



STRATEGIC REVIEW 2015

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

EXECUTIVE SUMMARY

Virginia is at a crossroads, facing critical issues that affect its economy. We can no longer count on the federal government's employment and spending contributions as in years past. Pre-recession, ever-increasing federal spending kept Virginia's unemployment rate below the national average.

But times have changed, and Virginia finds itself in a difficult position. Governor McAuliffe has called for creation of The New Virginia Economy. The Virginia Economic Development Partnership's key role in its construction is outlined in this strategy document. It addresses each of The New Virginia Economy's pillars, which are:

- Enhancing Our Infrastructure
- Growing Our Strategic Industry Sectors
- Promoting Our Competitive Business Climate
- Nurturing a Sustainable Entrepreneurial Environment
- Equipping Virginia's Workforce with In-Demand Skill Sets

In response, VEDP has developed proposed deliverables with the following declarations of intent:

1. Outperform Competitors
2. Work as One
3. Advance Business Competitiveness
4. Meet Market Demand
5. Access World Markets

Hurdles must be overcome to achieve these goals. VEDP will need to foster strong collaborations with many stakeholders to fulfill its role in making The New Virginia Economy a reality for all Virginians.

The tasks to be done are clear. This strategy document may serve as a roadmap and a call to action to those in all corners of the Commonwealth who must join forces to secure a brighter future for Virginia. When we work together, we can make it happen.

**WHEN WE WORK TOGETHER,
WE CAN MAKE IT HAPPEN.**

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CHALLENGES TO THE VIRGINIA WAY

- A Commonwealth at the Crossroads

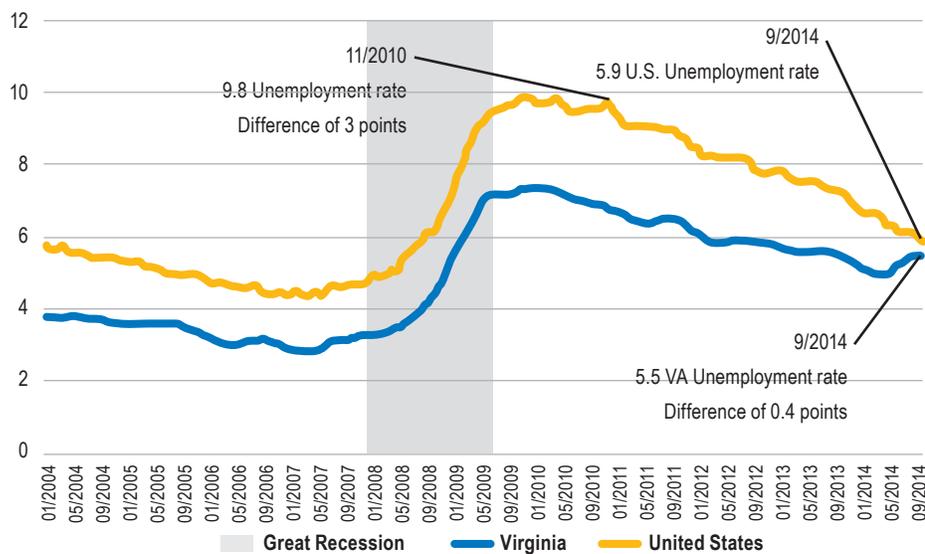


CHALLENGES TO THE VIRGINIA WAY

A COMMONWEALTH AT THE CROSSROADS

The Commonwealth entered the Great Recession in December 2007 in a very strong position relative to the national economy and neighboring states in the Mid-Atlantic and Southeast. The Commonwealth's unemployment rate was 3.3% and had historically remained roughly 2 percentage points below the national average. In virtually every government management and economic performance category, Virginia ranked in the top tier of states and typically outpaced national averages in population, income and employment growth rates.

VIRGINIA UNEMPLOYMENT VS. UNITED STATES



SOURCE: BUREAU OF LABOR STATISTICS

As the nation emerged from the recession's grip, Virginia found itself in an unusual and difficult position. While the employment growth rate coming out of most recessions has historically outpaced the nation and helped Virginia recover economically and fiscally from those downturns, the current recovery is not following the standard script. In fact, it is literally not a "recovery" at all. By standard definition, that would assume a return to normal conditions. What is clear now is that the U.S. and state economies are undergoing fundamental restructuring.

Virginia's average rate of employment growth since the recession is tepid, at 0.06%. It ranks No. 41 among all states for post-recession average rate of employment growth. Pre-recession since 2004, Virginia had averaged 0.14% employment growth, ranking No. 21 among other states. As of September 2014, Virginia's statewide unemployment rate was 5.5%, just 0.4% below the national rate of 5.9%, and less than half the normal 2.0% spread between the state and national rates.

PRE-RECESSION

UPSIDE:

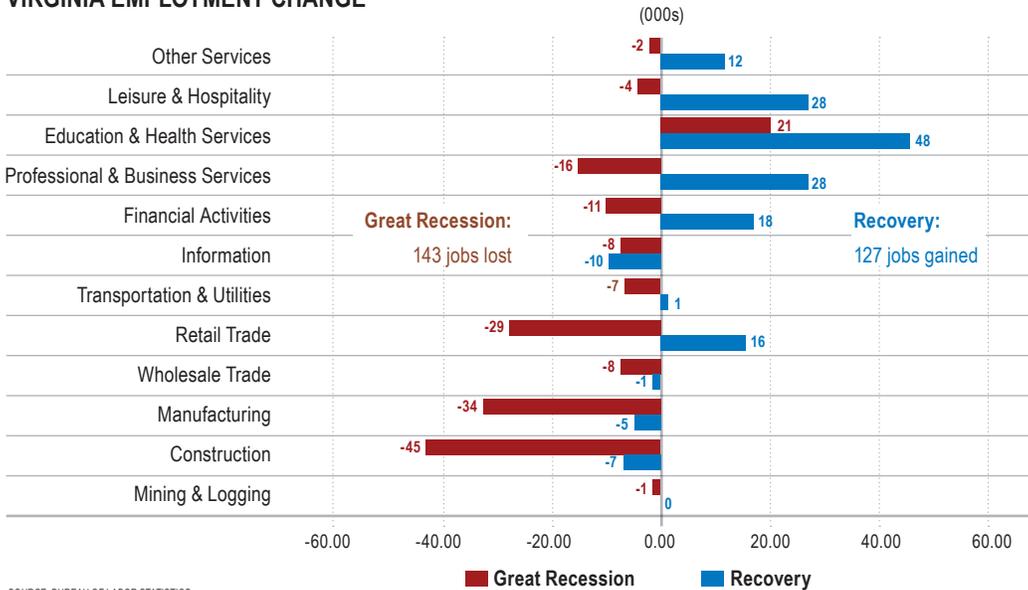
- Virginia consistently ranked No. 1 in prominent business rankings
- Very low unemployment rate of 3.3% was 2 points below national average
- Virginia benefited from ever-increasing federal government spending

DOWNSIDE:

- Unrestrained national consumer spending and the housing bubble produced a super-charged, debt-laden economy.
- To meet business demand, the majority of Virginia's shovel-ready sites got developed
- Lower labor cost options overseas encouraged investments in emerging markets
- Virginia relied on publicly-funded jobs

CHALLENGES TO THE VIRGINIA WAY

VIRGINIA EMPLOYMENT CHANGE



SOURCE: BUREAU OF LABOR STATISTICS

Reasons behind this sub-par economic performance (for Virginia, at least) are clear. For decades, Virginia enjoyed impressive growth in good times and bad by being able to rely on the federal government's contribution to its economy, both in employment and spending. As neighbors of the federal capital in Washington, D.C., much of the Mid-Atlantic's employment base has been tied to government agency staffing. Defense and overall government expenditures pumped billions of dollars in to the state and regional economy, spawning a massive network of government contractors that literally changed the real estate development landscape, particularly in Northern Virginia.

Military bases throughout Virginia, and the Pentagon itself, have enormous impact on the flow of funds, people and services throughout Virginia's economy. Even during a downward business cycle, the continual military and contracting industry presence helped mitigate volatile labor market swings and kept Virginia economy's stable.

Many of Virginia's neighboring states have ridden an economic roller coaster that has had an adverse impact on their overall financial condition, increasing debt, and curtailing many key government

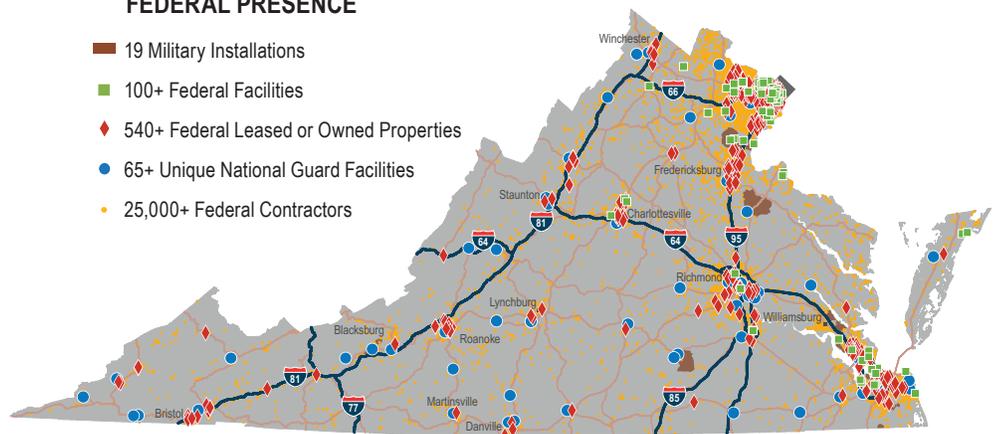
services. Meanwhile, Virginia, largely due to strong fiscal management, maintained its coveted AAA bond rating and currently boasts 11 localities who share this rating—more than any other state (Moody's).

Virginia's overall employment picture had been characterized by solid, steady growth in the professional and business services sector. In 2013, this sector had employment growth (3.5%) and wages well above the average wage (\$72,367 vs. state average of \$37,325). Select areas such as Northern Virginia became dominant on a national scale for growth in this sector. Strength in technology sectors, particularly connected with information technology, systems integration and others, had been

largely tied to the heavy federal and defense contracting presence in Virginia. Growth in this segment had been strong for two decades. Following the September 2001 terrorist attacks, professional and business services sector growth proved exceptional and added robust economic activity to Virginia, especially in Northern Virginia, leading to a strong flow of new revenue into the state treasury. Many companies are now leveraging their military expertise to develop new services and products for commercial markets.

FEDERAL PRESENCE

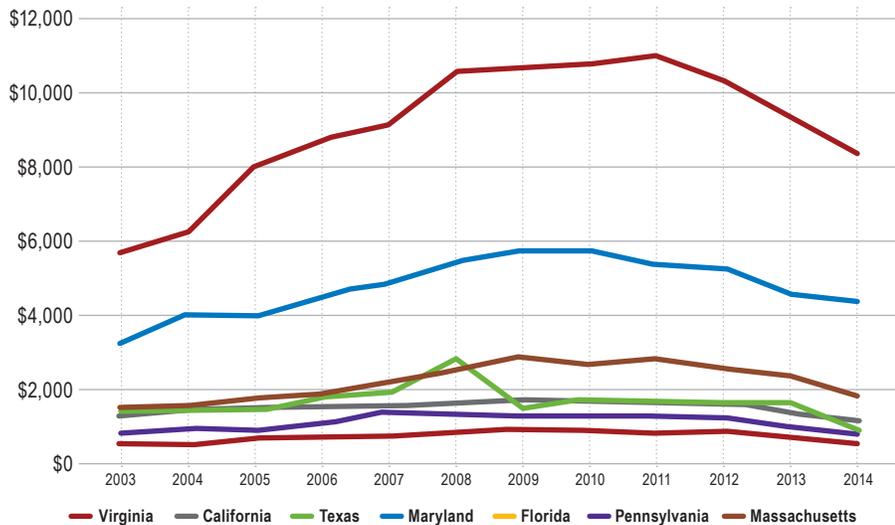
- 19 Military Installations
- 100+ Federal Facilities
- ◆ 540+ Federal Leased or Owned Properties
- 65+ Unique National Guard Facilities
- 25,000+ Federal Contractors



SOURCE: SYSTEMS AWARD MANAGEMENT, GSA, VEDP

CHALLENGES TO THE VIRGINIA WAY

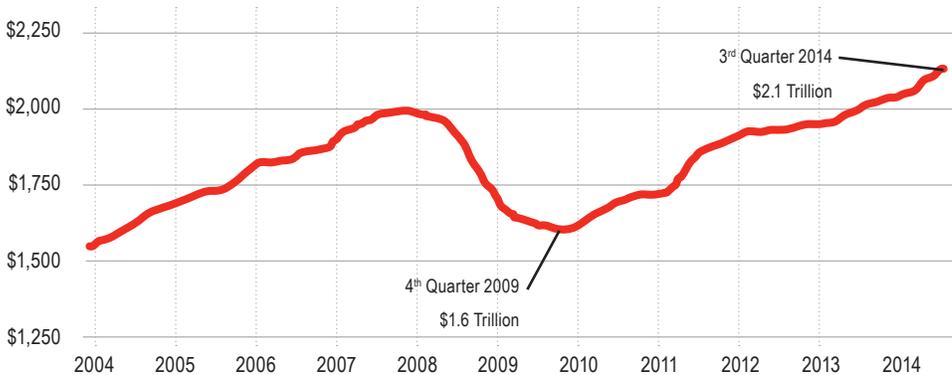
FEDERAL SPENDING BY TOP STATES PER CAPITA



SOURCE: USA SPENDING, CENSUS BUREAU, VEDP

Today, the pace of overall job creation in Virginia is leveling off. The professional and business services sector is feeling much of the impact, directly due to recent federal decisions, including budget sequestrations, which reduce the scope of federal spending. For Virginia, a state with heavy federal dependence, the implications are now being revealed in hard data showing job impact, especially in Northern Virginia and Hampton Roads. This is a noteworthy economic performance indicator and makes it increasingly clear that assumptions regarding Virginia's fiscal performance need to be reassessed. In

U.S. FIRMS INCREASING CAPITAL INVESTMENT



SOURCE: BUREAU OF ECONOMIC ANALYSIS, NONRESIDENTIAL REAL PRIVATE FIXED INVESTMENT, BILLIONS OF CHAINED (2009) DOLLARS

POST-RECESSION

UPSIDE:

- U.S. firms making increased capital investments (see chart at bottom left)
- Perception/reality that international investment into the U.S. is more stable, less volatile due to:
 - Narrowing labor cost differential between some emerging markets and the U.S.
 - Concerns regarding protection of intellectual property in overseas markets
 - Increased U.S. energy production and reduced utility costs
 - Increased transportation costs of goods to and from overseas facilities, favoring re-shoring strategies
- Premium placed on knowledge-based occupations in the "Innovation Economy," favoring U.S. education
- Cash-laden corporate earnings and balance sheets, pent-up need to make smart investments

DOWNSIDE:

- Competitor states adopting many of Virginia's business-friendly programs and policies and aggressively deploying new economic development resources
- Downsized private and public sector workforces
- Anemic job creation with greater proportionate growth in lower wage service sector jobs and contractual employment
- Decreased federal spending
- Falling rank among states for business investment, innovation, and talent acquisition

THE NEW VIRGINIA ECONOMY

- VEDP Current & Proposed Deliverables



THE NEW VIRGINIA ECONOMY

VEDP CURRENT & PROPOSED DELIVERABLES

Governor McAuliffe has declared that it is time to build a “New Virginia Economy.”

Upon signing Executive Order 26 establishing The New Virginia Economy Strategic Plan and Steering Committee, Governor McAuliffe said, “If we are going to compete in the global marketplace, now is the time to work together to balance our budget responsibly, protect and expand our world-class infrastructure and education systems, and increase our efforts to bring innovative companies here to create jobs and help diversify our economy.”

The four-year strategic plan, which by law must be developed by the close of a Governor’s first year in office, addresses five economic development priorities. As Governor McAuliffe notes: “My administration’s four-year strategic plan will focus on: 1) enhancing our infrastructure, 2) diversifying and growing our strategic industry sectors, 3) solidifying and promoting our competitive business climate, 4) nurturing a sustainable entrepreneurial environment, and 5) equipping Virginia’s workforce with in-demand skill sets to meet current and future business needs.”

Virginia’s Secretary of Commerce and Trade, Maurice Jones, laid out the above as the five key pillars for building a new economy. Throughout the fall of 2014, Secretary Jones met with dozens of business, community and economic development representatives in town-hall settings throughout Virginia to help develop the Governor’s strategy.

As the primary point for growing strategic industry sectors and diversifying the Commonwealth’s economic base—one of the key pillars of the Governor’s strategy—the Virginia Economic Development Partnership strongly supports both the process and product of these efforts. VEDP is also engaged in varying degrees in each of the Governor’s other plan priorities, which are integrally linked. Specifically, VEDP has keen interest in ensuring that the Commonwealth’s business climate is competitive, has advocated project-ready infrastructure to accommodate business growth, has increased export opportunities for Virginia-made products and services, and has services and programs to encourage job creation and expansion of high-growth business enterprises.

A discussion of how VEDP’s efforts enhance The New Virginia Economy follows.

THE NEW VIRGINIA ECONOMY

“...ENHANCING OUR INFRASTRUCTURE...”

Infrastructure and commerce have always gone hand-in-hand. Centuries ago, canals and railroads were built to efficiently move goods to markets. More recently came construction of interstate highways, international airports, broadband networks and spaceports. The absolute imperative remains: regions must have sound infrastructure to generate business activity and produce greater economic prosperity.

In Secretary Jones' strategic sessions held in the fall of 2014, noted was that today's infrastructure assets and business investment requirements are wide-ranging. Some, such as functional roads and highways, are essential for a region's commerce. Others are critical for connectivity with the global economy, such as strong broadband and Internet capability, adequate seaports, key airports and carrier connections. Additionally, these assets contribute to residents' overall quality of life. Diverse and well-maintained housing stock and quality public facilities form the backdrop for livable, attractive communities ripe for business growth. Many regional roundtables the Secretary facilitated highlighted specific gaps in critical infrastructure. Issues included:

Infrastructure + Development = Jobs

- a need for better regional transit in Northern Virginia
- enhanced access to rail and natural gas on the Eastern Shore
- better broadband capacity in Southern, Southwest, and other rural regions
- enhanced efficiencies for the ports of Virginia

Moreover, a common theme was ensuring that Virginia's regions had an adequate inventory of market-ready sites and buildings to offer business clients.

Local governments' role in developing infrastructure cannot be overstated. While development of real estate is a partnership in some states between the state and local government, in Virginia the responsibility for connecting infrastructure with land suitable for development rests primarily with local government—from financing for public improvements, water/sewer and new roads, land use planning—to zoning, permitting and more. This is often referred to as “product development.” Whether developed privately, publicly or increasingly in some combination of public-private partnership, the bottom line and abiding truth is that communities with well-located, attractive, fully serviced and ready-to-go (“shovel-ready”) sites and buildings will receive the lion's share of business development activity.

Product inventory today is scarce in many Mid-Atlantic and Eastern Seaboard states, particularly for shovel-ready industrial/manufacturing sites of 250+ acres. It is also true for larger 1,000+-acre sites that can

accommodate major industrial facilities and mega-economic development projects that can transform the surrounding region. In Virginia, this scarcity is partly attributable to its recent successes in having new business prospects claim the better prepared and marketable properties.

Further, the recent recession and its aftermath had a drastic impact on most communities' financial resources to acquire and develop new sites. Likewise, the private development community is finding it harder to access capital for more speculative development. The effect is long-lasting, since it can take several years to fully permit and develop a site. For companies on a fast timetable (12-18 months), a community with otherwise desirable attributes can lose a business opportunity by missing the project's construction schedule.

A current snapshot of Virginia's property inventory shows just six sites with potentially at least 800 developable acres. They could be improved to become home to a major single-user economic development project (mega-project). Of these, three have been fully engineered with established cost estimates and construction timetables. None are truly shovel-ready today. The issue of site depletion extends to other, smaller but still significant, properties. The Commonwealth currently has only three rail-served sites of 250 acres or more that are appropriately developed for single-user projects.

It is a similar situation with respect to available building inventory. Single-user buildings between 40,000-150,000 square feet with at least 24 ft. ceilings number 21 for the entire state—half of what was available in 2008. Several key regions have no facilities in this sought-after range. Traditionally, at least 75% of prospects' location searches start at existing buildings. As VEDP seeks to attract key advanced manufacturing operations in particular, this depleted inventory hurts Virginia's competitiveness, often in regions that most need the economic activity.

In a different context, Wallops Island on the Eastern Shore is home to a singular, strategic infrastructure asset. The Mid-Atlantic Regional Spaceport (MARS) is the centerpiece of the state's objective to build a viable commercial launch industry. Virginia has invested heavily in this facility, and after the October 2014 launch accident, it is imperative that Virginia continue to develop and promote this asset as the space industry's cost-effective launch alternative.

VEDP CURRENT AND PROPOSED DELIVERABLES

1. Provide reliable data and expertise regarding inventory of sites and buildings statewide
2. Establish and fund public/private partnership site program, with emphasis on mega-sites

THE NEW VIRGINIA ECONOMY

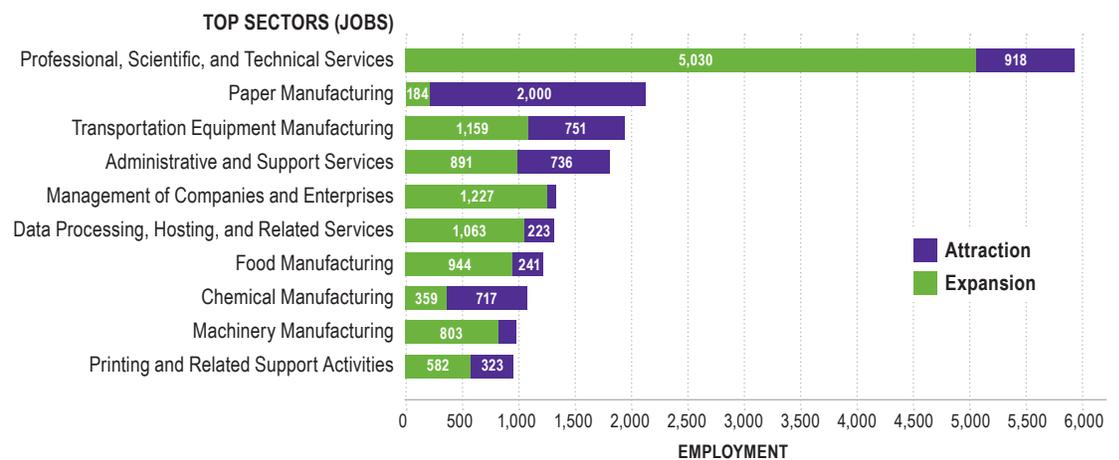
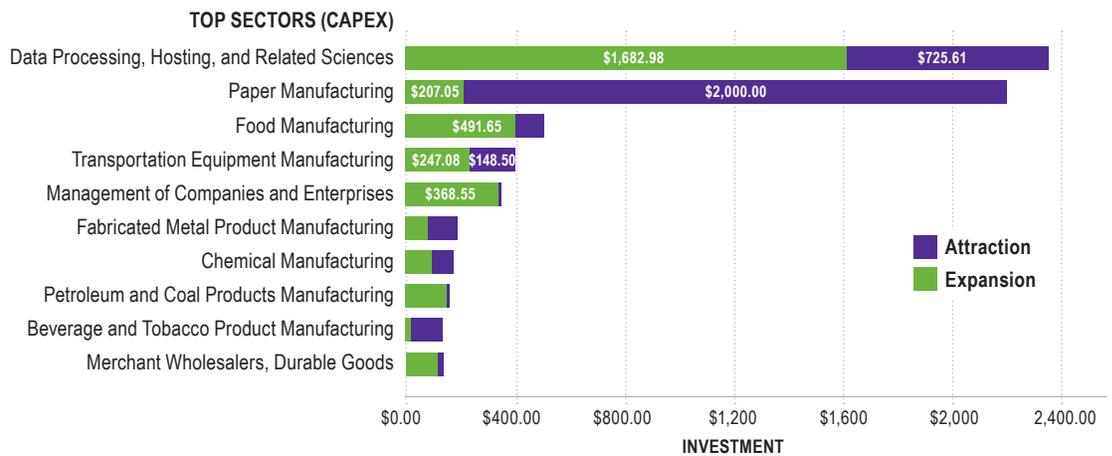
“...GROWING OUR STRATEGIC INDUSTRY SECTORS...”

Virginia’s existing business base provides a sound, strong foundation upon which to build a viable overall development strategy. Just as Virginia’s geographic regions have diversity in their makeup to attract business, its diverse mix of viable industry sectors can spur further development. Through detailed research and analysis, VEDP regularly develops targeted industry sectors. Sectors of primary (although not necessarily exclusive) interest for 2015 from a marketing perspective are included on page 15 of this document.

VEDP-ASSISTED LEADING INDUSTRY SECTORS 2013–2014

(Capex in '000's)

331 announcements resulting in \$7.2 billion capital investment and future creation of over 27,000 jobs



THE NEW VIRGINIA ECONOMY

Declaring strengths and capabilities where they exist, in conjunction with regional and local economic development partners and Virginia's higher education and workforce partners, is key to collaboratively refining and projecting a unified pro-business message in and beyond Virginia. Business decisions are based on many factors, including proximity to raw materials and market, over which economic development organizations have little control. However, top-ranking site location factors that can be influenced include workforce delivery and real estate. Understanding existing regional business clusters can help Virginia focus growth, retention, expansion and recruitment strategies toward sectors already demonstrating success in the Commonwealth.

Advanced Manufacturing. The manufacturing sector remains a vital component of the U.S. and Virginia economies. Although not the dominant employer it was a generation ago, manufacturing helps drive technology, productivity and innovation across many industry sectors. While Virginia has seen manufacturing job losses, it still has 240,000+ employees and represents over \$118 billion in direct annual economic output. Accounting for direct and indirect jobs, 13% of all jobs in Virginia are manufacturing-related. Manufacturing wage levels and overall industry multipliers are higher than in other industry sectors, contributing to overall state income and economic stability. Key manufacturing operations are found in most Virginia regions and provide a viable foundation on which to build.

A diverse array of key sub-sectors are represented, and indications are that the reshaped transportation sector provides continued opportunities for automotive equipment and components and other transportation equipment manufacturers. Likewise, recent opportunities in aerospace equipment, unmanned automated systems, agribusiness and advanced materials provide evidence that Virginia is capturing manufacturing market share. Virginia has just been selected as one of six test ranges for Unmanned Aerial Vehicle testing (the Mid-Atlantic Aviation Partnership). Virginia is also home to unique capabilities in R&D and in workforce development through entities such as the Commonwealth Center for Advanced Manufacturing. Projections are for significant growth in this segment, and Virginia possesses many of the assets needed to scale up a manufacturing presence.

Corporate Headquarters and Operations Centers. Virginia has a healthy complement, with 55 firms' corporate headquarters having annual sales of more than \$500 million. Twenty-five companies headquartered in Virginia have annual sales of at least \$5 billion, and 35 Fortune 1000 companies call Virginia home. Virginia's pro-business climate, global access and talented workforce combine to make it the ideal location for corporate headquarters. From an affordable lifestyle and competitive business environment to a skilled and ready labor force, Virginia is one of the most desirable places for corporate operations in America. Corporate headquarters in Virginia enjoy a business-friendly climate characterized by stable and competitive taxes, payroll costs and lease rates, as well as legislation that protects "at will" employment practices. This concentration of corporate managers gives the Commonwealth tremendous leverage and access to many of America's leading decision-makers. Executives in Virginia's corporate headquarters firms represent an underutilized resource to help maintain and modify public policies affecting business growth. Their extensive business networks are also underutilized. These professionals may be potential ambassadors for Virginia if they feel they and their companies are successful and thoughtfully engaged with policy leaders.

QUICK FACTS

AUTOMOTIVE EQUIPMENT:
95 companies, \$48,000 avg. salary

AEROSPACE/UNMANNED SYSTEMS:
102 companies, 12,534 jobs,
\$111,000 avg. salary

ADVANCED MATERIALS:
36,000 jobs, \$60,000 avg. salary

AGRIBUSINESS/FOOD PROCESSING:
310,990 jobs, \$52B economic output

Diverse Economic Base = Sustained Prosperity

QUICK FACT

Recent VEDP announcements include 57 corporate headquarters and operations centers totaling 4,353 jobs and \$361 million investment.

THE NEW VIRGINIA ECONOMY

Information Technology. Virginia has enjoyed national and international acclaim for its leadership in the broad arena of information technology. Currently, over 300 cyber security companies are in Virginia, with more firms established each month. Systems and integration design and data center operations are some examples of the formidable IT footprint. In fact, 10,800 employees work in data centers at an average salary of \$94,000. Northern Virginia is clearly the dominant home for the industry, but other regions of the state are making inroads. A recent national data center summit in Virginia reinforced the industry's view of continuing growth, and companies reiterated that Virginia's infrastructure and tax policies make it an excellent location for growth. Today, with broadband deployment across Virginia's rural areas, fiber redundancy and low latency times open up potential for this sector's growth across the Commonwealth.

As the world's commerce and telecommunications interface migrates to the cloud, new investment opportunities across Virginia are in play. Recognition of data analytics as a new frontier for business and government decision-making provides Virginia with a competitive advantage. Access to abundant talent, university research support, robust infrastructure, and key customer proximity should serve Virginia well as Big Data and analytics gain momentum. Organizations such as the Commonwealth Center for Advanced Logistics Systems represent opportunities for Virginia to expand its reputation in this area.

Virginia's IT strength bodes well for other sectors, since its technologies and capabilities inevitably find useful application in most other industries. Advanced manufacturing operations in all sectors—medical and life technologies, bioinformatics, global logistics, research and development, corporate management and headquarters, and even federal and defense/security related operations—all depend on highly robust and reliable technologies in sensing, monitoring, processing, managing and controlling systems as their lifeblood. Information technology is connective tissue, enabling activity common to all and giving Virginia a distinct competitive leverage point.

For example, Siemens in 2014 announced \$1 billion in in-kind software grants for manufacturing programs at Virginia community colleges and universities. This will enable students to train and learn on the Siemens product lifecycle management (PLM) software used throughout the global manufacturing industry to design, develop and manufacture some of the world's most sophisticated products in a variety of industries, including automotive, aerospace, consumer products, medical devices, machinery, shipbuilding, apparel and high-tech electronics. Siemens, a member of the Commonwealth Center for Advanced Manufacturing (CCAM), understands that U.S. manufacturing is being transformed by a software revolution that enhances productivity, increases efficiency and speeds time to market. Virginia's students with access to this software capability will help distinguish the Commonwealth in the quest for talent and business attraction.

Life Sciences & Medical Technologies. Virginia has made fitting overtures in the biotechnology and life sciences space, with some 20,000 Virginians employed in the sector at a healthy average salary of \$48,000. Key companies such as Merck, Abbott, Teva, Novozymes Biologicals, HDL and Fareva are represented and form a nucleus around which to build. Research in Virginia continues to grow and provides a set of unique strengths. The Howard Hughes Medical Institute and SRI International give the Commonwealth strong research credentials.

In 2013, Virginia created the Virginia Biosciences Health Research Corporation (VBHRC/the Catalyst) as a means to unite corporate research with Virginia's six major research universities on key focal areas of collaborative study in which Virginia has demonstrated world-class strengths: bioinformatics, medical

QUICK FACT

Information technology employment concentration in Virginia at 1 out of 10 workers is the highest concentration in the U.S.

THE NEW VIRGINIA ECONOMY

informatics, point-of-care diagnostics, and drug discovery and delivery. Although early in its life, this program is already attracting interest from major non-Virginia-based pharmaceutical companies. Also, assets are in place to build upon the information technology and advanced manufacturing infrastructure to pursue health information technology and services and medical devices. Once again, these niches reflect and reinforce the unique technology capabilities Virginia can bring to the table.

Professional & Business Services. As noted earlier, professional and business services activity in Virginia has been a leading contributor to Virginia income and job growth. Federal spending policy has certainly had an impact, particularly as it relates to the contracting community in Northern Virginia, Hampton Roads and elsewhere. Still, Virginia has a considerable base of highly skilled talent, requisite infrastructure, and a network of formidable companies adept at reading and responding to dynamic market changes. As companies continue to right-size, engage in strategic alliances and mergers, and develop new strategies for survival and growth, Virginia and its economic development team need to be positioned to assist and add value. Many of these operations have multiple locations outside Virginia. VEDP and other Virginia stakeholders must reinforce the case for consolidation and growth in Virginia to take advantage of long-standing pro-business advantages Virginia offers. VEDP, for example, is increasing its on-ground staffing in Northern Virginia to ensure that it can aggressively deploy ongoing outreach to companies in the market.

Notwithstanding recent trends of reduced federal spending, federal and security operations offer certain opportunities for Virginia for the same reasons cited in the private sector. Opportunities in agency footprint consolidations and reorganizations result from a diminished physical federal footprint. Virginia, especially Northern Virginia, has ample office space inventory that can be persuasive in evaluating a Virginia option. Likewise, other assets (access, talent, vendors, taxes policy, regulation, utilities) help promote Virginia over other options. In some areas, such as intelligence and security-related establishments, certain government operations segments are growing and may require additional outposts.

VEDP is working steadily to stay engaged with the federal administration and congressional delegation, monitoring federal opportunities where they exist, and responding as appropriate. The extent to which VEDP can successfully compete for segments of this activity can mitigate other losses and cutbacks Virginia is experiencing and provide certain regional growth opportunities. The Foreign Affairs Security Training Center (FASTC) being considered for Ft. Pickett in Nottoway County is one example.

Transportation, Distribution & Logistics. Virginia's companies provide services and manufactured goods to customers throughout the world. Virginia's distribution base remains strong and continues to grow, with companies such as The Home Depot, Best Buy, Target, Walmart, Ace Hardware and Amazon.com all delivering goods from Virginia-based distribution centers. Increasingly, leading retailers and distributors are taking advantage of Virginia's proximity to eastern U.S. and midwest markets. Millions of square feet of warehouse space have been added at new distribution centers statewide. Virginia's distribution industry employs nearly 69,000 people, with more than 20 million square feet of space, primarily in trucking and warehousing (nearly 40,000 employees) and logistics (78 companies). The global logistics industry has a direct economic output of \$12.6 billion and supports an additional \$7.8 billion in economic activity in Virginia.

QUICK FACT

Eighteen percent of all federal dollars worldwide are spent in Virginia, and 6,500 of the 25,000 contractors in Virginia received contracts in federal FY13.

THE NEW VIRGINIA ECONOMY

A key natural advantage for Virginia is its roughly midpoint location on the Atlantic Seaboard. This makes for superb market reach to the country's interior for inbound product, and excellent north-south movement. The Port of Virginia complex in Hampton Roads and its alignment with the Inland Port in Front Royal and the Port of Richmond facilitate exporting. It is one of the three busiest container ports on the East Coast and can handle the largest ocean-going cargo ships in the world, with 50-foot ice-free channels with no overhead obstructions, on-dock rail service, and easy access to ocean traffic lanes. Adding to its capabilities are discretionary Port-related incentive programs. Virginia's Mid-Atlantic location also makes it desirable for launching space vehicles into low earth orbit. Dulles International Airport is Virginia's largest, providing international and domestic passenger and cargo services. The cargo sector offers great growth potential as Dulles continues to expand its facilities. Dulles is underutilized for both types of traffic, with considerable upside potential for Virginia's development efforts. Further, substantial underdeveloped acreage at Dulles can be a resource for future activity.

As mentioned earlier, Virginia recently established the Commonwealth Center for Advanced Logistics Systems (CCALS). CCALS is a unique collaboration among business, government and Virginia universities, all focused on the singular mission of transforming industry by improving the complex system of technological, mechanical and human factors that enable logistics. Industry and government members direct the CCALS agenda, and unprecedented intellectual property policies accelerate the transfer of lab innovation to solution implementation. Like CCAM, CCALS is an example of a shared research collaboration exploring new methods of innovation in its sector by leveraging technology for solutions.

Some notable logistics centers have been constructed post-recession, and as conditions improve in retail and consumer markets, Virginia maintains a sound position overall to respond, subject to having adequate sites developed.

QUICK FACT

According to the Virginia Port Authority, more than 2,000 Port workers engaged in activities directly related to the Port activities.

VEDP CURRENT AND PROPOSED DELIVERABLES

1. Produce target sectors for marketing (see page 15)
2. Build-out capacities in targeted geographic markets
3. Conduct more in-depth sector research in targeted markets
4. Rely on empirically-driven marketing to reach key prospects
5. Outreach to key corporate and high-growth businesses
6. Expand communication and coordination with allies
7. Establish internal "SWAT" (Sector Work Asset) teams to share information and leverage industry expertise

THE NEW VIRGINIA ECONOMY

2015 TARGETED INDUSTRY SECTORS

SUBSECTORS ILLUSTRATIVE, NOT ALL-INCLUSIVE

ADVANCED MANUFACTURING

- Advanced Materials
- Aerospace
- Agribusiness & Food Processing
- Transportation Equipment

CORPORATE HEADQUARTERS & OPERATIONS CENTERS

INFORMATION TECHNOLOGY

- Cyber Security
- Data Centers
- Modeling & Simulation
- Systems Integration & Design

LIFE SCIENCES & MEDICAL TECHNOLOGIES

- Bio-Technology & Life Sciences
- Medical Devices
- Personalized Medicine/Health IT
- Pharmaceuticals

PROFESSIONAL & BUSINESS SERVICES

- Federal Contracting
- Financial Services
- Process Management

TRANSPORTATION, DISTRIBUTION & LOGISTICS

- Logistics, Supply Chain Management and Support
- Maritime & Port-Related
- Freight & Warehousing

SPECIAL FOCUS

ENERGY

FEDERAL OPERATIONS

THE NEW VIRGINIA ECONOMY

“...PROMOTING OUR COMPETITIVE BUSINESS CLIMATE...”

Global real estate executives and site selection consultants use multi-jurisdictional regions as the primary unit of analysis to make major community screening decisions. Regions make or miss the cut based on factors such as regional labor force attributes, the nature and quality of educational systems to deliver a steady source of labor, commercial services, airports, housing options within easy commute, and a myriad of other factors.

On a regional scale, quality of life—including recreational offerings, cultural assets, and shopping and entertainment—now coalesce into a much more critical location factor than experienced just a decade ago. The reason is simple. As companies grow and innovate, they need a talented workforce. These employees demand a quality of personal life that complements their professional life. Vibrant regions draw new residents with education and skills attractive to businesses.

Simply put, regions that aggregate their assets can compete. Towns, counties and cities that stand alone are at a disadvantage. VEDP has found that Virginia’s governance system of independent cities can be confusing to some corporate real estate executives and site consultants. As they analyze data, they may conclude that jurisdictional independence is a significant barrier to visibility.

VEDP is uniquely positioned to connect and leverage its regions in business development strategies for growth, retention, expansion and recruitment, because Virginia is unique in its economic development organization system. Fourteen regional marketing organizations are in place, funded, staffed and generally prepared with economic development strategies. VEDP has developed consistent communication mechanisms through its Business Expansion division to ensure that regional organizations have a voice at VEDP’s internal table, and that VEDP’s leadership is aware of regional capabilities, strengths, weaknesses, threats and opportunities. Significantly, Northern Virginia’s localities lack a formal connection. This “crack” in the engine of Virginia’s economy is an area of concern for achieving highest performance.

Through regular visits and communications with regional marketing organizations and individual localities in Northern Virginia, trust has been built among the staffs to encourage alignment in marketing and business retention/expansion. Economies of scale and expense associated with sustained outreach marketing and promotion help create a vehicle to project Virginia’s message about these regional footprints beyond its borders. These groups provide a

measure of project coordination that often enhances VEDP’s project management, especially in showcasing individual sites and communities within a region. Regional representatives likewise provide further depth in sharing a region’s attributes.

Missing from the connectivity, however, is a data-driven analysis of “macro-regional economic trends” that are understood by regional leadership and VEDP, and on which are built basic regional economic development goals and strategies. Also missing is the collective view of Virginia’s “brand” and the collective elevation of Virginia’s message in the marketplace. This lack of a common brand with common goals undermines regional success and the Commonwealth’s as a whole.

VEDP’s ability to meaningfully coordinate such discussions will require redeploying resources or bringing on board new resources.

Regional Markets > Jurisdictional Boundaries

VEDP CURRENT AND PROPOSED DELIVERABLES

1. Develop new brand for Virginia’s business development
2. Market attributes of Virginia regions
3. Increase exports to global markets
4. Build stronger collaborative partnerships
5. Create synergies and support work of VEDP’s regional allies
6. Benchmark Virginia’s regional industry strengths against global competitors
7. Protect Virginia’s competitive taxation system, fair regulatory environment and business-friendly laws and leadership

THE NEW VIRGINIA ECONOMY

“...NURTURING A SUSTAINABLE ENTREPRENEURIAL ENVIRONMENT...”

Building The New Virginia Economy will require concerted emphasis on creating an environment that fosters innovation and a thriving entrepreneurship ecosystem. In such an environment, good business ideas can be brought forward, tested, refined, capitalized, commercialized and ultimately find receptive markets. Done right, tapping in to and cultivating this powerful entrepreneurial spirit can lead to increased business formation and growth throughout Virginia, resulting in another compelling source of new job creation to complement long-standing VEDP emphases on business attraction, expansion and international trade.

Virginia starts with a strong foundation. The Ewing Marion Kauffman Foundation's 2014 survey of small businesses showed that Virginia was among four states receiving the highest rating for small-business friendliness. A 2013 policy index ranking study from the Small Business & Entrepreneurship Council put Virginia 15th. There is much that Virginia does right, but the question becomes how can Virginia put all the pieces together—talent, education and pro-business environment—and reach its full potential?

Programs, policies and initiatives associated with entrepreneurship and small business in Virginia are diffuse and scattered. Dedicated program managers in a variety of agencies, departments, universities and elsewhere are doing much good work. The spectrum includes federal, state and regional efforts, foundations, and certain private efforts by the financial community. Improving these multiple providers' and services' coordination and alignment would mark a positive step forward.

While VEDP is not directly charged with fostering entrepreneurship, it has historically provided some support to smaller firms and some start-up enterprises through its traditional incentive programs like the Governor's Opportunity Fund and the Virginia Jobs Investment Program, when eligibility requirements have been met. New national research on net new job growth provides strong evidence that economic development efforts at the state, regional and local levels need to be adjusted to better address the needs of existing businesses responsible for the majority of new jobs. VEDP believes there is value in developing new programming for existing businesses, with targeted emphasis on sustained high-growth firms. Such an effort could be complementary to other entrepreneurship efforts underway across the Commonwealth.

The growing body of research indicates that companies which have managed to survive and grow past initial start-up exhibit a disproportionately larger share of job creation in a state or region.

These second-stage, higher growth companies—referred to as sustained high-growth—are represented in all industries and are relatively young (generally 5–8 years old). They offer considerable upside employment potential and are responsible for 70–85% of net new jobs in any region, but are most at risk of fleeing a region for one more conducive to fostering continued growth. VEDP believes a key programming void and market opportunity exists to identify these companies in Virginia, to understand what characteristics lead them to growth mode, and to fashion a strategy to engage them and ensure they have resources they need to continue growing in place. The thesis is that it is easier and more efficient to work with firms that already call Virginia home than to attract new firms to Virginia. Moreover, Virginia's growth firms are more likely to be enticed by other states in their economic development efforts, so it is prudent to be proactively engaged first with those firms.

As with its traditional business attraction and expansion campaigns, VEDP anticipates a leadership role developing and coordinating a strategy fully inclusive with regional and local economic development allies. Convening, facilitating and implementing this process with stakeholders would help launch this new initiative. This program fulfills a complementary role for VEDP within the context of the overall state entrepreneurship ecosystem. As companies move through the continuum from idea generation, to business formation, nurturing and early growth, VEDP and the economic development community can then engage with them as they emerge into the second stage of growth and maturity, with the goal of bringing substantial new employment online across Virginia to maximize results and contribute to a more sustainable economy.

VEDP PROPOSED DELIVERABLES

1. Assess ability of existing programs and policies to meet the needs of companies seeking sustained growth
2. Develop the first statewide sustained high-growth firm strategy in the nation

THE NEW VIRGINIA ECONOMY

“...EQUIPPING VIRGINIA’S WORKFORCE WITH IN-DEMAND SKILL SETS...”

Corporate top-line growth and, ultimately, the economy in general, is increasingly fueled by unlocking the workforce’s innovative capacity. Innovations, new products, new applications of existing products and product line extensions are generated by employees who think like both owners and consumers and feel empowered to imagine ways to build the business. Systems need to be in place to identify and recruit the best talent and to provide access to ongoing training. In every business sector, employee skill requirements are increasing and often require technical certification or similar credentials, if not formal higher education.

Businesses consistently cite workforce issues as integral to their decision to grow and invest in a location. A workforce delivery system viewed as responsive to fulfilling demand for key skills is central to Virginia’s ability to compete for economic investment.

Generally, Virginia has many positive workforce attributes. The Commonwealth’s workforce is known to be highly educated, culturally diverse and bolstered by a significant exiting military population that exhibits highly technical skills with superior discipline and work ethic. Geographically, however, the quality, diversity, skills and educational attainment levels of Virginia’s workforce are significantly uneven. Outside the urban crescent, the relatively low percentage of workers holding at least a bachelor’s degree can be an impediment to attracting knowledge-based industries.

Virginia has at least nine separate agencies operating 22 different training programs, spending an estimated \$300 million in training services. Discussions on workforce delivery need to distinguish between programs providing important and worthy education and services to distinct population segments versus fulfilling specific skill-based needs for Virginia’s economic development prospect pipeline. Virginia’s economic competitiveness will largely depend on our ability to efficiently identify and equip our prospects’ workers with requisite skill sets, both at project start-up and on an ongoing basis.

As of July 1, 2014, VEDP is home to the Virginia Jobs Investment Program (VJIP). It is one of Virginia’s oldest and most frequently utilized economic development incentive programs, focused on supporting new and expanding Virginia businesses to find qualified workers and develop them into a first-class, globally competitive workforce. VJIP enables a business client to engage in a self-directed, customized worker training or retraining program, which also provides a means to reduce human resource development costs of new and expanding companies creating jobs through performance-based grant payments. VJIP program staff provides the client with an array of concierge services and effectively serves as a portal through which businesses are exposed to the

spectrum of potential training service delivery partners, develop a training budget, and implement their training and retraining strategies.

Similar programs are routinely offered by all of Virginia’s competitor states. Virginia must be vigilant to ensure that VJIP receives adequate attention to both program and support funding to maintain its competitive edge. The program came to VEDP in July 2014 after 20 years in the Virginia Department of Business Assistance, during which time funding, staffing and services eroded significantly. VEDP is seeking to rebuild it over the next five years to closely align with business and market demands and leverage the assets of Virginia workforce training system partners, such as the Virginia Community College System and the Virginia Workforce Board.

VEDP anticipates growth in its identified target industry sectors as well as in small and high-growth businesses. In leveraging training partners, VEDP anticipates additional field-based VJIP staff will be needed to assemble teams of regional workforce training providers to ensure a systematic and professional approach to existing and new business clients. Through a Memorandum of Understanding with Virginia’s publicly-funded institutions of higher education, VEDP can champion their role in workforce delivery. While traditionally focused on degree-granting outcomes, higher education institutions are positioned to utilize their continuing education departments to create credentials meaningful to businesses in the Commonwealth. Through consistent work with these institutions, and through its connections with the State Council for Higher Education and the Virginia Community College System, VEDP can influence movement toward better workforce credentialing that meets businesses’ needs.

VEDP is finding that it increasingly uses the Governor’s Opportunity Fund to supplement costs for training purposes in tandem with VJIP funding. This is a demonstration of the need to steadily ramp up funding support for workforce purposes and a further indication of the priority that business prospects place on this key site selection factor. Virginia’s efforts need to reinforce this priority from both a funding and policy support perspective.

VEDP CURRENT & PROPOSED DELIVERABLES

1. Fully integrate workforce (VJIP) into operations
2. Enhance VJIP as a portal for businesses to access workforce delivery capabilities
3. Leverage and champion higher education partners in creating credentials that count for business

THE NEW VIRGINIA ECONOMY

SUMMARY

PILLAR	VEDP CURRENT AND/OR PROPOSED DELIVERABLES
Infrastructure	<ul style="list-style-type: none"> • Provide reliable data and expertise regarding inventory of sites and buildings statewide • Establish and fund public/private partnership site program, with emphasis on mega-sites
Competitive Industry Sectors	<ul style="list-style-type: none"> • Produce target sectors for marketing (see page 15) • Build-out capacities in targeted geographic markets • Conduct more in-depth sector research in targeted markets • Rely on empirically-driven marketing to reach key prospects • Outreach to key corporate and high-growth businesses • Expand communication and coordination with allies • Establish internal “SWAT” (Sector Work Asset) teams to share information and leverage industry expertise
Competitive Business Climate	<ul style="list-style-type: none"> • Develop new brand for Virginia’s business development • Market attributes of Virginia regions • Increase exports to global markets • Build stronger collaborative partnerships • Create synergies and support work of VEDP’s regional allies • Benchmark Virginia’s regional industry strengths against global competitors • Protect Virginia’s competitive taxation system, fair regulatory environment and business-friendly laws and leadership
Sustainable Entrepreneurial Environment	<ul style="list-style-type: none"> • Assess ability of existing programs and policies to meet the needs of companies seeking sustained growth • Develop the first statewide sustained high-growth firm strategy in the nation
Workforce	<ul style="list-style-type: none"> • Fully integrate workforce (VJIP) into operations • Enhance VJIP as a portal for businesses to access workforce delivery capabilities • Leverage and champion higher education partners in creating credentials that count for business

PUSHING THE RESET BUTTON

- Recalibrating VEDP
- Five Declarations of Intent & Hurdles to Clear



PUSHING THE RESET BUTTON

The immediate challenge for VEDP is to re-examine and modify its strategies and tactics for achieving its economic development mission.

RECALIBRATING VEDP

In 2013, with input from organizational design professionals, VEDP adopted a different approach to navigate the post-recession period. Given declining public resources and fast-changing events, VEDP directed laser-like focus to its founding mission's basic tenets of attracting, expanding and retaining business establishments in Virginia. It streamlined and reorganized operations and repurposed resources exclusively around core competencies of three fundamental market-facing divisions.

The business attraction division was established to focus intently on selling Virginia to national and international markets. The business expansion division was set up to target existing businesses and encourage additional investment in facilities, to enhance collaboration with regional allies, and to lead higher-impact connectivity with higher education. The international trade division was charged with focusing exclusively on helping existing Virginia businesses export services and products to global markets. An integrated database with built-in real-time dashboards for tracking deal flow for each division was put in place as a key tool for management.

In conjunction with these structural changes, VEDP adopted a targeted, geographically-based outreach marketing effort for business attraction, in place of the sector-based approach previously employed. Business expansion likewise deployed managers on a regional, geographically-based platform to better coordinate with regional allies. In fiscal year 2015, VEDP will deploy a cross-matrix approach to bring industry sector expertise to bear in developing marketing messages and assisting specific deals. Yet, these changes are currently constrained by public-sector budget reductions that continue to affect VEDP's ability to fully execute a robust outreach and project management strategy.

In addition to internal realignment, in July 2014, the Virginia Jobs Investment Program (VJIP) was reintegrated with VEDP. In its 20 years away from VEDP, the program encountered funding and operational challenges that resulted in compromised services. It is now rebuilding under the VEDP umbrella.

As part of its restructuring, VEDP recognized the need for a Chief Operating Officer position. In June 2014, VEDP recruited and hired a nationally-recognized economic development professional for that job. By the close of third quarter 2014, VEDP implemented a new career framework for its employees, revamped all job descriptions with quantifiable deliverables more clearly aligned with operational goals, assessed and aligned pay according to market pricing, provided training, overhauled its performance evaluation process, put in place idea-generation capacities to encourage creativity and innovation, and created and implemented a performance-based compensation/variable pay plan.

In 2014, a major emphasis of VEDP's Chairman of the Board of Directors, Don Seale, was to more actively engage board members in advancing VEDP's interests and to develop new metrics. At the September 2014 board of directors meeting, VEDP adopted several new top-line metrics to complement the traditional "Jobs" and "Investment" measures it had used since its 1995 creation. Namely, these metrics included projected increases in state and local tax revenues resulting from VEDP activities, as well as reporting relative wages paid for the jobs assisted for incentivized projects. By providing such time-sensitive and relevant data, the newer metrics are helping VEDP better focus its operations and tell its story.

PUSHING THE RESET BUTTON

FIVE DECLARATIONS OF INTENT

VEDP does a number of things very well. Most importantly, it uses Commonwealth resources wisely to promote Virginia's assets to cultivate business leads and converts those leads to completed deals. Current macro-level trends and increased competition, in tandem with significant issues confronting Virginia today, mandate that VEDP becomes even better at what it does—winning high-value projects leading to new higher-wage employment and providing new revenue for both the Commonwealth and its localities.

VEDP MISSION STATEMENT

“To enhance the quality of life and raise the standard of living for all Virginians, in collaboration with Virginia communities, through aggressive business recruitment, expansion assistance, and trade development, thereby building the tax base and creating higher income employment opportunities.”

What follows are five declarations of intent. These are what VEDP resolutely believes and commits to doing in 2015. Associated with each declaration is a description of the major “hurdles to be cleared” that stand in the way of accomplishing VEDP’s goals. These hurdles need to be addressed by the VEDP board of directors, executive team and public officials in the year ahead. Answers to key questions raised here will lead to specific recommendations that will form the basis for a detailed Strategic Plan to be developed in calendar year 2015.

PUSHING THE RESET BUTTON

1

DECLARATION OF INTENT: OUTPERFORM COMPETITORS

The Virginia Economic Development Partnership is committed to aggressively, and successfully, competing against other states and regions throughout the globe for new business expansion and attraction opportunities that align well with Virginia's goals for achieving greater economic prosperity.

HURDLE TO BE CLEARED: UNPREDICTABLE FUNDING

Virginia needs to make strategic economic investments, including continued support for the Virginia Economic Development Partnership that enables it to stay ahead of the competition.

Fortunately, since its inception, the Commonwealth has strongly supported VEDP by funding its fixed operating costs. As a result, VEDP is recognized as a top-tier economic development organization. However, having a single source of revenue in tough economic times has resulted in inflexible and inconsistent funding and constrained Virginia's competitiveness.

In particular, financial support for marketing to key business audiences has been unsteady and now jeopardizes Virginia's pro-business message. For most of the past 15 years, VEDP has had little to no funding for advertising and direct marketing. In 2010, an infusion of roughly \$1 million enabled VEDP to get in to the game marginally. For instance, a digital market penetration campaign launched in Asia produced impressive results.

VEDP's inadequate funding in this area represents a mere fraction, as little as 10–50%, of what other states invest in marketing. Due, in part, to this ongoing lack of visibility, the Commonwealth continues to see year-to-year drops in its business competitiveness rankings.

The imperative is for Virginia to not only keep its reputation for attracting the country's best economic development professionals, but also to be in a position to achieve top-of-mind awareness in the business community to generate leads and fill the Commonwealth's deals pipeline.

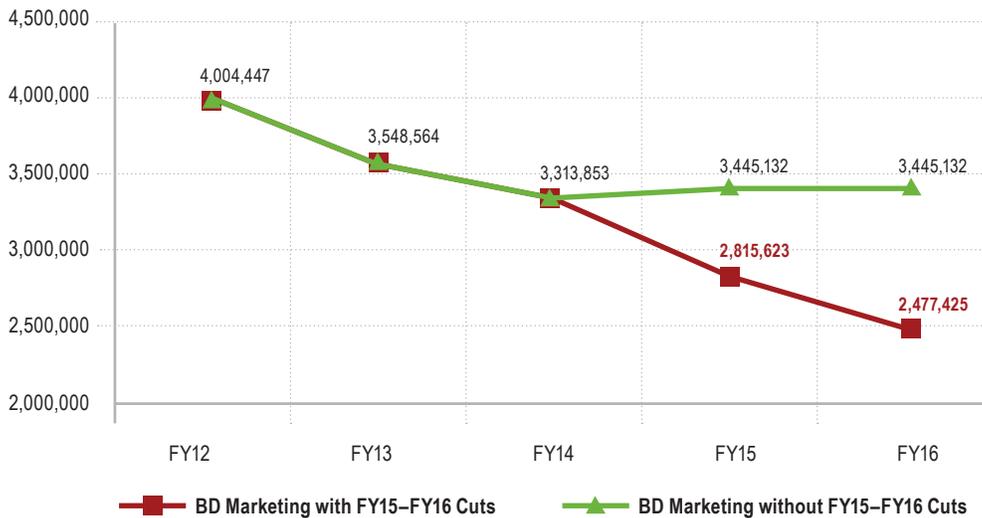
However, having a top-notch organization with reliable, adequate marketing funding does not guarantee success if the product being sold falls short. Funding for a robust workforce delivery system, attractive sites businesses want, and competitive incentives that win deals from competitor states or global regions are necessary. Without this full complement of support, Virginia will continue to be in a weakened position.

VEDP needs assured funding. Budget appropriations that may not last even 12 months severely impact VEDP's capability to enter into marketing contracts and engage in meaningful long-term strategic deployment. Funding disruptions cause resources to be allocated reactively instead of proactively and impede VEDP's ability to effectively evaluate programs' usefulness. Even the best race car that sputters and slows while circling the track because it is low on fuel will not win the race. The same is true for high-performing organizations. This is not an alarmist cry, but a bona fide concern. An organization like VEDP, designated to lead in securing deals to create jobs that generate public revenue and sustain a high quality of life for all Virginians, needs adequate and reliable financial resources to continually promote Virginia to businesses as a desirable state.

The table below shows the decline in marketing funding in recent years, which has made it difficult to sustain coherent and consistent outreach efforts.

PUSHING THE RESET BUTTON

**VEDP BUSINESS DEVELOPMENT MARKETING BUDGET
FY2012–FY2016**
(Proposed Cuts Exclude International Trade)



SO THE QUESTION TO BE ANSWERED CLEARLY IS:

After decades of sole reliance on Commonwealth General Fund allocations that supported a highly successful model of traditional economic development, what new funding paradigms will maximize VEDP's ability to adapt to a faster-paced and more highly competitive economic development world?

PUSHING THE RESET BUTTON

2

DECLARATION OF INTENT: WORK AS ONE

The Virginia Economic Development Partnership is committed to working with all regions and to developing creative, collaborative partnerships with key allied stakeholders to carry out its mission of expanding economic opportunity throughout the Commonwealth.

HURDLE TO BE CLEARED: DIFFUSED ROLES

For Virginia to compete in the global marketplace for economic opportunities, VEDP must collaborate with multiple partners. This begins with getting state, regional and local economic development organizations on the same page with a unified strategy.

In an ideal world, all parties would engage in developing regional strategies that tie in to an overarching statewide strategy. This could be a key starting point in forging new and stronger ties among state, regional and local entities so that the Commonwealth as a whole wins.

As a first step, VEDP believes that partnering to identify key sectors to target for each geographic region helps strengthen local and state economic developers' understanding of the respective regional economies, and helps foster more partnering between neighboring regions for marketing, expansion and other efforts. This will reveal clear areas of overlap and highlight sectors needing further emphasis as VEDP develops overall outreach campaigns.

More common practice recently, however, has been for each region to develop its own strategy and effectively go it alone, hoping the state will augment any resulting project leads. VEDP prefers to more fully engage with regions and localities to craft more effective strategies. With constant communication throughout the process to better acknowledge respective regional strengths, identify concerns and risks, and pinpoint regional differences that can be used in positional marketing promotes understanding and mutual trust, which ultimately reflects well on Virginia.

The changing complexity of our times, coupled with distinctly diverse regions within Virginia, dictates a more sophisticated playbook.

Diversity is an inherent strength, allowing a broader range of companies in more sectors to consider more locations in Virginia. One size does not fit all, however, and the overall strategic framework cannot solely be for communities to develop their "product" (sites, buildings, workforce and infrastructure) and then look to VEDP alone to deliver a steady stream of prospects. Instead, local, regional and state actors need a more well-rounded understanding of the unique assets and attributes of the Commonwealth's various regions, using that knowledge to craft a coherent, comprehensive and integrated business development strategy.

Strong leadership is needed for all facets of economic development to remain competitive. Except for some joint marketing activities, it is fair to say that Virginia's economic development is decentralized. VEDP's ability to influence change is largely dependent on forging effective partnerships with the Commonwealth's regional and local economic development organizations and other key allied stakeholders (universities, utilities, rail carriers, ports, other state and federal agencies, the financial community, the legislature, etc.). The era is long past when one economic development entity can be responsible for statewide economic development outcomes.

As a front line to the business community, VEDP is uniquely positioned to advocate for sound improvements in the overall business climate. Changes to business, the economy and society come swiftly. What is needed are for economic development entities, higher education partners and other business-focused organizations to build systems and capabilities equally nimble and fluid to respond appropriately to the changing marketplace.

PUSHING THE RESET BUTTON

In fact, given the fast-changing environment of economic development and the myriad of issues affecting the state's competitive position, VEDP is increasingly called upon and expected to be a vigorous champion for economic growth issues that impact development. It is not alone. Across the United States for more than a decade, traditional economic development organizations (those primarily engaged in marketing and support to grow, expand, attract and retain business) have evolved to become lead change agents for bringing diverse interests together to produce greater economic prosperity.

With appropriate resources, VEDP could help align these interests around coordinated strategies and shared outcomes. This would require VEDP to shift its influence. First and foremost, VEDP is a marketing organization, carrying the Virginia message around the state, nation and globe. It strives to understand the business mindset and strategic goals of businesses with which it is engaged, then convene appropriate stakeholders to achieve satisfactory outcomes, which are often new employment opportunities, new capital investment and new revenues for the Commonwealth and its localities.

But VEDP's present reality is that it owns no property, controls no utilities, has no workforce delivery system, has no private funding or reliably dedicated funding sources, and no taxing ability. It has limited connectivity to strategic partners with capabilities that support emerging markets. In fact, most factors in project site location decisions, or even criteria for state rankings, are beyond VEDP's direct control. Each of these factors need to be re-examined and addressed.

SO THE QUESTION TO BE ANSWERED CLEARLY IS:

How can VEDP better coordinate economic development activity and multiple economic growth strategies throughout Virginia by increasing connectivity among stakeholders and bringing diverse assets to bear?

PUSHING THE RESET BUTTON

3

DECLARATION OF INTENT: ADVANCE BUSINESS COMPETITIVENESS

The Virginia Economic Development Partnership is committed to fully understanding the views of executives of mature and sustained-growth companies in all targeted sectors so that our capabilities can be matched against their needs, and so that our toolkit is adjusted and refreshed to compete effectively.

HURDLE TO BE CLEARED: GREENER PASTURES

For most of this century, Virginia has been regarded as one of the best states for business. Similarly, as the Commonwealth's lead economic development organization, VEDP ranks well when compared with other states' efforts. It is of paramount importance to keep business investors' confidence and ensure that Virginia's economic development professionals are viewed as trusted and knowledgeable partners.

Recent economic upheaval and recovery have underscored a fundamental premise for economic developers: Get close and stay close to the business client. This means knowing a company's strategic imperatives to grow and prosper—how they align, or not, with the Commonwealth's capabilities so a potential value case can be made. In general, economic development entities like VEDP must adopt the investor's perspective to formulate overall strategy and execute programs.

Virginia's economic development apparatus, and VEDP specifically, needs to tune in to this investor mindset and fully engage with the business community to capture its share of growth opportunities. VEDP needs to become even more adept at uncovering private sector investment opportunities that are strong fits and more effective at converting them to new employment catalysts. This includes focusing on second-stage companies (the new "boardrooms in the backyard") that are visible across the Commonwealth, but which have limited state, institutional and local support.

Sustained high-growth companies are the employers of the future and targets for recruitment by other states. Virginia needs to heighten its ability to understand their needs and create a business climate that supports them. VEDP needs to refine its role in this new ecosystem.

As the economic climate across the nation, and in Virginia specifically, continues to change, VEDP can no longer assume that its approach to, tools for, and results from historic target markets are going to deliver the same return on investment. In particular, VEDP consistently hears from two market segments important to the economy that the Commonwealth does not have tools to address their needs. Ironically, these two segments can be viewed at times as at opposite ends of the business life cycle: mature existing businesses and companies in second-stage, sustained high-growth development.

Existing businesses that seek innovation through research and investment in modernization of facilities and equipment indicate that these lead, at best, to job retention, and in some cases to job reductions. However, these investments stabilize the existing facility for years to come. Since Virginia's primary discretionary tools are evaluated based on "new income" from new job creation, existing businesses are sometimes unable to benefit from these incentives.

Companies in early and second-stage development—these new "boardrooms in our backyard"—are also underserved by VEDP. Virginia's support strategy for entrepreneurial and high-growth second-stage companies is not clearly defined, and what services do exist are not fully available and deployed statewide. As the Commonwealth's primary and most visible economic development agency, VEDP is often viewed as the logical resource to call for help. In the last three years in particular, VEDP has seen an increase in small, high-growth firms seeking state resources (technical and financial). By handling them reactively as one-offs, VEDP has limited ability to provide relevant technical support or appropriate resource referrals, let alone a well-designed toolkit of its own to deploy.

PUSHING THE RESET BUTTON

The National Governor's Association reports that Hawaii, Nebraska and Tennessee are focusing on strategies to support high-growth companies. Michigan and Indiana are cited as states focusing on both existing business strategic support as well as high-growth company support. Of note, both of these former Rust Belt states recently adopted legislation supporting the "right-to-work" model, which for years was a Virginia stalwart business attraction/growth message.

VEDP could convene key business leaders to further define and assess their needs, particularly as they relate to jobless investments and financing/technical support for high-growth companies.

Understanding needs and barriers in key sectors will allow VEDP to recommend policies and actions to address them. Tools such as the Kentucky Reinvestment Act (allowing tax credits for retention of jobs aligned with baseline capital investment) or other similar tax credit programs might enhance Virginia's toolkit to support existing businesses, and may offset barriers that existing employers identify. In addition, modifications to tools such as the Virginia Investment Partnership Act, which supports capital investment for manufacturers modernizing but creating no new jobs, to allow for an ROI model based on impact to current jobs, may also be an important tool.

VEDP is also well-positioned to reach out to a selected group of high-growth companies to inventory types of assistance they value. Generally, VEDP believes that access to technical support for operational functions such as marketing, talent recruitment and business financing are all aspects of high-growth company support that could be addressed through a GOLD account (business expansion effort to meet with top employers in the state) and VALET-like program (VEDP's signature export program) within the VEDP organization.

SO THE QUESTION TO BE ANSWERED CLEARLY IS:

How will VEDP develop or coordinate a fully integrated, comprehensive program to address the needs of second-stage and existing businesses that are best positioned to create jobs and greater economic opportunities for Virginians?

PUSHING THE RESET BUTTON

4

DECLARATION OF INTENT: MEETING MARKET DEMAND

The Virginia Economic Development Partnership is committed to championing business-friendly policies and programs, and judiciously administering incentives for some businesses when such help results in a high return on investment for the Commonwealth by producing maximum high-wage job opportunities and revenue for local and state government.

HURDLE TO BE CLEARED: REASSESSING PRO-BUSINESS POLICIES & RETOOLING INCENTIVES PORTFOLIO

Competing states have adopted policies and programs similar to Virginia's and improved upon them to better address the business community concerns. Some states engineered dedicated funding streams to support economic development activity; others developed new incentives such as payroll tax rebate programs, or put in place employer-driven workforce delivery systems; others adapted to changing markets with new services and programs. And, finally, states such as Michigan, Ohio, New York and Texas saturated Virginia's targeted markets with sustained advertising and aggressive marketing.

The Virginia incentives toolkit shifted years ago to a model built on cash grants provided upfront with claw backs, or post-performance requirements. It has been well-received by the business community and by site selection consultants, but is hampered by today's tight state budgets and uneven funding policies. In addition, the model rewards net new job creation, but is not flexible enough to consider job retention. Nor does it necessarily address needs of small but high-growth companies. The toolkit is also not always aligned with target sectors.

Resources to support primary decision factors that can be influenced locally or by the Commonwealth are either non-existent or misaligned. In particular, three support areas are weak links in Virginia's competitive position: 1) lack of low-interest debt financing for second-stage and mature businesses for capital intensive needs, 2) limited resources for non-credit funding for customized training or retraining, and 3) an inadequate current inventory of prepared real estate (shovel-ready industrial and business sites, especially those considered "mega-sites").

In customized training or retraining, support is limited to the Virginia Jobs Investment Program. Funding for VJIP decreased from a high

of over \$15 million to its current level of just over \$5 million per year. The Virginia Community College System received a one-time allocation of \$3 million statewide for non-credit training. The current administration has set a statewide goal of increasing business-sanctioned certifications by 50,000 in the next three years. Without adequate funding, this goal—which is achieved through short-term courses that do not earn an associate's degree—will not be achieved. The Virginia Jobs Investment Program is an ideal tool to leverage and manage funding for such certification programs, in partnership with both public and private certifying entities that businesses in the target sectors endorse.

Virginia's ability to compete with a streamlined workforce delivery system and support for credentials that count is constrained by the current funding model for community colleges, WIBs and other higher education partners. Our system's inflexibility and the lack of a clear entry portal for businesses puts Virginia at a disadvantage when competing against states such as Georgia with its perceived simple model called "Georgia QuickStart," or against South Carolina with its advanced manufacturing/automotive training system. While VEDP would not provide the training, it should be the entity that markets the training system and enables its efficient delivery at the regional level.

At the same time, Virginia's woeful inventory of prepared sites also puts the Commonwealth at a distinct disadvantage. Virginia has lost projects such as the most recent Caterpillar manufacturing plant due to its lack of prepared sites of at least 200+ acres. Virginia has no fully prepared mega-sites at a time when a demonstrated pipeline of advanced manufacturing projects locating in the U.S. requires existing infrastructure and acreage of more than 1,000.

PUSHING THE RESET BUTTON

Agencies such as the Virginia Resources Authority, the Virginia Small Business Finance Authority, or the Department of Housing & Community Development are well-positioned to consider creating a financing mechanism that localities could use to build mega-sites or other aligned real estate, at low or no interest. This model could be structured with caps and a competitive application process. VEDP would provide insight into market demand, as well as alignment with regional targets and a commitment to support for marketing the product, ensuring stronger likelihood of success once the sites are prepared.

An issue to consider here is that all regions rely on the same limited pool of incentives to close key deals. Adequate marketing capacity is not enough to drive ultimate outcomes. Since the end of the Great Recession, vigorous competition among states for generally fewer projects in the pipeline has ratcheted up incentives used by states and localities. Companies and their savvy consultants are much more aggressive in pursuing incentives to minimize start-up costs; they expect state and local business-friendly policies to be in place to address longer term costs. Today, companies from early-stage to mature expect project financing support.

On a dollar-per-job basis, incentive values have escalated substantially. Virginia, compared to many of its regional state competitors, has a relatively modest incentive portfolio and a conservative incentive philosophy. Yet, with proper vetting of projects and use of rigorous return on investment analyses, VEDP has managed to stay very competitive on deals in which the full Virginia value proposition—the “total cost of operation”—is understood. In short, VEDP has leveraged its modest incentive portfolio well and produced an overall return on discretionary incentives of \$9 in new

state revenue for every \$1 of committed incentives. For this reason, the Pew Center for the States is working with VEDP and a select few states to help others better understand best-practice models.

Even with this solid track record, VEDP’s signature incentive for deal-closing, the primary discretionary incentive tool—the Governor’s Opportunity Fund (GOF)—has seen erratic funding levels. Most recently, the General Assembly shifted funds from this core incentive to other priorities, calling in to question Virginia’s ability to remain reasonably competitive in the current year and foreseeable future. GOF reductions and transfers account for almost \$30 million when Virginia most needs incentives to help replenish job losses caused by federal sequestration.

As discussed in the previous section, flexibility in ROI methodology for tools such as the Virginia Investment Partnership would allow VEDP to more strategically address existing businesses’ needs. In addition, reintroducing tax credit programs and establishing debt-financing products may help expand Virginia’s toolkit in a way that encourages job creation or retention.

SO THE QUESTION TO BE ANSWERED CLEARLY IS:

How will the Commonwealth of Virginia stay one step ahead of competing states in developing appropriate policies, financial tools and incentives, as well as new programs to meet the needs of all businesses?

PUSHING THE RESET BUTTON

5

DECLARATION OF INTENT: ACCESS WORLD MARKETS

The Virginia Economic Development Partnership is committed to exponentially expanding its trade services and aggressively competing for more foreign direct investment opportunities for all regions of the Commonwealth to produce high-paying jobs and increased local and state revenue.

HURDLE TO BE CLEARED: BROADEN THE EXPORT BASE AND INCREASE INVESTMENT FLOW

More than 80% of the world's purchasing power is outside the U.S. One in three manufacturing jobs depends on exports. Further research indicates that companies engaging in international trade have profit margins of 7.7%, compared to only 2.6% for companies that sell solely in the U.S. market. Moreover, companies that export pay approximately 15% more in wages than their domestic-only counterparts. It stands to reason that numerous Virginia companies have potential customers worldwide, and helping these firms access new markets and increase profits will produce higher-paying jobs and additional state tax revenue for the Commonwealth.

VEDP maintains Virginia's only export promotion program, except for VDACS, which focuses solely on agricultural exports. Regional and local economic development agencies, trade associations, chambers of commerce and universities do not offer integrated export assistance. VEDP's International Trade programs are known as high-quality and high-touch. In recent years, the VALET Program and Going Global Defense Initiative have been so popular that VEDP has had to turn away Virginia companies seeking international trade assistance. Great potential exists for Virginia to leverage the benefits of world markets if VEDP can scale upward the number of companies served through its international trade programs. This can include such things as increasing the number of companies accepted into the VALET Program, offering online export assistance and training courses, increasing the number of trade missions to global markets, etc. However, each of these scale-up initiatives requires resources, both fiscal and human, to execute.

Demand for Virginia goods and services from international customers increases daily, and the demand of Virginia companies for VEDP

assistance in pursuing these international business opportunities has been overwhelming. VEDP needs to secure resources and forge relationships with relevant stakeholders to exponentially expand its international trade initiatives.

VEDP has been recognized for operating award-winning international trade programs that include VALET and Going Global Defense Initiative. Even so, Virginia's regional and local economic development organizations have provided negligible support to VEDP's trade initiatives for many years, being more focused on business recruitment and industrial product development. In recent years, VEDP has engaged with private sector international service providers such as accountants, attorneys, bankers, etc., to leverage their services for VEDP's trade clients, and to solicit referrals of potential exporter companies. These connections with private sector multipliers can be expanded to trade associations across Virginia as well as to Virginia state-owned universities that provide international business curriculums.

The lack of a branded, coordinating entity for international trade limits Virginia's ability to marshal diffused state resources. Ultimately, this limits Virginia companies' engagement in the global economy. VEDP could help bring together public universities, industry associations, federal agencies and Virginia companies engaged in international trade in a more cohesive way. By leveraging resources contributed by each of these organizations, VEDP can scale upward the number of Virginia companies obtaining new revenue streams from international markets, resulting in job creation for Virginia and increased state tax revenues.

At the same time, VEDP has reorganized recently and repurposed all of its international offices engaged in securing more foreign direct

PUSHING THE RESET BUTTON

investment. Focus has been on lead generation as well as cultivating long-standing relationships with companies with a presence in Virginia. International projects form a solid core component of VEDP's project announcements and, noting recent global investment trends, Virginia expects to see further growth opportunities.

In the last five years, international activity accounted for over \$4.3 billion in new capital investment announcements, or 23% of all new project investments. International projects accounted for more than 13,900 new jobs announced, representing 14% of all new jobs announced in this period. While Virginia continues to see strong foreign investment performance from traditional sources like Japan and Western Europe (especially the U.K., Germany and Switzerland) in recent years China has emerged as a compelling new project source. Within a six-month period in 2014, Virginia announced three Chinese manufacturing projects totaling \$2.13 billion in capital investment and 2,725 new jobs. In many cases, international projects prove to be among the leading deals announced in these regions. Continental in Newport News (525 jobs), Lindenburg Industry in Appomattox (349 jobs), Kilgour Industries in Henry County (155 jobs), and Shandong Tranlin Paper Co. in Chesterfield County (\$2.0 billion investment, 2,000 jobs) provide a glimpse of the breadth and diversity of this activity across Virginia. Even as VEDP works to optimize lead generation from existing channels, it recognizes that Virginia lags behind other states in terms of committing resources to international markets. VEDP, for example, has but a single FDI representative in all of China and no presence in South Korea, with recent experience and trends suggesting these as long-term viable markets for lead generation.

Virginia, like many states, has been active over the years in having a Governor who serves as a visible, engaged leader of VEDP's international outreach efforts. International marketing and trade missions provide a major opportunity to open doors, gain vital executive access, and move project negotiations forward. Since 2010, Virginia governors have led 10 international missions across the globe. From these, 20 companies have announced investment decisions throughout the state, representing nearly 4,000 new jobs and \$2.3 billion in new capital investments. Further, VEDP continues to develop new leads that it hopes to convert to future wins in Virginia.

International outreach activities need to be consistent and focus on the long term to produce meaningful results as corporate/Commonwealth relationships extend well past any single Governor's term. Seeds planted today may well bear fruit in the form of quality jobs over several decades to come. This was certainly true when Canon established its presence in the state in 1985 as Virginia's first Japanese manufacturer. Now it has steadily grown and is a leading employer in Hampton Roads, among a collection of over 60 Japanese firms now located in Virginia. This consistency requires sustained resources and, ultimately, funding, for Virginia's citizens to take full advantage of international growth opportunities here at home.

SO THE QUESTION TO BE ANSWERED CLEARLY IS THIS:

How will VEDP scale up its trade activities to reach tens of thousands of businesses and capture more direct inward investment to produce more jobs and economic opportunities for all regions of the Commonwealth?

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VEDP DECLARATIONS OF INTENT & HURDLES TO BE CLEARED

GOAL	DECLARATION	HURDLE
Outperforming Competitors	The Virginia Economic Development Partnership is committed to aggressively, and successfully, competing against other states and regions throughout the globe for new business expansion and attraction opportunities that align well with Virginia's goals for achieving greater economic prosperity.	After decades of sole reliance on Commonwealth General Fund allocations that supported a highly successful model of traditional economic development, what new funding paradigms will maximize VEDP's ability to adapt to a new much more fast-paced, competitive economic development world?
Working as One	The Virginia Economic Development Partnership is committed to working with all regions and to developing creative, collaborative partnerships with key allied stakeholders to carry out its mission of expanding economic opportunity throughout the Commonwealth.	How can VEDP better coordinate economic development activity and multiple economic growth strategies throughout Virginia by increasing connectivity among stakeholders and bringing diverse assets to bear?
Advancing Business Competitiveness	The Virginia Economic Development Partnership is committed to fully understanding the views of executives of mature and sustained growth companies in all targeted sectors so that our capabilities can be matched against their needs, and so that our toolkit is adjusted and refreshed to compete effectively.	How will VEDP develop or coordinate a fully integrated, comprehensive program for addressing the needs of second-stage and existing businesses that are best positioned to create jobs and greater economic opportunities for Virginians?
Meeting Market Demand	The Virginia Economic Development Partnership is committed to championing business-friendly policies and programs, and judiciously administering incentives for some businesses when such help results in a high return on investment for the Commonwealth by producing maximum high-wage job opportunities and revenue for local and state government.	How will the Commonwealth of Virginia stay one step ahead of competing states in developing appropriate policies, financial tools and incentives, as well as new programs to meet the needs of all businesses?
Accessing World Markets	The Virginia Economic Development Partnership is committed to exponentially expanding its trade services and aggressively competing for more foreign direct investment opportunities for all regions of the Commonwealth to produce high-paying jobs and increased local and state revenue.	How will VEDP scale up its trade activities to reach tens of thousands of businesses and capture more direct inward investment to produce more jobs and economic opportunities for all regions of the Commonwealth?



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