

Joint Subcommittee Studying Local Incentives Provided to Private Businesses for Economic Development Purposes

June 23, 2008

The initial meeting of the Joint Subcommittee Studying Local Incentives Provided to Private Businesses for Economic Development Purposes was held on June 23 in Richmond in the General Assembly Building. The subcommittee elected Delegate Robert Cole as Chair and Senator Mary Margaret Whipple as the Vice-Chair. The charge of the subcommittee is to (i) determine all incentives that localities are permitted to provide to private businesses; (ii) evaluate the impact of such incentives on the smaller, local competitors of the businesses receiving the incentives; and (iii) evaluate the effectiveness of the incentives that are provided.

After the introduction of members, the subcommittee received two presentations relative to its charge.

Presentations

The first presentation was given by Gary McLaren, Deputy Director of the Virginia Economic Development. The objective of the presentation was to provide an overview of incentives that localities in the Commonwealth are permitted to offer.

Mr. McLaren stated that there are five primary location factors that businesses include in their consideration of locations: available workforce, suitability of the site or building, general infrastructure, business climate, and quality of life. Many businesses have developed weighted indexes to quantify these factors. He stated that different industries may consider these factors in different ways. For example a manufacturing business considering a plant facility may place more emphasis on the workforce while a corporate headquarter move may be more interested in the business climate and quality of life factors.

Mr. McLaren then discussed common incentives at the local level that he grouped in six general categories.

1. Product (the land for the site, utilities roads and zoning).
2. Tax and utility rates and classifications.
3. Grants.
4. Loan Programs and/or financing.
5. Creation of special zones, such as technology zones, tourism zones, etc.
6. Providing project management assistance.

Next Louellen Brumgard, Deputy Director, Virginia Department of Housing and Economic Development provided a brief overview of the Virginia Enterprise Zone Program. Ms. Brumgard stated that the objective of the Program is to provide a means to stimulate job creation, private investment and revitalization through a combination of state and local incentives. The individual enterprise zones are designated by the Governor based on a competitive application process. While the competition for the designations is open to all localities, the review criteria are designed to favor distressed localities. Fifty percent of the score is based on three-year averages of the localities unemployment rate, median adjusted gross income, and percentage of public school students receiving free or reduced price lunches.

Based on legislation passed during the 2005 session, the Program has transitioned from tax credits to grants. There are two grants offered, one for job creation and one for real property investment. Ms. Brumgard noted that funding is subject to appropriation and that currently the grants are being pro-rated. The Program benefits both large and small businesses. Two-thirds of applicants for job creation grants have less than 100 employees and one-third have less than 25 employees. Regarding real property investment grants, Ms. Brumgard indicated that one-third of the applicants had investments less than \$250,000.

Topics for future meetings

After the presentations, the subcommittee discussed possible topics for future meetings. A consensus was built around the following topics:

- i) Information on what other states are doing in terms of local incentives with emphasis to be placed on surrounding states and states with which Virginia is in regular competition for businesses.
- ii) Discussion of whether there are reliable measures for determining the effectiveness of incentives.
- iii) An overview on the activities of the state's fourteen Economic Development Authorities.
- iv) Information on what is being done to assist localities in rural and other areas to expand broadband infrastructure and access.
- v) Information on the use of incentives from the perspective of economic development professionals.
- vi) Evaluating the impact on the existing businesses who do not get the incentives.

The subcommittee will poll its members for the next meeting date. Handouts, including agendas, from the meeting and future meetings can be accessed on the Division of Legislative Services website at <http://dls.state.va.us/incentives.htm>.

Contact
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