JLARC
JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

September 14, 2020

Infrastructure and Regional Incentives

JLARC Commission Briefing

JLARC evaluation of economic development incentives

- Appropriation Act directs JLARC to evaluate economic development incentives on ongoing basis
  - Spending and business activity
  - Economic benefits
  - Effectiveness
- JLARC contracting with Weldon Cooper Center to assist with evaluations

2020 Appropriation Act, Item 31(F).

JLARC staff present two reports on incentives each year

- In-depth evaluation of 9–11 individual incentives* (typically summer)
  - Spending and business activity
  - Economic benefit
  - Effectiveness
- Overall assessment of incentives (fall)
  - Spending and business activity
  - Collective economic benefit of incentive spending (biennially, as directed by mandate)

*Incentives grouped by industry/purpose.

In-depth incentive reports presented through 2020

Date	Incentives covered
November 2017	Film incentives (3)
June 2018	Workforce and small business incentives (9)
June 2019	Data center and manufacturing incentives (11)
September 2020	Infrastructure and regional incentives (10)

10 infrastructure and regional incentives evaluated in this report

Incentive	Amount spent FY10–FY18	Included in presentation
Coalfield Employment Enhancement Tax Credit and Coal Employment and Production Incentive Tax Credit	$314.6M	✓
Tobacco Region Opportunity Fund and Megasite Grant*	195.8	✓
Real Property Investment Grant and Job Creation Grant (Enterprise zone)	116.2	✓
Transportation Partnership Opportunity Fund	35.2	
Economic Development Access Program	18.2	✓
Rail Access Program	8.9	
Business Ready Sites Program	1.2	

*Focus is on Tobacco Region Opportunity Fund.

In brief

Coal tax credits are among the state's largest incentives, but they generate negligible economic benefits for the state and no longer appear relevant.

Enterprise zone grants and program reported as useful, but poor targeting and design characteristics limit their effectiveness.

A high percentage of Tobacco Region Opportunity Fund projects did not materialize, limiting the program's economic benefit. Funding was either recaptured or not paid out.

In this presentation

Coal tax credits

Enterprise zone incentives

Tobacco Region Opportunity Fund

Economic Development Access Program

Coalfield Employment Enhancement Tax Credit encourages coal production and employment

- Anyone with economic interest in coal mined in Virginia (generally the mining company) is eligible
- Refundable if credit amount exceeds tax liability
- Value varies by mining method and changes in employment levels
- $225.5M in credits from FY10–FY18 (Virginia's second-largest incentive)

Referred to as "coalfield tax credit" for simplicity.

Coal Production & Employment Incentive Tax Credit encourages use of Virginia coal to generate power

- Electricity generators that purchase Virginia-mined coal to produce power are eligible
- Tax credit = $3 per ton of Virginia coal
- Nonrefundable with 10-year carryover period
- $89.1M in credits from FY10–FY18

Referred to as “electricity generator tax credit” for simplicity.

Finding

Coalfield tax credit no longer warranted to maintain competitiveness with other coal-producing states.

Coalfield tax credit adopted to help maintain Virginia's competitiveness in coal production

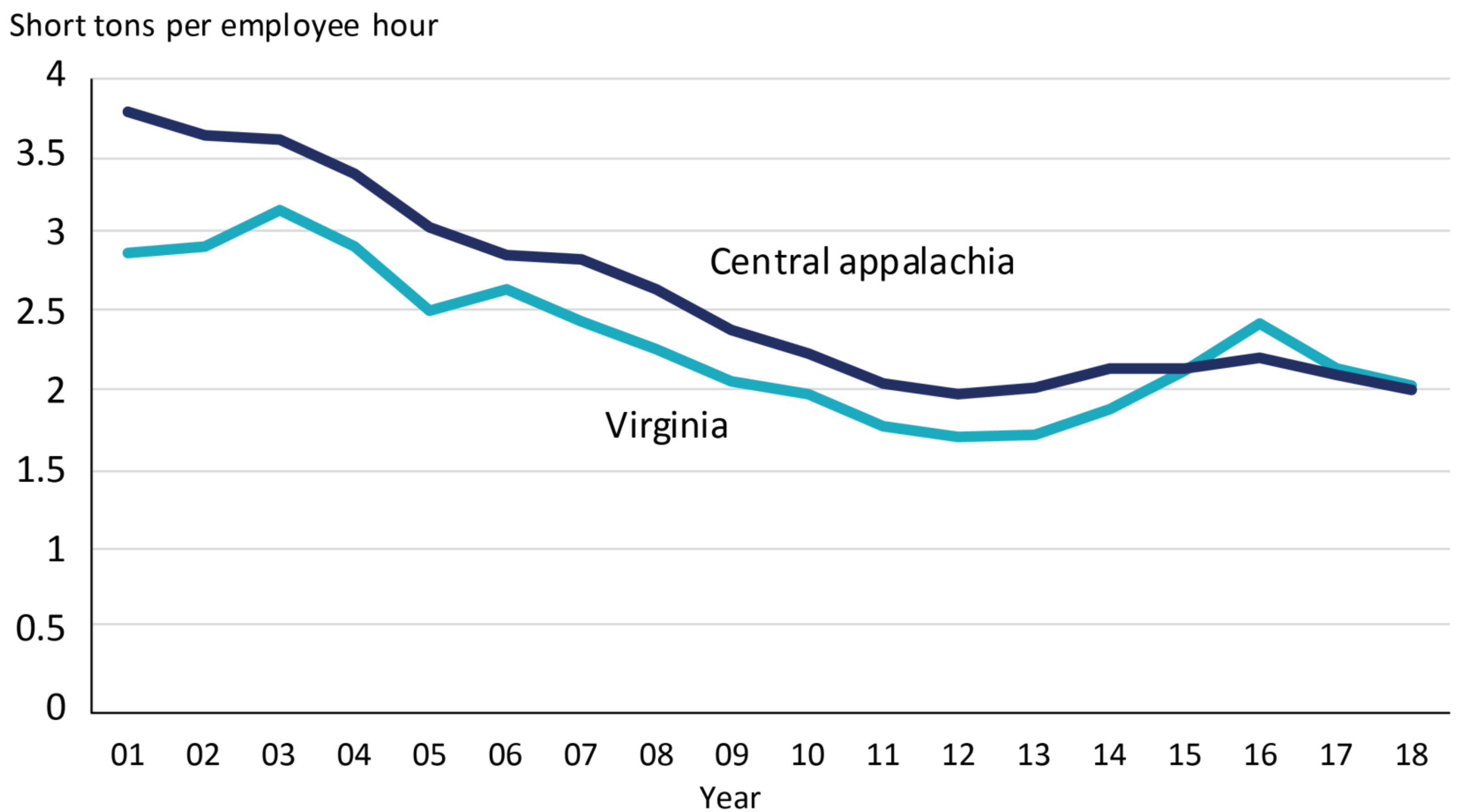
- Virginia's coal production peaked in 1990 and has fallen rapidly since
- 1994 study found Virginia mining companies less competitive in metallurgical (steel manufacturing) and thermal (power generation) coal markets
  - Thicker coal seams had been exhausted
  - Remaining reserves were geologically difficult to access

Coalfield tax credit now applies to metallurgical coal* where state now has competitive advantage

- Virginia's metallurgical coal is high quality
- Virginia has good access to export markets via the ports in Hampton Roads and Baltimore
- West Virginia is only regional competitor in metallurgical market

*Statutory changes in 2018 restricted eligibility to metallurgical coal and coalbed methane. Credit no longer applies to thermal coal.

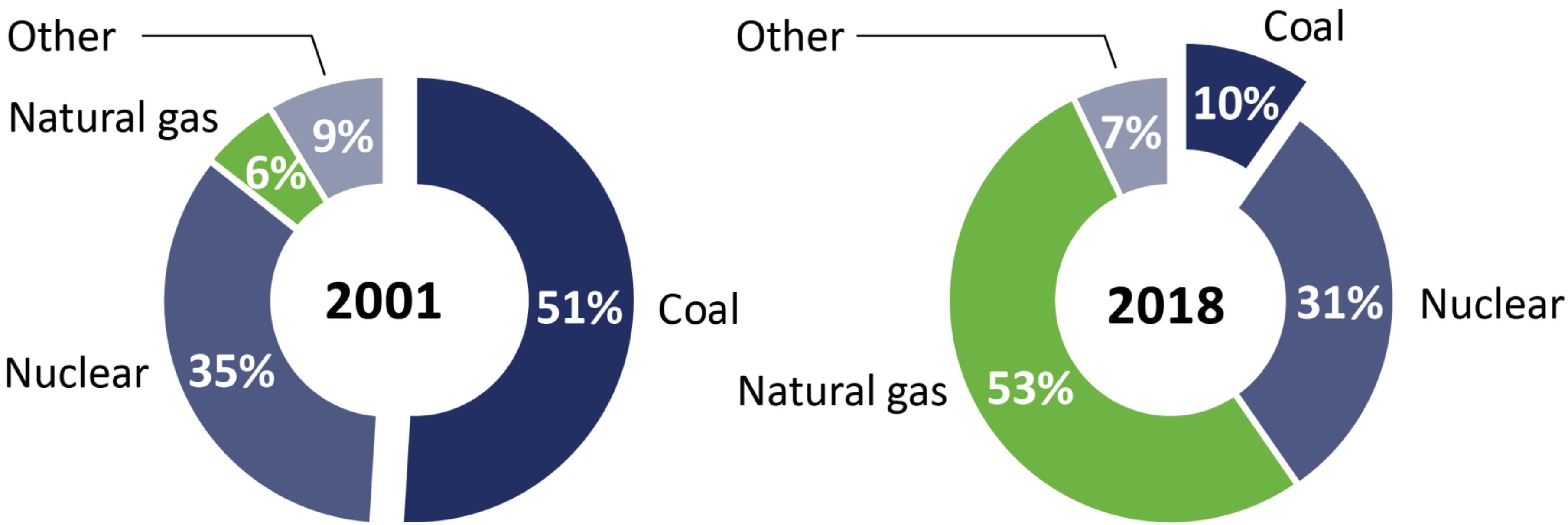
Virginia coal productivity is now more competitive with neighboring states



Finding

Electricity generator tax credit is not relevant.

Natural gas has replaced coal as the major fuel source for power generation in Virginia



Two of Virginia's three remaining coal-fired plants will likely close by 2025

- Chesterfield must retire (Virginia Clean Economy Act*) by end of 2024
- Clover is operating at low capacity and will likely close by 2025
- Virginia City Hybrid expected to remain open

*Virginia Clean Economy Act of 2020 requires coal-fired plants to retire by 2024. Exceptions = coal plants in coalfield region (Virginia City Hybrid) or jointly owned with electric cooperative (Clover).

Finding

Coal tax credits are estimated to have negligible economic benefits per $1 million in spending and negligible returns in revenue relative to other incentives.

Coal tax credits have negligible economic benefits and returns in state revenue (FY10–FY18)

●●●● High
●●●○ Moderate
●●○○ Low
●○○○ Negligible

	Economic benefit per $1M spent	**Return in revenue** per $1 spent
Coalfield tax credit	●○○○ 8 jobs, $0.5M in state GDP, and $0.7M in personal income	●○○○ 4¢
Electricity generator tax credit	●○○○ 5 jobs, $0.4M in state GDP, and $0.6M in personal income	●○○○ 3¢

Recommendation

The General Assembly may wish to eliminate the Coalfield Employment Enhancement Tax Credit and the Coal Production and Employment Incentive Tax Credit.

In this presentation

Coal tax credits

Enterprise zone incentives

Tobacco Region Opportunity Fund

Economic Development Access Program

Enterprise zone programs designed to encourage growth in distressed areas

- 45 areas in Virginia are designated as enterprise zones by governor
- Businesses must be located in enterprise zone to receive state and local incentives

Administered by the Department of Housing and Community Development.

Virginia awarded $94M through Real Property Investment Grant FY10–FY18

- Encourages investment in industrial, commercial, or mixed-use* properties in enterprise zones
- Award amount is up to 20% of qualifying investment
  - Capped at $100,000 for investment <$5M
  - Capped at $200,000 for investments ≥$5M

*At least 30% of usable floor space is commercial, industrial, or office space.

Virginia awarded $23M through Job Creation Grant FY10–FY18

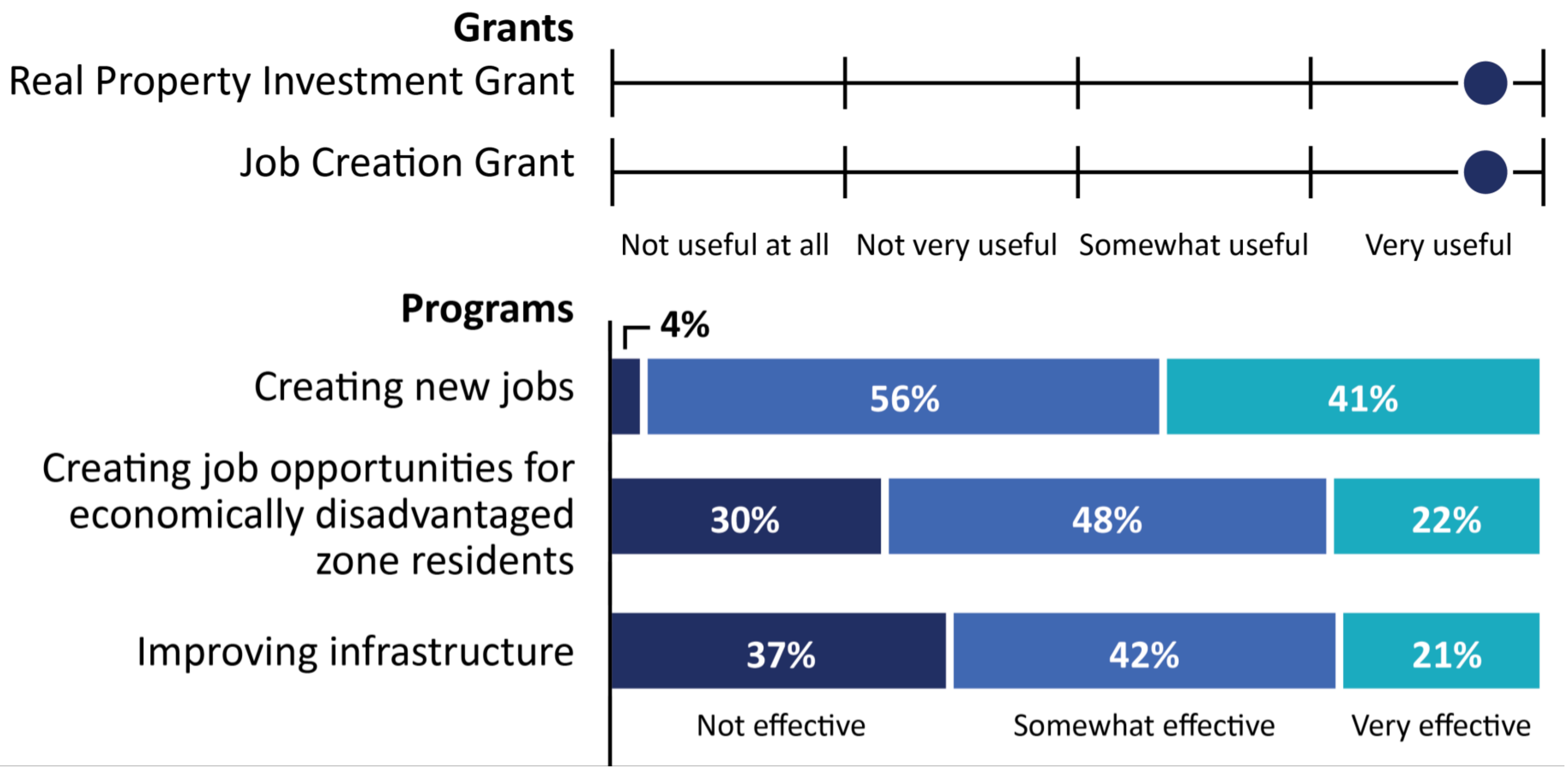
- Encourages creation of full-time, high-wage jobs with benefits in enterprise zones
- Jobs must pay at least 175% of federal minimum wage and cover at least 50% of health insurance premium
- $500 per job* per year for up to 5 years if maintain eligible jobs

*Grant increases to $800 per job if in high unemployment area.

Findings

Local economic developers report enterprise zone grants and programs are useful, but poor targeting and design characteristics limit their effectiveness.

Local economic developers rated grants as useful and program as effective at achieving certain goals



Enterprise zones are located in some localities that are not economically distressed

- Enterprise zone localities have been at ~ 80% of statewide per capita income since early 2000s
- Two localities with enterprise zones had per capita income above statewide average in 2018
  - Henrico (116%)
  - Lancaster (104%)

Grant design may hinder effectiveness

- Grant approved if minimum eligibility requirements met and likely awards business activity that would have occurred without grants
- Real Property Investment Grant does not target businesses likely to have high economic impact
  - Personal services, retail, and restaurants are eligible and generally have low economic impact
  - Businesses unlikely to increase property values have received awards (adult novelty store, storage facilities)

Research indicates enterprise zone incentives have little effect on employment and income

- Areas in Virginia with enterprise zones do not have better outcomes* than similar areas without them
- Consistent with conclusions of research on enterprise zone programs in other states

*Outcomes assessed for this report = employment, income, home price, and free and reduced school lunch eligibility.

Findings

The Job Creation Grant is estimated to have moderate economic benefits per $1 million in spending relative to other incentives, but the Real Property Investment Grant is estimated to have low economic benefits.

Both grants are estimated to have moderate return in state revenue relative to other incentives.

Job Creation Grant has higher economic benefits than the Real Property Investment Grant (FY10–FY18)

●●●● High
●●●○ Moderate
●●○○ Low
●○○○ Negligible

	Economic benefit per $1M spent	**Return in revenue** per $1 spent
Real Property Investment Grant	●●○○ 49 jobs, $7M in state GDP, and $4M in personal income	●●●○ 34¢
Job Creation Grant	●●●○ 68 jobs, $12M in state GDP, and $6M in personal income	●●●○ 44¢

Recommendations

Department of Housing and Community Development should review and revise the process for designating and renewing enterprise zones to ensure that the program targets distressed areas in the state.

Policy Option and Recommendation

Policy Option

- The General Assembly could consider eliminating the Real Property Investment Grant

Recommendation

- If the grant is maintained, the General Assembly may wish to consider better targeting grants to projects in higher multiplier, export-base industries or projects likely to have substantial local benefits

In this presentation

Coal tax credits

Enterprise zone incentives

Tobacco Region Opportunity Fund

Economic Development Access Program

Tobacco Region Opportunity Fund provided $99 million to promote business growth (FY10–FY18)

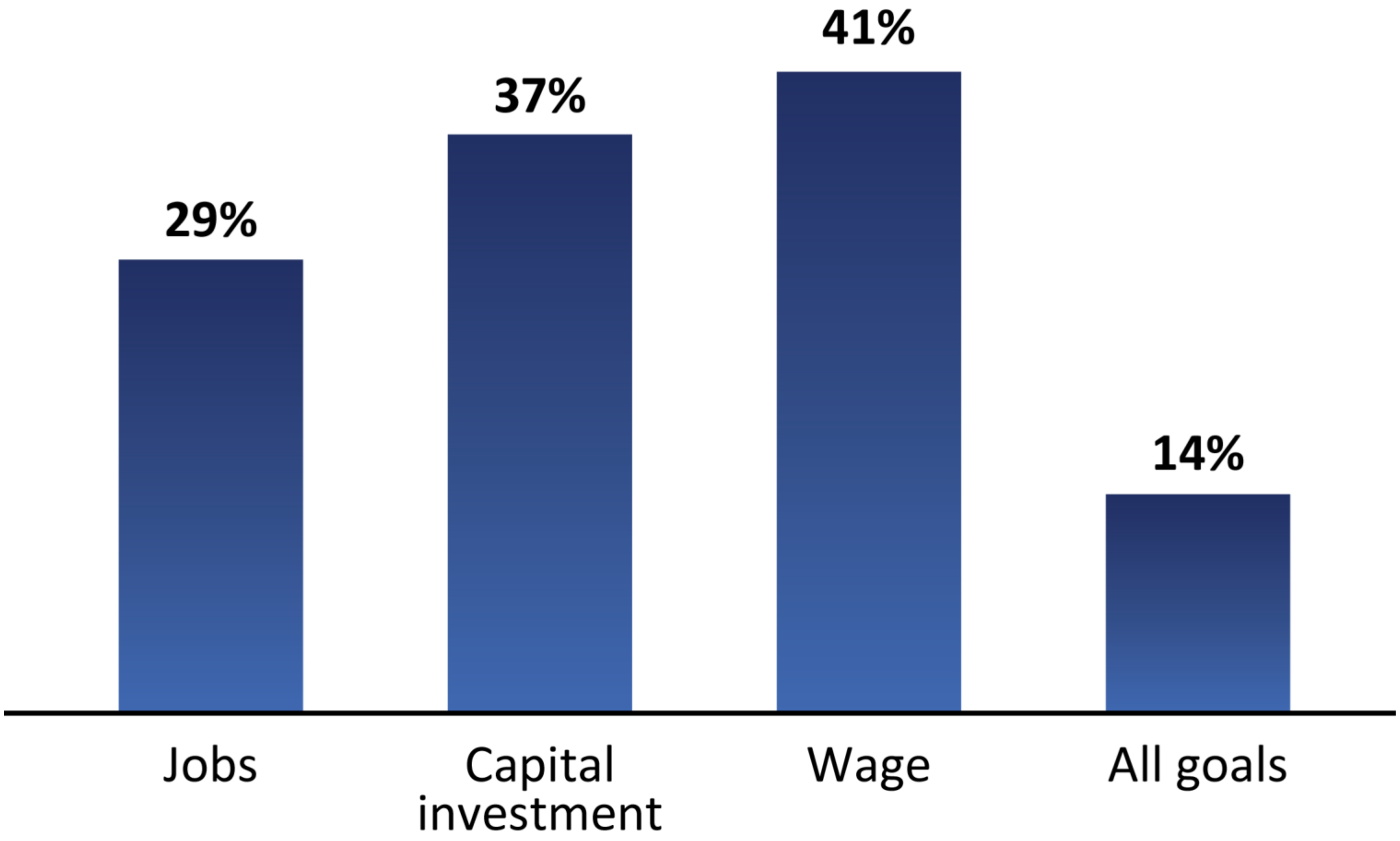
- Tobacco Region Opportunity Fund (TROF) encourages business location / expansion in tobacco region
  - Must be in export-base industries
  - Must create a minimum of 10 jobs, make minimum capital investment of $1 million

Administered by Tobacco Region Revitalization Commission. Funded from a portion of Virginia's share of the Master Tobacco Settlement Agreement.

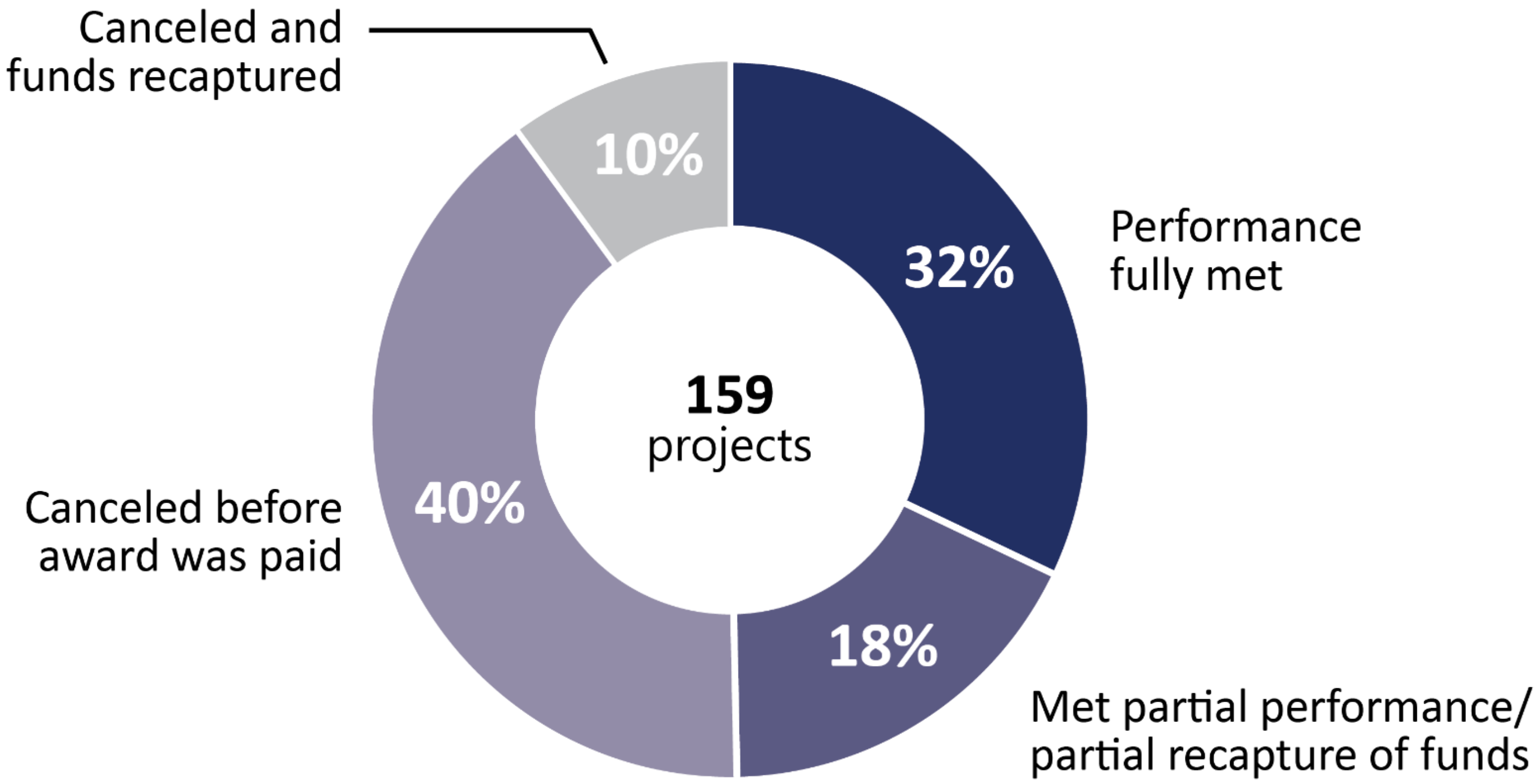
Finding

Majority of TROF-funded projects have not met their goals during the study period because due diligence procedures for grant awards are lacking.

TROF has experienced low attainment of project-specific performance goals (FY10–FY18)



Half of TROF projects were canceled, and grant funds were recaptured or not disbursed



Findings

TROF is estimated to have moderate economic benefits per $1 million in spending and a moderate return in state revenue relative to other incentives.

TROF has moderate economic benefits and return in revenue to the state (FY10–FY18)

●●●●	High
●●●○	Moderate
●●○○	Low
●○○○	Negligible

Economic benefit
per $1M spent

●●●○

69 jobs, $11M in state GDP, and
$7M in personal income

Return in revenue
per $1 spent

●●●○

40¢

Recommendation

The Tobacco Commission should

- adopt a checklist of standard information that all applicants are required to submit, including company financial documents.
- collaborate with VEDP to develop processes for
  - performing project assessments
  - sharing results of the VEDP project review for projects seeking grants from both a VEDP program and TROF

VEDP = Virginia Economic Development Partnership.

Policy Option

The Tobacco Commission could require all TROF grant awards be paid only after performance to enable the Tobacco Commission to focus due diligence efforts on grant projects that would require a sizable commitment of funds, limiting the availability of funding for other projects.

In this presentation

Coal tax credits

Enterprise zone incentives

Tobacco Region Opportunity Fund

Economic Development Access Program

Virginia spent $18 million on Economic Development Access Program (FY10–FY18)

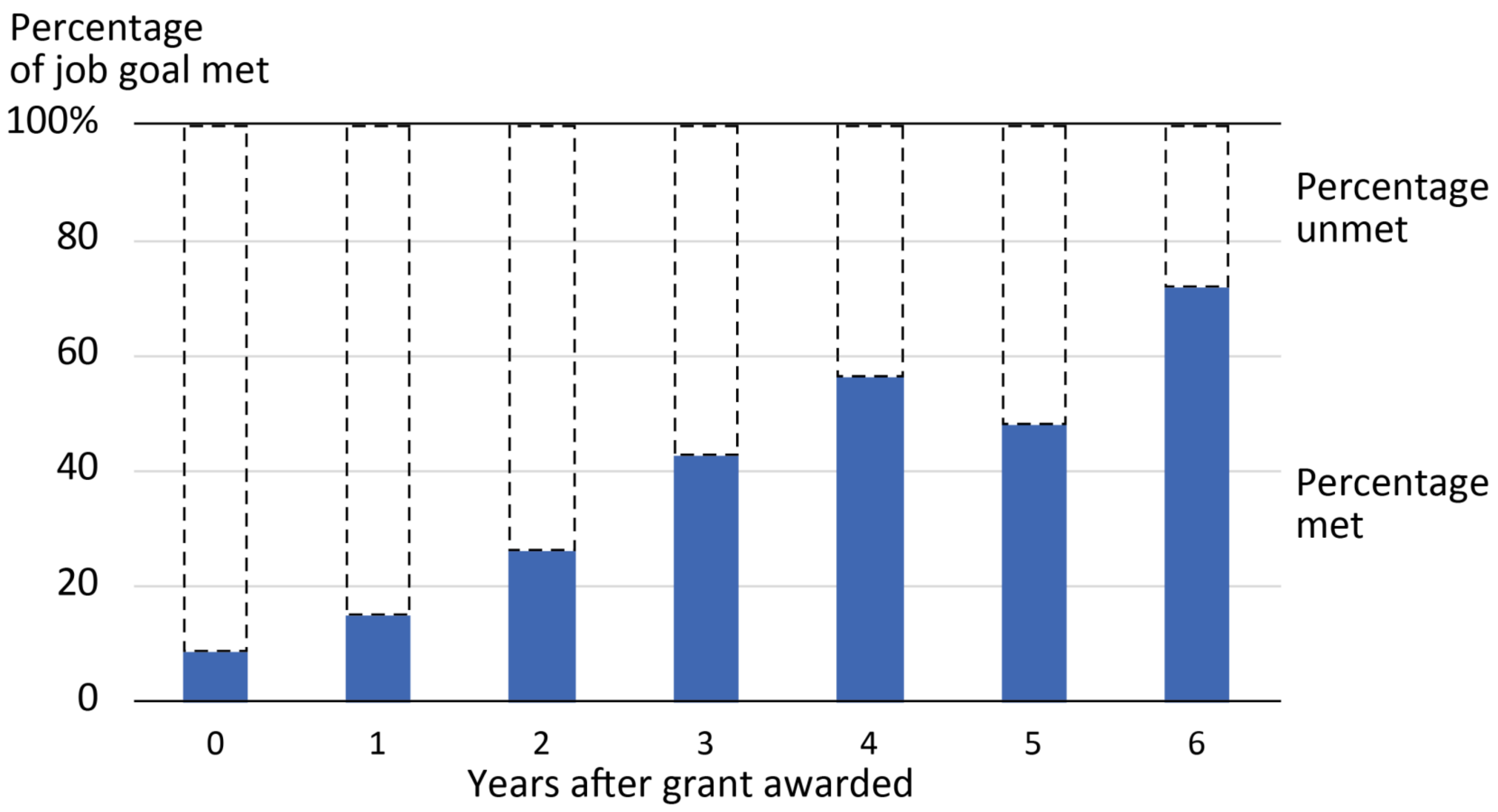
- Promote economic development by ensuring adequate road access to business sites
- Grants are awarded to localities on behalf of businesses
- Maximum award per locality = $500,000 per year
- Maximum award per project = 20% of capital investment made by the business

Administered by the Virginia Department of Transportation.

Finding

Economic Development Access program has generally not met employment expectations, which has limited its economic impact.

Completed projects did not meet job creation expectations



Finding

The Economic Development Access Program is estimated to have low economic benefits per $1 million in spending and a moderate return in revenue to the state relative to other incentives.

Economic benefits of Economic Development Access Program are estimated to be low (FY10–FY18)

●●●● High
●●●○ Moderate
●●○○ Low
●○○○ Negligible

Economic benefit
per $1M spent

●●○○

48 jobs, $9M in state GDP, and $5M in personal income

Return in revenue
per $1 spent

●●●○

29¢

Grant may have other benefits (reduced shipping and inventory costs and improved productivity through reduced congestion and other travel cost savings), but they are not assessed in this analysis.

Recommendation

- General Assembly
  - may wish to consider amending the Code of Virginia to direct the Commonwealth Transportation Board to develop criteria for awarding Economic Development Access Program grants that include provisions for job, capital investment, other requirements
- Commonwealth Transportation Board
  - Revise program guidelines to align with criteria used by VEDP for the COF and VIP grants

VEDP = Virginia Economic Development Partnership; COF = Commonwealth's Opportunity Fund; VIP = Virginia Investment Partnership.

JLARC staff for this report

Kimberly Sarte, Associate Director

Ellen Miller, Chief Analyst

Economic impact analysis

Terance J. Rephann, Regional Economist
Weldon Cooper Center for Public Service

International trade and transportation of goods

Incentive	Avg annual spending FY10–FY18
Railroad Common Carrier Exemption	$20.7M
Airline Common Carrier Exemption	9.7
Ships and Vessels Exemption	7.3
Railroad Rolling Stock Exemption	3.3
Port of Virginia Economic Development Incentive Grant	0.7
Virginia Port Volume Increase Tax Credit	0.7
Virginia Trade Show Assistance Program	0.5
Virginia Leaders in Export Trade (VALET) program	0.4
International Trade Facility Tax Credit	0.2
Barge and Rail Usage Tax Credit	0.1
Aircraft Parts, Engines, and Supplies Exemption (new)	--