COMMONWEALTH of VIRGINIA

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Director

Joint Legislative Audit and Review Commission
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JLARC Economic Development Subcommittee Meeting
November 10, 2016
MINUTES

Attending

JLARC Members:
Delegate Chris Jones, Chairman; Senator Thomas K. Norment, Vice-Chairman; Senator Janet Howell, Delegate R. Steven Landes, and Delegate John M. O'Bannon.

JLARC Staff:
Hal Greer, Director; Kimberly Sarte, Associate Director; Ellen Miller, and Paula Lambert.

Others:
Alex Thorup, Rob McClintock (Virginia Economic Development Partnership); Charles Kennington (Senate Finance Committee staff); Mike Woods (Troutman Sanders); Petrina Jones (Retail Merchants Association); Michael Martz (Richmond Times Dispatch); Myles Louria (Hunton & Williams).

The meeting was called to order at 12:12 p.m. by Hal Greer, JLARC staff Director. Mr. Greer welcomed the subcommittee members and introduced Kimberly Sarte, Associate Director for Ongoing Oversight and Fiscal Analysis, and Ellen Miller, Chief Analyst for Economic Development. Mr. Greer then asked the members to appoint a Chairman and Vice-Chairman of the subcommittee. Senator Norment nominated Delegate Jones to serve as the Chairman of subcommittee. The motion was seconded by Delegate O'Bannon and approved unanimously by the subcommittee. Subsequently, Delegate O'Bannon nominated Senator Norment to serve as the Vice-Chairman. This motion was seconded by multiple members and approved unanimously by the subcommittee.

Mr. Greer then turned the meeting over to Ellen Miller who provided the subcommittee members with a presentation of JLARC staff proposals for the evaluations of economic development incentives and the staff workplan for 2017. Ms. Miller explained several criteria for identifying the incentives to include in the scope of the subcommittee's evaluations and referred the subcommittee to a list of the 76 incentives staff propose to include. Senator Norment asked if gap financing is used for small businesses. Ms. Miller said that it can be used for both large and small companies. Ms. Miller also discussed 32 incentives that staff had identified as out-of-scope because they did not meet the proposed criteria. Del. Jones noted that the Historic Preservation Tax Credit was out-of-scope but the subcommittee did not decide to include the incentive in the scope of the evaluations.

Ms. Miller requested the subcommittee members' guidance and input on the proposed criteria for determining the in-scope incentives and whether additional incentives should be considered.

Delegate O'Bannon stated that it is a matter of balancing the time JLARC staff will have to examine additional incentives. He asked if Enterprise Zones were included in the scope of the evaluations, and Ms. Miller stated that they are. Delegate O'Bannon then asked why the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund was listed as an out-of-scope incentive. Ms. Miller explained that economic development appears to be a secondary purpose for this program. Delegate Jones asked how much activity is in that area. Ms. Miller said that she is not sure.

Ms. Miller then presented staff proposals for evaluation topics and the research process, and responded to a number of questions from the subcommittee. Delegate Jones asked if this review would result in eliminating any credits or grants that are not helpful or have not been used in a number of years. Ms. Miller explained that this is part of the JLARC staff proposal. Senator Norment said that several committees have been ineffective in looking at tax credits and reform in this area. He explained that the Senate Finance Committee staff has started keeping a tally of tax credits and has been aligning the expiration dates in order to look at them in a comprehensive manner. Senator Norment said that JLARC staff should look at this information collaboratively with the Senate Finance Committee staff. Delegate Jones stated that there needs to be a structured approach to JLARC's review of incentives. Senator Norment said that the General Assembly may want to realign some of the incentives. Delegate Landes asked if the sales and use tax exemptions listed on Handout A (including the data centers and farmer's market exemptions) are the only sales tax exemptions. Ms. Miller explained that the Handout A includes 18 sales and use tax exemptions that were identified as in-scope incentives.

Delegate Jones then asked about how the information will be collected and tracked over time. Ms. Miller explained that JLARC staff will be working with agencies that administer the different grant programs and will also be using data from the Virginia Employment Commission (VEC) and other sources. She also stated that the extent to which agencies follow up with companies to confirm job creation claims varies. Delegate O'Bannon asked if JLARC staff have the data needed to do this review. Ms. Miller said that the level of data available depends on the program but it is generally available. Delegate O'Bannon asked if JLARC staff will determine a value for the return on the state's investment in incentives. Ms. Miller said yes. She cautioned, however, that the value reported will be an estimate and that it may not be possible to calculate an estimate for every incentive.

Delegate Landes asked if the staff have considered reviewing how localities are participating in incentives. He also said the General Assembly has problems finding out information about the businesses applying for incentives (e.g. how much the business has grown and how stable the business is), and asked whether JLARC would be able to provide this information. Ms. Miller said that this is not standard information that agencies have available in a systematic fashion. She indicated that interviews and surveys with businesses that receive incentives will be an important research activity to obtain more context. She acknowledged that localities also provide incentives so JLARC staff will account for this when possible.

Senator Norment asked what the legislature will get out of this overall effort. Delegate Jones stated that there has been a lot of discussion in the House Appropriations Committee regarding grants but they do not have a good handle on all of the incentives that agencies administer, how many jobs are actually created, and the total amount of money that goes into incentive packages. He said that the General Assembly needs a process to evaluate incentives and provide a report card on the effectiveness of each incentive. Delegate Jones then stated that this process could help improve VEDP's administration of incentive grants. Senator Norment said that there should be a primary, objective set of criteria to use whatever the incentive may be, and these criteria should be adhered to for purposes of having a comprehensive review. Delegate O'Bannon said that this process would result in having data over time and a track record.

Senator Howell said that Washington State has a separate staff that performs reviews of economic development incentives and their staff has been discouraged because nothing happens with their report recommendations. Delegate Jones said that they need to have a set of objective criteria in order for members of the money committees to be able to say what the incentives should be doing. Delegate Landes asked how staff would handle projects that receive multiple incentives. Ms. Miller explained that the staff will try to group incentives by purpose or industry for the evaluations. Interviews and surveys with businesses will also be used to obtain input on the variety of incentives that are provided to each business.

Senator Norment asked what the staff means by "comparative, complex analysis." Ms. Miller explained that, where possible, staff will attempt to compare differences in economic activity of businesses that did not receive incentives to those that did. She said that complex analyses include other statistical analyses, which will vary by incentive depending on how it is structured and the data available to perform the analysis. Ms. Miller also explained that the economic impact analysis requires specialized software and that it would likely cost less for JLARC staff to hire a contractor who uses this software versus if JLARC purchased the software and hired additional staff to perform the analysis.

Delegate O'Bannon asked why all tax credits did not have a sunset date. Ms. Miller said that newer tax credits have a sunset date because the General Assembly adopted a policy requiring all newly adopted tax credits to have them. Many older ones still lack them.

Ms. Miller then asked if the subcommittee had any concerns with JLARC staff hiring a contractor to perform the economic impact analysis. Delegate Jones stated that JLARC needs the expertise to do the work and the agency has the budget to cover the costs associated with hiring a contractor. Delegate O'Bannon advised JLARC staff to be careful to hire an objective contractor because some contractors do more work in certain industries and are more specialized than others. Delegate Landes advised staff to hire a contractor that can make adjustments with the software based on changes to the programs and the inputs. Delegate O'Bannon asked how the staff will regionalize the analysis to look at how incentives impact different parts of the state. He cited the example of a company that relocated from the western part of the state to the eastern part of the state yet still received an incentive. Ms. Miller said that she had not considered how to address this specific case, but that staff do plan to take regional impacts into account.

Delegate Jones said that he agrees with the JLARC staff proposals regarding the six- to eight-year reporting cycle length, three levels of evaluation, and grouping incentives by purpose or industry. He stated that the subcommittee wants to make sure that the money spent on a contractor results in added value to the incentive evaluations. He also confirmed that the subcommittee wants JLARC staff to make recommendations on incentives when warranted.

Ms. Miller presented staff proposals regarding the reporting cycle, and a workplan for 2017. The subcommittee agreed that it is important to allow staff and the contractor to perform a test run of the individual incentive evaluation for 2017. Delegate Jones said that the subcommittee is flexible regarding the reporting timeline. Mr. Greer asked for confirmation that the subcommittee is comfortable with receiving the results of the test run evaluations in the fall of 2017. Delegate Jones said that this timing is acceptable. The subcommittee members expressed their approval of JLARC staff proceeding with hiring a contractor to perform the economic impact analysis. Delegate Jones stated that he will provide brief comments summarizing the subcommittee meeting at the Commission meeting on Monday, November 14, 2016.

There being no further business, the subcommittee adjourned at 1:15 p.m.

Approved by: Hal E. Greer
Hal E. Greer, Director

Date: 11/17/16

Prepared by: Paula Lambert
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& Senior Legislative Analyst