



Economic Development Incentives 2022

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

2022 Appropriation Act, Chapter 2, Item 36(E).

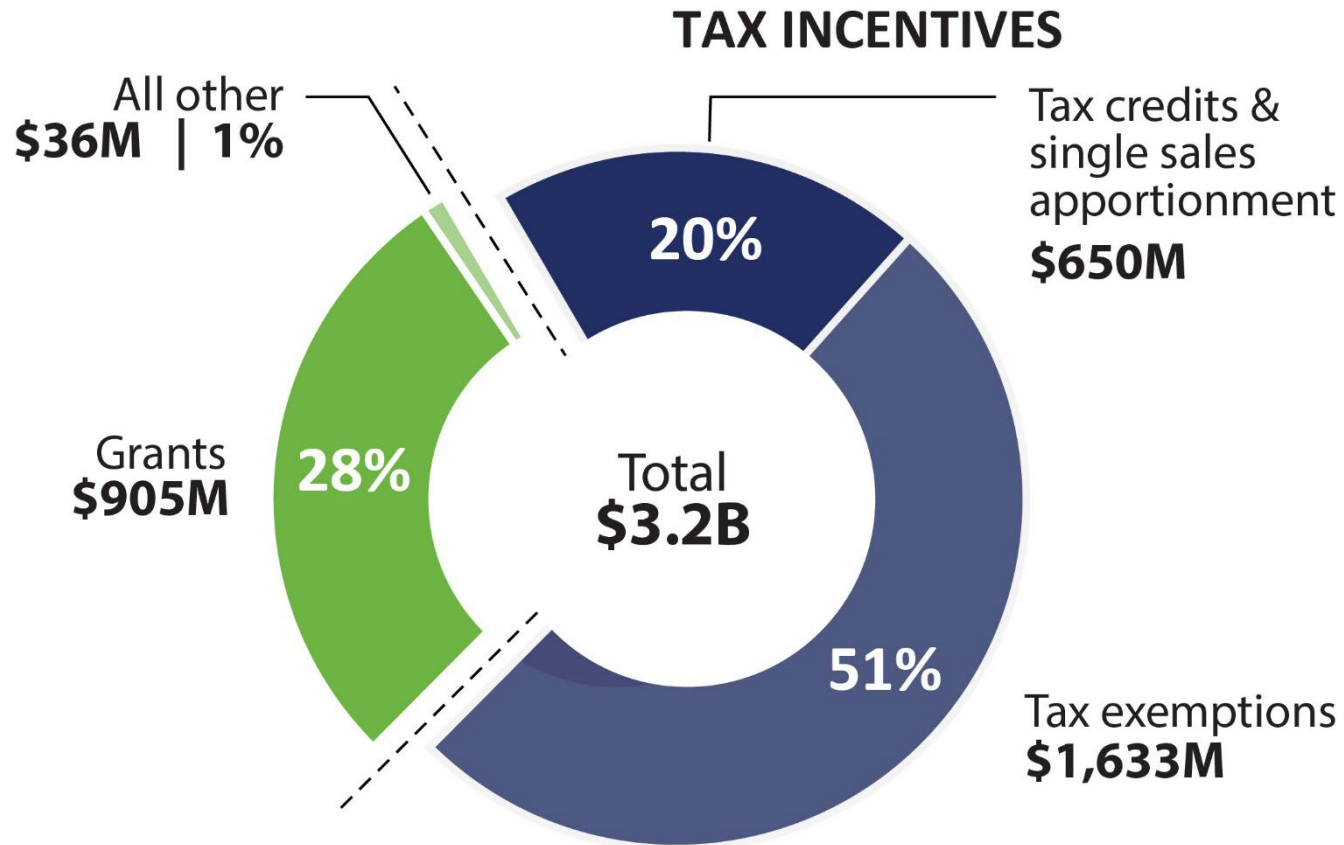
In brief

Virginia spent \$3.2 billion on 87 economic development incentives from FY12 to FY21.

Incentive spending has increased since FY16 primarily because of increased spending for the data center exemption and several recent custom grants.

While the majority of spending was for tax incentives, grants have a higher economic benefit.

Virginia spent \$3.2 billion on economic development incentives (FY12–FY21)



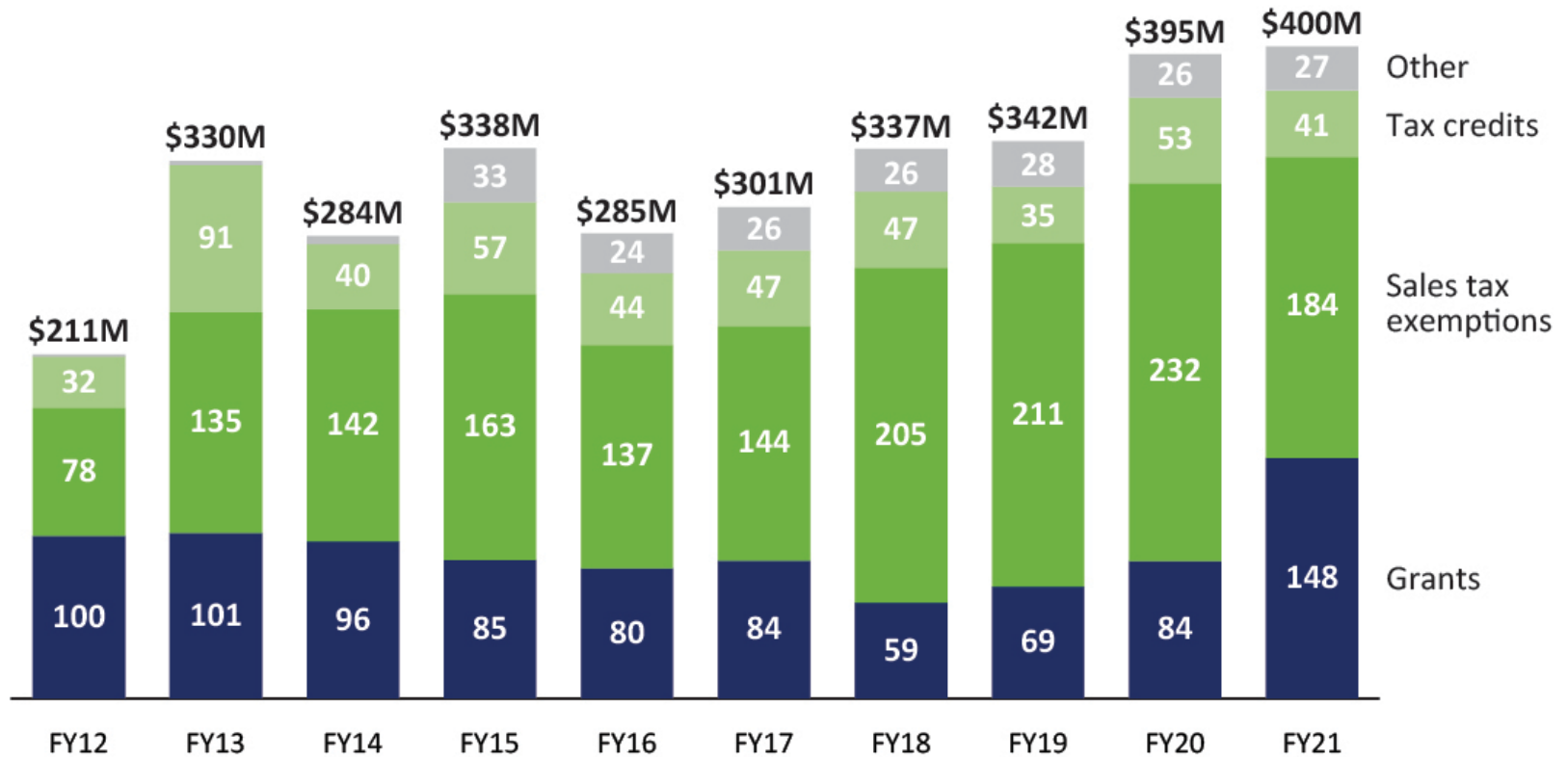
Adjusted for canceled projects, recaptures, and award reductions.

Ten incentives account for two-thirds of spending on incentives (FY12–FY21)

Incentive	Spending	% of spending
Data Center Exemption	\$1,014M	31%
Railroad Common Carriers Exemption	206	7
Coalfield Employment Enhancement Tax Credit	187	7
Manufacturers' single sales factor apportionment	164	5
Commonwealth's Opportunity Fund	146	5
Real Property Investment Grant (Enterprise Zone)	109	4
Airline Common Carriers Exemption	95	4
Virginia Coal Production and Employment Incentive Tax Credit	91	3
Tobacco Region Opportunity Fund	89	3
Tobacco Region Megasite Grant	72	3
	Subtotal	\$2,172M
	All others	\$1,052M
	TOTAL	\$3,224M
		100%

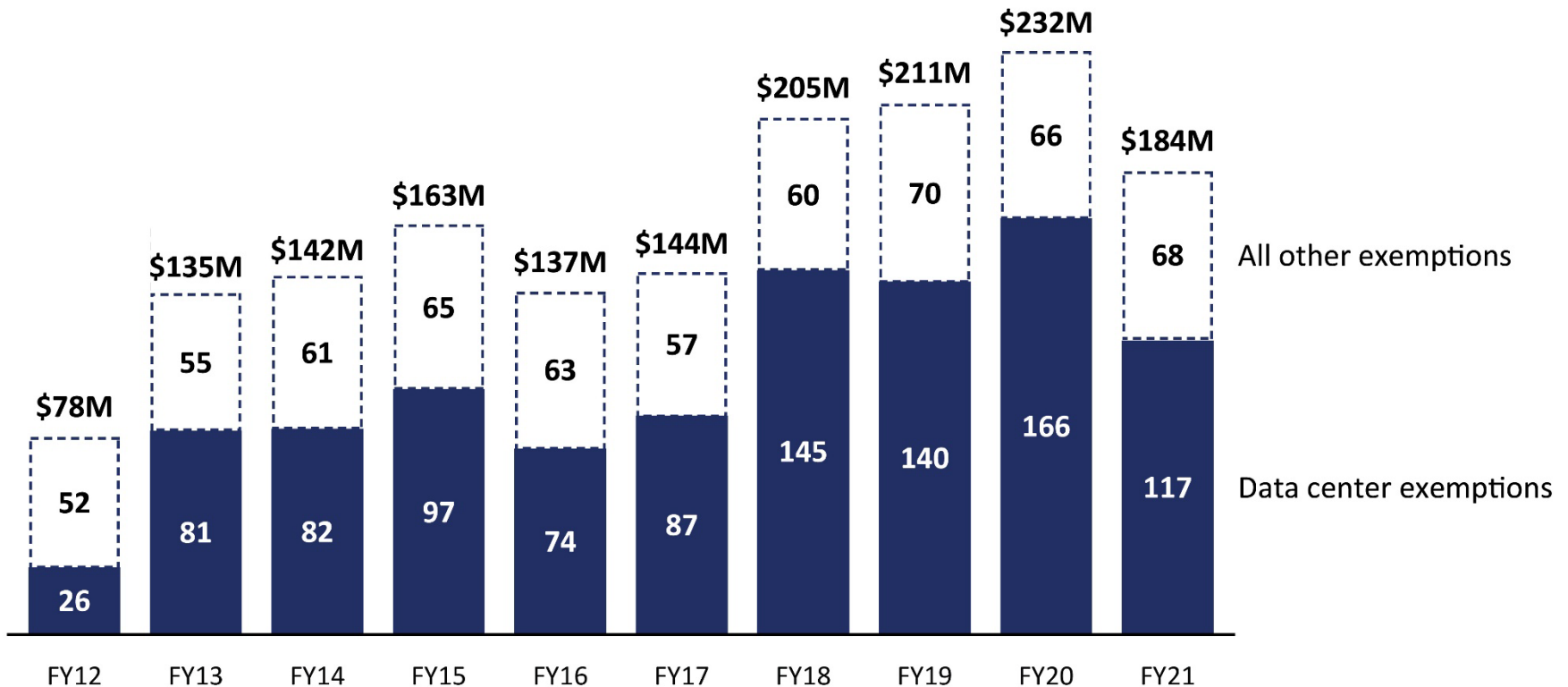
Adjusted for canceled projects, recaptures, and award reductions. Exempted amounts are estimates and exclude amounts exempted from the 1% local sales tax and the regional sales taxes.

Increased incentive spending has been driven by exemptions, and more recently, grants



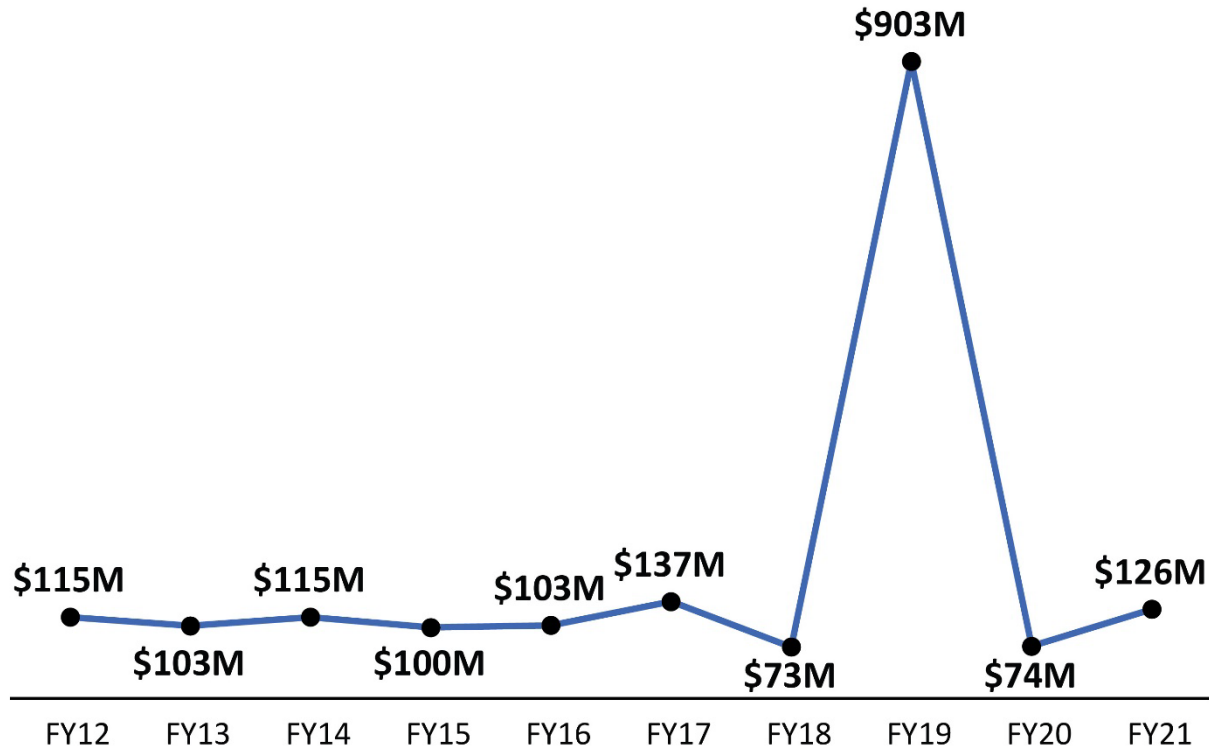
Adjusted for canceled projects, recaptures, and award reductions. Spending on other incentives was minimal between FY12 and FY14. Numbers may not sum because of rounding.

Data Center Exemption, the state's largest incentive, has exceeded \$100M since FY18



Note: Data center estimate underestimates actual spending. New data center reporting requirements were adopted based on recommendation in *Data Center and Manufacturing Incentives*, JLARC, 2019, to provide better estimates in the future.

Large custom grant awards in FY19 will lead to increased grant spending in future years



Large custom grants awarded in FY19: Amazon HQ2 (\$750 million), Micron (\$70 million), and Amazon Web Services (\$10.5 million). The custom grant for Micron is the only one paid in full (\$20 million in FY20 and \$50 million in FY21); other custom grants will be paid out incrementally over time.

Grants have substantially higher economic benefits than tax incentives (FY12–FY21)

Economic benefit

Return in revenue



**Jobs per
\$1M spent**

**State GDP per
\$1M spent**

**Personal income
per \$1M spent**

Revenue per \$1 spent

	Jobs per \$1M spent	State GDP per \$1M spent	Personal income per \$1M spent	Revenue per \$1 spent
Grants	113	\$22M	\$11M	87¢
Tax exemptions	60	\$12M	\$6M	37¢
Tax credits	9	\$1M	\$1M	5¢
Other incentives	13	\$2M	\$1M	5¢
All incentives	56	\$11M	\$5M	37¢

“Other incentives” includes loans, gap financing, manufacturers’ single sales factor apportionment, and income tax subtractions. As noted in prior reports, the estimated benefits and returns in revenue for Virginia’s loan programs are high because state spending for them is minimal.

Grants have higher economic benefits than tax incentives for several reasons

Grants	Tax incentives
Discretionary	By-right if eligibility requirements are met
Requires project-specific outcome measures such as job creation & capital investment	Requires projects only meet minimum requirements; minimum requirements vary widely and often do not include job creation
Well targeted to businesses in export-base industries <i>(example: 34% of grant funds went to manufacturing projects)</i>	Not as well targeted to businesses in export-base industries <i>(example: 7–8% of tax incentives claimed used by manufacturing projects)</i>

Based on the “typical” grant program and tax incentive.

Completed grant projects created nearly 70,000 jobs and \$17B in business investment (FY12–FY21)

Grant programs	Jobs created	Spending / investment
Four largest programs (jobs created or spending/investment)		
Virginia Jobs Investment Program	44,351	\$7.4B
Commonwealth's Opportunity Fund	19,588	6.6
Enterprise zone grants (Job Creation Grant and Real Property Investment Grant)	13,818	2.5
Tobacco Region Opportunity Fund	6,255	2.1
Total, all grant programs (unduplicated)	69,700	\$17.2B

Completed projects represent \$475 million in awards and 3,695 projects. Economic impact analysis assumes that the majority of job creation and capital investment by incentive recipients would have occurred without incentives, as indicated by research.

JLARC staff for this report

Kimberly Sarte, Associate Director

Ellen Miller, Chief Analyst

Data analysis

Terance J. Rephann, Regional Economist

Weldon Cooper Center for Public Service