The Subgroup 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.

COMPETITIVELY PROMOTE VIRGINIA’S INHERENT ATTRIBUTES DOMESTICALLY AND INTERNATIONALLY

Virginia has been ranked by Forbes, CNBC, Pollina and others as the No. 1 or No. 2 state in which to do business. Independent third-party validation of our competitive business climate resonates with business. However, without a 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 consistency of the Commonwealth’s public policies to be reinforced in our domestic and international markets. Communication about Virginia assets – higher education, workforce, transportation and fair taxation policies – build on our most important message of the stable business climate. Our Virginia business message will resonate well if it is visible and differentiated from others.

The Subgroup 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 the VEDP’s current plan, but should be supported by sustained and long-term funding. Since 2002, funding for outreach marketing (staff and programs) at the 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 Subgroup supports continuing the momentum these initial steps will create.

COMPETITIVE AND STRATEGIC INCENTIVES FOR BUSINESS EXPANSION AND RECRUITMENT

The Subgroup believes Virginia needs competitive and strategic incentives that support existing business expansions as well as new business locations in the Commonwealth. Both existing and new businesses are eligible for incentive programs including the Governor's Opportunity Fund (GOF), the Virginia Investment Partnership grant (VIP), the Virginia Economic Development Incentive Grant (VEDIG), the Major Business Facilities Job Tax Credit, the capital gains tax exemption for investments in science-based or bio-tech start-ups, the Virginia Jobs Investment Program (VJIP) and Enterprise Zone programs, as well as economic development road and rail programs. These programs generally support the “bread and butter” projects that historically feed Virginia's pipeline of business growth. The Subgroup believes funding for these programs is an essential part of our economic development toolkit. While these programs have served Virginia well over the past decade, our competition is continuously improving and enhancing their offerings as well, and Virginia needs to remain innovative and creative in its use of incentives.

Therefore, the Subgroup recommends that Virginia should 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 existing 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 that do not meet their job and investment commitments.

Virginia is non-competitive in programs that provide support for quickly evolving and emerging technologies. In 2006, Virginia ranked last among the peer/competitor states for per capita patents awarded. The Commonwealth Research Commercialization Fund and CIT's GAP Fund are examples of small programs that attempt to address these types of technologies; however, neither is robust or comprehensive.

While the Subgroup does not believe it is the role of government 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) that would provide a structure and funding to encourage evolving technologies that create industries of the future. Such a 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. Such a fund would address research commercialization awards to grow new small businesses and existing businesses and accelerate entrance of new products/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 expert advisory panel will be engaged in the process to make recommendations on project approval.

IMPROVING ECONOMIC DEVELOPMENT EFFORTS THROUGH REGIONAL COLLABORATION

The Subgroup believes the Commonwealth could improve our economic development efforts through regional collaboration and cooperation. While the state should not mandate regionalism, it should have targeted incentives for 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. Specifically, the Subgroup recommends the following actions:

- 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 to assist with business expansion or relocation projects 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 WIA program could be one such example to address workforce training systems.
- Leveraging other partners could be the financial carrot to support infrastructure and facility development. 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 the Virginia Tourism Corporation or the Virginia Department of Agriculture could leverage more visibility in sectors of strategic importance to certain regions.
- 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 advance manufacturing is a target sector, and sharing the cost of a special media outreach, could result in more effective positioning of the region.

The Subgroup recognizes transportation efforts as a key part of regional economic efforts; however, addressing this issue is out of the scope of the Subgroup and other efforts of Governor McDonnell will tackle transportation.

ALIGNING TAXATION WITH LONG-TERM GROWTH SECTORS

In economic development, there is no standing still. It is a dynamic, ever changing environment where the competition for jobs and investment is intense. As a result, we must continuously examine government policies, particularly our tax policies, to ensure that Virginia maintains its competitive standing. 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 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. For example, Virginia’s machinery and tools tax penalizes investment in new equipment by manufacturers. The gross receipts tax (BPOL) requires taxes to be paid even if a company loses money. Finally, other states are in the process of implementing or are contemplating lowering their corporate income tax to levels less than what is levied in Virginia. 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 Subgroup realizes and appreciates that each of these taxes provides a vital funding stream to support for programs at the state and local level. 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. That analysis, however, will likely be a static analysis, meaning it will not also examine the potentially positive impact of the elimination of the corporate income tax on state revenues from new job creation and investment. Further, 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 Subgroup 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. For example, some states have hiked property tax rates or sales taxes to compensate for lost corporate tax revenues. 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 Subgroup 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 on how to move forward. Nevertheless, the Subgroup offers the following guidance for consideration by the Governor 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.

ALIGN WORKFORCE DEVELOPMENT WITH ECONOMIC DEVELOPMENT STRATEGIES

Workforce development systems are evaluated by companies considering expansions and growth. Virginia must be able to say and, more importantly, must deliver a prepared workforce through a state-coordinated career pathways system that adapts to changing economies. The state coordinated career pathways system will provide businesses with assurance the workforce delivery system will meet both their immediate start-up and long-term needs. The Subgroup recommends that curriculum at the community colleges and four-year institutions of higher education should be aligned with economic development strategies of the Commonwealth.

In addition, the Subgroup 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.



Economically Distressed Areas Subgroup Final Report

Subgroup Activity:

The Economically Distressed Areas Subgroup of the Governor's Economic Development and Job Creation Commission held its first meeting on May 26th in Richmond. At the first meeting, Subgroup members discussed and approved Subgroup visions and goals and divided responsibilities between its members.

In the interim, staff reached out and met with several stakeholder groups and assisted with research requested by members. Bill Shelton, Director of the Department of Community and Housing Development, researched topics for members that gave a synopsis of economic development issues in distressed areas of the Commonwealth.

The Subgroup held its second meeting on July 8th in Richmond.

At this meeting, the Subgroup heard presentations from Kelly Harris-Braxton and Jim Regimbal of Virginia First Cities, who discussed the role Virginia's urban cities play in economic development and offered recommendations on items impacting Virginias' cities. The members also heard from Glen Sink, Executive Director of the Virginia Rural Center, and Senator Frank Ruff, who presented information on behalf of the rural community and discussed recommendations and suggestions offered by the Rural Prosperity Commission data.

The Subgroup also heard from Karen Jackson, Deputy Secretary of Technology, who gave an overview of Broadband advancement in the Commonwealth, Mike Kaestner from the Virginia Economic Development Partnership who discussed economic development incentives available to Economically Distressed communities, and Peter Su and Scott Parsons with the Virginia Department of Business Assistance (DBA) who talked about the role DBA's programs play in revitalizing Virginia's hardest hit communities.

Members of the Subgroup then reported on items they were responsible for researching and gave a list of initial recommendations.

The third meeting of the subgroup was held on August 17th in Richmond, Virginia.

At this meeting the Subgroup heard several presentations. Mark Flynn with VML spoke to the group and stressed the importance of streamlined method for revenue sharing for prospect projects. This will help counties and localities work as a region to see which projects they need

to pursue. He suggested one person located in each county to help work with prospect projects, and small businesses as well. Scott Parsons with DBA spoke to the group next and gave detail on their programs and the Small Business Financing Authority. DBA is a statewide lender for Virginia businesses as established by the General Assembly. Eighty percent (80%) of their work is done in economically distressed areas. Scott emphasized DBA's challenges and needs as well. Wayne Waldrop, also with DBA, spoke on the business information services DBA offers. He also discussed competitive programs in other states that we should consider, and made requests for DBA's specific staff and financial needs to improve marketing, loan programs, matching funds programs, etc.

The group met for a 4th and final time in Richmond on September 8th. The group streamlined and finalized their recommendations and ideas, and prepared to present them to the Governor.

The Economically Distressed Areas Subgroup identified a number of stakeholder groups including: Virginia First Cities; the Center for Rural Virginia, National Federation of Independent Businesses; Virginia Municipal League, Virginia Association of Counties, Virginia Agribusiness Council, Virginia Bankers Association, Virginia Housing Development Authority, Virginia Farm Credit Association, Virginia Farm Bureau, Virginia Chamber of Commerce (and local Chambers), the Virginia Economic Development Partnership and Colleges and Universities throughout the Commonwealth.

Analysis:

Traditional incentive programs such the Governor's Opportunity Fund, Virginia Enterprise Zone Program and the Virginia Jobs Investment Program have served Virginia well and should continue to be important tools in Virginia's business recruitment efforts.

However, in recent years the Virginia Enterprise Zone Program has not been able to meet qualified businesses grant application amounts because the program has not been adequately funded. In FY 2010, Enterprise Zone grants were pro-rated at .60 cents on the dollar. Virginia must fulfill delivery of promised incentives to companies that have delivered on jobs and investment.

The Virginia Jobs Investment Program (VJIP) has historically been one of the major, value-added economic development incentives sought by companies. A major concern of most expanding businesses is a quality workforce. The VJIP program offsets qualifying companies' recruitment and training costs, and it also connects them with all available resources to help with their workforce development efforts. VJIP has statewide accessibility but is especially valuable to distressed communities with a declining manufacturing base.

In 2005, the Virginia Agricultural Enterprise Zone Act was passed, but the lack of funding has prohibited its implementation. The Department of Agriculture and Consumer Services would establish, as an element of the Office of Farmland Preservation, agricultural enterprise districts upon application by localities with established agricultural or forestal districts, locally designated agricultural enterprise districts or purchase of development rights programs.

"Qualified agricultural businesses" and "qualified farm businesses" located in such districts may apply to the Department for assistance in developing a new business plan and grant funding for up to 50 percent of the associated costs of implementing that plan, up to a maximum of \$500,000.

Several southern states, including North Carolina, Georgia and South Carolina, have attempted to minimize the competitive disadvantages in economically distressed areas by providing special tax incentives. For example, North Carolina passed the William S. Lee Act in 1996 in order to promote investment and job creation in the less developed regions of the state. It separated the counties into tiers, with job creation and investment tax credits increasing dramatically in a less developed county. This program has received mixed reviews and should be further researched before recommended to Commission.

Several stakeholders have brought concerns about derelict structures to the Subgroup. These vacant structures become a black eye on the community and companies are unwilling to relocate to these communities. While the Virginia Department of Historic Resources administers several historic rehabilitation tax credit programs, additional state incentives should be considered to encourage the rehabilitation of historic buildings in older neighborhoods and commercial districts in localities in Virginia. A direct result of restoring historic buildings and former industrial sites would include job creation, downtown and neighborhood revitalization, improved community appearance and greater community pride. This program could be modeled after the North Carolina State Mill Rehabilitation Tax Credit or similar programs existing in other states.

A current state program that promotes economic and physical revitalization of historic downtowns and neighborhood commercial districts is the Virginia Main Street program. 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 -- downtown. This program should be fully funded and expanded to include additional communities.

A major concern facing distressed communities is access to capital. To help address some of the financing issues in distressed regions, the state created Virginia Community Capital, Inc. (VCC). Virginia Community Capital is a multimillion dollar non-profit, community development financial institution (CDFI) and banking entity providing innovative loan and investment solutions for affordable housing and economic development projects in Virginia. VCC is a unique banking structure that provides loan capital that is broader than bank lending to projects that have a positive community impact in low- to moderate-income communities in underserved geographies and markets. State support and investment in the Virginia Community Capital will enable Virginia to better reach these underserved populations.

Vision Strategies:

To put Virginia back on the road to recovery, we must pay attention to the areas hardest hit. No recovery will be complete until jobs and economic opportunity are available in all parts

of Virginia. The McDonnell Administration has already placed a great emphasis on urban and rural communities with the 2010 Legislative Agenda and the appointment of a Deputy Secretary for Rural Economic Development within the Secretary of Commerce and Trade office.

This Subgroup developed next steps to provide new jobs and economic opportunity in distressed areas. Furthermore, the Subgroup examined ways to increase the presence of Agriculture-related economic growth and development within the Commonwealth. Recognizing that Agriculture and Forestry continues to be the largest business sector in Virginia, the Economically Distressed Areas Subgroup feels that an expanded presence of Agriculture will assist the Commonwealth in its road to recovery.

- I. Assess state incentive programs that can be designed to locate, retain and expand businesses in economically distressed areas.
- II. Encourage distressed areas to identify, embrace and promote asset-based economic development opportunities.
- III. Increase regional collaboration and regional marketing in economically distressed areas.
- IV. Promote the revitalization of vacant or underutilized commercial and industrial buildings.
- V. Consider recommendations on how to expand agri-business opportunities and market Virginia agricultural products across the nation and around the world.
- VI. Expand ability of communities to develop and implement strategic economic development projects and initiatives, including strategies to assist and streamline permitting and zoning processes for smaller localities and municipalities.

Final Recommendations of the Economically Distressed Areas Subgroup

Recommendation #1: Develop a Consistent Definition of Economically Distressed Areas in the Commonwealth of Virginia

In order 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 in defining and identifying economically distressed localities.

Federal, state and local agencies target programs at 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. Agencies identify these indicators in accordance with their policy and specific program mission.

The Virginia Code references economic distress in the Governor's Development Opportunity Fund (GOF) and in the Major Business Facility Job Tax Credit (MBF). For the GOF purposes, economically distressed areas can be defined by such factors as high unemployment or underemployment and negative economic forecasts.

The MBF tax credit guidelines state, "An area shall qualify as economically distressed if it is a city or county with an unemployment rate for the preceding year of at least 0.5 percent higher than the average statewide unemployment rate for such year." In the same statute, a severely economically distressed area is defined as "a city or county with an unemployment rate for the preceding year of at least twice the average statewide unemployment rate for such year". Each year, the Virginia Economic Development Partnership identifies and publishes a list of all economically and severely economically distressed areas based on these definitions.

Critical Items:

1. As economic and market conditions constantly fluctuate, agencies and programs must recognize the distinction between short-term distress which results from cyclical changes in economic activity (such as the current recession) and distress which results from longer-term structural impediments (such as an underdeveloped workforce).
2. The standard definition should include the flexibility to consider additional factors or criteria when required by legislation, regulation or through policy implementation.
3. The standard definition should focus primarily on community and economic development programs in Virginia.
4. The standard definition must not be geographically biased and should not provide preferential consideration based on the area's location, whether it is urban, suburban or rural. The definition must accurately reflect the individual and family economic conditions regardless of whether it is in a rural, suburban and urban area.

Criteria for Consideration:

After a review of definitions utilized by other states and agencies, this recommendation proposes that the standard definition of "economically distressed" in Virginia should use the core criteria listed below.

- Average Unemployment Rates
- Median Adjusted Gross Income
- Persons in Poverty
- Fiscal Stress of Locality

Annual Unemployment Rates - Unemployment rates are particularly useful for determining short-term cyclical distress. These jobless numbers are compiled by the US Bureau of Labor Statistics and Virginia Employment Commission on a monthly basis.

Annual Median Adjusted Gross Income - In contrast to Annual Unemployment Rates, information on income is gathered by the Bureau of the Census at ten-year intervals. As such, income statistics have limited use for determining the effects of recessions on a particular area, and are more applicable to evaluations of longer-term structural causes of economic distress. However, information on the median adjusted gross income for an area can be gathered through the Virginia Department of Taxation on an annual basis.

Annual Persons in Poverty – Like income, poverty statistics are based on the decennial census. Although the US Department of Commerce publishes interim estimates of state and county poverty rates between censuses, these estimates are only available about two years after the year of the estimate. However, The American Community Survey (ACS) is an ongoing statistical survey conducted by the U.S. Census Bureau that regularly gathers information previously only gathered in the decennial census. It provides a more accurate and timely representation of poverty for localities.

Fiscal Stress Index - Published by the Virginia Commission on Local Government, the Fiscal Stress Index measures the comparative fiscal condition of Virginia's cities and counties. Localities are ranked as Highly Stressed, Above Average Stress, Below Average Stress and Low Stress based on their revenue effort relative to their capacity to raise revenue.

The Economically Distressed Areas subgroup recommends Virginia establish a working group to analyze the data and identify the appropriate criteria 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.

Recommendation #2: 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 FY 2010, Enterprise Zone grants were prorated at .62 cents on the dollar. 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 neighbors: 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 creating 923 net new, full-time jobs.

In many cases, companies often base their site selection decisions on the availability and reliability of economic incentives in an area. These incentives must be credible and provide value added to the company. Since the inception of the Enterprise Zone grant program in 1982, the demand for the Job Creation Grants and Real Property Investment Grants has far out-stripped the funding allocation.

In Spring 2010, the pro-ration of incentives for this year's grants was .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. The purpose of the Enterprise Zone grant program is to provide immediate cash infusion into a company that can be a more reliable factor in bottom-line calculations. The Enterprise Zone incentives are performance-based where the company must meet all of its statutory and regulatory commitments to the Commonwealth prior to receiving the grant. However, Virginia has not been able to honor its full commitment to the company.

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.

Recommendation #3: Provide Incentives to Promote Revitalization

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, abandon and derelict structures. These structures could include, but are not limited to, vacant factories, warehouses, strip malls, stores, businesses and other blighted properties in commercial districts located in both rural and urban areas of the Commonwealth.

A direct result of restoring historic buildings and former industrial sites include job creation, downtown and neighborhood revitalization, improved community appearance, and greater community pride. Redevelopment replaces economic blight with economic opportunity and creates a catalyst for further redevelopment throughout the community.

The erosion of the traditional economic base in economically distressed areas of Virginia has left behind many abandoned and significantly 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 reminder of the loss of former economic vibrancy, but as a stigma against future economic opportunity.

Without interventions, including public incentives, 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 potential new tenants.

Critical Items:

1. Abandoned and blighted structures are often located on an area's most developable land and have become an obstacle to local economic development efforts to restructure the economic base.
2. Reuse of existing properties makes efficient use of existing infrastructure.
3. When industrial buildings stand derelict for too long, issues of public safety and community image, as well as economic use of the land all come into play.
4. Demolition of these buildings often result in the loss of community identity and history.
5. These structures present a significant economic potential for reuse, recycling and rehabilitation.

Recommendations for Revitalization:

To promote economic and physical revitalization of industrial sites, neighborhood commercial districts and historic downtowns, this recommendation proposes the consideration of three primary economic development initiatives including:

- Allocating adequate funding and resources to expand and enhance the Virginia Main Street program.
- Providing funding to assist localities in addressing Brownfield cleanup and redevelopment.
- Providing financial/tax incentives to enhance the economic feasibility of reusing former commercial sites and structures. This program could be modeled after the North Carolina State Mill Rehabilitation Tax Credit or similar programs existing in other states.

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. The program has had significant impact on designated communities, since it began in 1985:

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 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.

Among other things, this legislation was designed to better facilitate the cleanup and redevelopment of brownfield sites. However, no funding has been allocated for these efforts. If funding for these efforts is provided, it could be used to assess the environmental liabilities of brownfield sites, promote the restoration and redevelopment of brownfield sites, and to 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. This program could prove to be a powerful economic development tool for Virginia. 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 by companies and have 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 or similar programs existing in other states.

The North Carolina Mill Rehabilitation Tax Credit is considered a major economic development initiative that enhances the economic feasibility of reusing many of former industrial sites. The North Carolina program provides incentives for restoring and reusing large vacant industrial, agricultural, and utilities 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 in conjunction with Gaston County and the NC Department of Commerce 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 in distressed areas. 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.

Recommendation #4: Re-Establish and Fund a Virginia Agriculture Enterprise Zone Program

The Virginia Agriculture Enterprise Zone Act was passed by the 2005 General Assembly subject to funding in the subsequent appropriations act. Unfortunately, funding was not available and the Virginia Agriculture Enterprise Zone Program, which had General Assembly support, did not go into effect. The purpose of an Agriculture Enterprise Zone Program is 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.

An Agriculture Enterprise Zone Program, as supported by the General Assembly in 2005, would allow a “qualified agricultural businesses” and “qualified farm businesses” that are 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 the business plans, varying from 50 percent of the investment cost up to a maximum of \$500,000. “Qualified agricultural businesses” are any agricultural businesses that establish a new business operation or expand and improve an existing operation within a designated agricultural enterprise district. “Qualified farm businesses” are businesses that establish a new agricultural or forestal production operation or expand such an operation within an agricultural enterprise district.

Through discussions with the Marketing & Agribusiness Development office of VDACS and the agribusiness industry, the following Agriculture Enterprise Zone Program components could be established:

- Criteria for what areas qualify as agricultural enterprise districts and the minimum required for implementation of the program
- Criteria for eligible agricultural and farm businesses
- Proper allocation of funding to target geographic areas and/or business categories
- Appropriate staffing and funding levels to conduct an effective program that generates economic development and jobs
- Incentives, both local and state, that would be effective in promoting new and expanded agricultural businesses (i.e., business plan development, tax credits, tax exemptions, new employee tax credits)
- Division of administration between localities, VDACS and VHCD
- Application and approval process
- Incorporation of any existing programs (i.e., Small Business Development Centers, Virginia Cooperative Extension) and incentives that achieve economic development in the agriculture and forestry industry
- Assessment of the Program's effectiveness to create jobs and economic growth

The Subgroup recommends establishing a Virginia Agriculture Enterprise Zone Program to incentivize job creation and economic development in the agribusiness sector and funding the Virginia Agriculture Enterprise Zone Program.

Recommendation #5: Market Virginia Agriculture/Forest Products

The Commonwealth should better market Virginia's agriculture and forestry industries in two ways: 1) by serving Virginia grown and produced products at all state sponsored events and 2) by adequately funding existing promotional programs in VDACS.

Governor McDonnell has made it a priority to promote and feature Virginia wines and other locally grown and produced food and beverage products during business events at the Executive Mansion, recruiting activities and foreign trade missions. The Administration incorporates Virginia's best known products (Virginia's Finest and Virginia Grown) to showcase the abundance of Virginia's agricultural production while promoting economic development and investment in Virginia both here and abroad.

The Commonwealth should continue promote the utilization of the goods and services provided by Virginia businesses, including agribusiness products. The Subgroup encourages starting at the state level and incorporating Virginia agribusiness products into state agencies' and institutions' normal day-to-day business operations to support additional jobs and economic growth that will benefit our agriculture industry.

As an example, Virginia public schools (K-12) serve more than 650,000 lunches daily. During a 180-day school year more than 120 million lunches are served. If just \$0.10 a day per student lunch could be devoted to purchasing locally sourced Virginia farm products, more than \$12 million dollars would be reinvested into Virginia's economy annually.

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 percent of Virginia's gross domestic product (GDP). The total employment impact exceeds 500,000 jobs, which is over 10 percent of the state's workforce. This impact is evident in both distressed and non-distressed economic regions of the Commonwealth.

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. Investing in programs and activities that generate sales of Virginia agribusiness products helps support jobs elsewhere in Virginia's economy and generates economic activities in other sectors of the economy. Agriculture and forestry stimulate large public and private services responses through the effects of industry purchases and subsequent rounds of indirect and induced spending. The effects reverberate throughout the economy affecting every sector.

Agriculture and forestry are a highly visible part of Virginia's economic base. Nearly 21 million acres, or 82 percent, of the commonwealth's total land area is forest, crop land, or pasture and range. Agriculture and forestry activities have significant societal and ecological effects in addition to their economic benefits. Forests provide benefits in the form of carbon sequestration, wildlife habitat and biodiversity, flood mitigation and improved water quality. Rural scenic amenities may also improve quality of life.

VDACS promotes and facilitates the profitable sale of agricultural products grown and/or processed in Virginia. VDACS supports the state's varied agricultural community by assisting producers and processors to locate the best markets for their products both domestically and abroad. VDACS promotes economic development within Virginia's agriculture sector by assisting Virginia firms in expanding their base of operations and by recruiting new agribusiness firms to the state.

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 forestal sectors.

VDACS also manages "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 (CSA's) locations and value-added food and beverage products using an agency managed search engine (web page). The website receives approximately 24,000 unique web hits per month from customers looking for locally grown farm products.

Additionally, Virginia's agricultural exports exceed \$2 billion annually. In order to remain competitive in the international marketplace and take advantage of emerging market opportunities, Virginia must continue to invest in market development activities that generate

sales and help support jobs in the farming, processing, and transportation sectors. This past year, projects and trade missions were initiated to promote Virginia livestock genetics in China, Turkey and Russia. Thanks to these projects, Virginia is now the leading supplier of cattle and soybean (for feed) to Turkey. Staff also managed USDA funds to promote exports to Chile, Korea, the United Kingdom and India.

To better promote our agriculture industry, the Subgroup recommends:

- Serving Virginia agriculture products at all state sponsored events.
- Continued 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 emerging markets.
- Enhancing tourism promotions for the many diverse agriculture industry events, activities, and products.

Other Recommendations:

The Economically Distressed Areas Subgroup also fully endorses the recommendation of the Business Recruitment/Development Subgroup that places an emphasis on regional marketing plans. A pilot program currently being administered in the Southern Virginia has the potential of being a very effective marketing tool for both those area in both rural and urban areas located within the Commonwealth.

Additionally, the Economically Distressed Areas Subgroup endorses the recommendation of the Tourism Subgroup that incentivizes winery and vineyard growth in the Commonwealth. Agri-tourism plays a major role in Virginia's economy and can have a lasting economic impact throughout the Commonwealth.

The Economically Distressed Areas Subgroup also identified academic related recommendations that are appropriate for the Governor's Commission on Higher Education Reform, Innovation and Investment. Those include:

- Ensuring 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 they remain in the Commonwealth as they desire to further their education.

- Supporting 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 Southside 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 Indemnification & Community Revitalization Commission.
- Invest 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, 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.



Energy Subgroup Final Report

In other regions of the United States, mandated renewable portfolio standards are driving the energy sector. Virginia has a voluntary renewable portfolio standard to provide incentives for use of alternative/renewable energy. By building on existing energy resources and moving for with new technology for the future, there are tremendous opportunities for the Commonwealth to become the Energy Capital of the East Coast – the goal put forth by Governor Bob McDonnell. All energy sectors have competing interests and a coordinated effort – from coal to offshore wind – is necessary to come up with a common ground to work toward this goal.

Virginia has tremendous energy assets, but the challenge is how to optimize all of the assets – and have a net number of jobs to offset potential job loss in other areas. We need to declare the space we can really win and move forward in that area. The fundamentals that will define energy are technology – not subsidies. The consumer will make the decisions about cars, electricity, insulation, etc., and the consumer will determine the market price. A challenge to energy in the Commonwealth is how the State Corporation Commission (SCC) plays into this picture as they look into the consumer and the rates.

The Energy Subgroup identified short-term, mid-term and long-term energy job-related sectors as the areas of potential job creation opportunities:

- ❖ **Short-term (1-2 years):** conservation, biomass and infrastructure (pipelines and transmission lines);
- ❖ **Mid-term (3-5 years):** nuclear sector and uranium mining (if approved); and
- ❖ **Long-term (5 years +):** offshore wind and offshore oil and natural gas.

The subgroup identified conservation efforts as the biggest bang for the buck for short-term opportunities.

Research centers in the Commonwealth are instrumental in creating energy-related jobs. 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 an opportunity lost. The five energy centers being established by the Virginia Tobacco Commission provide an opportunity to create a synergy in this area and also how to better handle intellectual property issues for higher education. This is an area to increase energy entrepreneurship and put Virginia on the map as an innovative technology economy. In addition, implementing an emerging technologies fund, similar to a program in Texas, will provide strategic and flexible incentive opportunities as it relates to quickly evolving technologies. This recommendation is also found in the Business Recruitment/Development Subgroup final report.

The Commonwealth should support universities efforts to get grants for offshore wind development.

Nuclear resources must be in the mix of energy resources for the Commonwealth. This includes getting nuclear engineering and nuclear technician programs back online. While Virginia Tech, the University of Virginia and Virginia Commonwealth University have moved in this direction – this is an area of void in the energy workforce. There are two ongoing studies on uranium mining in the Commonwealth and the subgroup emphasized the need to have the studies completed in short order rather than taking multiple years to study. It is recommended the Commonwealth monitor the National Academy of Science findings – keeping in mind the benefits to the Commonwealth:

- ❖ What can we do to help facilitate job growth?
- ❖ What can we do to help areas with existing nuclear facilities and companies?

There is a number of existing programs already in place related to conservation and energy efficiencies in the Commonwealth and we need to have an effective methodology to implement these programs between the public and private sector.

The armed forces are working toward a goal of producing 25 percent of their energy needs from renewable sources by 2025. The significant military presence in the Commonwealth provides a terrific prospect to leverage the military's goal and provide the infrastructure and manufacturing for this renewable energy portfolio.

The group also recognized the potential negative impact of policies coming out of Washington, D.C., both through legislation and regulation. The Environmental Protection Agency (EPA) is a tremendous concern of aggravating a negative impact on economic activity. For example, the biggest challenge to the Virginia coal industry is the EPA as they are not issuing mining permits – this will result in increased energy costs on individuals and businesses. The federal government will be a driver in a number of areas and the Commonwealth needs to formulate a policy to address these concerns.

In addition to the work of the subgroup, it is important to recognize the Virginia Energy Plan for the McDonnell Administration was released on July 1, 2010, with recommendations for energy jobs and innovation in the Commonwealth as listed below:

Goals and Recommendations - Virginia Energy Plan

Goal 1: Make Virginia the Energy Capital of the East Coast.

- **Grow both traditional and alternative energy production, jobs, and investment in Virginia.**
- **Increase the use of conservation and efficiency in Virginia's homes and businesses, and support the establishment and expansion of energy efficiency businesses.**

Goal 1 Recommendations:

- Grow in-state production of energy, with resulting jobs and investment, by 20 percent over the next 10 years.
 - Begin offshore natural gas and oil development, and expand onshore oil and gas development in Virginia, through an open regulatory process that facilitates safe and environmentally sound energy production and eases market entry for new and expanding oil and gas businesses.
 - Develop the environmental response infrastructure to support offshore oil and gas production so the systems are in place when development is allowed in the future.
 - Expand development of renewable resources, particularly using biomass, waste, and wind resources, to generate electricity and produce liquid fuels. Particular emphasis should be placed on activities that provide secondary benefits such as water quality improvements.
 - Provide green job tax credits and other financial support to companies providing new jobs and investments in clean energy production. Support should be based on a positive return on investment to the Commonwealth and its localities for their support.
 - Revise the solar photovoltaic manufacturing incentive grant fund to broadly cover renewable energy manufacturing businesses.
 - Provide an efficient permitting process for biomass, wind, and other alternate energy resources to facilitate timely project development consistent with good environmental protection.
 - Support the private sector's efforts to grow Virginia's offshore wind development and supply chain industries. This should include:
 - Supporting work of the Virginia Coastal Energy Research Consortium (VCERC) and the Virginia Offshore Wind Development Authority; and
 - Working with the Bureau of Ocean Energy Management, Regulation and Enforcement (former Minerals Management Service) to streamline the federal offshore wind leasing process.
 - Support production of biomass and algae-based drop-in fuels to support military and private uses for transportation and heating.
 - Support development of new electric generating resources to meet growing electric demand, including the third nuclear reactor at the North Anna Power Station and new base-load, intermediate load, and peaking generation from conventional resources.

- Support the development of the new generation of nuclear power plants, such as the AREVA Generation III+ boiling water reactor (BWR) and the B&W mPower reactor, and the manufacturing of plant components.
- Facilitate partnerships between Virginia’s electric utilities and private generation developers where private developers can deliver power more cost competitively for ratepayers.
- Facilitate development of private power projects to serve out-of-state markets.
- Balance the need for low-cost power to support Virginia manufacturing, commerce, and citizens’ quality of life with the need to provide long-term, stable, clean energy supplies.
- Support expansion of distributed generation options at industrial, commercial, and residential sites.
- Assist Virginia’s coal and natural gas industries comply with state and federal requirements for safety, environmental management, and reclamation. This will lead to strong mining companies working to support the economic and environmental health of the communities in which they work.
- Complete the study of the efficacy of uranium mining in Virginia in order to decide whether the existing moratorium should be continued or removed in the Commonwealth.
- Expand jobs and investment in energy efficiency services.
 - Facilitate development of local and utility energy efficiency programs that overcome market inefficiencies and market failures that reduce investment below optimal levels.
 - Support energy efficiency as a way to help low-income, elderly, and fixed-income families address their energy needs.
- Provide necessary systems to support delivery of energy resources under emergency conditions, addressing civilian and military needs.

Goal 2. Expand public education about Virginia’s energy production and consumption, its effect on our economy, and how Virginians can use energy more efficiently.

Goal 2 Recommendations:

- Implement State Corporation Commission’s *Virginia Energy Sense* consumer energy education program.

- Coordinate energy efficiency public information efforts among utility, federal, state, and local sources to provide clear and easily understandable messages to consumers.
- Expand energy-related education in all phases of Virginians lives through:
 - Expanding community college jobs training in areas such as energy auditing and efficiency, utility and related trade activities, and renewable system operation and maintenance; and
 - Expand university programs in areas such as nuclear power, energy engineering, and environmental management.

Goal 3. Maximize the investment in clean energy research and development through the work of the Universities Clean Energy Development and Economic Stimulus Foundation.

Goal 3 Recommendations:

- Coordinate energy R&D actions among universities and private companies to maximize value of state resources.
 - Working with the Lieutenant Governor, serving as the Chief Job Creation Officer, and Cabinet offices, coordinate resources available through the Tobacco Commission, Virginia Economic Development Partnership, Departments of Mines, Minerals and Energy, Agriculture and Consumer Services, and Business Assistance to optimize growth of energy jobs across Virginia.
 - Implement Virginia Universities Clean Energy Development and Economic Stimulus Foundation.
 - Establish 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 for the 21st century.
 - Promote development of offshore oil and gas development as a source of VCERC research and development funding.
 - Support R&D for clean coal technologies and carbon sequestration.
 - Work with the Virginia Tobacco Commission, private sector energy leaders, community colleges, and our major research universities to establish Southside and Southwest Virginia as the nation's hub for traditional and alternative energy research and development.

The Virginia Energy Plan can be found on the Virginia Department of Mines, Minerals and Energy website: <http://www.dmme.virginia.gov/DE/VAEnergyPlan/VEP-2010.shtml>



Manufacturing Subgroup Final Report

Subgroup Activity:

The Manufacturing Subgroup of the Governor's Commission on Economic Development and Job Creation has met four times since the first full Commission meeting. During the May 26th meeting, members discussed the research materials provided, clarified areas of concern and reviewed Virginia's various manufacturing demographics. Subgroup members approved their Vision Strategies and identified key stakeholders to reach out to for input and guidance.

At the July 12th meeting, the Subgroup members discussed their research and progress on further formulating the group's "Visions and Goals" in preparation for the Interim Report. Subgroup members discussed their meetings with stakeholders, state agencies and the manufacturing community at large.

The subgroup met for the third time on August 16th. At this meeting the members heard from Bob Leber, Governor's Advisor for Workforce Development and Chair of the Jobs Commission's Workforce Development subgroup, Richard Weeks with the Department of Environmental Quality, and Jim Regimbal who represents Virginia Municipal League and Virginia Association of Counties.

- Dr. Leber spoke on Workforce Development as it relates to manufacturing. He spoke on the work of his subgroup as well as his past work in the workforce development area.
- Richard Weeks with the Department of Environment Quality spoke to the group next on the permitting process. Most DEQ programs are federally mandated, so not much flexibility, but there is some ability to give priority to prospects. DEQ recognizes the benefit of focusing on economic development and getting involved early so needs and priorities are understood. The agency as a whole has focused on bettering the application process, which expedites the processing in-house as well.
- The members also heard from Jim Regimbal, who represents VML and VACO. He spoke on the breakdown of local government expenditures and the taxes collected that help fund those expenditures. BPOL and Machinery & Tools tax make up 5% of local revenue (\$900M). Some localities have over 20% of their funding coming from BPOL and Machinery & Tools taxes. Jim stressed the importance of seeing tax changes in a holistic manner.

The group met for the final time on September 17th. This meeting served as a final discussion of the group's recommendations and the members streamlined and finalized their recommendations and ideas and prepared to present them to the Governor.

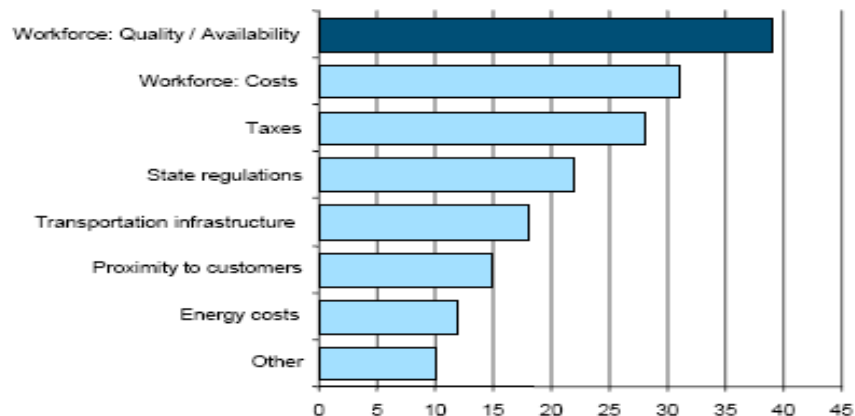
The subgroup members identified several stakeholders to work with throughout the course of the Commission: American Chemistry Council, National Association of Manufacturers, PhRMA, Shenandoah Valley Partnership, VACO, Virginia Biotechnology Association, Virginia Career and Technical Educators Association, Virginia Career Colleges Association, Virginia Chamber of Commerce, Virginia Community College System, Virginia Council on Advanced Technology Skills, Virginia Craft Brewers Council, Virginia Department of Business Assistance, Virginia Department of Taxation, Virginia Economic Development Partnership, Virginia Electronic Commerce Technology Center, Virginia Industry Foundation, Virginia Manufacturers Association, Virginia Seafood Council, Virginia Wholesalers and Distributors Association and Virginia Workforce Council.

Analysis:

Virginia has long been recognized as a good home for manufacturing. The Subgroup’s purpose was to advance specific proposals to assist Virginia in becoming the best state in the country to manufacture industrial and consumer goods, create jobs in the manufacturing industry, and locate manufacturing company headquarters. This is very attainable given Virginia’s current strengths and present challenges facing manufacturers in other states.

The Subgroup identified several areas of opportunity including workforce development, regulatory policy and taxation. As the chart below represents, these 3 areas are the most influential on a manufacturer’s decision to stay, relocate or expand in Virginia.

Figure 31: Workforce Has the Biggest Impact on Whether to Stay in Virginia, Open a New Facility, or Close an Existing Facility



Virginia’s regulatory policies required special consideration from the Subgroup. At a high level, they appear to be balanced and fair, but they are not without challenges to future manufacturing costs and competitiveness.

A 2006 JLARC Study indicated that globalization, technology and productivity improvements, and increasing labor costs were the principal drivers for job loss in the manufacturing sector between 2000 and 2005, not Virginia’s regulations. Further, the recent loss

of manufacturing jobs appears to be largely influenced by the challenges impacting all sectors of the economy, including significant competitive pressure on firms competing on a global basis.

Given these factors, it was important that the Subgroup's efforts be focused on identifying opportunities to reduce the cost burden of regulations to enhance manufacturing competitiveness. The Subgroup believes that a desired outcome should be a regulatory environment in Virginia that promotes competitiveness and economic growth.

Clearly the environment should be protected and workplaces should remain safe for Virginia to remain a competitive state for manufacturers. However, the Commonwealth should exercise care to avoid imposing environmental regulations more stringent than federal regulations without a demonstrated need. Further, regulations should maintain an appropriate balance between environmental or social purposes and economic development.

Vision Strategies:

To create an environment where current Virginia manufacturers can expand and allows Virginia to recruit new traditional and advanced manufacturing companies and new jobs to the Commonwealth.

- I. Examine and recommend regulatory and tax structure improvements. Review manufacturing programs for appropriate resource support and make reallocation of resource recommendations to promote overall state competitiveness.
- II. Identify economic development-related determining factors by size of company for manufacturers that have decided to or not decided to place assets in Virginia.
- III. Identify advanced manufacturing sectors and clusters, domestic and foreign owned, where Virginia is best positioned to recruit new businesses and develop strategies to incentivize companies in those sectors to locate in Virginia.
- IV. Engage leading manufacturing companies and organizations in the implementation of strategic manufacturing goals and initiatives.
- V. Reduce direct and indirect environmental permitting process and compliance costs for manufacturers.
- VI. Expand the use of the Port of Virginia for Virginia Manufacturers through incentives.

Manufacturing Subgroup Final Recommendations

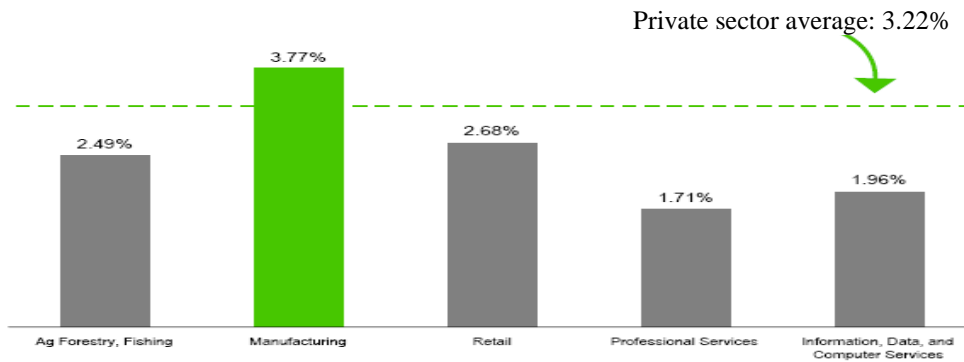
Recommendation #1: Machinery & Tools Tax Repeal

In the current economic environment, Virginia must do all it can to become the most competitive state for new and existing manufacturers to grow and succeed. The current structure of the Machinery & Tools tax is preventing this.

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

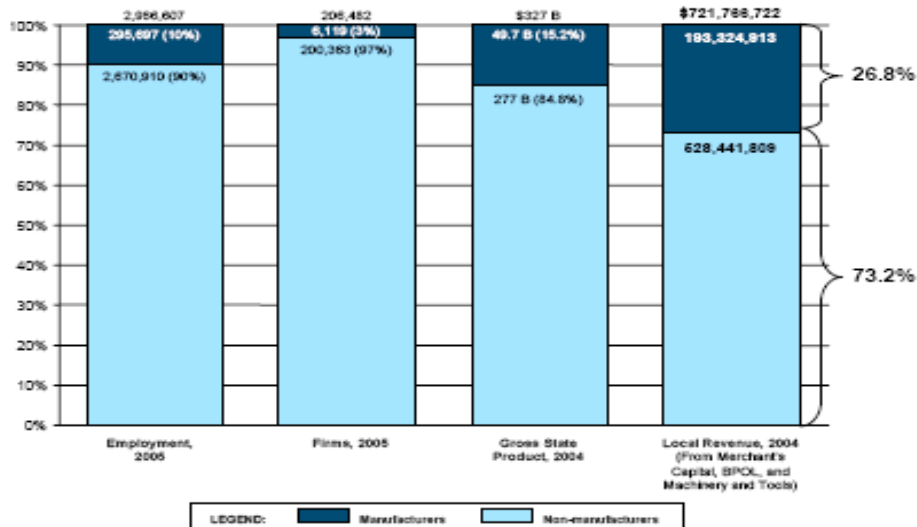
The Machinery & Tools tax was identified in 2005 as a \$200 million disparity as compared to the effective tax rate of all other industries in Virginia. The goal of M&T reform is to prevent Virginia manufacturers from paying a disproportionate percentage of local business taxes. As shown in the charts below from studies done by Ernst & Young and JLARC, manufacturers pay a higher percentage of taxes than other industries in the private sector. In addition, manufacturers alone supply almost 30% of local revenue.

Effective Virginia State and Local Tax Rates on All Industries Measured by Value-Added



⁵ Value added is a measure of the economic contribution of labor and property located in a state. In concept, an industry's value added is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported). Thus, a state's value added is often considered the state counterpart of the nation's gross domestic product (GDP). In practice, value added estimates are measured as the sum of the costs incurred and incomes earned in the production of GDP. Note that value added also includes the non-corporate taxes paid by firms in an industry as a cost incurred in production of GDP.

Manufacturer's Share of Local Business Taxes is Higher Than Other Measures



Source: JLARC analysis of Weldon-Cooper Center and U.S. Census data.

Ultimately, the Manufacturing subgroup’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.

Policy Analysis:

The Virginia General Assembly has already clearly stated in the Code of Virginia that manufacturing facilities are an economic priority.

Unfortunately, the more manufacturers invest in new technologies and equipment, the more taxes they end up paying. Virginia must recognize that the future success of this industry will be based upon higher wages, higher skills, greater global competition and greater investments in new technology. Virginia must incentivize and reward capital investments in the Commonwealth.

Return on Investment:

The Virginia Economic Development Partnership maintains a database of project announcements in the Commonwealth. The chart below details manufacturing announcements since 2004. The average capital investment is \$1.74 billion per year, but has fallen below that average for 3 of the last 6 years. The Virginia Manufacturers Association has estimated that the exemption of taxes on new machinery and tools would spur an additional \$1 billion in capital investments.

Year	Jobs	Capital Investment
2004	9,601	\$1.86 Billion
2005	10,000	\$2.5 Billion
2006	7,806	\$1.438 Billion
2007	5,644	\$1.275 Billion
2008	7,847	\$2.4 Billion
2009	4,931	\$961 Million

Studies:

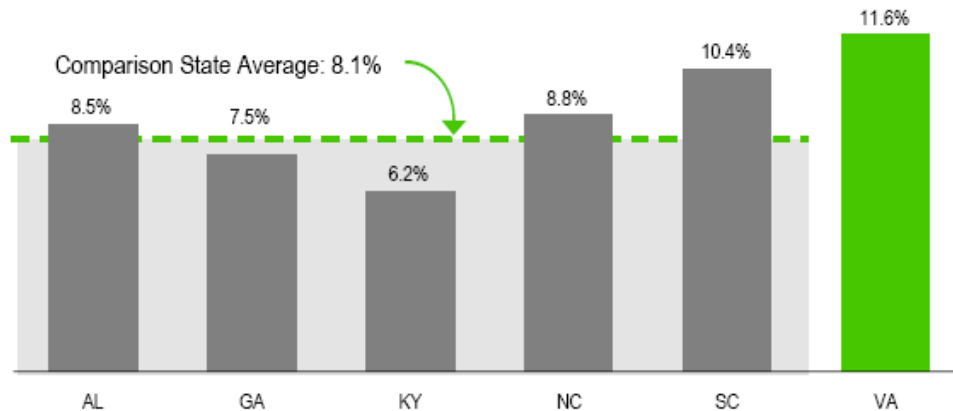
The Virginia Manufacturing Development Commission, Ernst & Young and others have concluded what JLARC aptly stated in their 2006 report, “...the proportion of the state and local tax burden borne by Virginia manufacturing is higher than its proportional percentage of the State’s economy in terms of employment, the number of firms, and total gross state product.” The report went on to say that, “Virginia is the only one of the selected states that allows localities to set their own assessment ratios and depreciation rates.” The Virginia Manufacturing Development Commission has been studying repeal and relief measures for machinery and tools

taxes since 2005. In fact, manufacturers reported to JLARC in 2006 that workforce and taxation were their top drivers for decisions to expand or relocate.

Competitiveness:

According to an Ernst & Young 2003 report, Virginia manufacturers have the highest state and local tax rate among five competing southern states. Since 2003, this has not materially changed.

Effective State and Local Tax Rates on Manufacturers, Measured by Industry Property Income



An estimated 20 states have now exempted machinery and tools from taxation. Recently, Connecticut and Kansas repealed their machinery and tools tax statutes to spur industrial reinvestment and improve their global competitiveness as a business location.

Connecticut Governor Rell (D) proudly remarked in May 2006 after signing machinery and tools tax reform legislation:

This legislation importantly removes a major disincentive for manufacturers to modernize and expand their operations... We must continue to control state spending so we can further reduce taxes on businesses and assist them with ever-rising energy costs. Strong businesses mean solid jobs for our citizens.

Kansas Governor Sebelius (D) commented in 2008 to the Kansas Chamber of Commerce about the reason for the Kansas exemption for new investments:

...I called for the repeal of property tax on new business machinery and equipment as a way to stimulate economic growth in Kansas... This action will continue to create opportunities for businesses to grow and create jobs for Kansans.

Additional Recommendations Regarding the Machinery & Tools Tax:

In light of the above recommendation, the Manufacturing Subgroup does not take lightly the fiscal impact that elimination of the Machinery & Tools Tax would have on local governments. Estimates have placed that fiscal impact at \$200M. At a time when revenues across all levels of government are unpredictable, the Subgroup understands that the above recommendation could create a financial hardship for many local governments.

While a repeal of the Machinery & Tools Tax is in the best interest for both manufacturers and the Commonwealth, the Subgroup would like to offer additional recommendations relating to the Machinery & Tools Tax to be enacted immediately while the Machinery and Tools Tax is phased out over a longer period of time and sources of replacement 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. It would also provide for an orderly transition period during which counties and municipalities can better prepare themselves for the ultimate abolition of the M&T tax.

Recommendation #2: Expedition of the Single Sales Factor Phase In

Beginning in 2011, the Commonwealth of 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.

Current Virginia Law states that business income is apportioned to Virginia using a fraction of an in-state numerator over an everywhere denominator of:

- Property (including inventory, fixed assets & rent expense) x 25%
- Payroll x 25%
- Gross receipts received x 50%

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.

States such as Georgia, Louisiana, Missouri, and South Carolina allow and/or mandate the single sales factor for manufacturers. Furthermore, there is no certification requirement associated with it.

Therefore, the Subgroup recommends the allowance of the single sales factor to be used immediately by manufacturers without penalty for failure to meet the terms of the certification.

Recommendation #3: Virginia Port Tax Credit Incentive:

The Port of Virginia is a major economic engine for the Commonwealth and a key factor in attracting businesses to Virginia. Of FY09-FY10 manufacturing and warehouse & distribution announcements, 22% are confirmed port users in Virginia. The Subgroup recommends a Virginia 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 incentive will provide Virginia-based manufacturers a competitive shipping cost advantage relative to peer competitors in other locations. 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. The Subgroup believes that Virginia-based manufacturers should be rewarded and incentivized for doing business in the Commonwealth.

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 benefit of the tax credit will be demonstrated by the economic impact related to retaining and growing manufacturing jobs inside the state and to stimulate more business for the Port. The overall effect of this credit will be revenue positive to the State. A credit would not involve ocean freight charges and shipping cost, but only concerns Virginia Port Tariffs.

Recommendation #4: Environmental & Regulatory Permit Reform

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

In fact, a recent potential business expansion 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.

Beyond the US Environmental Protection Agency (EPA) regulatory requirements, environmental programs management at the state level can be a critical factor in the impact of environmental regulations on the regulated community. Management includes efficiency of staff, openness of staff to interpreting regulations in a manner that provides the environmental benefit with the least cost, and recognition of the need to give priority to the processing of permits that are needed for the creation of new and maintenance of existing jobs. Another critical management priority is providing good customer service, which includes timely processing and response rate and working to find mutual benefits for the state, the manufacturer and the environment.

Recently, DEQ directed the chief deputy to provide assistance with job creation. This position works closely with the 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 assure them that they will receive prompt response, that the department is open and easy to work with and to offer them a point of contact.

This same service is provided to companies expanding their operations in Virginia and to companies that may need assistance to remain viable in Virginia. In addition, the designation of this position as the focal point for jobs creation support reemphasizes the importance of economic development and job creation throughout the organization.

In order to expedite permits, new and existing industries are encouraged to contact DEQ's chief deputy early in the process, especially if they are experiencing any problems or delays. The earlier these issues are brought to DEQ's attention, the better they are able to have them fixed in a timely manner.

Usually the most critical permit and often the only permit needed by industries is an air permit under DEQ's Minor New Source Review permit program. This permit must be obtained before construction can start. This is a federal requirement for both new facilities and many process changes at existing industries. The regulation governing the Minor New Source Review program is nearing completion of a regulatory review. A proposed revision was approved as final by the Air Pollution Control Board on September 10, 2010.

While DEQ has worked to improve this regulation, there is an opportunity to further review the regulation with the specific purpose of streamlining the process. One approach would be to exempt certain activities (e.g. certain process changes) from coverage under the regulation. However, DEQ would have to begin a new regulatory process to make the revisions.

DEQ has required timeframes to issue some permits: 90 days for Minor NSR permits, 180 days for a State Operating permit and one year for a PSD permit. When the clock begins at the date that the permit application is determined to be complete, DEQ processes permits much faster than the required timeframe. For example Minor NSR permits are issued on an average of

39 days versus the 90 day requirement. However, on average it takes 106 days to get to a complete determination. This is why it is so critical that industry meet with DEQ as early as possible.

Submitting a complete application can do more to reduce the time it takes to issue a permit than anything else. A study is necessary to determine the reasons the application process is so lengthy. The result of this study would lead to guidance by the DEQ that would improve the application process.

In order to develop a quicker and easier permitting process, the Subgroup recommends the following:

- Develop more general permits and customized permit applications for those general permits 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. This has the potential of cutting permit issuance time.
- Undertake a stakeholder process to find ways to reduce the time it takes to get to final approval. As we have heard through testimony, delays often occur because of incomplete applications. One recommendation is to encourage a pre-application meeting so that the applicants know what is necessary to complete the application correctly the first time.
- Encouraging the role of the Chief Deputy of DEQ, who works with the Chief Jobs Creation Office and the Secretary of Commerce and Trade, to implement practices beneficial to manufacturers looking to expand or relocate. Continuity in this position is vital to help manufacturers through an often difficult process and to encourage job creation and capital investment in Virginia.



Small Business Subgroup Final Report

Subgroup Activity:

The Small Business Subgroup of the Governor's Commission on Economic Development and Job Creation has met four times since the first full Commission meeting. During the June 3rd meeting members discussed the research materials provided, clarified areas of concern and reviewed Virginia's small business demographics. The Subgroup members approved their "Vision Strategies" and identified key stakeholders to reach out to for input and guidance.

At the July 6th meeting, the Subgroup members heard reports from the Virginia Department of Business Assistance and the Department of Labor and Industry. Members discussed their research and progress on further formulating the group's "Visions and Goals" in preparation for the interim report. Subgroup members discussed their meetings with stakeholders, state agencies and small business community members.

The subgroup met again in August. At this meeting the members heard several important presentations.

- First, Ida McPherson with the Department of Minority Business Enterprise spoke to the group on their role. DMBE provides services for and certification of Small, Women, and Minority Owned (SWAM) businesses. They promote a diverse business base and promote the growth of SWAM businesses. The agency also services Disabled and Veteran-Owned businesses. DMBE assists with making the procurement process as fair as possible. They requested full support of the subcommittee for their organization and its efforts.
- Next, Chris Chmura gave a presentation on her study of the evaluation of VA's BPOL tax and its profitability. She spoke on the history and definition of BPOL. VA retailers pay a higher percentage of profits than the industry average, and there are widespread differences in tax rates by industry and locality. BPOL accounts for 4% of tax revenue for counties and 6.4% for cities who have BPOL tax. Business categories are determined by locality and business categories determine BPOL tax rate. Many rural areas do not have a BPOL tax. BPOL taxes are based on gross receipts. Ms. Chmura suggested a tax of profits rather than gross receipts to create consistency across industries and exemption for start ups from the BPOL tax.
- Jim Regimbal, a representative of VML and VACO spoke on the breakdown of local government expenditures and the taxes collected that help fund those expenditures.

BPOL and Machinery & Tools tax make up 5% of local revenue (\$900M). Some localities have over 20% of their funding coming from BPOL and Machinery & Tools taxes. Mr. Regimbal stressed the importance of seeing tax changes in a holistic manner.

- Scott Parsons and Wayne Waldrop with DBA gave a presentation on their programs and the Small Business Financing Authority. DBA is a statewide lender for Virginia businesses as established by the General Assembly. 80% of their work is done in economically distressed areas. DBA's challenges and needs were emphasized as well. They also spoke on the Business Information Services that DBA offers and discussed competitive programs in other states that we should consider. They also made requests for DBA's specific staff and financial needs to improve marketing, loan programs, matching funds programs, etc.

The group met for a 4th and final time in Richmond, VA on September 17th. The Subgroup heard a brief presentation from Wayne Waldrop on the Virginia Certified Entrepreneurial Program. Finally, the group streamlined and finalized their recommendations and ideas and prepared to present them to the Governor.

Subgroup members identified key stakeholder groups to work with throughout the course of their work on the Commission: Associated Builders and Contractors, Associated General Contractors, Home Builders Association of Virginia, Farm Bureau, Independent Insurance Agents of Virginia, Metropolitan Business League, National Association of Women in Construction, National Federation of Independent Business, Virginia Agribusiness Council, Virginia Association of Community Banks, Virginia Association of Realtors, Virginia Bankers Association, Virginia Chamber of Commerce, Virginia Association of Counties, Virginia Credit Union League, Virginia Hospitality and Travel Association, Virginia Independent Automobile Dealers Association, Virginia Municipal League, Virginia Nursery & Landscape Association, Virginia Petroleum Convenience & Grocery Association, Virginia Retail Federation and the Virginia Retail Merchants Association.

Analysis:

SRI conducted a study on behalf of the Virginia Economic Development Partnership (VEDP) titled "Catalyzing Innovation in the Commonwealth." The report analyzed Virginia industries, benchmarked economic and innovative foundations, established potential high-growth technologies, outlined best practices from successful technology investment programs and identified strategic inferences for economic development. While the study recognized Virginia's many economic strengths, it also highlighted areas of deficiency including improving Virginia's small business environment.

In 2009 the Wall Street Journal published its annual list of the "Best and Worst States for Small-Business Taxation." The list was based on 16 different tax measures including: income, poverty, death/inheritance, unemployment, and consumption-based taxes like those on gas and diesel. The top ten best tax systems for small business are: 1) South Dakota, 2) Nevada, 3) Wyoming, 4) Washington, 5) Texas, 6) Florida, 7) Alaska, 8) Colorado, 9) Alabama and 10) Ohio. Virginia ranked 16th on the list.

The Small Business & Entrepreneurship Council also ranks states according to their public policy climates for small business and entrepreneurship in the “Small Business Survival Index 2009: Ranking the Policy Environment for Entrepreneurship Across the Nation.” The Index helps business owners, investors and lawmakers understand the public policy burdens placed on entrepreneurship and small business in the states, and ranks them accordingly. The factors included in the Index – taxes, various regulatory costs, government spending, property rights, health care, energy costs, and others – matter a great deal to the competitiveness of each state and to the well being of small businesses. In terms of their policy environments, the Top Ten entrepreneur-friendly states under the “Small Business Survival Index 2009” are: 1) South Dakota, 2) Nevada, 3) Texas, 4) Wyoming, 5) Washington, 6) Florida, 7) South Carolina, 8) Colorado, 9) Alabama and 10) Virginia.

While Virginia is one of the more small-business-friendly states, significant work is needed to achieve Governor McDonnell’s goal of making Virginia the “Best State in which to Own and Operate a Small Business.” More attention, resources and support needs to be given to the programs and agencies that serve Virginia’s entrepreneurs. The 230,000 small businesses in Virginia (companies with less than 250 employees) comprise 98% of all existing businesses and 75% of new job growth in Virginia. They are the heart and soul of Virginia’s economy.

Currently, Virginia has over 35 different state agencies that may touch a small business and over 100 business assistance and regulatory programs. While much of the state aid does not specifically apply to small businesses, several programs are designed to help small businesses grow and prosper.

The main provider of small business assistance programs is the Department of Business Assistance (DBA). The DBA provides assistance to small businesses through three primary departments: the Virginia Jobs Investment Program (VJIP), the Virginia Small Business Financing Authority (VSBFA) and Business Information Services (BIS).

VJIP provides customized recruiting and training services to companies creating new jobs or experiencing technological change. This program reduces the human resource development costs of new and expanding companies and offers consulting services, organizational development, electronic media services and funding. VJIP offers these types of assistance through four programs: New Jobs Program, Small Business New Jobs Program, Retraining Program, and the Small Business New Jobs Grant Fund. These programs assist large and small businesses with start up and employee training costs, and provide rewards for expansion and employee hiring and retention.

VSBFA is an economic development financing program of the Commonwealth. While grants are not available through the Authority, it does provide debt financing assistance to Virginia’s established, existing businesses and those looking to expand in Virginia. VSBFA provides several financing programs including bonds, gap financing, loan guaranty, capital access and tax credits. The VSBFA’s ability to aid Virginia’s small businesses is directly tied to the amount of funding received from the General Assembly. There are limited funds available and uncertainty as to what will be available each year. In past budget cycles, funding has been

so constrained that some VSBFA programs have been put on hold or eliminated, further reducing the options available to Virginia's small business community.

DBA also offers several informational services including: Entrepreneur Express, Virginia Business Information Center, Virginia Business One Stop, One-on-One Business Builder Counseling, and Business Sales Growth Seminars. Insufficient funding and marketing and limited staff have left these quality programs without the ability to properly meet the business community's needs. Additionally, multiple other agencies house important reference information, guides to business formation and educational programs for employers that should be included into the Business One Stop to truly make it "one stop". While all of the information is extremely helpful, the lack of coordination and single point of contact can leave the entrepreneur confused and overwhelmed. Incorporating all of this information into one place will ease the stress on the business owner, allowing them to focus on making their business successful.

Thanks to Governor McDonnell's 2010 Jobs and Opportunity Agenda, DBA received some funding increases in last year's General Assembly session; however, more is needed. DBA's budget has been cut 56% over the eight years, including a 51% staff reduction over the past four years. In addition to the reduced services and capabilities, the Department's ability to track, examine, identify, and write grant applications to the Federal government is very limited. Federal grants could help fill financial voids and aid businesses that cannot be served through current means.

Vision Strategies:

To spur entrepreneurship, expand existing businesses and create new jobs, the resources and programs available to Virginia small businesses need significant enhancements. For Virginia to become the best state for small business, economic development strategies and incentives must be aligned to support and encourage all of Virginia's job creators. Business formation and existing business expansion are the largest drivers of job growth in Virginia. While large investments have been made to bolster business recruitment incentives, aid to existing businesses and budding entrepreneurs is lagging behind.

- I. Identify what programs Virginia offers to business start-ups and examine who is using them and who is not. Examine ways in which Virginia can increase exposure and access to more entrepreneurs.
- II. Examine what hurdles to small business creation the Commonwealth can remove or alter.
- III. Examine the programs that are available to existing small businesses and find what, if any improvements can be made.
- IV. Examine what tax code changes or incentives would spur small business growth and job creation.
- V. Consider how Virginia can improve and enhance its small business financial assistance programs and how to get more capital in the hands of small businesses.

VI. While Virginia is the #1 State for Business, we need to examine what will make Virginia the #1 State for Small Business.

Small Business Subgroup Final Recommendations

Recommendation #1: Access to Capital

Enhanced Funding for Virginia Small Business Financing Authority:

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 critical to small businesses to support new business growth, 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.

Federal Reserve Board of Governors Chairman Ben Bernanke emphasized this difference of opinion in a July 12, 2010 speech when he said, “An important but difficult-to-answer question is, ‘How much of this reduction has been driven by weaker demand for loans from small businesses, how much by a deterioration in the financial condition of small businesses during the economic downturn and how much by restricted credit availability?’ It is no doubt all three factors have played a role. Clearly, though, to support the recovery, we need to find ways to ensure that creditworthy borrowers have access to needed loans.”

Of course, the definition of “creditworthy” depends on who you ask. Most prospective borrowers will tell you that they are creditworthy because they have never missed a payment and have moderate to strong credit scores. A banker may determine that the cash flow of the business does not reflect an ability to repay the loan or that the collateral value has declined. By this definition, the bank may view the borrower as not being creditworthy and decline the loan request. While wanting to loan, a tighter regulatory environment causes banks to downgrade existing loans and boost capital reserves, making less credit available.

Because of these challenges, the Subgroup supports additional utilization of the Virginia Small Business Financing Authority. The VSBFA’s 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 in a non-bureaucratic and efficient method. These programs can also be used to address the refinancing need which small businesses have requested. The VSBFA’s Economic Development Loan Fund is a direct loan program that provides gap funding between private debt financing and private equity.

VSBFA 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 VSBFA, the Commonwealth has historically received a \$5.81 return on investment after the first year for every state dollar the VSBFA loaned. In addition, the VSBFA has leveraged private credit and equity dollars at a ratio of \$29:\$1 for every state dollar invested. This high leveraging is a result of the revolving VSBFA loan programs and the the private credit and equity required to participate in the program.

VSBFA needs additional funding and more flexibility for its multiple loan and financing tools available to help Virginia entrepreneurs to attract more banking partners, make more direct loans, and meet the variety of stated credit needs identified by small businesses and the Federal Reserve. The funds would be used for direct loan, loan guaranty, and capital access programs as the market dictates. As an example, a onetime \$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.

Small Business Investment Tax Credit:

During the 2010 legislative session of the General Assembly, Delegate Don Merricks introduced HB 1384, the Virginia Small Business Investment Company Credit. The VSBIC would have provided for the creation of private investment funds (up to \$100 million) that would have been invested in small businesses located throughout the Commonwealth. Private capital would be raised from outside entities (insurance companies) to be invested in qualified companies in accordance with certain guidelines. Qualified businesses must:

- Be headquartered within the state;
- Have fewer than 100 employees; and
- Agree to stay within the state after investment for a certain amount of time.

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.

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.

Recommendation #2: Small Business Support

The Department of Business Assistance is designed to be the Commonwealth's primary agency to assist smaller businesses with economic development needs. The agency currently administers three distinct programs:

- Small Business Financing Authority
- Business Information Services
- Virginia Jobs Investment Program

The DBA budget has declined by 56% from 2002-2010, and has undergone a 51% staff reduction (34 FTE) from 2006-2010. The agency is doing its best to administer their programs with limited resources, but more assistance is necessary for the agency and its programs to offer services to Virginia small businesses. In addition, the agency currently has no budget or staff to effectively market the many programs they offer to our small businesses. It should not go unnoticed the current budget for DBA has been increased significantly by Governor McDonnell, and this is a positive step forward to bolster the effectiveness of the agency.

The subgroup recommends additional appropriations for the following:

- Realign the Small Business Development Centers (SBDCs) with the Virginia Department of Business Assistance (DBA).
- Restore cuts to DBA's general funds for FY2012.
- Media advertising and marketing related expenses.

Secondly, the Subgroup recommends continued enhancement of 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 has been a top priority of Governor McDonnell and Lieutenant Governor Bolling. The Subgroup commends the Administration's support.

Lastly, Virginia should promote itself as the "Best State in America to Open a *Small Business*." While much attention is given to the grand opening or relocation of Fortune 500 companies in Virginia, little is said about the many small businesses that thrive here. Virginians often hear about "mega projects," the Governor's Opportunity Fund and the newest opening of a corporate headquarters, but we rarely hear about the accomplishments of the small business community even though small firms comprise the vast majority of businesses and the workforce. Considering the fact that 98% of all businesses in Virginia are small businesses and 75% of new job growth in the Commonwealth comes from small businesses, the Subgroup recommends that we more aggressively market and celebrate our small businesses and their successes.

Recommendation #3: Regulatory Notifications

Small business owners often struggle to learn the state laws, rules and regulations. The creation of small business specific advisories to announce when state laws or regulations change would prove beneficial to small business owners, allowing them to focus on 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. The Illinois Attorney General uses the page to provide small businesses with a plain language explanation of any proposed or adopted rule or new legislation that affects small businesses. Explanations are posted for a minimum of six months. Small businesses are also directed to the State's Department of Commerce and First Stop Business Information Center, which operates as a central clearinghouse, notifying 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 Subgroup 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.

Recommendation #4: Tax Reform

The business, professional and occupational license (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 to cover the war costs. By 1850, the policy of levying a license tax on practically all well-established businesses and professionals was adopted. The tax was initially a flat-fee that varied by type of business. This practice was changed in the 20th century to a system where taxes are based on the gross receipts of businesses. In 1996, BPOL tax was significantly amended to help ensure a more uniform local administration of BPOL taxes.

BPOL tax amounts are commonly based on gross receipts of businesses. Businesses are levied different tax rates based on which of the following five major categories their business falls under: 1)contractor, 2)retailer, 3)financial, 4)real estate and professional services, 5)repair, 6)personal and business service and 7)wholesale.

The analysis is complicated by the fact that some counties differentiate the five categories with greater detail. For example, 80 localities use only the four categories shown above while six localities enforces nine different tax rates.

According to the most recent (2008) survey conducted by the Weldon Cooper Center for Public Service at the University of Virginia, BPOL taxes were collected by all of the state's 39 cities and 47 of the 95 counties. Further, BPOL taxes accounted for 6.4% of all tax revenues for Virginia's cities and 4.0% for the counties in fiscal year 2007.

In 2008, the average BPOL tax rate was \$0.17 per \$100 of gross receipts for retail businesses and \$0.14 per \$100 of gross receipts for contractors. That same year, BPOL was also \$0.26 per \$100 gross receipts for repair, personal, and business services.

There are several arguments against BPOL taxes within the business community. First, the BPOL tax is based on gross receipts, and it appears to be unfair without considering 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. Also, BPOL taxes are administered by local jurisdictions, resulting in inconsistent rules and lack of best practices, making the business environment less welcoming in Virginia.

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. Repealing BPOL taxes without finding additional revenue sources in this environment would be difficult and the Subgroup does not take lightly the static fiscal impact that eliminating the BPOL tax would have on local governments.

Therefore, the Small Business Subgroup recommends that the Virginia Department of Taxation collect the necessary information for two years to determine the fiscal impact if Virginia taxed small businesses on their relative profitability as opposed to gross receipts. The Subgroup has heard from countless small business owners that have lost money in a given fiscal year but were still required to pay a BPOL tax regardless of their profitability. One such testimony was from a gentleman who's business lost \$75,000 last year and still paid almost \$5,000 in BPOL tax.

Once the Department of Taxation has collected the proper data and is able to provide an accurate Fiscal Impact on reforming the BPOL tax, it is the Subgroup's recommendation that Virginia enact legislation that moves BPOL from the current formula of gross sales to net profit a model that is fair and truly represents a company's success - net profit.

Other Recommendations:

The Small Business Subgroup also believes that the Virginia Economic Development Partnership should examine the criteria in order to be eligible to access the Governor's Development Opportunity Fund. Currently, the criteria used to access the Fund make it difficult for any small business to meet the qualifications. Adjusting the criteria is one way to leverage existing state funds to help encourage and recruit new businesses (small and large) to the Commonwealth.



Technology Subgroup Final Report

Subgroup Activity:

The Technology Subgroup of the Governor's Commission on Economic Development and Job Creation first met on June 2nd in Fredericksburg. At this initial meeting the subgroup discussed their approach and vision, and divided tasks among the members.

The subgroup met next on July 9th, again in Fredericksburg. At this meeting the members heard a presentation from CIT on Broadband in the Commonwealth, and the current work the Secretary of Technology's office is doing to apply for grants and create a strategic plan for Broadband for the Commonwealth. The subgroup also heard from VEDP on economic development in terms of research and development. The presentation included VEDP's current incentives for technology and growing sectors in the Commonwealth: energy, advanced manufacturing and information technology. The members also discussed their research, and continued to narrow and focus their recommendations.

On August 11, the subgroup met at the Biotechnology Research Park in Richmond. At this meeting, subgroup members heard from the Secretary of Health and Human Resource's office on Health IT and the Commonwealth's current efforts in this area. The members were also given a presentation on the Department of Partnerships, Innovation, and Commercialization at the University of Virginia. The subgroup began to discuss their final recommendations and focus their recommendations into several areas.

For the final subgroup meeting, the members met at the Microsoft Technology Center in Reston on September 14th. The subgroup heard a presentation on the Modeling, Analysis, and Simulation Center at Old Dominion University, including an overview of the program, its history, its purpose and its needs. The program engages in scholarly research, promotes economic development and supports workforce development. The members then finalized their recommendations and discussed the best way to present them to the Commission and the Governor.

Subgroup members also recognized the value of reaching out to stakeholders for comments, input and discussion and identified the following organizations: The Virginia Technology Alliance and the Ten Regional Technology Councils; Virginia Biotechnology Association ; Association of University Technology Transfer Managers (AUTM); National Business Incubation Association; Virginia Active Angel Investor Network; Mid-Atlantic Venture Association; and National Venture Capital Association.

Analysis:

After hearing presentations and reviewing materials, Subgroup members determined that while the Commonwealth has programs in place to help other sectors, it lacks significant programs and policies directed specifically at early-stage, high growth, tech-based companies. These are the type of 21st century companies that will drive innovation, future economic growth and sustainable jobs in the Commonwealth.

Presentations from VEDP/SRI and material from the Commonwealth Innovation Index being conducted by the Ten Regional Technology Councils and CIT identify unique and common industry clusters. For instance, these reports indicate that energy and green technology industry clusters are being pursued in most regions, while an industry like bioscience has greater emphasis and opportunities in Richmond, Charlottesville and Northern Virginia because of the early investments in those areas. Each region has a unique focuses such as the Lynchburg/Region 2000 area, which is focused on the nuclear and wireless industries.

While these studies are exploring many innovative opportunities within these clusters, they are also bringing to the surface many gaps that are impeding the Commonwealth from taking full advantage of the greater benefits of a technology-based Innovation Economy.

The two primary gaps that need to be addressed are access to capital, including investments and tax credits, and commercialization of research and technology development. The aforementioned industry clusters are attracting energetic entrepreneurs of early-stage, innovative, high-growth companies. These are companies at the early stage of the innovation spectrum between angel investments and more significant investments. Because of their unique nature, even in good economic conditions, these entrepreneurs have difficulty finding seed investments from the private and public sectors in Virginia. Today, the flat economy and frozen capital markets have only exacerbated the problem. The Technology Subcommittee understands that the Business Development Subcommittee is working on a proposal modeled after the Emerging Technologies Fund in the State of Texas. We fully endorse this proposal and advocate for its adoption by the full Commission.

The Subgroup also believes that while there are recommendations that are new programs and funds, consideration should be given to existing programs that have been underfunded.

Vision Strategies:

Virginia must use new and existing technology and resources to position itself to create future technology-based economic development opportunities that spur sustainable job growth. We must promote the use of technology to help us solve many of the challenges we face as a Commonwealth, such as smart transportation solutions, a cleaner environment, more efficient health care delivery, increased educational opportunities for all citizens and a lasting effect on long-term economic stability.

- I. Reaffirm financial support or increased funding for CIT GAP Fund and tax credits for early stage companies.

- II. R&D Strategy - look at ways to establish a statewide research and development strategic plan that clearly articulates the research direction, investment requirements, expected quantitative and/or qualitative returns and obstacles to resolve.
- III. Consider how we can attract advanced technology, early-stage investors to Virginia.
- IV. Examine how Virginia can implement a refundable R&D tax credit targeted at advanced technology companies, especially those that sponsor research with Virginia universities.
- V. Increase the number of investors who apply for the Angel Investor Tax Credit through effective marketing of the program.
- VI. Consider how to increase biotechnology infrastructure, including additional bioscience "wet-lab" development.
- VII. Examine the Technology Business Commercialization Programs (Business Incubator Program).
- VIII. Provide an outline for an all-up Chief Executive marketing/public relations campaign to promote Virginia's assets around job creation and viability for formation of new, organic businesses.

Technology Subgroup Final Recommendations

Recommendation #1: Access to Capital

This is the most difficult environment for raising capital in decades. This challenge is particularly difficult in the development of biotech and advanced technology firms at the earliest stages of formation. Several states currently offer innovative solutions to this problem leveraging private sector participation and revenue streams decoupled from the general appropriations process. One solution is to develop a program that would incentivize insurance companies to make investments today in targeted companies in return for tax credits down the road. Maryland Governor Martin O'Malley recently announced a similar program called "*InvestMaryland*" with the intent to target more than \$100 million in venture funds for the bioscience & advanced technology industries.

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 due in

2015. The concept is similar to the Small Business Investment Company Credit offered by Delegate Merricks during the 2010 legislative Session. This program would get capital flowing to high growth, high wage, advanced technology firms now when they need it the most.

How the Program Works:

The Commonwealth offers tax credits to insurance companies. For every \$1 offered, insurance providers that pay taxes to the state can receive an up-front discount on the credit for investing in the program.

Tax Credit Distribution:

- Participating insurance companies receive the tax credits when capital is contributed but cannot start using them until 2015.
- Tax credits will be eligible for use starting in 2015 at an amount of approximately one-fifth of the total amount of committed tax credits.
- For example, in Maryland, they expect to sell tax credits for \$.70 per \$1. At one-fifth of the total raised, participating insurance companies would be receiving approximately \$29M in credits per year for five years.

Other approaches to fund the Virginia Venture 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.

How the Funds are Deployed:

The funds raised by the Venture Virginia program would be targeted at programs that commercialize qualified advanced technologies in Virginia. The funds raised would be invested in the following priority technology-based economic development initiatives:

- **An Emerging Technology Fund:** This program being developed by the Business Recruitment/Development Subgroup of the Governor's Economic Development and Job Creation Commission.
- **An Advanced Technology Convertible Loan Fund:** This program, based on the successful North Carolina initiative, 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, mirrored by a successful North Carolina initiative, would loan up to \$500k paid out over 12-18

months based upon developmental milestones of qualified, advanced technology companies.

- **The Commonwealth Research Commercialization Fund (CRCF):** An existing structure for state funding that leverages federal and private investment to commercialize technologies in the Commonwealth.
- **Wet Lab and Incubator Fund:** A dedicated fund for wet-lab development, relocation incentives, incubator programs and/or proof-of concept funding initiatives.

Benefits:

- Provides an influx of capital and deal flow today when the economy needs it the most.
- Delays fiscal impact to the state until 2015.
- Generates payroll, sales, business and corporate income taxes.
- Attracts out of state venture capital funds to invest in Virginia.
- Creates high-paying, full time jobs.

Refundable Research & Development Tax Credit:

Virginia is one of only twelve states that do not offer an 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. In 2010, of the 38 states that offer an R&D tax credit, seven are refundable and four others are transferable.

How the Program Works:

For example, Connecticut has an R&D tax credit that is simple *and* refundable under certain circumstances. The state offers a “non-incremental” credit of between 1 percent and 6 percent on qualified research expenditures (federal definition), scaling upward with the level of expenditure, along with a special 6 percent credit for qualified small businesses (defined as gross income less than \$100 million). The state also offers a credit of 20 percent on the increment in qualified research expenditures over the base year, again per federal definitions. For small businesses (defined as grossing less than \$70 million), the state will refund in cash 65 percent of the value of R&D credits that cannot be used for lack of tax liability, in lieu of a carry-forward option. The program is as of right, i.e., the firm automatically receives the credit if it qualifies. In some states the credit is discretionary.

We strongly propose 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 percent of the value of R&D credits that cannot be used for lack of tax liability, in lieu of a carry-forward option.

Benefits:

- Ends Virginia's competitive disadvantage by adding this important incentive tool for advanced technology firms
- Provides needed capital for technologies invented at Virginia universities that would otherwise never be commercialized and create jobs or add to the tax base.

Recommendation #2: Advanced Technology Relocation Fund

Small business is the driver of true long term job growth. If Virginia wants to be competitive, we need to be an attractive home for small and mid-sized successful, high growth, high wage 21st century industries.

Currently, Virginia has few incentive tools available that specifically target companies in this industry. This modest program would provide at least one program that could be advertised to attract innovative companies from Maryland, North Carolina and Pennsylvania.

This fund would develop a targeted relocation program for small, high-growth, advanced technology companies. The program could be promoted as the "Virginia Advanced Technology Relocation Fund" in VEDP and allies' marketing materials.

The Subgroup recommends appropriating funds to off-set the relocation costs for highly paid executives from advanced technology firms who move to Virginia.

How the Program Works:

- Discretionary cash grant award to relocate company headquarters from another location outside the Commonwealth.
- Cash grant award may be used for relocation of high wage executives or equipment and furnishings from old location to new location as well as any expenses incurred in exiting old business location and establishing the new office location in the Commonwealth.
- Recipients must move their headquarters to the state and commit to remaining in Virginia for a pre-determined term.
- Qualification for companies eligible to receive grant funds would be based on a targeted list described in the Angel Investment Tax Credit.

Benefits:

- Generates payroll, sales, business and corporate income tax growth
- Attracts out of state, advanced technology companies to Virginia
- Creates high-paying, sustainable jobs
- Fiscal impact is small and state recovers investment quickly through payroll, corporate income and sales taxes

- Provides a new incentive tool for VEDP to promote at trade shows and in media campaigns

Recommendation #3: Virginia Biotechnology Wetlab Facility Construction & Loan Guarantee Fund

Biotechnology research and production facilities are highly specialized (e.g., wet labs, GMP-certified and clean rooms) with an extreme cost differential over normal office and light industrial facilities (\$250-\$350 per s.f. versus \$30-\$75 per s.f.). Most biotechnology companies are still small (early to mid-stage) with high research and development costs and significant capital needs. The private sector is “risk averse” to meeting these facility needs because of high development costs, specialized design, and inability to amortize improvements over short lease terms. A lack of available facilities that can be outfitted to meet the needs of biotech companies and to finance the improvements is an impediment to the growing life sciences industry.

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

Benefits:

- Will create new biotech industry jobs in Virginia by attracting companies that will not wait for facilities to be built on “greenfield” sites.
- Alleviates shortage of wet lab space for biotech companies in the Commonwealth.
- Allows Virginia to attract companies by having product “in place” versus showing prospects raw land which will add 12-15 months to the occupancy timeline.
- Allows Virginia to compete with other states implementing various types of loan and lease guarantee or grant programs for biotechnology facilities.

Administration:

- Bonds could be issued either by the Virginia Public Building Authority or another entity such as the Virginia Biotechnology Research Partnership Authority.

Prospective projects would be competitively selected based upon review by a panel appointed by the Governor and the General Assembly. Projects would be evaluated based on location, project costs, local contributions and leverage (land donation, site improvements, etc), market studies or assessments, leasing and business attraction projections, and an exit strategy (how the Commonwealth recovers the costs). In the case of shell facilities, utilization of standard building plans would be recommended.

The Subgroup recommends funding a new economic development program to finance 2-3 biotechnology “shell” facilities (approximately 25,000-30,000 square feet in size). 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 in such a way so that once the facilities are built and fully leased, they could be sold to real estate investors with the proceeds being earmarked to go back into a revolving fund to build new facilities over time.

Recommendation #4: Virginia 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. Businesses started in organized incubators utilizing industry best practices have a much higher success and survival rate. According to the National Business Incubation Association (NBIA):

- 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 or immediate area.

Knowledge-based companies often face unique challenges including protecting their intellectual property, regulatory hurdles (e.g. FDA approval), dependency on non-traditional sources of capital (Venture Capital Investments, Angel investors, etc.) as well as exit strategies such as licensing or Joint Ventures with very large multi-national companies. However they tend to create jobs with much higher average wages. According to the U.S. Small Business Administration, 64% of all new job creation in the U.S. over the past 15 years has come from small businesses, which also account for over 44% of all high tech jobs in the country.

The Virginia Biotechnology Research Park is an excellent example of this success. In 15 years since the Park opened over 68 companies have been started in the incubator, and the Park's Biosciences Development Center has been recognized globally for its best practices and successes. To date, companies in the incubator have raised over \$425 million in equity financing, licenses, grants and other sources of capitalization. The Park has 3 publically-traded graduates among its alumni.

How the Program Works:

Under the direction of a Board of Directors, a typical technology incubator or commercialization center will be organized as a non-profit, 501-c-3 entity easily formed under the Virginia Non-Profit, Non-Stock Corporation sections of the Virginia Code. Depending upon the focus of the incubator program (e.g.; biotechnology, "GreenTech/CleanTech" companies, IT, etc.) space can usually be found and adapted in existing facilities which can be leased versus using program proceeds to invest in the capital cost of a building. Typical partners for the incubators include local governments, commercial real estate owners, vendors, suppliers and others who see and support the economic development benefits and the longer term potential for

return on investment. Support from the Commonwealth will typically be used to 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 the best practices of the NBIA.

Those criteria include:

- Experienced incubator director and management with hands-on experience in forming and building successful technology businesses in the applicable sectors;
- Business community support for the incubator in the form of sponsorships, mentoring, governance and education;
- Affiliation (or cooperative relationship) with one or more higher education institutions which are willing to provide support in the form of cooperative research, IP licensing, business strategy development, etc.
- Network of entrepreneurs, professionals, professional advisors, companies, non-profits and other resources that the incubator can call upon to provide support and direct assistance to companies in the program;
- Adequate resources from a variety of public and private sources to create a sustaining and ongoing program;
- 1-2 “entrepreneurs-in-residence” with experience in building technology-based businesses from early-stage through intermediate exit points, capable of guiding founders through the early stages of forming and building a successful business;
- Access to and adequately funded seed and early-stage investment fund affiliated with the incubator which can bridge financing of companies in the program;
- An established program and network of angel investors who are equally motivated by personal investment goals as well as supporting technology-based economic development in their region.

Benefits:

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 the above standards and metrics and through partnerships and affiliated agreements, and would result in a 5:1 return on state investment.

- A minimum of 10 new technology companies per incubator at the end of the three year period.
- A minimum of 50 new jobs from the ten companies per incubator by the end of the three years.
- An average salary for all new jobs that is approximately 35% greater than the average wage in the communities where the incubators are located.

Recommendation #5: Better Marketing and Awareness of Virginia's Incentives for Technology Innovation and Entrepreneurship

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

To realize the potential ROI in 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, and their advisors, such as legal and accounting professionals who are key team players in company formation and growth.

Such a marketing plan would include qualitative research with key stakeholders and decision makers in the venture investment, technology council and entrepreneurial communities to better understand how to reach these audiences with information and a call to action. Research-based marketing plans have proven to be highly effective.

The McDonnell Administration's Declaration of Innovation: Achieving a new technology-based economy driven by innovation.

As Virginia continues to experience economic challenges, the McDonnell Administration has an opportunity to implement cost-effective and immediately valuable actions to stimulate the development of an innovation economy and new sustainable job growth. Two hundred-thirty four years ago, Thomas Jefferson wrote the Declaration of Independence, signaling a new beginning for a new nation driven by innovative ideas. Today, Governor Bob McDonnell has the opportunity to extend the Jefferson legacy by creating a new “**Declaration of Innovation**” that sparks new opportunities in a new economy driven by innovation in technology.

What follows is an action plan that combines ideas of two of the Governor's Commissions – Higher Education Reform, Innovation and Investment and Economic Development and Job Creation – that can give this new Declaration of Innovation some tactical steps along an innovation continuum and turn it into reality.

This action plan has been designed so that most of these initiatives can be developed and accomplished in less than twelve months using existing marketing budgets for the public declaration and the resources of the Center for Innovative Technology and the Universities for the strategic plan development

Declare Virginia to be “Open for Research and Development”

Virginia has world-class research universities that conduct over \$1 billion annually in research expenditures. Like all states, Virginia strives to improve its national rank for R&D expenditures.

1. As part of the Governor's new Declaration of Innovation, Virginia must announce to the nation and world that we are "open for research and development." This is a marketing campaign to the profile of the Commonwealth as a destination for research and development activities.
2. Virginia must produce a consolidated statewide research and development strategic plan – a business plan (in consultation with the Virginia Economic Development Partnership) – that substantiates the marketing message.

Declare Virginia to be "Open for Technology Company Formation"

Unlike Massachusetts and California, Virginia does not have the reputation as an epicenter of innovation. In comparing Massachusetts and Virginia on new high growth company formation, Virginia lags by 75% even though the two states are Gross State Product (GSP) peers. Virginia is primarily recognized for its community of systems-integration companies that serve the federal government.

To improve perceptions of Virginia's reputation as an emerging epicenter of innovation:

1. The Commonwealth must address the needs of early stage technology companies to obtain capital by supporting the facilitation of seed stage capital until the private sector ecosystem satisfies the pending demand. To facilitate the development of a strong investment community, a respected neutral organization with experience in this area should be used to conduct a professional, objective evaluation and investment validation process that delivers to investors a complete analysis for their investment consideration.
2. Similar to the above R&D recommendation, the Governor can declare that "Virginia is open for technology company formation" kicking off a marketing campaign that celebrates entrepreneurs and the creation of new technology companies. Moreover, the Governor and Cabinet can host quarterly meetings with entrepreneurs to discuss ideas for accelerating company growth and regional location.

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. This can be orchestrated and accomplished within 60 days.

Also announce innovation prizes; 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.

The Declaration of Innovation will deliver the following value in less than 12 months:

- Produce 20 to 30 new technology companies annually.
- Immediately raises Virginia's national profile as a destination for R&D and technology company formation.

- Resolve private sector concerns about lack of knowledge of university R&D initiatives.
- Provide elected officials with R&D background information resulting in more deliberate capital investment.
- Empower local, state and federal government officials to jointly cooperate to attract new research opportunities for the Commonwealth.
- Facilitate inter-university partnership for cooperative grant pursuit.
- Attract new high technology start-up companies.
- Attract new private investor investment .

While not as glamorous as other state's hundred-million dollar funding announcements, this action recognizes the current economic challenges facing the Administration and General Assembly 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.



Tourism Subgroup Final Report – Executive Summary

Economic Impact & Goals

Tourism is big business in Virginia. The tourism industry is an economic driver, job creator and major state and local tax revenue generator.

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. In addition, the film industry has a 14:1 economic impact for every dollar invested in film incentives.

The tourism industry, including the important wine and film sectors, is uniquely positioned to play a leading role in Virginia's economic recovery. Through increased visitation and longer lengths of stay, tourism will create new jobs, provide additional state and local tax revenue, and inject consumer spending into Virginia's economy more quickly than any other industry.

The Tourism Subgroup's primary goal is to offer policy recommendations to create tourism jobs and generate additional state and local tax revenue through:

1. Increasing visitation, the average length of stay and capturing an additional \$1 from each of the 60 million annual visitors to the Commonwealth.
2. Increasing film production and film industry jobs in Virginia.
3. Increasing critical mass, attendant services and marketing of the Virginia wine industry to maximize its potential as a national agri-tourism destination.

Challenges

The key factors that drive tourism visitation and extended length of stay are superior marketing, tourism product (attractions, lodging, entertainment, etc.) and accessibility. The Subgroup has identified significant challenges to maximizing these factors and Virginia's tourism market and potential.

In recent years the Virginia Tourism Corporation (VTC) has lacked sufficient, sustainable funding for aggressive, out-of-state marketing campaigns and consistent brand messaging across state agencies. The investment made this year by the McDonnell Administration is a significant step forward.

A comprehensive consumer and industry survey has identified significant tourism product deficiencies across all regions of the Commonwealth. While state incentives exist for other industries, few programs are available to assist tourism product development and the current economic environment is especially prohibitive to tourism development.

In the film production industry, tax credits and grant incentives are crucial to recruiting films to Virginia. However, Virginia's portfolio of incentives lags behind our competitor states, resulting in the loss of numerous productions and millions in tax revenue and economic impact.

While Virginia's wine industry is an emerging national leader, our wineries lack the critical mass, attendant services and consistent marketing to maximize its potential as an economic driver, job creator and a national agri-tourism destination.

Key Recommendations

To address the key factors restricting growth in the tourism, film and wine industries, the Tourism Subgroup offers the following recommendations, detailed in the Tourism Subgroup's report.

1. **Dedicated Formula Funding for VTC** – 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 structure exceptionally inefficient and costly. Additionally, VTC's current appropriation is insufficient to reach crucial out-of-state markets.

The Subgroup proposes establishing a formula funding mechanism for the VTC based on a percentage of state tax revenue generated from tourism taxes. An increase of the industry's 10 year average tax performance percentage from 1.33 percent to 1.6 percent will keep Virginia competitive with states with similar tourism initiatives and fulfills the Governor's mandate to double the tourism budget (to \$30M) during his term. At this level the state will realize an annual economic impact of \$1 billion, which will generate \$70 million in state and local taxes and support 11,500 jobs.

2. **Chief Marketing Officer (CMO)** – 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 Subgroup recommends establishing a Chief Marketing Officer to move forward with consolidating and focusing spending to achieve the greatest results and align dollars to support individual market initiatives. This will create efficiencies within VTC and all state agencies' marketing and promotional efforts and budgets, while presenting a cohesive brand that builds upon each agency's independent efforts.

- 3. Tourism Development Grant Program** - To create the complete tourism experience, maximize visitation and average length of stay, product development is essential. The Subgroup has identified significant deficiencies in lodging, entertainment venues, convention hotels and other product needs across all regions of the Commonwealth. The Commonwealth offers an array of incentive and development programs for many industries, but few programs exist to support tourism business development. The Subgroup strongly believes there is an appropriate role for the state, in partnership with local governments, to assist with tourism-related development projects.

The Subgroup recommends the creation of a Tourism Development Grant Program (TDGP) to fill gap financing for certain locality endorsed tourism development projects. The TDGP will provide a vehicle to fulfill locally or regionally identified tourism product needs while stimulating the tourism, construction and banking industries. 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 voluntary matching developer access fee. The revenue stream would fund grants to repay a gap loan as contractually agreed to by the developer and locality. The TDGP will not raise taxes, use existing General Fund revenues or divert resources from other programs.

- 4. Increased Film Incentives** – Film production is driven by incentives and in recent years, our competitor states have adopted significantly larger incentives than Virginia. For example, while VA has \$4.5 million in tax credits and grants, GA and NC have unlimited tax credits, PA has \$42 million, Tennessee has \$20 million and West Virginia has \$10 million – all per year. Because of this competitive deficiency, since 2006 Virginia has lost at least 12 major films to other states with a total economic impact of \$367 million. 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, increase economic impact and state and local tax revenue, the Subgroup recommends an increased investment in film incentive grants and/or tax credits to make us more competitive with other state programs.

- 5. Wayfinding & Tax Credit for Wine Industry** – Virginia's wine industry lacks the critical mass of wineries, attendant services for wine travelers and marketing needed to realize its potential as an agri-tourism destination. The cost of production and establishing wineries is significantly higher than other states such as California. Virginia wineries also suffer from inconsistent gateway signage 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 industry.

The Subgroup recommends the creation of transferable tax credit program to incentivize vineyard establishment and winery expansion at a rate of 25% to be applied against Virginia income tax to help develop critical mass of wineries and the development of a wayfinding signage program to easily identify wine regions and direct tourists to wineries. Additionally, the TDGP will assist with the development of attendant services such as lodging and restaurants at wineries to create a more complete tourism experience.

Additional Suggestions

In addition to the specific recommendations outlined above and detailed in the Tourism Subgroup report, the Subgroup supports the following policies:

- Fulfilling Governor McDonnell's commitment to double the VTC budget from \$15 million to \$30 million by the end of his term.
- Pursuing initiatives and programs to maximize Virginia's benefit from the federal government's Tourism Promotion Act, which will provide \$400 million to increase international tourism in the United States.
- Reaffirming support for post-Labor School Openings and restrict expansion of law to allow localities to open before Labor Day.
- Continuing 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 group.
- Virginia is well poised to enhance its state park system with land for six new parks already acquired. New parks and additions and renovations to existing state parks could be funded with General Obligation Bond as was done successfully in 1992 and 2002. These projects will create construction jobs and spending as the parks are being built and will stimulate outdoor recreation and tourism spending as the parks operate well into the future.

Tourism Product Development Subcommittee

Pat Jones, Chair

Staff: Chris Canfield, VTC; Joe Elton, DCR; and Jake Porter, VDOT

Goal:

Assess Virginia's tourism product and marketing needs in various regions and localities across the state (urban and rural), including entertainment venues, lodging, state parks, meeting and convention venues (or increased usage), sporting events or sporting opportunities, restaurants, attractions, entrepreneurs, roads and infrastructure that will generate economic growth and jobs.

Action Plan:

The committee conducted a research-based analysis of Virginia's Tourism Product Inventory using existing information and conducting specific new surveys of industry and government leaders to determine the existing product deficiencies and new product needs in every region of the Commonwealth. Data sources in the survey included:

- ✦ Visitor Survey which lists items needed in each region to appeal to tourists.
- ✦ Electronic Survey of Virginia's Tourism Industry to determine specific competitive product needs. This list of interviewees includes:
 - Local government contacts such as town and city managers, county administrators and local economic development contacts (535 contacts)
 - Regional Economic Development Groups (60 contacts)
 - Planning District Commissions (33 contacts)
 - Destination Marketing Organizations (120 contacts)
 - Tourism Industry private sector businesses (4,000 contacts)
- ✦ Interviews with tourism & community leaders in VA's nine (9) regions.
- ✦ Study of State Parks opportunities, upgrades and development needed

Survey Results:

The final results of the comprehensive study of specific product needs in all 9 regions of the state will be used by the VTC to assist each region with development of a regional tourism plan which will incorporate the product needs identified.

Clearly, the study identified a significant product deficiency in all regions of Virginia including large need for development of entertainment and sports venues, additional lodging, eco-tourism and trail development across Virginia. Other data from the survey included:

- ✦ 66% say they need local government policies to support or fund tourism marketing
- ✦ 64% say they need local government policies to support or fund tourism development

✪ 85% find industry partnerships important to tourism in their region

The below chart is a selection of the most important needs in each region. These needs have been organized into three categories: Attractions, Lodging, and Emerging Industries (trail programs, eco-tourism, etc).

	ATTRACTIONS	LODGING	EMERGING INDUSTRIES
590 online surveys of industry throughout Virginia	42% say Entertainment is needed, 33% Attractions, 28% say Sports Venues, 19% Museums	25% in total say Lodging is needed	Nearly all cite one emerging industry via comments, in person sessions and phone interviews
	<i>Sports Venues, Entertainment, Cultural</i>	<i>Convention or Large Property, Smaller Hotel, Nature/eco-Lodge, B&B</i>	<i>Outfitters, Youth Sports, Agri/Eco-Tourism, Trail Programs</i>
<i>Regional Analysis</i>	Type	Type	Type
Northern Virginia	Entertainment, Cultural	Convention or large property	Youth sports, Agri/Eco, Trail Programs
Central Virginia	Entertainment	Smaller hotel, nature/eco-lodge, B&B	Outfitters, Youth sports, Agri/Eco, Trail Programs
Richmond	Sports Venues, Entertainment	<i>No consensus on type</i>	Youth Sports, Eco, Trail Program
Shenandoah Valley	Entertainment, Cultural	Nature/eco-lodge, B&B	Outfitters, Agri/Eco, Trail Programs
Roanoke	Entertainment	<i>No consensus on type</i>	Youth Sports
Blue Ridge Highlands	Entertainment, Cultural	Smaller hotel, nature/eco-lodge	Agri/Eco-tourism
Heart of Appalachia	Sports Venues, Entertainment, Cultural	Convention or large, smaller hotel, nature/eco-lodge, B&B	Outfitters, Agri/Eco, Trail Programs
Southern Virginia	Sports Venues, Entertainment	Smaller hotel	Youth sports, Agri/Eco, Trail Programs
Chesapeake Bay	Entertainment, Cultural	Convention or large, smaller hotel, nature/eco-lodge	Trail Programs
Eastern Shore	Entertainment	Smaller hotel, nature/eco-lodge, B&B	Outfitters, Trail Programs
Hampton Roads	Sports Venues, Entertainment	Convention or large property	Youth Sports
Project Types / Initiatives	20	20	25

Tourism Finance and Development Subcommittee

Bruce L. Thompson, Chair

Staff: Randy Marcus, Chief Jobs Creation Office; Alisa L. Bailey, VTC

Goal:

To grow Virginia's tourism industry, create jobs and increase state and local tax revenue, we must increase visitation and the average length of stay (ALOS) of each tourist. Virginia currently ranks 8th in domestic visitation spending and 14th in international visitation.

The Tourism Subgroup organized into subcommittees to take a concentrated approach to analyzing and addressing the key job creating areas of the tourism economy—film, wine, product, marketing and finance development. The product subcommittee has conducted a statewide assessment of tourism needs throughout Virginia. This survey has identified numerous product deficiencies and development needs in all regions of the state that are preventing Virginia from maximizing our visitation and ALOS.

The goal of the Finance & Development Committee was to create a tourism development financing vehicle to provide appropriate and reasonable incentives to meet the tourism development needs of the state. Additionally, the Finance & Development Committee will offer a proposal to provide a dedicated and sustainable funding source for the VTC.

Tourism Development Grant Program - The Need:

Sixty million people visit Virginia annually and have an economic impact of \$19 billion on the state's economy. To grow the industry, create jobs, stimulate economic growth and generate additional state and local tax revenue, we must convince more travelers to come to Virginia, but also create a strategy to get an additional \$1 or \$2 more from those sixty million visitors.

To create the complete tourism experience, product development is essential. Superior marketing can bring travelers to Virginia, but the experience they have while here—the attractions and accommodations—will inspire repeat visitation and extend the average length of stay. The old adage was if you have a good time you tell 6 people, if you have a bad time, you tell 10. In today's digital world those numbers can be multiplied exponentially. When a destination achieves optimum repeat visitation because the products achieve the maximum economic impact, the marketing doesn't have to work so hard.

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, the product subcommittee's comprehensive research confirmed that Virginia Beach needs a large entertainment venue, Norfolk needs a convention hotel and Patrick County needs a Hampton Inn.

Currently, these types of projects are stagnant due to the lack of available credit and other adverse market conditions that discourage investment. Even in good times, some tourism

related projects require state or local support due to the pressures on equity and the risk adjusted return on these types of projects.

For example, a developer would traditionally invest approximately 25% equity in a project and assuming a supporting feasibility study, the remaining amount needed to develop a tourism project could be debt. The current market is more likely to require 50% or more equity before a lender will consider investing a project. To stimulate growth in the tourism market, state and local participation is often needed to assist in closing the gap between developer equity and access to credit.

The Commonwealth offers an array of incentive and development programs for many industries, but few programs exist to support tourism business development. The Tourism Subgroup strongly believes there is an appropriate role for the state, in partnership with local governments, to assist with tourism-related development projects. The creation of an aggressive Tourism Development Grant Program (TDGP) would stimulate our 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 Parameters of the TDGP:

The Finance & Development Committee has considered a public-private partnership structure that would have the state, the locality and the developer collaborating to close the financing gap for certain tourism development projects.

The committee concluded that no state program currently exists that would allow the appropriate state-local-developer collaboration without coming to the General Assembly for funding or approval on a project-by-project basis. The subcommittee has attempted to develop a legislative proposal based on the following parameters:

1. Program that does not raise taxes, use existing General Fund revenues or divert resources from other programs.
2. Program requires the developer, the locality and the state to participate and collaborate.
3. Project would be endorsed by the locality to fill a deficiency as defined in an approved Tourism Development Plan.
4. Program would create a revenue stream that would allow the developer greater access to the credit market.
5. Retained tax revenues would go to local political subdivision, IDA/EDA or Tourism Development Authority to pay gap loan.
6. The retained revenue and voluntary access fee would only apply to the specific project, not other neighboring businesses or developments.
7. If revenues are lower than expectations, liability rests entirely with the developer to meet shortfall with no exposure to state and no impact on debt capacity or bond rating.
8. The program would create a standardized process to receive state support for similar hospitality and tourism projects, including many non-state agency programs.

The Plan:

To create the Tourism Development Grant Program (TDGP), the committee recommends amending existing provisions of Tourism Zones or Tourism Finance Development Authorities in the Code. A Tourism Finance Development Authority could serve in the same capacity as a local economic development authority.

The legislation developed pursuant to the plan would build upon these programs and introduce a financing mechanism similar, but not identical to, tax increment financing. The legislation will also establish standardized criteria for projects to access the program to provide the General Assembly and the Governor a significant level of certainty that the project will be successful. Elements of the criteria for a project to qualify for the TDGP include:

1. The locality must have a Tourism Plan or the locality must be part of a region that has a Tourism Plan. The Tourism Plan must be approved by the locality and the Virginia Tourism Authority (VTC).
2. The project must fulfill a deficiency identified by the Tourism Plan and VTC must concur that the project meets the deficiency.
3. The developer must provide a minimum of 25% real equity and verification that the remainder of financing is in place and the project would move forward with access to the Tourism Development Grant Program.
4. The locality's political governing body must vote to endorse and promote the project.

The locality, EDA/IDA or Tourism Financing Authority would enter into an agreement with the developer, similar to existing performance incentive fund programs like GOF, VIP and VEDIG, where certain commitments are made by the developer in exchange for access to the TDGP.

Once the project is complete and begins collecting taxes, the state collects and grants 1% of the state sales tax generated by the project to the locality contracted with the developer of the project. The locality grants a minimum of 1% gross receipts tax or other agreed tax generated by the project to the TDGP and the developer pays an administrative access fee to participate in the program equal to 1% of gross receipts of the project. The retention of state and local taxes and the developer's voluntary administrative access fee are limited only to the footprint of the project and do not affect or impact any other facilities, businesses or taxpayers in the locality. This revenue is paid to the local industrial development authority or economic development authority to repay the gap financing loan.

The revenues listed above will be collected for a maximum twenty-year period and paid out to the lending institution on an annual basis. If the loan is retired prior to the agreed upon period, the property is sold or project refinanced, the access fee will no longer apply to the developer and all state and local tax revenue generated by the project will return to their respective general funds.

Benefits:

1. No financial risk exposure to state and does not affect bond rating or debt capacity
2. No existing resources diverted from General Fund or other state programs
3. Locality sponsorship and endorsement mitigates political issues
4. Immediate job creator for construction and tourism industries
5. Potential funding stream for other tourism development and marketing programs
6. Creates an “open for business” message to help attract national development interest
7. Program is a hybrid of existing programs already approved or offered by state
8. Program would benefit all localities in Commonwealth; large and small, urban and rural

TDGP - Supplemental Direct Loan Program:

While all localities and projects will have the opportunity to access to the Tourism Development Grant Program, the finance subcommittee recognizes that the Program may not be an ideal fit for all tourism development projects. The committee recommends the creation of a Tourism Development Revolving Loan Fund designed to provide direct loans and/or loan guarantees to small tourism development projects. The Loan Fund 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. The Loan Fund would be capitalized with a one-time General Fund appropriation and be managed by either VRA or VSBFA.

Dedicated Funding Source for VTC

Goal:

Increase visitation, length of stay and visitor spending through a sustainable funding mechanism.

Need:

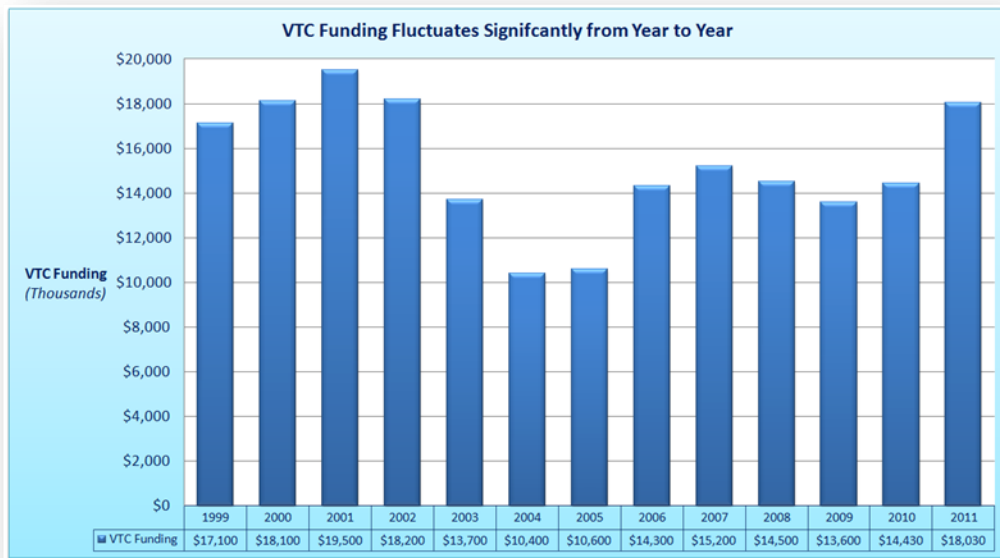
Tourism is big business in The Commonwealth. Sixty million visitors from the US travel to Virginia annually creating a \$19 billion economic impact, resulting in more than 200,000 jobs and providing nearly \$1.3 billion in taxes. Tourism is also small business. More than 93% of the industry is made up of small business. Furthermore, 63% of the businesses in the Virginia Tourism Corporation 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 is essential for the industry to be more competitive and lucrative.

Tourism marketing is the lifeblood of tourism. For every dollar the state invests in tourism marketing, approximately \$5 is returned in state and local taxes alone. Tourism marketing ensures that businesses are profitable and jobs are created and tax benefits are realized.

Keys to Successful Tourism Marketing:

1. Reach
2. Frequency

Because VTC funding is tied to the political process, tourism marketing effectiveness has been hampered by erratic appropriations. The state's investment in tourism marketing can dramatically change in the political process. One governor makes tourism a priority, another does not; one legislature makes tourism a priority; another does not. The below graph demonstrates the 10-year roller coaster funding for the VTC.



When the appropriation is healthy as it was in 2001, VTC was able to advertise on television in the most lucrative markets of Washington, DC, Philadelphia and New York. With appropriation funding in today's environment, VTC could potentially reach more than 13 million potential travelers in those key markets.

Conversely, due to budget cuts VTC had no out-of-state television for the past two years, missing millions of potential customers. This situation is exacerbated with erratic appropriations. Unable to reach those potential travelers, the state loses ground as no advertising is seen in those markets. Even when the budget is restored, those funds have to work harder to regain the awareness lost in those low funding cycles of previous years. Therefore cutting VTC budget is exponentially more costly than keeping the budget more constant.

Tourism marketing is extremely competitive. VTC competes with other state destinations and in the global marketplace as more and more travelers visit other countries. Until recently the United States was the only industrialized country to not have a national tourism marketing effort. Recently, Congress passed and the President signed the Travel Promotion Act

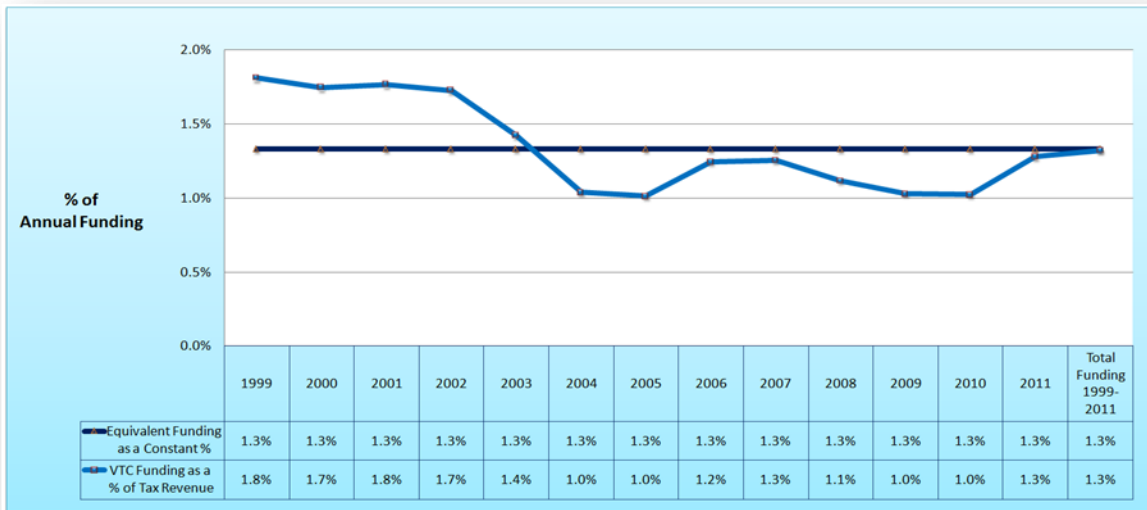
(TPA), which establishes a private-public tourism office overseas. The marketing funds expended in this effort are required to be matched and leveraged with state and local governments and the private sector. This is a key opportunity for the state. Virginia receives more than 400 flights per week from more than 40 overseas destinations. Now is the optimum time to invest more through the TPA to attract international visitors to Virginia.

Recommendation:

The Tourism Subgroup suggests a more intelligent approach in determining the VTC budget—A BUDGET FORMULA. While the state’s tourism industry will still depend upon General Fund allocations, it is recommended that the allocation be based upon the industry’s past year’s tax performance. This formula funding will ensure greater consistency in budgeting and therefore greater effectiveness in marketing. Furthermore, VTC must have a budget that is competitive with other states if we are to hope to achieve the maximum Return on Investment. This competitive formula-based funding will ensure the reach and frequency necessary to allow the state to achieve that optimum ROI.

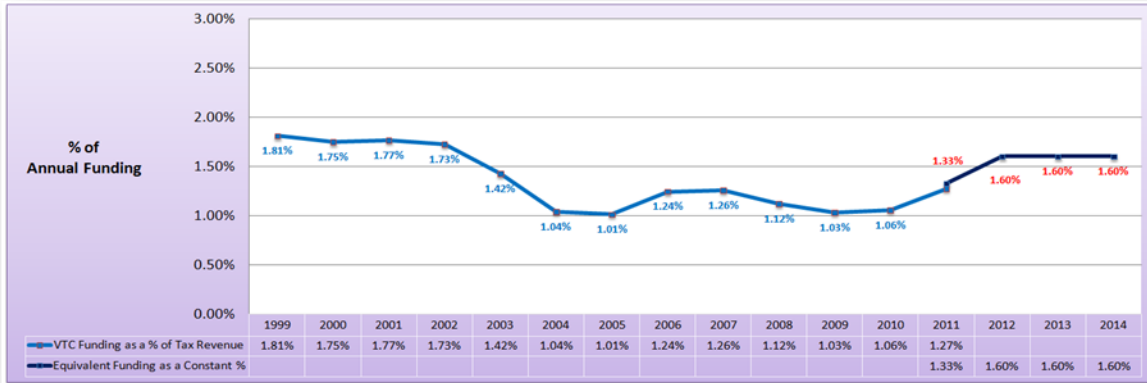
The below graph shows the yearly percentage of the VTC budget to “Tourism Tax” revenues over the last ten years compared to the average 1.33% over the same period of time.

***VTC Tourism Marketing Funding Methodology Based Upon 1.33% of “Tourism Tax” Revenues
(Would Equal the States Investment over the Same Time Period)***



The Governor has a goal to double the VTC budget during his administration. To that end, last year VTC received a \$3.6 million increase which will enable it to advertise out-of-state. While this will be enough to have a meaningful presence in Washington, DC and Baltimore, it will not be enough to reach the prime markets of Philadelphia and New York. Reaching these lucrative markets is a key strategy for the state to realize an optimum ROI.

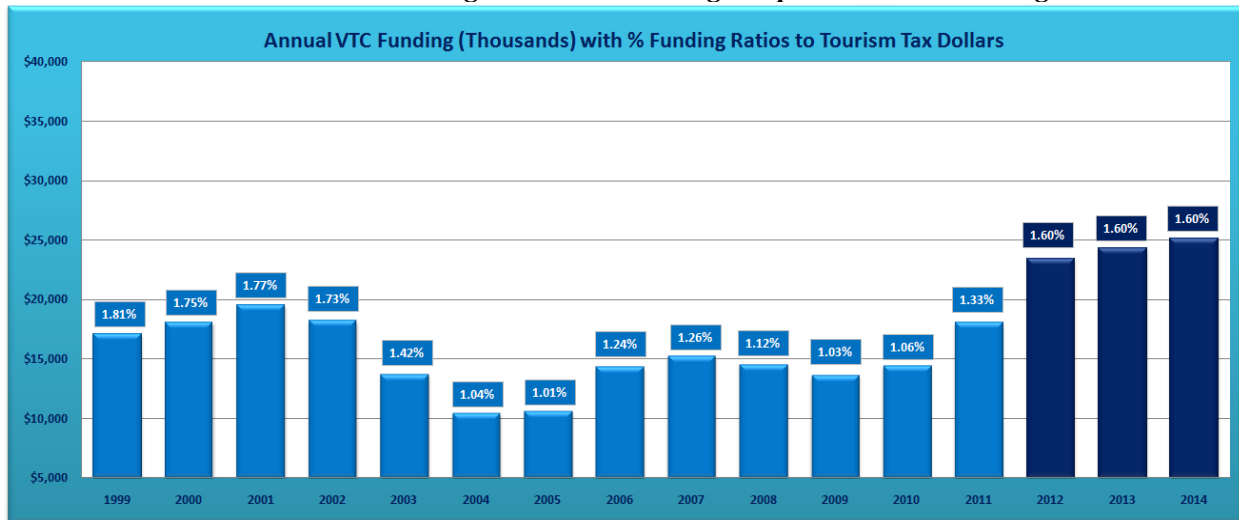
An increase of the industry's past year's tax performance percentage from 1.33% (the average over the last 10 years) to 1.6% to keep Virginia competitive with states with similar tourism initiatives remains consistent with the Governor's pledge to double the tourism budget during his term.



Benefit:

At VTC's current budget of \$14.5 million, Virginia realizes a \$518 million economic impact, supporting 5600 jobs and generating \$34.6 million in taxes. If the Governor's goal of a consistent \$30 million budget comes to fruition, the state will realize an annual economic impact of \$1 billion, which will generate \$70 million in state and local taxes and support 11,500 jobs. The chart below outlines VTC's budget if Virginia were to use a 1.6% funding formula.

VTC Tourism Marketing "Formula Funding" Impact on Tourism Budget



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total 1999-2014
Tourism Tax Dollars (Millions)	\$945	\$1,037	\$1,104	\$1,054	\$963	\$1,002	\$1,047	\$1,149	\$1,210	\$1,296	\$1,320	\$1,367	\$1,415	\$1,466	\$1,518	\$1,572	\$19,464
Arbitrary Appropriations VTC Funding (Thousands)	\$17,100	\$18,100	\$19,500	\$18,200	\$13,700	\$10,400	\$10,600	\$14,300	\$15,200	\$14,500	\$13,600	\$14,430	\$18,030				Funds Raised through 2014
Formula-Based VTC Funding (Thousands)														\$23,453	\$24,288	\$25,153	\$270,554

Marketing Committee

Lisa Gable, Chair

Staff: Diane M. Béchamps, VTC

Recommendation:

The Marketing Committee recommends the state focus marketing investments 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 within the Virginia Tourism Corporation and all state agencies’ marketing and promotional efforts and budgets, while presenting a cohesive brand that builds upon each agency’s independent efforts.

These recommendations include: improved directional signage, product signage (e.g. vineyards, "wine trails"), integrated regional marketing plans and design support, and a sustainable funding formula for the brand that will ensure brand marketing is consistent and predictable over a period of time.

The Committee believes the identification of a Chief Marketing Officer will enable the state to quickly move forward with consolidating and focusing spending to achieve the greatest results and align dollars to support individual market initiatives. The following case study provides details on this program.

Chief Marketing Officer for the Commonwealth of Virginia

The Reason for a Chief Marketing Officer:

- It is strongly recommended that an individual be hired to coordinate messaging and branding across all points of customer contact --providing a consistent look and feel and leveraging all marketing dollars.
- A unique advantage: In its 41st year, Virginia is for Lovers enjoys strong brand recognition and equity. Along with I Love New York, Virginia is for Lovers is one of the most well known slogans in the nation. The strength, recognition and equity of the brand can serve as a uniting element for all state marketing materials. In addition, the slogan will:
 - Ensure quality, cohesive and consistent messaging
 - Offer potential cost savings and cost effectiveness
 - Provide a means to create efficiencies and economies of scale within existing programs
 - Provide consistency in brand in “corporate communications”
 - Extend and strengthen the Virginia is for Lovers brand
 - Inspire a high performance culture

The Role:

Chief Marketing Officer (CMO) is a corporate title referring to an executive responsible for building a brand platform and coordinating all marketing dollars spent in an organization to support the brand. Most often the position reports to the chief executive officer and is part of the C-suite. Ideally, the Commonwealth of Virginia CMO will serve in the Governor's office.

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.

Fortune 500 corporations who have coordinated spending to support a coordinated brand platform have shown significant management savings (up to 60%) and have been able to cut spending or repurpose dollars for use in push campaigns instead of creative development.

Projected Expenses:

- **Salaries:** (1) Chief Marketing Officer and (2) “corporate identity” project manager
 - Note: These costs could be covered if we are able to identify existing funds or positions in state government that are vacant or duplicative.
- **Brand Platform:** Develop a brand platform to include a resource guide (brand tool kit), tone and manner guides and a sub brand nomenclature/logo system.
- **Immediate transition:** Identify highly visible branded marketing components, such as welcome signage to the state, that could be reworked to include the Virginia is for Lovers brand. As program costs shift to support a global brand, cost savings are recognized and can then be placed into additional materials, media buys and video/web production to support the sub brands. Also, consolidating all advertising buys and creative into one unit buy will increase the ability to gain greater frequency and reach.
- **Chief Marketing Officer:** Designate an individual as the Chief Marketing Officer (CMO) for the state reporting to the Governor. The CMO creates and manages the global brand platform and umbrella communications plan to include product marketing needs of sub brands (wine, agriculture, transportation, economic development, parks and recreation, game and inland fisheries, lottery, marine resources, department of business assistance, historic resources, commission for arts, Jamestown/Yorktown foundation, racing commission, education, and department of housing and community development).
- **Project or “Identity” Management:** Hire a project manager to develop and manage a master spreadsheet which lists all of the brand elements that will ultimately feature the Virginia is for Lovers brand; the current costs associated with these elements and transition dates. Note: A full transition of the Virginia is for Lovers brand will take approximately 18 months; however, by using some existing templates and guidelines from the VTC brand tool kit, the initial umbrella look and feel can happen rapidly, cost effectively and provide visual unity of materials when the Governor or other state marketers promote business and visitation to the state.

- When possible, transition dates will align with time periods when the marketing materials are scheduled for update or production (example VDOT welcome signage to the state). This avoids non budgeted costs.
- Recommendation: Inquiries should be made to the VCU Brand center to determine whether graduate students could assist with the transition management and audit process. This would be a high profile project for the school and provide potential savings to the state.
- Audit/Identity Committee: Create an audit and identity committee consisting of representatives of state agencies involved with external marketing. Committee members are responsible for tracking changes and identifying opportunities to consolidate design, spending and implementation to leverage and maximize funds used. The audit and identity committee meets weekly and the project manager updates the transition spreadsheet, communicates status to the group and maintains a master record of all marketing materials in the state.
 - A Virginia is for Lovers micro site or splash page can also be designed to serve as a point of entry into the Virginia.org or Virginia.gov and guide visitors to the appropriate sub brands.
 - An audit sample list is provided below.
- Decision Tree: Develop a decision tree to assist in the brand streamlining process and the creation of sub brands.
 - The committee agrees upon a Virginia is for Lovers sub brand logo and nomenclature naming system which highlights key features in the state: Virginia is for Lovers Business, Virginia is for Lovers Wine, and Virginia is for Lovers Parks and Recreation.
 - The committee prioritizes programs appropriate for immediate transition to the Virginia is for Lovers brand and identifies marketing materials that are required to meet market specific promotional needs.
 - Sub brand goals and objectives are included in the master communications plan.
 - Design templates are created to support the needs of the marketing entity.

The Process:

The first step in the process is to conduct a visual audit of all state agency marketing assets. Committee member, Lisa Gable, has offered to facilitate the initial meeting to discuss the process and establish buy-in. The desired result of this meeting will be to establish an audit/identity committee of committed stakeholders. The stakeholders would be made up of marketing leaders from state agencies.

The audit/identity committee will then begin to address the needs of Virginia is for Lovers sub-brands including wineries, recreation, transportation, economic development, film, marine resources, agriculture, etc.

The committee will then review all existing marketing and communications assets including but not limited to the following: stationary, internal and external print communications, advertising, electronic marketing, sales promotion materials, uniforms and nametags, vehicles, signage and packaging.

Purchasing:

The Chief Marketing Officer can also help with coordinating and streamlining marketing contracting services for the state including but not limited to:

- Media buys
- Promotional activities
- Teaming up for generic photo shoots
- Collateral design and sponsorships
- Special events
- Public relations, education, outreach and media relations
- Cost sharing between departments

Marketing policies and standards are established to support the goals of efficiency and consistency in marketing activity performed by Virginia state government. While the Chief Marketing Officer is responsible for setting these marketing policies and standards, all state agency marketing officers are encouraged to provide input to keep current policy relevant or in developing new policies and standards to address changes in state marketing.

Conclusion:

We believe this simple investment of time and coordination will enable the state to focus limited dollars on raising awareness of the Virginia brand and begin to build additional equity in the brand. Additional dollars if identified are then more effectively used to support a primary agenda and dollars will not be dispersed amongst competing agendas. Corporation case studies demonstrate that cost savings are guaranteed and brand recognition can be achieved through unity of message and design. We strongly recommend that the Governor support this recommendation.

Film Committee

John Langlois and Daphne Reid, Co-Chairs

Staff: Rita D. McClenny, VTC

Goals:

1. To provide jobs for Virginians employed in motion picture and gaming industries.
2. To bring tax revenue to the Commonwealth.
3. To ensure that graduates of Virginia film programs can find employment in the Commonwealth.

Why Invest in Virginia's Film Industry:

Without incentives, Virginia cannot be competitive:

- More than forty states have incentive programs and most are more aggressive than Virginia's.
- Since 2006, Virginia has lost at least 12 major films to other states with an economic impact totaling \$367 million. These include *Secretariat*, *The Curious Case of Benjamin Button* and *Sunshine Cleaning*.
- Film companies such as HBO and Lifetime have had good experiences filming in Virginia and want to return with new projects – but can't without incentives.
- From 2007 – 2009, Virginia lost more than 2000 film industry jobs, a 43 percent reduction in the workforce. Nationally, film employment rose by an average of 4 percent. (Source: VEC)
- Any viable incentive program will create jobs, generate taxes and affect a wide range of Virginia businesses including hotels, hardware, restaurants, real estate and rental companies.
- A 2005 VCU study concluded that every dollar in Virginia's incentive program can return an average of 14 dollars in economic impact.
- A strong film industry helps tourism and results in added value such as public service announcements promoting Virginia provided by stars like Tom Hanks, Tim Reid and Garth Brooks while filming here.

Recommendation - Incentive Rebate Program:

The \$2 million in the Governor's Motion Picture Opportunity Fund (GMPOF) and \$2.5 million in refundable motion picture tax credits are already bringing positive results. However, more is needed.

- Governor McDonnell's goal is to increase the growth of Virginia's media production industries. More funding means greater opportunity.
- With the current incentives, Virginia will realize an estimated \$20 million in state and local tax revenue compared to \$11 million without the incentives. More funding means more tax revenue.
- A \$20 million fund would help the Commonwealth compete with other states having incentives. These include Virginia's closest competitors Georgia, West Virginia, North

Carolina and Pennsylvania.

- With a \$20 million fund the Virginia Film Office could recruit as many as ten new films and interactive digital media projects, which also supports local filmmakers, crew and actors.
- Tax credits require no initial financial commitment and are only released when the project is completed and expenditures verified.

Tax Credits:

There have been reports implying that film tax credits do not live up to their promise. It is true that some states, including Michigan, Louisiana and Massachusetts, have highly aggressive programs offering substantial tax credits of as much as 42 percent. Generally, states with large programs have made a strategic decision to create a new industry. Virginia's approach is more measured and balanced. It is an investment in an existing industry that was once strong, but has been hard hit by the proliferation of incentive programs in other states. Virginia has been exceedingly conscious of potential abuses inherent in this type of funding and has taken steps to ensure that the appropriation is well spent. This is accomplished by approving projects from qualified production companies that have secure funding are ready for production. Funds are not released until the project is completed and expenditures are verified.

Without an increased incentive program, Virginia will continue to lose production jobs, revenue and the economic benefits, forcing Virginia workers to relocate out-of-state to find work. Furthermore, twenty-five Virginia universities have media studies programs including George Mason, Hampton, Hollins, James Madison, Regent, Lynchburg College, University of Richmond, University of Virginia, Virginia Commonwealth, Virginia State, Virginia Tech and numerous community and technical colleges. Ensuring that the motion picture industry is strong in Virginia enables graduates from these institutions to live and work in their home state.

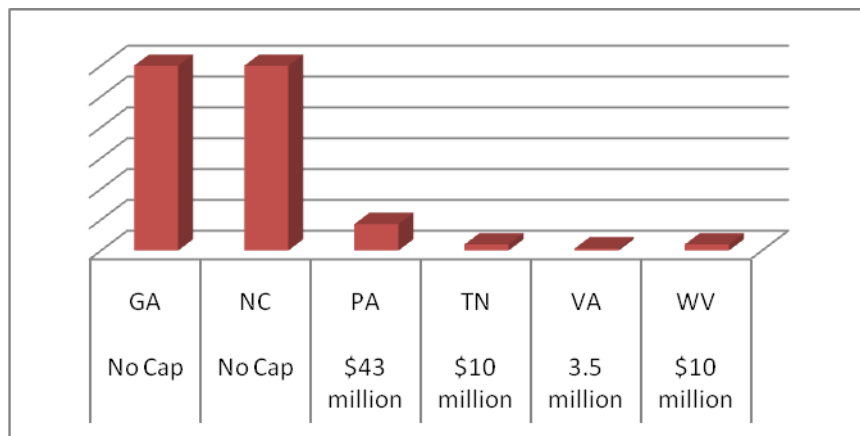
Virginia's existing incentive program is based on actual expenditures made in Virginia by qualified productions on workers hired and goods and services purchased in the state. It has been shown that film production and interactive digital media projects will locate in states where incentives are available. A relatively modest \$20 million fund would help Virginia achieve success, without the extreme financial outlays made in such states as Louisiana or Michigan which has an unlimited amount of funds, or New York which has a cap of \$350 million or even Pennsylvania with its cap of \$43 million this year and \$60 million next year.

Virginia's Competition:

Although Virginia is now in competition with every state having media incentives, five states have been identified as the most likely places a producer interested in Virginia would also consider for filming. They are Georgia, North Carolina, Pennsylvania, Tennessee and West Virginia. Three of these states have transferable tax credit programs, one has a refundable tax credit program and one has a rebate programs. Below is a chart comparing their programs with Virginia and the incentives each state has available for media production.

STATE	TYPE OF INCENTIVE	AMOUNT OF INVESTMENT
Georgia	Transferable Tax Credit	No cap on fund
North Carolina	Refundable Tax Credit	No cap on fund
Pennsylvania	Transferable Tax Credit	\$42 million in 2010
Tennessee	Grant / Rebate	\$20 million
West Virginia	Transferable Tax Credit	\$10 million
Virginia	Rebate / Refundable Tax Credit	\$2 million rebate and \$2.5 million tax credits

Incentives in 2010
Georgia, North Carolina, Pennsylvania, Tennessee, Virginia, West Virginia



Georgia – A Case Study:

Georgia’s film industry has closely mirrored that of Virginia and, over the years, both states have vied for many of the same film projects. In 2005 Georgia instituted a film incentive program. This program resulted in a dramatic increase in business for the state and, in 2008, the Georgia Legislature launched a highly competitive and successful expanded program.

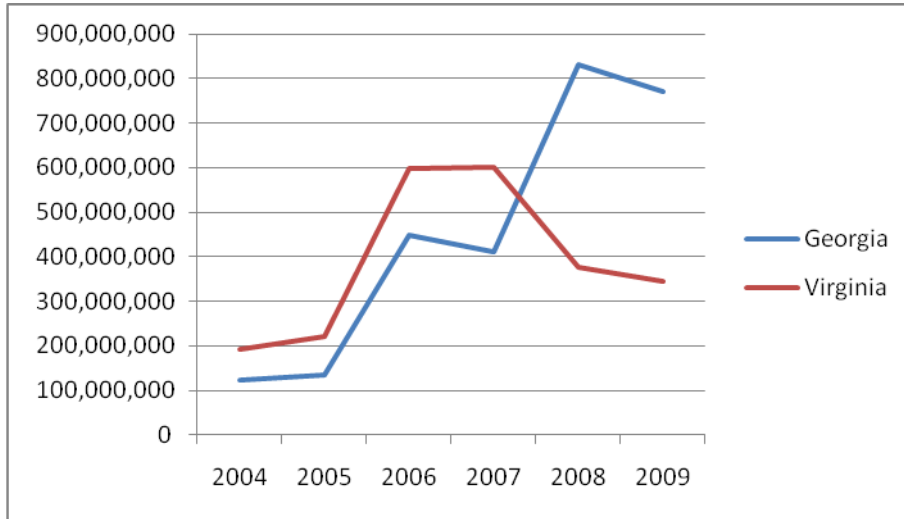
The table below shows that the economic impact of the film industry in Virginia fell from \$597 million in 2006 to \$346 million in 2009, a 58 percent decrease. Conversely, the industry in Georgia rose from \$416 million to \$770 million, a 54 percent increase in four years. In fact, many Virginia crew members have relocated to Georgia because of the increased opportunity to work.

	2006 Impact	2009 Impact	2009 Film workers
Georgia	\$475 million	\$770 million	5,000
Virginia	\$597 million	\$346 million	2,700

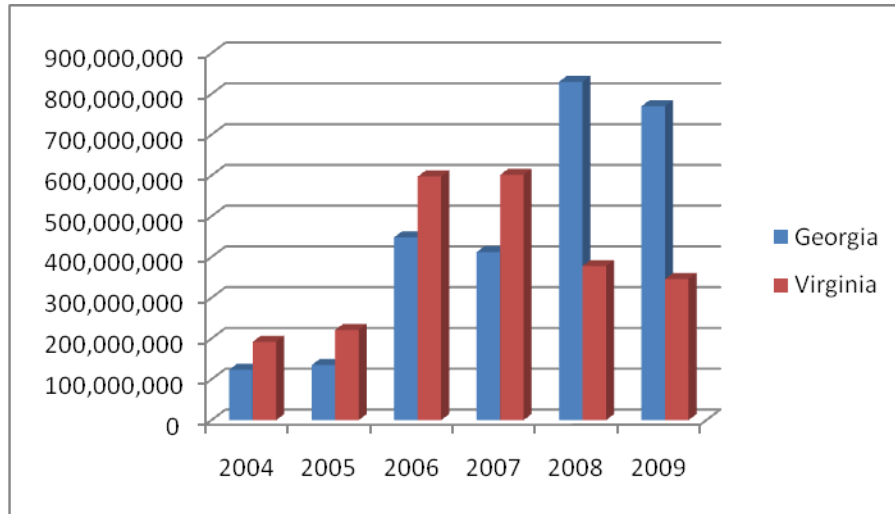
Although the country experienced an economic downturn during those years, the primary reason Virginia has lost market share and Georgia has gained it is a direct result of Georgia’s highly successful incentive initiative.

In examining the comparative economic impacts of the two states, the graph below tells the story. Both states were relatively even in 2004. Since then, Georgia has experienced a dramatic increase in impact while Virginia shows a dramatic decline.

**Economic Impact: 2004 – 2009
Virginia and Georgia**

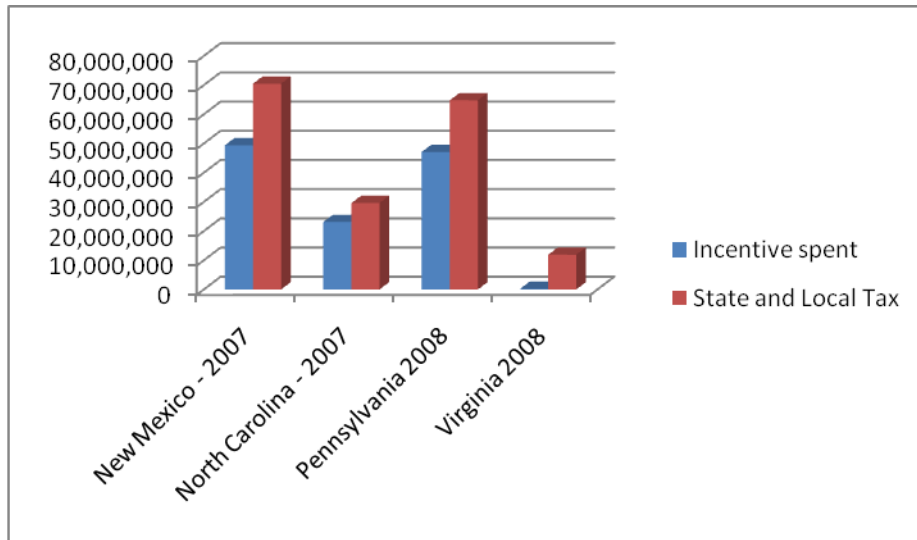


**Economic Impact: 2004 – 2009
Virginia and Georgia**



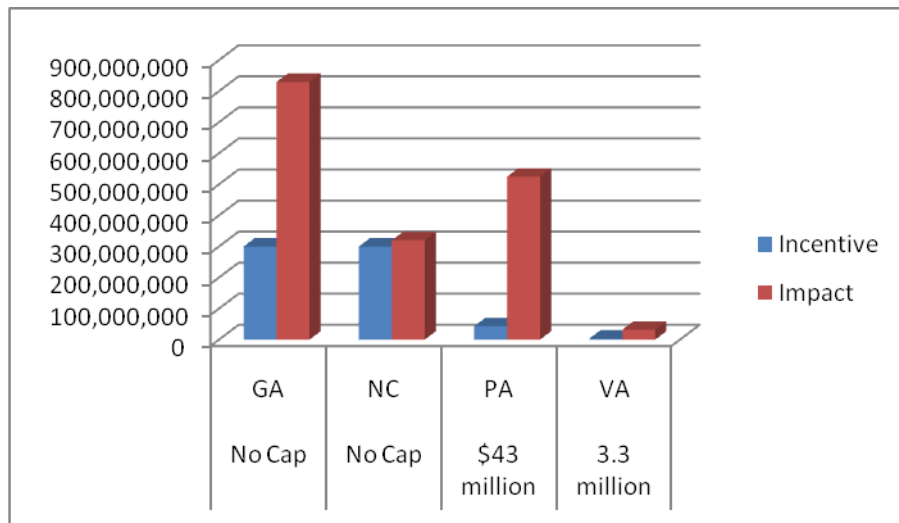
Although Georgia instituted its first incentive program in 2005, it did not surpass Virginia's industry placement until 2008, when the expanded incentive program went into effect giving Georgia one of the most competitive programs in the nation. Georgia has always had no cap on incentive spending. However, the restrictions placed on the use of funds in 2005 made it prohibitive for many users. When the restrictions were relaxed, the return rose dramatically.

**Incentives and Tax Revenues
New Mexico, North Carolina, Pennsylvania and Virginia**



This chart measures the difference between incentive funds spent and the film industry tax revenues for four states. The source is the Maryland state film report, which draws from individual state reports for information.

**Incentive versus Impact
Georgia, North Carolina, Pennsylvania and Virginia**



In all cases, the incentive produced an economic impact greater than the incentive, itself. Virginia's figures represent the impact on out-of-state production rather than the industry as a whole, making it more compatible with the other state's reporting.

Wine Committee

Ann Heidig, Chair

Staff: The Honorable Todd P. Haymore, Secretary of Agriculture and Forestry
Matthew A. Conrad, Assistant Secretary of Agriculture and Forestry

Goals:

- Increase Virginia's domestic and international wine marketing and promotional efforts
- Increase the number of Virginia wineries to provide for a critical mass within each distinct region
- Increase the number of attendant or companion services in close proximity to Virginia's wineries such as inns, beds and breakfasts, restaurants, cultural attractions, and spa services, etc.

Challenges:

- Wine production is much more expensive in Virginia than other wine producing states, such as California
- Virginia weather is unpredictable and very humid in the summer which can drive up the cost of production
- Budget cuts have prevented educational programs from growing, making it more difficult to standardize the quality of wine being produced and to educate vineyard managers about the best techniques and varieties for Virginia's unique soils and climate
- 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 industry
- The sale of Virginia wine at restaurants, grocery stores and other retail outlets has lagged behind on-site sales and direct shipment to consumers

Recommendations:

- Development of a wayfinding signage program to easily identify wine regions and direct tourists to wineries and attendant services.
- Create a transferable tax credit program to incentivize vineyard establishment and winery expansion at a rate of 25% to be applied against Virginia income tax.
- Create a tourism development fund to expedite development of attendant services in the rural areas, such as beds and breakfasts, destination restaurants, rural inns, etc. and to encourage the establishment of multi-winery off-site tasting and sales outlets.
- Attract companies to the state that provide the goods and services needed by wineries and vineyards, thereby lowering production costs

Historical Perspective:

In less than three decades, Virginia's wine industry has grown exponentially both in size and prestige. Boasting more than 170 farm wineries in 2010, Virginia has quickly become the nation's fifth largest wine producing state. Along with that rise, wine grapes reached Virginia's Top 20 agricultural commodities list in 2009 with cash receipts of more than \$10 million.

Wine connoisseurs and tourists have also discovered what we in Virginia have known for some time: the Commonwealth is an international wine destination on the rise. Just this year, Wineries Unlimited and the North American Wine Bloggers have decided to hold their 2011 annual meetings in Virginia. In addition, *Travel and Leisure* magazine recently named Virginia one of the top five new wine travel destinations in the world. Virginia was joined by Chile, Spain, Italy, and New Zealand in that prestigious listing.

Virginia's five distinct climate regions –Tidewater, Piedmont, Northern Virginia, Western Mountain and Southwestern Mountain – provide a temperate climate that is neither too hot nor too cold for extended periods. Virginia's varying weather patterns see the mountainous southwest and Shenandoah Valley average a 160-day growing season. East of the Blue Ridge averages 200 days.

Six of the United States' 187 American Viticultural Areas, or AVAs – grape-growing regions defined by geographic features that influence the wines they produce – are in Virginia: Eastern Shore, Monticello Northern Neck, North Fork of Roanoke, Rocky Knob, and Shenandoah Valley. Given Virginia's preponderance of well-situated grape-growing sites with ideal soil conditions, fine wines now come from all over the state.

A number of wineries are clustered in two areas: Northern Virginia and Central Virginia. The rest are scattered throughout the commonwealth, many along the I-81 corridor. If these wineries are more than 15 miles from the interstate, they are ineligible for signage on the interstate. Many wineries lack associated infrastructure to attract and retain tourists for more than a few hours.

Goals:

In early meetings of the Governor's Jobs Commission, it was agreed that solidifying Virginia's stature as an international wine destination will require several things, including, but not limited to the following: 1) increasing Virginia's domestic and international wine marketing and promotional efforts; 2) increasing the number of Virginia wineries to provide for a critical mass within each distinct region; and 3) increasing the number of attendant or companion services in close proximity to Virginia's wineries such as inns, beds and breakfasts, restaurants, cultural attractions, spa services and the like.

Competitive Threat:

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 increase per bottle cost and add to a perception in the market that the cost of Virginia wine is out-of-step with its quality. Generally, the quality of Virginia wine is high, but wide variation exists, particularly among our newest wineries.

Virginia has worked to overcome a number of challenges in its quest to become a premier wine tourism destination. Unlike our West Coast competitors, Virginia's climate does not

always lend itself to easy wine grape growing. The pervasive summer humidity and the unpredictable weather patterns that give us late frosts in the spring and hurricanes throughout the harvest season dramatically increase the cost of producing a high-quality product.

Virginia Tech and Piedmont Virginia Community College have done a good job in developing their respective viticulture and enology programs. However, budget cuts have stalled the growth of their educational programs, making it more difficult to standardize the quality of wine being produced and even more difficult to educate vineyard managers about the best techniques and varieties for Virginia's unique soils and climates.

Signage for Virginia's farm wineries is another challenge for the industry. Currently there is no signage at the entrance to any of Virginia's viticulture areas. VDOT has shared with the industry that, under current regulations, gateway signage is not permitted. Moreover, the cost and requirements of the state's Tourist Oriented Directional Signage program keep it from fully meeting the needs of the industry.

Localities' treatment of farm wineries also varies, both in general regulation and in tax policy. Although some counties give wineries and other businesses great latitude to operate tasting facilities, event space, high quality restaurants, inns, and other services for tourists, some counties, particularly in high-growth areas of the state, place considerable restrictions on where such attendant services may be located. Also, some counties choose to tax acreage used for the cultivation of wine grapes at a higher rate than acreage used for other agricultural purposes, such as growing corn, wheat, and tobacco.

The sale of Virginia wine at restaurants, grocery stores and other retail outlets has lagged behind on-site sales and direct shipment to consumers. Although sale of Virginia wine at or through wineries increased over 14% in 2009, retail sales grew at less than 3%. Although new Wine Literacy Tax funds will be used to hire a Wine Marketing Office employee dedicated to increasing Virginia wines' presence in restaurants and retail outlets, the growth of this industry will be limited to the foot traffic generated by on-site visits until more Virginia wines are readily available at local dining and retail establishments. This increase in funding is for marketing and research and does not provide funding to incentivize establishment of new vineyards and wineries or expansion of existing operations.

In sum, entering into the Virginia wine business is highly risk-laden and requires intense capital investment. Even in the best circumstances, the average winery takes ten years to earn a profit. If the Commonwealth is committed to nurturing its local industry and reaping the economic rewards its success will bring, Virginia must: 1) find ways to lower the risk and costs for investment; 2) provide an educational, regulatory, and tax environment that encourages and sustains growth; and 3) attract companies to the state that provide the goods and services needed by wineries and vineyards, thereby lowering production costs.

Economic Advantages and Impact:

As vineyards and wineries grow, they will need to hire workers to maintain the vineyards, work in the cellar, and sell wine in the tasting rooms. This usually takes place once the vineyard

reaches over five acres and the winery begins to produce over 3,000 cases. In order to reach these points, it is necessary to provide investment dollars to help these operations expand.

Cases	Total VA	Total VA	Total VA	Total VA	Total VA	Total VA	Total VA	Total VA
	Wine Sold 2003	Wine Sold 2004	Wine Sold 2005	Wine Sold 2006	Wine Sold 2007	Wine Sold 2008	Wine Sold 2009	Wine Sold 2010
January	12,621	14,285	12,727	12,289	15,582	16,272.0	17,754	18,317
February	13,097	17,204	17,302	16,313	15,898	19,862.0	23,027	20,109
March	15,235	18,474	20,629	22,533	21,790	22,058.0	23,004	27,511
April	22,520	24,573	28,215	30,381	27,262	29,908.0	34,375	38,543
May	22,807	23,890	28,859	30,063	33,081	37,969.0	39,488	
June	23,851	26,964	30,847	35,715	31,694	31,606.0	32,534	
July	24,604	25,047	27,185	27,072	30,987	35,124.0	37,125	
August	25,382	27,123	32,106	25,368	31,739	34,033.0	33,571	
September	23,814	25,238	29,845	29,096	36,913	38,028.0	41,048	
October	40,539	38,555	38,976	39,567	42,656	44,225.0	48,714	
November	24,376	26,499	31,649	30,991	31,165	30,742.0	33,029	
December	27,918	29,667	32,062	30,519	33,074	30,514.0	36,075	
Total	276,764	297,519	328,402	330,807	351,841	370,341.0	399,744	104,480

	2003	2004	2005	2006	2007	2008	2009	2010
Wine Sales								
At Wineries	130,480	147,198	168,841	181,839	183,535	198,023	225,972	
% Change		12.81%	14.70%	7.70%	0.93%	7.89%	14.11%	
% of VA Wine Sales	53%	49%	51%	55%	52%	53%	57%	

	2003	2004	2005	2006	2007	2008	2009	2010
Wine Sales								
Through Distributors	125,557	130,678	148,876	146,651	157,875	157,652	161,774	
% Change		4.08%	13.93%	-1.49%	7.65%	-0.14%	2.61%	
% of VA Wine Sales	45%	44%	45%	44%	45%	43%	40%	

	2003	2004	2005	2006	2007	2008	2009	2010
Wine Sales								
Through ABC	20,727	19,643	10,685	2,317	10,430	11,952	11,999	
% Change		6%	-46%	-78%	78%	14.59%	0.39%	
% of VA Wine Sales	7.5%	6.6%	3.3%	0.7%	3.0%	3.2%	3.0%	

	2003	2004	2005	2006	2007	2008	2009	2010
Wine Sales								
Total VA Wine Sales	276,764	297,519	328,402	330,807	351,840	367,628	399,745	
% Change		7.50%	10.38%	0.73%	6.36%	4.49%	8.74%	

Prior to creation of the Wine Board in 2004, funding for the marketing of Virginia wine was under \$300,000 per year. With the establishment of the Wine Board, that funding increased to \$580,000. Since that time, sales of Virginia wines have increased by over 100,000 cases per year. We expect that to increase with the additional funding provided as part of the *Jobs and Opportunities* legislative package. This additional funding has also enabled Virginia wineries to begin looking beyond the borders of Virginia to markets in other states, as well as to foreign markets. Virginia currently has five wineries exporting to the United Kingdom. This growth can only increase the awareness of the quality of Virginia wines and increase the attractiveness of Virginia as wine tourism destination. This increased wine tourism marketing positively impacts visitation for wine tourists and non-wine tourists alike. Winery images brand the state as a premier destination with beautiful landscapes, scenic drives, small towns, and agricultural regions that are appealing to our metropolitan target markets.

While wine tourists generally spend more than non-wine tourists during their visits, it is necessary to provide infrastructure for them to stay overnight. Many of our wineries do not have restaurants or lodging near the facilities forcing tourists to leave the vicinity to find amenities. Often there may be several wineries in an area which could be visited if the tourists were not

required to leave the area. Increasing traffic in the tasting room is one of the primary ways to encourage wineries to expand production. State incentives and an ease in restrictive local barriers would enable wineries and the localities in which they are located to add boutique lodging and food establishments in the rural areas. This would in turn increase the average length of stay, increase expenditures, and create jobs for the wineries and other rural enterprises, localities, and the state.

Initiatives to Incentivize Winery and Vineyard Growth:

- Development of a wayfinding signage program to easily identify wine regions and direct tourists to wineries and attendant services.
- Create a transferable tax credit program to incentivize vineyard establishment and winery expansion at a rate of 25% to be applied against Virginia income tax.
- Create a tourism development fund to expedite development of attendant services in the rural areas, such as beds and breakfasts, destination restaurants, rural inns, etc. and to encourage the establishment of multi-winery off-site tasting and sales outlets.

Signage:

- The provision of signage to wineries and other tourist attractions requires their navigation of complex rules and procedures that do not serve the industry well. 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.
- In interest of tourism development, two years is too long to wait. We recommend that VDOT, after further analysis, be provided the resources needed to roll out the 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, including wineries.



Tax Credits:

- 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.

Tourism Development Fund:

- Few if any programs exist to help rural localities build the type of infrastructure needed to attract and retain tourists. Wineries in rural areas would benefit from the presence of services that compliment the interests of their visitors, such as destination restaurants, rural inns and beds and breakfasts, or spas.
- With the support of the localities, a program should be developed using start up funds from the General Fund that will be paid back over time. The plan could be structured to provide gap funding, revenue stream for debt service, or interest rate reduction.
- Many wineries are located some distance from the Interstates and major roads. In California, there are often tasting rooms and retail sales outlets close to the Interstate. There is an example in Virginia of several wineries, using their remote licenses, opening a similar type of facility. Encouragement of more of these types of locations could help increase awareness and sales of Virginia wines. Funding would be needed to establish the facility, including money to build or lease, furnish, and hire tasting room/retail sales personnel to run the facility.



Workforce Development Subgroup Final Report

The members of the Workforce Development Subgroup of the Governor's Commission on Economic Development and Jobs Creation appreciate the opportunity to participate in the deliberations of the Commission and to contribute recommendations for improving Virginia's workforce development and delivery system so that it can anticipate and respond to current and emerging demands of workers and businesses and create "pipelines" or "pathways" for individuals to obtain the education and training needed to fill the future jobs of the new economy, thereby, supporting the Commonwealth's economic global competitiveness.

Subgroup Activity:

The Workforce Development Subgroup of the Governor's Economic Development and Job Creation Commission has held four meetings since it was organized on May 5, 2010, with the first meeting being held on May 27th in Richmond, where the members of the Subgroup discussed and approved 10 Vision Strategies. At this meeting, Subgroup members heard three different presentations.

- A presentation was made by Liz Povar, Director of Business Development at the Virginia Economic Development Partnership, on job trends, growing sectors, and how Virginia can position itself for success.
- The next presentation was given by Martin Scaglione, President and COO of ACT, Inc. ACT is an independent, non-profit organization that provides a broad array of assessment, research, information and program management solutions in the areas of education and workforce development including WorkKeys assessments, which form the basis for the Commonwealth's Career Readiness Certification (CRC) program.
- The third presentation was by Mac McGinty, Vice President of the Community College Workforce Alliance, who discussed the Career Readiness Certificate (CRC) program. The WorkKeys-based CRC program is a system for certifying the basic skills necessary for success in typical jobs. A Certificate gives specific information about a person's ability to perform common tasks that all employers require.

The Workforce Development Subgroup held its second meeting on July 7th at National College in Harrisonburg, Virginia. At this meeting, Subgroup members presented their progress, discussed their research and background knowledge they learned in the interim and gave initial

recommendations on goals. Additionally, the Subgroup members heard three different presentations.

- First, Commissioner Courtney Malveaux from the Department of Labor and Industry (DOLI) discussed the role that DOLI plays in Workforce Development, in particular the Registered Apprenticeship Program and the benefits the Apprenticeship Program has on the workforce. We also heard from an employer and their apprentice about the benefits of the program.
- Our second presentation was from Debbie Melvin with the Department of Business Assistance (DBA) who discussed the role that DBA plays in Workforce Development, primarily through the Virginia Jobs Investment Program. Ms. Melvin gave a summary of the history of the program, the scope of the program and future needs.
- Our final presentation was from the Virginia Goodwill Network who discussed their impact on Workforce Development through the various programs they offer and also discussed a pilot program they are implementing at Dillwyn Correctional Facility to help with prisoner re-entry.

The Workforce Development Subgroup held its third meeting on August 10th at the Peninsula Workforce Development Center in Hampton, VA. At this meeting, Subgroup members heard three different presentations.

- Dr. Deborah Wright, Vice President of Workforce Development at Thomas Nelson Community College, welcomed the group and gave an overview of PWDC history and programs offered.
- Delegate Matthew James, President of the Peninsula Council for Workforce Development, gave an overview of the Council's achievements and the programs it offers including the Youth Career Café's.
- Josh Copus, the Director of Membership for the National Association of Workforce Boards, gave a presentation to the group on examples of highly effective workforce boards around the country and best practices.

The Workforce Development Subgroup held its fourth and final meeting on September 10th at the Northern Virginia Community College Woodbridge Campus. The meeting was devoted to finalizing the Subgroup's set of recommendations.

In completing its task, the Workforce Development Subgroup worked with the following stakeholders: Virginia Employment Commission, Representatives from the Department of Education, the Virginia Economic Development Partnership, the Virginia Department of Business Assistance, the Virginia Community College System, the Office of Richmond Mayor Dwight Jones, the Virginia Manufacturers Association, National Federation of Independent Business, The Peninsula Youth Career Café, Virginia Council of Economic Education, the Center for Rural Virginia, Virginia's First Cities, Capital Region Workforce Investment Board,

the Virginia Hospital & Healthcare Association, the Lynchburg Chamber of Commerce, Veteran's Programs, and the Governor's Commission on Higher Education.

Analysis:

Over the past two decades, America has been subject to qualitative and quantitative changes that have transformed the structure, functioning and rules of its economy. The result is a knowledge- and idea-based economy where the keys to job creation and higher standards of living are innovative ideas and technology embedded in services and manufactured products. This new global, entrepreneurial, and knowledge-based economy is rooted in information technology and requires continuing education. It is an economy where risk, uncertainty and constant change are the rule rather than the exception.

The new economy requires major changes in the organization of industry, work, governance and politics. In particular, Virginia's educational and workforce development endeavors must be directly linked to and focused on the strategic role they play in support of the Commonwealth's economic development initiatives. In the past, economic development focused on attracting new businesses with financial incentives. Companies now require that a well-trained, educated workforce is readily available when making a decision to relocate or stay in the region.

While the goals are still the same in the new economy (e.g., increasing incomes, full employment), the means to achieve them have changed. The consensus is three main foundations will underpin strong, broad-based economic growth in the new economy: development of a ubiquitous digital economy, increased research and innovation, and improved skills and knowledge of the workforce.

While Virginia has many workforce development programs, more needs to be done to ensure our workforce has the skills required to help Virginia maintain its competitive edge and to help Virginia families attain economic independence. Governor McDonnell and Lieutenant Governor Bolling have made it a top priority to strengthen Virginia's community colleges to lead workforce development efforts, and focus its efforts on providing education, training and outreach programs so Virginians can obtain the high-quality jobs necessary to compete in today's global market.

A survey conducted by CNBC ranked Virginia number two as the best state for doing business in 2010 behind Texas. The survey scored all 50 states - using publicly available data - on 40 different measures of competitiveness. Those metrics were separated into the ten broad categories: Cost of Doing Business, Workforce, Quality of Life, Economy, Access to Capital, Transportation, Technology & Innovation, Business Friendliness, Education, and Cost of Living.

In Workforce, Virginia was ranked 9th behind Florida, Arizona, Georgia, North Carolina, South Carolina, Tennessee, Utah and Idaho, and just ahead of Colorado, Arkansas, Wyoming, Kansas, Alabama, South Dakota and Texas. These rankings were based on the education level of the states' workforce, and the number of available workers. The survey also looked at the relative success of each state's worker training programs in placing their participants in jobs.

Additionally, in the category of Education, the survey ranked Virginia 13th based on traditional measures of K-12 education including test scores, class size and spending, and the number of state higher education institutions.

As part of its fact finding task, the Workforce Development Subgroup members have reviewed nearly 40 "promising practices" from across the nation. The "promising practices" include youth and summer youth programs, adult and dislocated worker programs, community college programs, public-private partnerships, business engagement, transformation and innovation, accountability and transparency. Through this review, the Subgroup's members wanted to ensure its recommendation reflect and incorporated the best and most promising current concepts and practices.

Throughout its process, the Workforce Development Subgroup has focused its attention on the need to improve skills and knowledge of the workforce, particularly in the following areas:

1. **Build a stronger education pipeline to prepare graduates and expand incentives for continuous learning.** Much has been done, but we need greater gains in the number of students completing high school, pursuing education and training beyond high school, and engaging in a culture of lifelong learning. Virginia can still prosper in a world where its labor costs are higher than the competition's, but it cannot do so if the workers abroad are also better educated.
2. **Connect workforce development to employers' workforce needs on a regional and industry basis.** We need to assist local workforce investment boards and others involved in workforce development to create unifying visions and implement action plans for education and workforce development that are based on current and accessible information and are directly linked to the economic development initiatives in their regions.
3. **Expand Virginia's network of comprehensive One-Stop Career Centers** and ensure they provide a wide array of innovative, high-value, customer-focused programs and services to the business community, as well as enhance workers' ability to manage their careers.
4. **Streamlining service delivery while strengthening governance and accountability in the workforce system.** There are approximately 23 different workforce training programs spread across 9 different state agencies. State and local efforts should ensure that the maximum effort is made to eliminate duplication and unnecessary overhead, encourage the use of technology to reduce cost, and improve the coordination of agency, institutions, and programs involved in workforce training and development.

Vision Strategies:

A skilled, flexible and prepared workforce is essential to driving Virginia out of the current economic situation and maintaining our global competitiveness. The Workforce Development Subgroup's goal is to ensure that Virginia has a skilled, diverse, motivated and adaptable workforce that creates opportunities for employees and supports the needs of employers.

- I. Effectively match education, training and workforce programs with projected workforce needs, particularly in energy, advanced manufacturing, information technology, health care and other priority economic development sectors, and use education and employment data to assist in the alignment of workforce programs.
- II. Increase student success at all levels (K-12 and postsecondary education).
- III. Improve transitions between secondary and postsecondary education, workforce training programs and employment.
- IV. Support the Governor's Higher Education Commission's effort to increase the number of Virginians enrolling in institutions of higher education and attaining degrees and other credentials that make them career-ready.
- V. Work with other Jobs Commission Subgroups and existing workforce commissions to consider the best way to organize Virginia's educational, workforce and economic development assets to increase efficiency and align goals.
- VI. Expand the ability of the community colleges to focus on creating more job-skill retraining and industry-specific courses for workers of all ages throughout their lifetime.
- VII. Promote, support and utilize private and non-profit training resources that lead to industry credentials and degrees and streamline and standardize the application and approval processes for becoming an approved training provider within Virginia.
- VIII. Guide individuals into education and training programs that best meet their goals and to prepare more individuals in science, technology, engineering and math disciplines, including preparing more teachers to enter career and technical education fields.
- IX. Promote and expand the use of workplace-oriented education and training, including the use of registered apprenticeships.
- X. Improve the use of dual enrollment between public schools and community colleges, thereby allowing more students to enroll in college-level courses for credit while still in high school.
- XI. Improve the working relationship with the business community to address its workforce needs.

- XII. Identify appropriate measures to monitor performance and achievement of education and workforce assets.

Final Recommendations of the Workforce Development Subgroup:

1. Greater Alignment between Job Demand and Workforce Development Efforts

Challenges:

The 21st century's rapidly advancing global economy is being driven by the increasing pace of technology and innovation. Being competitive depends predominantly on the capacity for generating knowledge and applying it productively, which is determined by the quantity and quality of the available human talent. 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.

Virginia must produce more workers with the skills to effectively compete in the new economy. To meet this challenge, Virginia's workforce development and delivery system must be capable of accurately identifying current needs and forecasting future demands based on business requirements and data-based modeling. Additionally, the system must ensure corresponding skills training is readily available and easily accessible through the Commonwealth's community colleges and supporting educational and training providers and its One-Stop Career Centers (i.e., Virginia Workforce Centers). Therefore the Workforce Development Subgroup recommends the following action.

Action Items:

Recommend legislative or administration actions that will ensure workforce education and training efforts support business hiring needs, relevant occupational sectors where hiring is occurring or is projected to occur, and is base on real-time data available in a user-friendly format. This may include:

1. Preparation of regularly updated statewide and regional occupational demand listings, along with skills and competencies required for those occupations in demand.
2. Mechanisms to regularly engage the business community to identify occupation and educational needs that may not be captured by the data or through existing models and programs.
3. State and local requirements for the funds provided for workforce education and training be used to support efforts outlined above.
4. Establish a workforce-ready designation for regions of the state that would include demonstrated commitment to lifelong education, improved high school graduation rates, and

effectiveness in aligning skills, education levels, and economic development and employment needs.

5. Methods to improve customer service at the One-Stops Career Centers through improved integration and use of workforce data systems.
6. Purchase, create or expand an information technology solution, similar to the Wizard program currently in place, which will provide user-friendly and up-to-date information to students and job seekers in support of the above and in support of initiatives and technologies currently utilized by the Commonwealth. In order to match the growing needs of the Workforce, it is imperative that we align job-seekers with the occupations and sectors with the greatest demand.

Desired Results:

Promoting pro-active leadership from the business community is critical to a truly demand-driven, business led and locally administrated workforce development and delivery system. Working in conjunction with Virginia's educational institutions and skills training providers, the Commonwealth can best ensure its system provides individuals with specific skill sets so they are career ready and help contribute to the state's economic prosperity.

2. Greater Use of Career Pathways Programs, Including Apprenticeship, On-The-Job Training, and Other "Earn While You Learn" Models

Challenges:

Virginia's employers need a thinking workforce with the competencies to advance and innovate to ensure Virginia maintains a competitive economy. 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. Secondary and post-secondary graduates need to have a combination of hard skills including the theory and applied technology, plus soft skills including the ability to effectively read, write, compute and communicate, in order to become trainable employees for specific jobs and re-trainable as those positions change.

Unfortunately many of the partners involved in providing a thinking workforce view each other with suspicion. An example of this lack of trust and cooperation is reflected in the challenge being encountered in providing dual enrollment opportunities for all Virginia's secondary students. Virginia must develop a shared sense of responsibility around workforce readiness, including eliminating the considerable stigma still attached to career and technical education.

Addressing these challenges requires engaged and focused leadership from all partners including executive and legislative officials, business leaders, and education and workforce

development representatives. Therefore the Workforce Development Subgroup recommends the following action.

Action Items:

Recommend that the Governor promote the continued implementation of the state's Career Pathways System (Middle College, Apprenticeship Program, Career Coaches, Career Readiness Certificate, etc.) in all of the Commonwealth's educational programs, by undertaking the following actions:

1. Support and more widely implement programs that prepare students for higher academic success and encourage greater collaboration between secondary and post-secondary institutions and employers. The program being used by the Fairfax County Public Schools, Northern Virginia Community College and George Mason University is an example of a very effective initiative that can serve as a model throughout the Commonwealth.
2. Encourage and facilitate business input into curriculum development to better reflect the skills needed for success in the workplace, including an emphasis on workplace behavior and attitude.
3. Promote and report on workplace-oriented education and training including increased enrollment in high school programs leading to technical and advanced technical diplomas.
4. Support increased efforts by colleges and universities and local school divisions to prepare more teachers to enter Career and Technical Education (CTE) fields including Science, Technology, Engineering and Math (STEM) programs.
5. Encourage the use of dual enrollment between public schools and post-secondary education institutions, thereby allowing more students to enroll in college-level courses for credit while still in high school.
6. Promote more aggressively registered apprenticeship and earn-while-you-learn programs, which provide a combination of structured on-the-job training and related classroom instruction at a community college or post-secondary technical training institution.

Desired Results:

Actions such as those mentioned above including the Career Pathway approach, increasing the quantity and quality of CTE/STEM-related programs and instructors, and aggressively promoting registered apprenticeship and other earn-while-you-learn programs seek to bridge the gaps in our education system by promoting a life-long learning approach to individual development, while forging stronger connections with the business community.

3. Greater Coordination among Education, Workforce Development, and Economic Development

Challenges:

Numerous reports and studies have observed that the issue of greater coordination among education, workforce development, and economic development is fundamentally one of leadership.

The Virginia General Assembly made great progress in 2006 when it passed legislation that designated the Governor as Chief Workforce Development Officer for the Commonwealth. That same legislation provided the Governor with the option to designate a senior staff member from the immediate staff of the Governor's Office to carry out the responsibilities assigned to the Governor as the Chief Workforce Development Officer. Since 2006, two Governors have chosen to assign that task to a Senior Advisor to the Governor for Workforce Development. The position of Senior Advisor to the Governor for Workforce Development was intended to be a "Workforce Czar," but as implemented, has struggled to transcend secretariat boundaries.

Some suggestions to address this challenge have promoted the 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 leadership at the secretariat level to carrying out the responsibilities of the Chief Workforce Development Officer is fundamentally important. Gaps still exist in Virginia's workforce development and delivery system including:

- 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 are 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.

Action Items:

The Subgroup members agree that senior level leadership and accountability to carry out the responsibilities of the Chief Workforce Development Officer is fundamentally important. There is general agreement that the Chief Workforce Development Officer should be responsible for the following in addition to those responsibilities listed in the Code:

1. Coordinate communications and resolve issues among the Secretariats and agencies responsible for delivering workforce programs.
2. Establish common goals under which federal and state workforce programs will align outcomes, actions, performance measures, and budgets with the objective of achieving greater efficiencies and effectiveness.
3. Work with the Secretary of Education to promote policies that help support the Commonwealth's Early Childhood Education, K-12 system, post-secondary and Adult Education activities to promote life-long learning and workforce skills development.
4. Ensure that all training and educational resources including all eligible private and non-profit training providers are being fully utilized in conjunction with the programs provided by local community colleges and others in preparing the state's workforce.

The Subgroup members were unable to agree upon which cabinet-level official should be assigned the responsibility. The members discussed four options, which were: (1) leave as is with each Governor having the option of assigning the responsibility "to a senior staff member within his immediate office;" (2) assign the responsibility to the Secretary of Education; (3) assign the responsibility to the Secretary of Commerce and Trade; and (4) create of a new cabinet-level position for Workforce Development.

Desired Results:

Virginia's workforce development programs remain divided between social services and unemployment programs and traditional job training and adult education programs. Policy makers need to tear down these artificial silos and think of all individuals in need of training as "workers in progress." Better alignment among Education, Workforce Development, and Economic Development should remain the common goal for all Secretariats and agencies involved with workforce development. This alignment holds the potential of creating a new generation of better-trained, better-equipped, better-prepared workers – all critical to the growth and opportunity in the global economy.

We recommend the designation of a senior-level official as having the responsibility for carrying 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.

4. Policy Development and Performance Reporting

Challenges:

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), setting policy and standards for the local Workforce Investment Boards (WIBs) and One-Stop Career Centers (i.e., Virginia Workforce Centers).

Specifically, the VWC is responsible for (1) providing policy advice to the Governor on workforce development issues and opportunities, (2) providing policy direction to Virginia's 15 Workforce Investment Boards (WIBs), (3) identifying current and emerging statewide workforce needs of the business community, (4) forecasting and identifying training requirements for the new workforce, (5) creating strategies that will match trained workers with available jobs, (6) establishing procedures, criteria and performance measures for the Workforce Development Training fund, (7) providing an annual report to the Governor concerning its actions and determinations under items 1 through 5, and (8) creating procedures, guidelines, and directives applicable to the Commonwealth's 15 WIBs and the operation of its 32 One-Stop Career Centers (i.e., Virginia Workforce Centers).

Although the VWC has made considerable progress during the past several years to identify gaps that must be addressed to improve to improve Virginia's workforce development and delivery system, there still remains major challenges that must be addressed including:

- The inability to get a quantitative view of the whole system at the state or regional level to facilitate accountability for performance.
- The need to reduce the considerable variation in the performance of the various workforce investment boards with some performing well while others continue to be challenged.
- The requirement to ensure Virginia's One-Stop Career Centers provide a wide array of innovative, high-value, customer focused programs and services to the business community, and enhance an individual's ability to manage their career, through an improved network of comprehensive, satellite and virtual locations.

Therefore, the Subgroup recommends the following action.

Action Items:

Recommend that the Governor direct the Virginia Workforce Council to undertake the following activities:

1. Study and determine if there are barriers within the workforce system that limit the utilization of private and non-profit training providers and make recommendations on how any such identified barriers can be removed.
2. Revise current policies to streamline the application and approval process for programs to be certified as eligible training providers under the Workforce Investment Act, including a consistent and uniform process for initial and subsequent certification of providers.

3. Support efforts to create and sustain a state longitudinal database system (SLDS) for workforce and education programs to allow agencies, policy makers and stakeholders to assess the impact of programs and initiatives on the economy.
4. Undertake activities outlined in the Code for the Council and the Governor to establish measures to evaluate the effectiveness of the local workforce investment boards and conducting 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 program; (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.

Desired Results:

In conjunction with the recommendations above, the Virginia Workforce Council should bring business, labor, education and the public sector together to develop strategies and support efforts to best meet the needs of the Commonwealth's workforce and employers, thereby enhancing Virginia's competitiveness in the global economy.

Other Recommendations:

Members of the Subgroup also support and encourage the following suggestions and recommendations from several stakeholder groups.

1. The Virginia Council on Economic Education (VCEE) supports the statewide network of Centers for Economic Education, which are located at colleges and universities around the Commonwealth to provide K-12 educators with local resources and facilitate ongoing collaborative efforts with teachers, as they begin preparation of teaching economic courses as a condition for graduation for all high school students.
2. Representatives from the healthcare industry brought the following recommendations to the attention of the Subgroup:
 - 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, colleges and other programs.
 - Recognize the existing credentials of highly trained and experienced former military health professionals, and allow substitution of certain military training and service for formal education or clinical experience requirements.
 - Standardization of college-based curriculum and course numbers.

3. The Manufacturing Subgroup of the Governor's Commission on Economic Development and Job Creation requested the Subgroup to consider actions that would organize existing workforce development programs to better prepare emerging and adult workers with industry certified skills credentials and work readiness skills in order to be productive in lean advanced technology businesses. The Manufacturing Subgroup stressed the need for businesses to lead the development of curriculum and competency-based assessments leading toward skills certifications and need the support of the public system for implementation. Additionally, the Manufacturing Subgroup recommended stressing the importance of a demand-driven workforce development system with incentives for individuals to participate and fulfill the program in demand by the businesses.
4. The Subgroup also encourages and supports the role of Virginia's community colleges, as defined in the Code of Virginia, 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 in preparing the state's workforce. The Subgroup promotes the utilization of all private and non-profit training providers in conjunction with the programs provided by local community colleges. In addition, the Subgroup recommends researching a method for providing general fund support for non-credit skills development courses, including phasing in support at the 30% level envisioned in the appropriation act.