

VIRGINIA INCENTIVES TOOLS IN THE TOOLBOX

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**VIRGINIA ECONOMIC
DEVELOPMENT PARTNERSHIP**

SITE-SELECTION PROCESSES CONSIDER A VARIETY OF FACTORS; DISCRETIONARY INCENTIVES OFTEN PLAY A MEANINGFUL ROLE

NOT COMPREHENSIVE

Primary selection factors*

- Quality, availability, and cost of target workforce
- Proximity to key customers and suppliers
- Availability of target real-estate solution (size, cost, control, water/sewer/rail connectivity, etc.)
- Tax and regulatory climate
- Transportation infrastructure
- Operating costs (electricity, insurance, workers comp, etc.)
- Quality-of-life factors (public K12 options, regional amenities, crime rate, etc.)

Secondary selection factors**

- Availability and quality of customized recruitment and training solutions
- Customized (discretionary) incentives
- By-right financial incentives
- Level of state-and-community support (e.g., fast-track permitting)
- Personal preferences of executives involved in decision process (e.g., affinity for a particular place)

* Priority of selection factors varies from project to project; however, quality and availability of workforce almost always is one of the top three considerations

** Typically these factors come into play when multiple locations offer relatively comparable characteristics relative to primary site-selection criteria; however, a large incentive package can represent a primary selection factor

Source: Author experience with hundreds of site-selection projects; *Site Selection* (January 2018)

DEPLOYING INCENTIVES TO HELP YOU CLOSE THE DEAL

- Economic development is a team sport
- If incentives are necessary to close the deal, we can help to put together an incentive package
- The package needs to make sense for all parties
- VEDP's Research team will prepare the Virginia ROI – Captures all state grants in addition to the VEDP-administered programs
- Measures Benefits vs. Costs (State only; not Local)
- Key inputs are number of employees, wages, hiring schedule, capex, broken down by real estate
- Produces estimates of project benefits (personal income tax, sales tax) for direct employees, construction related employment, and indirect employment (IMPLAN multiplier derived for VA NAICS code)
- Payback – Strive for 2-3 years; have gone 4-8 years
- For the development of a local ROI, go to www.virginiaallies.org then click on “Tools”

CONSIDERING THE USE OF INCENTIVES

- Discretionary incentives / By-right incentives
- Many benefits / enhancements based on a community's fiscal stress
- Often based on high unemployment
- Some based on high poverty
- At VEDP, less than 20% of projects receive discretionary incentives
- Traded sector company or function
- Profit vs. non-profit

EXAMPLES OF THE TWO MAJOR TYPES OF BUSINESSES

- **Nontraded sector:** Most businesses provide goods or services to local customers – their health depends on the vitality and growth of the region where they operate

- Local contractors
- Hospitals
- Law offices
- Auto repair shops
- Restaurants and bars
- Insurance agencies
- Financial advisors
- Small accounting firms
- Real estate agents
- Local retailers

Nontraded-sector firms benefit *indirectly* from VEDP's work, which increases demand for their products and services

- **Traded sector:** A minority of businesses generate most of their sales from out-of-state customers

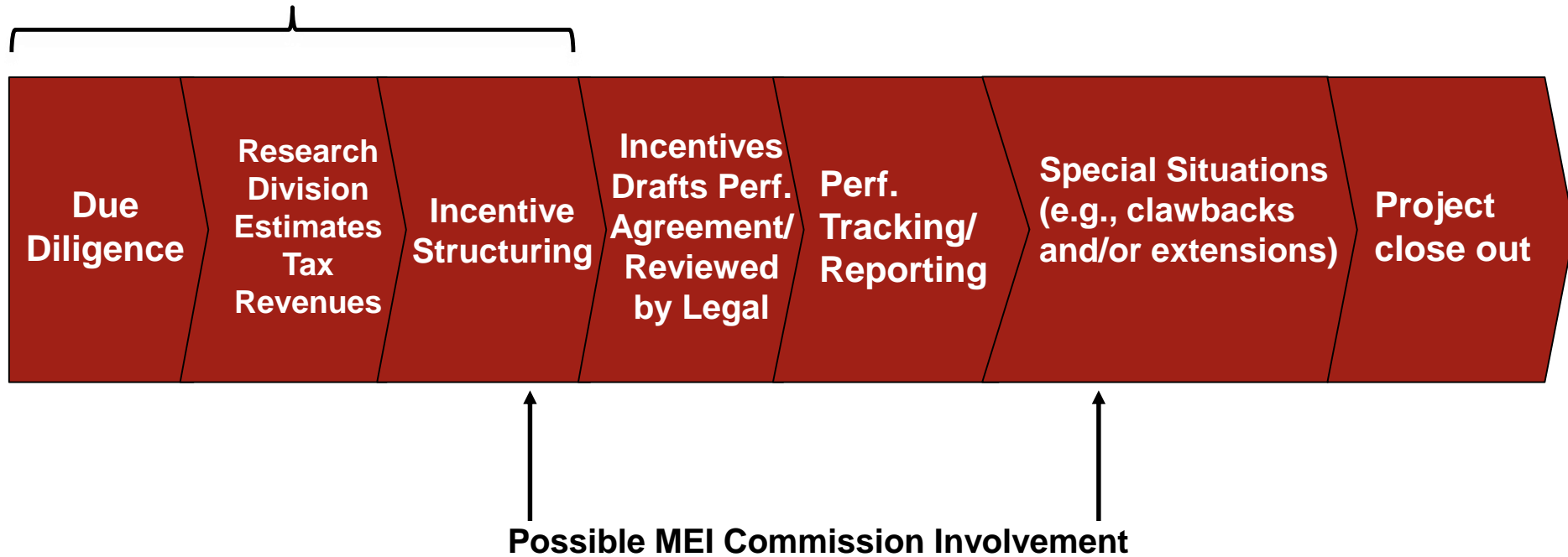
- Manufacturers
- Corporate headquarters
- Software firms
- R&D facilities
- BPO
- Distribution facilities

VEDP primarily focuses its efforts on the retention, expansion, and attraction of traded-sector firms

LIFE CYCLE OF DIVISION OF INCENTIVES INVOLVEMENT IN AN ECON. DEV. PROJECT

WORKING DRAFT

PRACC Engagement



ASSESSING PROJECT VIABILITY

VEDP AND LOCAL DUE DILIGENCE REVIEW

- Assess financial strength and ability to finance project
- Understand project parameters and need
- Review project, financial risk, and incentive risk (via PRACC)
- Share VEDP's financial review with locality
- For a COF, recommend (via PRACC) relevant performance milestones
- Secure PRACC approval before recommending incentives to Administration or MEI

GUIDING PRINCIPLES FOR VEDP-ADMINISTERED INCENTIVES

- Align with strategic sectors
- Impactful
- Maximize community wealth
- Align with local/state strategy
- Diversify the job base in regards to skill sets
- Solve a specific need (versus a by-right expectation)
- Use as real competitive advantage
- Leverage other state resources
- Advance quality of life

CLOSING THE DEAL

COMMONWEALTH'S OPPORTUNITY FUND

- Out-of-state competition for project
- Can be up-front cash grant; more often paid upon achievement of performance metrics
- Generally, limited to \$1.5 million per project, but Governor can go higher, if he wishes
- Local match required: cash, in-kind, foregone revenues
- Basic: \$5MM capex / 50 jobs
- Single distress: \$2.5MM capex / 25 jobs
- Double distress: \$1.5MM capex / 15 jobs

VA INVESTMENT PARTNERSHIP ACT

- Payout after company has performed
- Umbrella for three programs:
- Virginia Investment Partnership Grant (VIP):
 - Focused on capital investment
 - \$25MM+ capital investment
 - Up to \$3MM (or \$5MM for special projects)
- Major Eligible Employers Grant (MEE):
 - Existing major basic sector employers & corporate HQ's
 - \$100MM capex / 1,000 jobs (or 400 jobs if paying 2x the PAW)
 - Up to \$25MM paid in 5 – 7 installments
- Virginia Economic Development Incentive Grant (VEDIG):
 - Focused on traded sector companies with good jobs
 - 400 paying 1.5x the prevailing wage or 300 jobs paying 2x the prevailing wage (Lower thresholds for smaller MSA's)
- Requires a 50% local match

LANDING THE BIG FISH

PERFORMANCE-BASED GRANTS

- Require special legislation – MEI Commission
- Major projects that can impact direction of economy
- Based on job creation / investment / production
- May be based on attracting supply chain
- Generally, payment after performance has been achieved
 - Rolls-Royce
 - Micron
 - Huntington Ingalls
 - SRI

HELPING WITH LOCAL INFRASTRUCTURE INFRASTRUCTURE GRANTS

- Brownfields Grant Fund
 - Funds for Site Assessments
 - Funds for Site Remediation
- Business Ready Site Grant Fund
 - Site Characterization Grants to determine site readiness
 - Site Development Grants to take a site to the next tier
- VDOT Road Fund
- VDRPT Rail Fund

THE LOW-HANGING FRUIT

BY-RIGHT TAX CREDITS AND EXEMPTIONS

- Sales and use tax exemptions
 - Equipment used in manufacturing process
 - Computer equipment used in large data centers
 - R&D equipment
- Green jobs tax credit
- Major business facilities job tax credit
 - 50 job threshold (25 jobs in Enterprise Zones and distressed areas with high unemployment)
 - \$1,000 per job created, paid over 2 years
 - Available to manufacturers and other basic employers
- R&D tax credit
 - 15% or 20% of increased R&D costs

QUESTIONS?



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