

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

August 18, 2008

The second meeting of the Joint Subcommittee Studying Local Incentives Provided to Private Businesses for Economic Development Purposes was held on August 18 in Richmond in the General Assembly Building.

Broadband Access

Karen Jackson provided the joint subcommittee with an update on the work of the of the Governor's Broadband Technology Roundtable. One of the main objectives of the Roundtable is to develop a toolkit to assist communities with broadband planning and deployment. Ms. Jackson stated that the Roundtable consists of 72 members including local, national, and international leaders with a strong track record of innovation in the telecommunications industry. The members are divided into the following workgroups focusing on specific elements of the broadband equation: i) measurement (adoption and availability), ii) technology, iii) applications, iv) business models, and v) outreach.

Ms. Jackson stated that the objective was not for Virginia to become a telecom provider competing with the private sector. Rather than taking over the process for localities, the desire in Virginia is for the state to provide support and keep the process community-driven. This could be done by providing resources and a community toolkit. The toolkit includes a broad range of technologies to allow individual communities and localities to determine what is best for them. She also noted that strategies should be explored to lower expenses, such as encouraging cooperation between owners of communications towers. Legislation allowing the use of state police towers was cited as an example of cooperation.

Ms. Jackson invited the joint subcommittee members to visit the Roundtable's website: http://www.otpba.vi.virginia.gov/roundtable_background.shtml. The final report of the Roundtable is due in September 2008.

At the close of Ms. Jackson's remarks, R. Bryan David, Executive Director of the Region 2000 Economic Development Council, addressed the joint subcommittee. He stated that the internet is taking the place of most other technologies and broadband access is a key component to high-speed internet performance. A major problem is the "death by distance" or the last mile conundrum. The further a location is from a major population center then the less likely that location will have broadband access. Mr. David stated that this situation is similar to how access to electricity was provided across the country--big cities first and expanded to less populated areas second. The "death by distance" problem results in unserved and underserved communities. Delegate Shannon asked Mr. David if he could give some idea of where the State stood geographically in terms of broadband access. Mr. David replied that there were more unserved and underserved areas than there were served areas.

Mr. David continued by stating that the goal of a successful program should be to reduce or delay capital costs and start-up expenses for Internet Service Providers (ISP). For many the capital costs and start-up expenses for bringing internet access to an unserved or underserved area are prohibitive in the face of the small return. Delegate Shannon noted that there were creative ways to defray upfront costs from the perspective, such as permitting infrastructure rental. He cited the example Franklin County, which prepaid 13 years of its telecom costs to the ISP who then used that money to purchase capital equipment. Mr. Baroody asked Mr. Bryan if he thought there would be more localities offering incentives to ISP. Mr. Bryan responded that he did see more incentive programs as the business, government and education sectors are becoming more willing to work together.

Mr. Bryan then stated that the components of success for increased broadband access are: i) use of public and private vertical assets, ii) low cost financing of equipment, and iii) reduced rates for backhaul connections.

Regional Economic Development Marketing Organizations

Mr. Bryan then moved to his presentation on Virginia's Regional Economic Development Marketing Organizations. Fifteen of these regional organizations operate in the state working with the Virginia Economic Development Partnership. The mission of the individual organizations is to keep interested parties informed about what is available in the covered region. Mr. Bryan stated that the organizations serve as an information conduit. Senator Whipple asked if the organizations are geared toward new prospects as opposed to assisting businesses already existing in the region. Mr. Bryan replied that while the major focus is on new prospects, the new business must be complementary to existing businesses.

Delegate Wright observed that there are times when new businesses have been recruited into areas where they are not needed and to the detriment of existing businesses. If the incentive deal falls through it can result in community losing out. There is an unfair advantage to big outside businesses and a tendency to want to bring them to communities where they are not needed. Mr. Bryan responded that in his region the focus was on complementary businesses.

Senator Whipple asked what kinds of businesses are typically sought. Mr. Bryan stated that typically they are seeking workforce development; instead of new businesses, they really want new people.

Economic Development Authorities

Sandi McNinch, General Counsel, Virginia Economic Development Partnership Authority, provided the joint subcommittee with an overview of the powers and activities of Virginia's Economic Development Authorities (EDA). Localities are authorized to establish such entities to assist in economic development activities. Most counties and

cities in the State have created authorities. Generally, a local economic development authority consists of seven members appointed by the local governing body and includes local business leaders and other civic-minded individuals. Ms. McNinch noted that some authorities have substantial operations and economic development programs administered by professional staff. On the other hand, there are also authorities that have not met in years.

Ms. McNinch stated that the enabling statute provides an economic development authorities board powers to assist the locality including some specific powers that are not available to the locality. These powers are an important economic development toolbox and include the ability to i) make grants to a business, ii) sell or lease land and buildings without a public hearing, and iii) issue industrial development bonds and make loans to businesses. Ms. McNinch noted many localities use authorities as sounding boards when establishing economic development policies and programs. Many authorities face common challenges that serve to hinder their economic development activities. There is a lack of a full understanding of how or when to use the authorities effectively. In addition, there are very few sources of cash and funding. Finally, there is no authority to structure regional solutions including revenue sharing among localities.

Senator Whipple noted that EDAs can be extremely helpful to localities. For example if a county owned a parcel of land and it wanted to sell or lease the parcel to a business, the county would have to hold a public hearing and possibly comply with the Public Procurement Act. If the EDA owned the parcel, it could be sold or leased without a hearing. In some instances, a locality will deed the parcel to the EDA to allow the transaction to move forward more timely.

Delegate Wright asked how enterprise zone designations fit into the work of EDAs, noting that communities tend to prize getting the designation. Ms. McNinch stated that the designation provides two main things. First, the locality may use a menu of practices to foster development including reduced permit fees, a fast-tracked permit review process and provision of access to public utilities. Second, it provides participation in a state-level grant program. Delegate Wright asked if any consideration is given in the process regarding whether there is a need for a new business in to a community especially when it may be to the detriment of existing businesses. Ms. McNinch stated that the designation is awarded on a competitive basis and that no entity has the power to tell a business where to locate. There are times, however, that the locality or authority can suggest that there are places where it thinks the business should locate. Ms. McNinch also noted that sometimes a new business may want to operate near existing businesses.

Delegate Wright stated that he was aware of a situation where local incentives were used to bring in a major retailer and to buy out existing retailers. Before the deal was complete the major retailer pulled out and now the community was left with no retailers. He asserted that localities and their EDAs should be required to give some consideration to the existing business structure of the community or locality when determining whether to provide incentives to bring in outside businesses.

At the conclusion of Ms. McNinch's presentation, Chairman Cole brought the meeting to a close. He noted that the joint subcommittee members will be polled for the next meeting. 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>.

The meeting adjourned at 9:50:a.m.

Contact

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