REPORT OF THE
JOINT LEGISLATIVE
AUDIT AND REVIEW COMMISSION ON

Review of Economic Development in Virginia

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 39

COMMONWEALTH OF VIRGINIA
RICHMOND
1991

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Preface

House Joint Resolution 262 passed during the 1989 Session of the General Assembly directed JLARC to "review the Commonwealth's economic development policies and the organization, operations, management, and performance of the Department of Economic Development." This report addresses that mandate.

Within Virginia, economic development programs are conducted by a broad array of organizations which include 72 State entities and more than 500 non-State organizations. It is estimated that these State and non-State organizations spent more than $769 million on economic development activities in FY 1989.

While many agencies are involved in economic development, one agency is dedicated solely to economic development. The Department of Economic Development has primary responsibility for the State's industrial development and tourism promotion activities. With the recent closing of the Department of World Trade, the Department of Economic Development has been given the additional responsibility of overseeing the State's trade efforts. The department provides high quality services. However, recommendations made in this report would result in better management of the department and a more efficient use of staff resources and State funds.

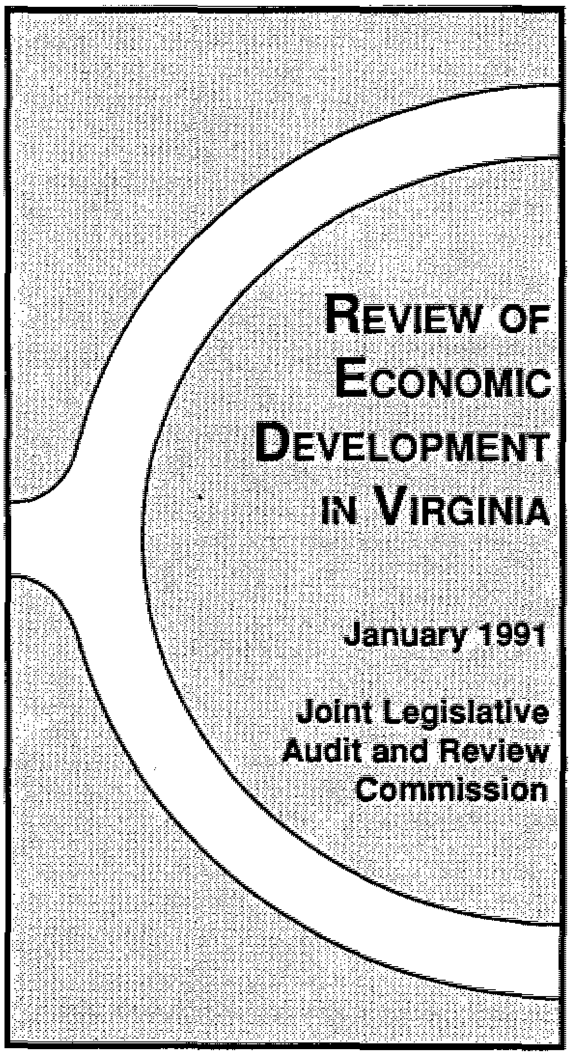
Overall, the State has been relatively successful in its economic development activities. However, since the State has conducted these activities without a formalized written policy or policy development process, these efforts have not been fully maximized. Recommendations in this report focus on improving the State's activities by establishing a comprehensive written policy and process. The Secretary of Economic Development has stated that the Commonwealth's first strategic plan for economic development has been drafted and is awaiting approval by the Governor. Such a plan was not available for critique by JLARC during the course of the study.

On behalf of JLARC staff I would like to thank the staff of the Department of Economic Development and the other agencies under the supervision of the Secretary of Economic Development for their cooperation and assistance during the course of this study. Further, I would like to thank the many private companies and local and regional economic development organizations for their cooperation during our research efforts.

Philip A. Leone
Director

January 25, 1991

JLARC Report Summary



State involvement in economic development has increased over the last 15 years with the recognition that economic development can yield financial returns for a state. However, economic development is still predominantly an activity of the private sector. The State's role is to serve as a catalyst for private investment through the stimulation and preparation activities necessary for the creation of material wealth for citizens, businesses, localities, and the State.

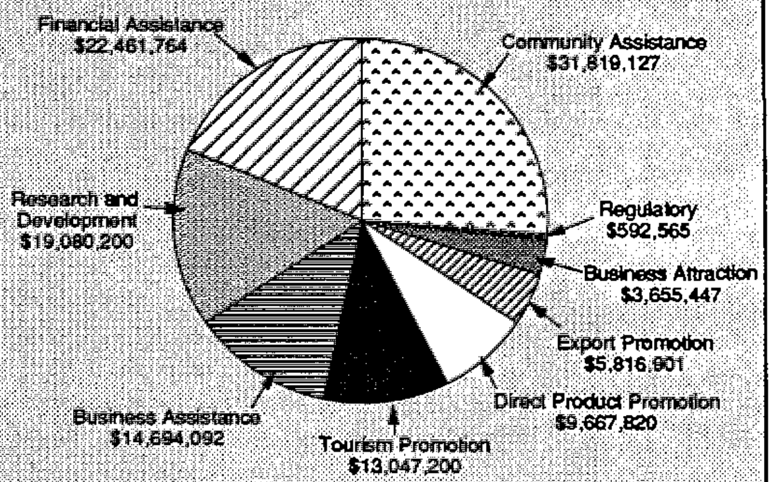
Economic development initiatives are conducted by State entities and non-State organizations. It is estimated that these State and non-State organizations spent more than $769 million on economic development activities in FY 1989. This is an extremely conservative estimate of spending on economic development programs. However, it does include more than $396 million spent on transportation initiatives.

During the 1988-1990 biennium, 72 State entities within six secretariats administered more than 230 economic development programs. These programs included community assistance, financial assistance, research and development, business assistance, tourism promotion, direct product promotion, export promotion, business attraction and regulatory.

In FY 1989 these programs had total funding of more than $517 million, of which more than $298 million were State funds (Figure A). In addition, approximately $123 million were available from the State in industrial development bonds. While 87 of the programs were conducted within the Economic Development Secretariat, another 146 programs were conducted by agencies within four other secretariats.

In addition to State programs, more than 500 non-State organizations were conducting their own economic development initiatives in the same year. These groups include a wide variety of public and private organizations which operate either on a local, regional or statewide basis. These organizations spent an additional $279 million on their economic development initiatives which included all of the categories offered by State agencies, except regulatory programs. The non-State organizations spent more than $193 million on financial assistance initiatives (which

Figure A
State-Funded Economic Development by Type of Activity
FY 1989 Total = $517,453,964*



*Total includes $396,618,848 in funding for community assistance transportation programs. However, these funds are not represented in the graphic.

Source: JLARC Mail Survey of State Government Entities, May 1990, and in-person interviews with program staff.

includes more than $182 million in industrial revenue bonds) and more than $22 million on tourism promotion activities (Figure B).

While many State entities are involved in economic development initiatives, one State agency is dedicated solely to economic development. The Department of Economic Development (DED) has primary responsibility for the State's industrial development and tourism promotion activities. With the recent closing of the Department of World Trade, DED has been given the additional responsibility of the State's world trade efforts.

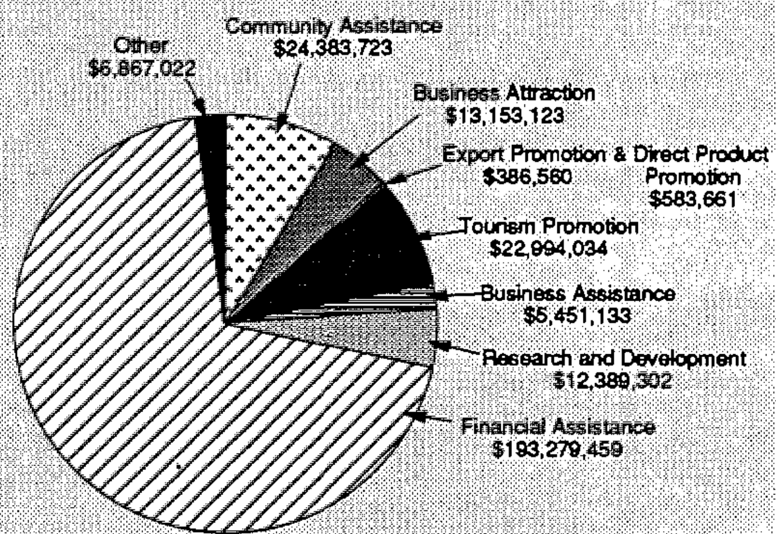
Overall, Virginia has been relatively successful with its economic development efforts. However, since the State has been conducting economic development activities without a formalized comprehensive policy or policy process, the State has not been able to fully maximize its economic development efforts. Consequently, economic needs in many regions of the State are not being targeted by current State programs. Further, the State's fragmented approach to economic development has not integrated efforts to address many of the underlying conditions which affect economic development such as workforce quality. Moreover, given the large numbers of individuals involved, some programs appear to be duplicative. It is essential, therefore, that the Secretary of Economic Development exercise full authority in the policy area and ensure that Virginia has a formalized, comprehensive, written economic development policy.

The recommendations in this report focus on improving Virginia's economic development efforts through a comprehensive policy and policymaking process. An in-depth assessment of 18 economic development programs -- 15 administered in DED's Tourism and Industrial Development divisions and three administered by other State entities -- reveals that the programs provide quality services to their clients. However, many of the programs have shortcomings which limit their effectiveness or preclude determination of economic impact.

Additional recommendations are made which would result in better management of the Department of Economic Development. While recognizing that the services which the department currently provides are of high quality, the recommendations in this report focus on providing those same high-quality services but with a more efficient use of staff resources and State funds.

Figure B
Non-State-Funded Economic Development by Type of Activity

FY 1989 Total = $279,488,017



Source: JLARC Mail Survey of Non-State Organizations, March-July 1990.

This report summary briefly references study findings and recommendations. Detailed explanations are contained in the text of the report.

Tourism Promotion Approach Needs Balance and Better Measures of Economic Impact

The State's current approach to domestic advertising appears to be bringing tourists into the State. However, an accurate measure of the true economic impact of the State's domestic advertising program has not been made. Division reports of the "return on investment" from advertising are based on information which has methodological problems that inflate the program's impact.

The division is using larger private attractions as the focus of its advertising efforts. However, additional activities are needed to promote Virginia's smaller, lesser-known attractions.

Given the role that welcome centers provide in promoting these attractions and their estimated economic impact, efforts should be made to keep them open. Further, the division should increase the technical assistance available to smaller attractions and communities to better equip them to promote themselves for out-of-state and in-state visitation.

The following recommendations are made:

- DED should balance the brand name advertising approach with increased efforts to promote smaller attractions. The "See Virginia First" campaign initiated in Southwest Virginia should be expanded statewide. Because welcome centers provide a needed function in the State's tourism promotion, efforts should be made to keep them open. DED should develop a strategy for prioritizing which centers would be kept open. Alternative financing arrangements should be examined.

- The Richmond sales office should be better utilized to promote intrastate visitation. The Richmond sales office and the welcome centers, if kept open, should incorporate the approach utilized by the Washington, D.C. sales office and promote a different geographic area of the State each month. Coverage should be given to each area of the State on a rotating basis.

- The Division of Tourism should continue to assess the impact of its advertising on Virginia's economy, but the current formula and data should not be used. The division should modify its domestic advertising conversion study to include data items which will allow the division to accurately estimate the amount of revenue returned to the Commonwealth in State and local taxes.

- The Division of Tourism should not purchase the economic impact information obtained from the U.S. Travel Data Center, nor should the division publish or distribute this information to localities.

- DED should increase the level and types of community development assistance available from the Division of Tourism.

Industrial Training Program Is An Important Marketing Tool, But Improvements Are Needed to Ensure Accountability

The industrial training program is seen as an important tool to market Virginia to industrial prospects and provides skills training to Virginia's workforce. Industries reported high levels of satisfaction with the program. However, the program lacks clear eligibility criteria for determining which industries will receive training. This results in the program conducting repeat training for companies, training for companies which have gone into bankruptcy either during or immediately after training, and training for jobs paying at or near minimum wage. In addition, although some improvements have been made, the budget estimation procedures used by the program continue to be deficient. Finally, the current pay-back analysis used by the program overstates the impact of training on Virginia's economy. The pay-back analysis needs to be modified to use actual wage rates paid to the individuals trained in the program rather than average wage rates for industries in Virginia.

The following recommendations are made:

- DED should revise the eligibility criteria for its industrial training program. Training should be conducted only for companies that meet all three of the following criteria: 15 or more related jobs added, a minimum capital investment of $500,000, and starting wages of $6.50 or more per hour. Further, the department should establish a maximum dollar level for training assistance provided to any one company.

- DED should limit the training projects conducted in any one year to the amount of the department's originally approved budget for industrial training. The approved budget amount should be announced each year to economic development organizations. Training for unforeseen projects should be conducted only as funding permits.

- DED should further refine its system for determining industrial training project budgets.

- DED should modify the industrial training pay-back analysis to ensure that it yields an accurate picture of State benefits from the companies that hired the trainees. Assumptions used in the model should be revised to reflect actual practice. Further, the pay-back analysis should make use of retention data.

Industrial Marketing Provides High Quality Services, But the Program May Not Be Using Resources Most Effectively

Industrial prospects reported high levels of satisfaction with the services provided by the industrial development marketing program. However, improvements need to be made in the program to ensure that industrial development advertising is being used as effectively as possible, that resources are targeted into marketing territories which will provide the best return for State dollars, and that data are maintained and used to compare the relative costs and benefits of each marketing territory.

The following recommendations are made:

- DED should ensure that input from the marketing managers is reflected in the content and placement of industrial development advertisements, if industrial advertising is reinstated.

- DED should evaluate the current industrial development marketing territories and staff assignments. This assessment should examine the costs and benefits of each territory. Consideration should be given to assigning more than one marketing manager to territories which appear to be especially active.

- DED should ensure that a formal mechanism is established to monitor the activities of marketing staff in each territory. The procedures should include (1) developing a process for identifying high priority industries for marketing efforts, (2) developing budgets for each marketing manager, (3) developing a methodology for tracking expenditures by marketing territory, and (4) developing staff evaluation criteria and goals that are based on the potential of each territory.

DED Should Develop Other Technical Assistance Programs for Communities

The community certification program is the primary technical assistance program that DED provides for communities. While communities consider the technical assistance provided through this program to be very helpful, many communities are not enrolled in the program. Therefore, the technical assistance availabie to them is not sufficient to help them conduct economic development initiatives. The communities not enrolled in the program cited needs for technical assistance in developing local industrial call programs, developing marketing materials, and developing leadership for local industrial marketing efforts.

The following recommendation is made:

- DED should make additional technical assistance opportunities available to address the needs of localities that are not involved in or served by the community certification program.

Industrial Call Program Does Not Appear to be Meeting the Retention Needs of the State

The purpose of the industrial call program is to retain manufacturing industry by expressing the State's appreciation to the company for conducting business in Virginia and by offering the company ombudsman services for any problems related to State government. While the program is needed, the program staff have not set priorities which address the retention needs of the State. Criteria for visits are not determined based on which regions have retention problems, nor are they based on which industries have the most significant regional economic impact. The program focuses only on manufacturing industries of a certain employment level, rather than other basic industries. In addition, the program does not appear to have criteria for the visit schedule other than attempting to visit all regions within a four-year cycle.

The following recommendations are made:

- DED should modify the industrial call program to better meet the retention needs of the State. Industrial call staff members should assess each PDC for business retention problems as well as for key basic industries. Priority should be given to PDCs with above-average employment losses due to closures and contractions. Visits should include additional key basic industries, other than manufacturers.

- Industrial call program staff should attempt to visit all industries on their call lists within a three-year period. The director of DED should consider the addition of one staff member to the program to ensure that the visit cycle is shortened and that additional key industries can be visited.

Activities of Regional Offices Should Be Refocused

DED has established regional offices in Abingdon, South Boston, and Staunton. The primary purpose of these offices is to provide technical assistance to communities in their regions, especially to help communities with certification.

The need for community assistance services provided by the South Boston and Staunton regional offices appears to have decreased. However, the areas served by these offices are experiencing business retention problems. Refocusing the regional office directors' activities on industrial retention efforts appears warranted.

The following recommendation is made:

- DED should refocus the activities of the Staunton and South Boston regional offices. Industrial call program staff should instruct regional office directors on the necessary techniques and information to call on existing industry. This should be a priority activity for the offices.

Small Business Development Centers Need Better Accountability

DED administers a small business development center program in conjunction with the U.S. Small Business Administration. Six centers are currently operational, and there are plans to eventually have 11 or 12 centers statewide. In order to help ensure accountability of the centers, the program needs to develop standard definitions of services provided and economic impact measures. Current definitions are inconsistently used by the center directors, which results in misstatements of the level of center activity and the economic impact of services.

The following recommendation is made:

- DED should strengthen the accountability of the small business development centers by clarifying the definitions and reporting practices related to client services and program impacts for the small business development centers. Standard definitions need to be developed for determining length of counseling and economic impact. Further, procedures should be developed to eliminate double counting of clients in the quarterly reports.

Virginia Small Business Financing Authority Has Limited Economic Impact

Small businesses have used two types of financial assistance provided by the Virginia Small Business Financing Authority (VSBFA) since it was established in 1984. The issuance of Industrial Development Bonds (IDBs) was the principal activity of the Authority until the tax-exempt status of IDBs was eliminated by the United States Congress. The fees associated with IDBs allowed the Authority to generate revenue. However, IDBs are no longer attractive to small businesses, and the Authority was not allocated any additional IDB funding.

Currently, the major activity of the Authority is the loan guaranty program. The State's guaranty allows small businesses which have been found to be credit-worthy by banks to obtain larger loans than they otherwise could.

The assistance provided by the Authority is limited. In addition, the types of financial assistance currently provided may be available through other sources. Consequently, the program has limited utility.

The following recommendation is made:

- The VSBFA should work with financial institutions and other sources of private investment to develop additional financing programs. However, if such financing programs are not developed by the beginning of FY 1992, the General Assembly may wish to consider eliminating the Virginia Small Business Financing Authority due to the limited number of small businesses served and the projected inability of the Authority to generate enough revenue to pay for its operating expenses.

Deficiencies Need to Be Addressed in the Technology Transfer Program Before Expansion is Considered

The Center for Innovative Technology (CIT), in conjunction with the Virginia Community College System, administers a pilot program to assist small- and medium-sized businesses in improving their operations through an increased use of technology.

However, changes are needed in the focus and management of the program. Inadequately defined goals and objectives have resulted in the program providing services which are not directed at technology, but are general business assistance services. Therefore, the services duplicate those provided by the small business development centers. In addition, the coordination and oversight provided by the CIT is insufficient. Further, the economic impact of the program as currently reported is misleading.

The following recommendations are made:

- The CIT should clearly define the role of the technology transfer program and the types of technology to be transferred as well as the types of businesses or organizations to be served.

- Since the current structure for the technology transfer program limits the involvement of host community colleges, the CIT program director should increase his supervision of program directors at the community colleges.

- The CIT should develop standard program impact measures to evaluate the technology transfer program. Guidelines which assist clients in estimating the economic value of the services should be developed and disseminated.

- The CIT should institute eligibility criteria and refine program impact measures prior to any further consideration of expansion of the program. Following the refinement, data on the impact of the program should be collected for one year. If evaluation of that data indicates that the program has been effective, consideration should then be given to expansion. If the program is expanded, the CIT and DED should jointly consider the geographic coverage of the small business development centers before new sites are selected for the technology transfer program.

The Structure of DED Is Generally Sound, But Modifications Are Needed to Ensure that Staff Resources and State Funds Are Used Most Effectively and Efficiently

While the basic structure of the department appears reasonable, changes are needed to eliminate duplicative staff functions and fragmentation of work duties. In addition, changes are needed to provide a stronger research unit which can be used to respond to the policy analysis and evaluation needs of the agency and the secretariat.

The following recommendations are made:

- DED should consolidate the communications and public affairs and tourism public relations sections along with the tourism advertising director position into one section.

- DED should consolidate the industrial development research section and the tourism research manager into one section. This section, research and policy analysis, should be able to provide the research analysis and evaluation necessary for agency program evaluation and policy planning. The agency director should reassess the need for contracted research and ensure that research is conducted in-house whenever possible.

- DED should reassess the need for the assistant director of tourism position. Consideration should be given to abolishing this position and reallocating it within the Division of Tourism.

DED's Management Has Improved; However, Additional Improvements Are Needed

Stronger agency management and direction is needed to ensure agency accountability. The agency has very few written internal policies and procedures. The lack of administrative procedures has resulted in noncompliance with State procurement and accounting policies. The lack of program policies and procedures has resulted in inadequate management and oversight of the industrial training, industrial call, and industrial marketing programs.

The following recommendations are made:

- DED should develop and disseminate written procedures which direct administrative operations within the agency including accounting, budgeting, personnel, and procurement.

- DED should ensure that the industrial training program institutes uniform procedures for estimating project budgets and for file maintenance and documentation.

- DED should ensure that the industrial call program receives additional oversight. Staff should use a standardized visit report summary. Visit report summaries should be available in the project files no later than two weeks after the visit.

- DED should develop written procedures to direct marketing managers' activities during negotiations between industrial prospects and local government officials.

DED needs to continue to improve its internal communications. The lack of communication has resulted in staff being unaware of activities and actions within their own divisions, lack of awareness of activities in other divisions, and staff who are not in the central office feeling isolated from the department.

The following recommendations are made:

- DED should ensure that procedures which are developed to address communication problems within the department are enforced.

- The director of DED should take steps to strengthen departmental communication. At a minimum, division-wide staff meetings should be held regularly and formal communication procedures and linkages should be established where needed.

Two other management concerns need to be addressed by the agency. These concerns involve memberships in downtown Richmond clubs and an excessive span of control for one staff member.

The agency uses State funds to maintain multiple memberships in two private downtown Richmond clubs. Since the memberships are for the conduct of business and not to serve as benefits for agency staff, agency accountability would be better maintained if these memberships were held in the director's name rather than the names of individual staff members.

One section director within the Division of Tourism has an excessive span of control which has resulted in communication and supervision problems. However, if the welcome centers are closed or no longer administered by DED, the span of control will not be excessive.

The following recommendations are made:

- The director of DED should evaluate the need for multiple memberships in three downtown Richmond clubs. All club memberships should be maintained in the director's name.

- DED should correct the span of control problem in the Division of Tourism by making the tourism marketing supervisor in the community development section responsible for supervising welcome center staff. However, if the welcome centers are no longer administered within DED, the tourism marketing supervisor should be assigned additional community development activities.

A Comprehensive Economic Development Policy and Policy Process Are Needed

Virginia does not currently have a comprehensive economic development policy or policy planning process which provides adequate planning, coordination, and oversight for its economic development activities. Such a policy is necessary to establish economic development objectives. A formal economic development policy process would help ensure that important goals and needs of the State are being addressed by economic development programs. Further, it would help maximize resources by establishing program priorities and by eliminating duplication and overlap among economic development programs.

For the State to establish a meaningful policy, a policy development process must first be put in place. Three essential elements are needed to support such a process. The first element is in place, while the second and third need to be developed.

First, the Secretary of Economic Development must be clearly designated and assigned responsibility for policy development and oversight. Second, reliable information must be available upon which to base policy decisions. The enhanced research and policy analysis section within DED would be able to provide the information necessary to make policy decisions. Third, a policy development process must be articulated and implemented. This process would ensure that the economic needs of the State are regularly and systematically addressed and that essential information is routinely communicated to the Governor and the General Assembly.

The State's policy needs to incorporate several notions. It should be comprehensive and apply to all secretariats involved in economic development activities. It should focus on long-term concerns as well as short-term approaches. It should reflect the needs of the State as identified through various assessments.

The following recommendations are made:

- The Secretary of Economic Development should develop a formal, written, comprehensive economic development policy to guide the State's economic development efforts. The policy may be accompanied by plans or statements. The policy should focus on long-term solutions, define a proactive role for the State, and encourage communication and cooperation among the secretariats and with local and regional groups. Since the policy will focus on long-term solutions, the scope should extend beyond a single administration.

- Each Governor should ensure that the Secretary of Economic Development develops a comprehensive economic development policy for the State during the Governor's first year in office. During that first year, the previous policy should either be formally incorporated, amended, or rejected. The new policy should then by submitted to the General Assembly.

- The General Assembly may wish to amend Section 2.1-51.39 of the *Code of Virginia* to specify that the Governor shall provide, through Executive Order at the beginning of the Governor's term, for a cabinet-level committee to aid in the development of a comprehensive economic development policy for the State. The Secretary of Economic Development shall chair such a committee.

Table of Contents

I. Introduction

Over the last 15 years there has been a nationwide shift in what is considered to be economic development. Previously economic development was considered to be solely the recruitment of manufacturing industries on the part of a locality, region, or state — commonly referred to as "smokestack chasing." Although industrial recruitment efforts are still pursued, the new focus recognizes that economic development requires a more comprehensive approach for improving economic conditions and fostering economic growth, thereby expanding what is typically considered to be economic development. Industrial development, tourism promotion, and provision of services to existing business and industry are all seen as components of economic development. Therefore, states — including Virginia — have expanded their economic development policies to incorporate more comprehensive approaches to economic development. However, definitions of and approaches to economic development differ.

Although states have increased their roles in economic development, their involvement is still comparatively limited. Economic development continues to be predominantly an activity of the private sector. As such, a state's role in economic development is primarily as a catalyst for private investment through the stimulation and preparation activities necessary for the creation of material wealth for citizens, businesses, localities, and the state.

Many states are evaluating their approaches to economic development by examining the effectiveness of their economic development programs. One of the major objectives of this JLARC review was to determine the effectiveness of Virginia's approach to economic development.

Although the economic climate of Virginia compared favorably to other southeastern states in 1989, certain areas of the Commonwealth had less than favorable economic conditions. The internal differences within Virginia's economy reflect the need for different types of economic development programs. While the State administers many programs directed toward numerous ends, the State's efforts could be enhanced and better focused if they were based on an analysis of the economic conditions or climate within each region of the State.

ECONOMIC DEVELOPMENT: DEFINITION AND APPROACHES

Because economic development is often defined in terms of the approaches undertaken to address it, many definitions of economic development are actually reflections of the program and functional orientations of the individuals involved. However, within this report, economic development is defined within the context of public economic development initiatives. Therefore, economic development is defined as *the stimulation and preparation activities which lead to the creation of material wealth for citizens, localities, businesses, and the State.* Economic development policy is defined as *the body of principles which provide guidance for planning programs to provide the stimulation and preparation activities necessary for wealth creation.* Further, economic development policy should serve as the framework within which these programs operate and should also serve as the standard to which the programs are continuously measured.

Economic Development Defined

There is no one agreed-upon definition of economic development. Policymakers, government officials, and the private sector all have their own definitions of economic development. In addition, a review of the literature suggests that recognized experts in the field have their own definitions, each distinct. These definitions appear to vary based on the particular policy focus of the individual involved. For example,

> *One national expert defines economic development as "discovering, exploiting, expanding, or creating, new market opportunities — with an entrepreneurial focus on stimulating capital investment indigenous to a state or locality."*

* * *

> *Another noted expert defines economic development as "the process that occurs predominantly in the market-driven sector, but is affected in all its phases — creation, expansion, relocation, contraction, and regeneration — by a wide range of state actions."*

In Virginia, economic development is perceived differently by the many individuals and organizations involved, most directly related to their particular role in the process of economic development. For example, the Secretary of Economic Development defines economic development as the creation of quality jobs and increasing the tax base. The director of the Department of Housing and Community Development defines economic development more generally as those activities which enhance the quality of life for Virginians. The director of the Department of Commerce defines economic development as expanding the quality of jobs through the upgrading of occupations.

These definitions each describe a portion of the broader concept which is economic development. Each emphasizes one or more aspects of stimulation and preparation of wealth creation activities and describes opportunities for increasing personal, business, local, or State wealth (through increased per capita income, profits, or revenues as appropriate).

State Policy Approaches

Even though the creation of wealth is primarily an activity of the private sector, states are involved. Until recently, state involvement in wealth creation activities meant industrial recruitment. However, states currently undertake a variety of efforts to encourage indigenous, self-sustaining growth.

Experts generally agree that public economic development efforts should serve as the catalyst for private entities to conduct wealth creation activities, but some experts question the level at which activities should be undertaken and the impact from these efforts. For example, certain experts believe state economic development activities would be unnecessary if all states left these activities to the private sector. However, these same experts recognize the intense competition among states. Most experts agree that in today's global economy, a state is unable to compete without comprehensive economic development policies and programs.

Because most states have become involved in economic development initiatives and activities, it is necessary for other states to do likewise to remain competitive. For example, when more than one state is attempting to attract an industrial prospect, a state's activities can sometimes be the deciding factor in a location decision. While many business activities would probably occur without a state's involvement, a state's program can help influence some of those activities, such as business expansions and locations.

Because state activities comprise but one subset of other public and private activities aimed at wealth creation, the possibilities of isolating the effects of state activities on a state's economic conditions are limited. This does not mean that economic development policy does not affect a state's economic conditions. However, causal impacts are difficult, if not impossible, to isolate or attribute to any one factor.

For example, it would not be possible to determine if Virginia's industrial recruitment activities were the single deciding factor in getting a new industry to locate in Virginia. Nor would it be possible to attribute any benefits to the State, such as capital investment, from that relocation solely to the State's industrial recruitment activities. The efforts of private organizations and local governments to recruit that industry could not be isolated from those of the State. Further, other factors such as tax rates, labor availability, cost of labor, geographic and climate considerations, and proximity to markets would also affect the industry's relocation decision.

While state activities cannot control economic development, they can target or devote special attention to identified economic needs and capitalize on strengths or natural assets. As competition among states increases, a planned and directed approach to economic development becomes increasingly important.

JLARC REVIEW

House Joint Resolution 262 (1989) directed JLARC to "review the Commonwealth's economic development policies and the organization, management, operations and performance of the Department of Economic Development." The resolution specifically directed JLARC to review the planning, budgeting, staffing, procurement, mission, and policy and program functions of the Department of Economic Development (DED). A copy of the resolution is included as Appendix A.

Research Activities

To stimulate initial thinking about economic development issues and trends, JLARC staff sponsored a workshop on economic development for Commission members as one of the first activities in this review. The workshop focused on national initiatives in economic development and did not critique Virginia's economic development initiatives. This workshop, in conjunction with guidance from the resolution, helped generate areas of interest and issues for the JLARC review. Proceedings from the workshop were published in a report entitled *Economic Development in Virginia: An Interim Report to the 1990 Virginia General Assembly*.

Other activities undertaken during the review included document reviews, telephone and mail surveys, structured interviews with State officials, focus group interviews, observations of conferences and seminars, and site visits. In addition, an assessment of the State's economic climate was conducted to examine the differences in the economic conditions throughout the State and to determine the economic needs within the State. This assessment was used to compare State policy and programs with identified needs.

Document Reviews. As part of this study, an ongoing review of economic development literature was conducted. In addition, several other types of documents were reviewed and assessed. These included the *Code of Virginia*, executive orders, agency budget documents, internal DED documents, and other agency evaluations of the organization and management of DED. JLARC staff also reviewed DED administrative files as well as files maintained on programs and clients as part of the evaluation of 18 selected State programs.

Mail Surveys. This review was the first study to compile comprehensive information on State, regional, local, and private involvement in economic development within Virginia. Three mail surveys were used to collect this information.

Information from all State entities administering economic development programs was collected from one survey. Review of the *Code of Virginia* and budget documents helped identify the State entities involved in economic development. Eighty-one State entities were surveyed; 72 reported that they administered economic development programs. These agencies were sent a 21-page survey to complete.

A survey of non-State economic development organizations was used to identify and describe the non-State economic development activities. Initial mailings relied primarily on mailing lists provided by DED. However, subsequent mailings included organizations identified by other respondents as being involved in economic development. In all, 1,250 non-State organizations were sent a three-page survey to complete. Seven hundred ninety surveys were returned for a response rate of 63 percent. Some respondents indicated that they were not involved in economic development, even though they were part of economic development organization lists. These respondents are not included in the tabulations in this report.

A third mail survey was sent to companies which had visited Virginia as part of their relocation decision-making process. Companies which visited Virginia as part of a relocation decision process during either fiscal year (FY) 1988 or FY 1989, and which made their relocation decision during the same time period, were surveyed. A total of 147 companies met these criteria and were sent a survey. This survey helped JLARC assess the influence of State economic development programs on industrial decisions to locate in Virginia.

Nine surveys were returned because the companies had relocated and the forwarding addresses had expired. Eighty-nine surveys were completed and returned for a response rate of 64 percent. Three similar questionnaires were developed for this effort: one for companies which located in Virginia, one for companies which located elsewhere, and one for companies which cancelled their relocation project.

Industrial Training Telephone Survey. A telephone survey was conducted to follow-up on information obtained from the review of industrial training program files. Twenty-seven companies that received industrial training assistance from DED were contacted about retention and wage rates of employees that were trained through DED programs during FY 1988, FY 1989, or FY 1990.

Structured Interviews. JLARC staff conducted a total of 145 structured interviews during the review. These interviews were used to collect information about: the State's role in economic development; the implementation of economic development programs; the organization, operations, and management of DED; and communication and coordination among economic development entities.

Directors of the fourteen agencies within the Secretariat of Economic Development as well as the president of the Center for Innovative Technology were interviewed to clarify the role and mission of their agencies and programs in the overall scheme of economic development. The directors were asked about communication, coordination, and planning activities as well as interaction with local, regional, quasi-public, and private economic development groups.

Seventy State agency staff responsible for administering economic development programs were also interviewed. These staff were asked about program missions, goals and objectives, activities, funding, clients, measurements of program outcome, and coordination and communication.

To assess the organization and management of DED, 58 additional supervisory and non-supervisory staff were selected for in-depth interviews. These staff were asked about authority and responsibility, the agency's division of functions, chain of command, span of control, interactions with other department staff and regional or overseas offices, coordination and communication between divisions, and workload.

JLARC staff interviewed the current Secretary of Economic Development as well as his predecessor to obtain information pertaining to the overall policy focus of the secretariat. Questions covered the current economic development policy, planning efforts, special initiatives, focus of State efforts, the roles of the various State agencies involved in economic development, and communication and coordination among agencies.

Focus Group Interviews. JLARC staff conducted 18 focus group interviews in nine areas of the State: Northern Virginia, Northwest Virginia, Western Virginia, Southwest Virginia, South Central Virginia, Hampton/Tidewater, Eastern Shore, Northern Neck, and Richmond. Generally, two group interviews were held in each area. One was composed of local officials, including industrial development authority chairpersons or executive directors and county and city administrators. The second group was composed of staff to local and regional economic development organizations including private tourism organizations.

The focus groups typically lasted one and one-half hours and had on average seven attendees. Overall, 282 participants were invited, 167 accepted invitations, and 126 attended. An invitation to one of the focus groups was extended to at least one representative from each locality in Virginia. DED mailing lists, a local government directory, and the survey of non-State organizations were used to identify invitees.

These groups provided local and regional perspectives on economic development and supplemented information obtained from other sources. The groups were structured to allow participants to exchange information in an open and interactive environment. Discussion topics included a definition and goals for economic development, ways in which State policy makes a difference, recent economic development accomplishments, unmet economic development needs, and programs that the State should emphasize.

Attendance at Conferences and Seminars. JLARC staff attended and observed a variety of conferences and seminars as part of the review. These conferences included four DED quarterly seminars, the Institute for Economic Development, the Northern Neck Economic Development Forum, the Statewide Group Marketing Caucus, the Governor's 1989 Conference on Travel and Tourism, and the 1990 Governor's Conference for Rural Development.

Site Visits. JLARC staff visited several program sites during the course of the review. Visits were made to:

- the Virginia Port Authority as well as the Inland Port and Norfolk International Terminal,
- four small business development centers,
- five State welcome centers,

- the Department of World Trade,
- the Center for Innovative Technology and two community colleges which host directors of economic and technology development,
- one pre-employment industrial training session,
- three DED regional offices, and
- the Washington, D.C. and Richmond Bell Tower tourism sales offices.

Most of these visits included structured interviews and, as appropriate, file reviews. An observation checklist was completed at all welcome centers.

Economic Climate Analysis. Because statewide statistics can mask variation among regions, an assessment of Virginia's economic climate was conducted to determine the development needs within each planning district commission (PDC) in the State. This assessment allowed JLARC staff to compare current policy and programs to economic needs.

Thirty-eight economic indicators were grouped into four major characteristics: business activity, human resources, physical infrastructure, and quality of life. Each characteristic includes comparisons of the relevant component indicators. For example, the business activity characteristics includes comparisons of each PDC's net business expansions as a percentage of total business. This indicator was computed by subtracting the number of business contractions from the number of business expansions within the State. For this indicator, the State average was 0.7 percent. The PDC values ranged from a high of 1.6 percent in the Lenowisco and Northern Virginia PDCs to a low of 0.2 percent in the Piedmont and Central Shenandoah PDCs. Appendix B contains the analysis of the PDC comparisons. A tabular presentation of the data used to support the analysis is available upon request in the JLARC offices.

Report Organization

This report examines the State's involvement in economic development. Chapter I has provided an overview of the definitions of economic development, economic development policy, and the JLARC review. An overview of Virginia's organizations and programs for economic development is contained in Chapter II. The assessment of economic development programs is presented in Chapter III. The results of the review of DED's organization, management, performance, and operations are presented in Chapter IV. Finally, Chapter V examines economic development policy and policy planning considerations.

II. Overview of State and Non-State Organizations and Programs for Economic Development

Economic development in Virginia is seen as a mechanism to enhance the economic climate of the State by increasing the number of jobs available to Virginians and by increasing State and local tax bases. Involvement in economic development has increased at both the State and local levels with the recognition of economic development as a way to increase per capita income for citizens and revenues for the State and local governments.

Economic development in Virginia is complex due to the number of organizations and individuals involved. This report and its companion catalog represent the first comprehensive description of State, regional, and local economic development organizations and programs.

There are more than 500 non-State organizations involved in economic development activities. These organizations include a wide variety of public, private, and quasi-public organizations. Non-State organizations typically operate at the local level. However, the economic development activities of many organizations are statewide in scope. In addition, regional organizations have been established — primarily to represent proximate local governments in economic development efforts. In fiscal year (FY) 1989, non-State organizations reported spending more than $279 million on efforts which included business attraction, business assistance, community assistance, and tourism promotion. Non-State organizations operate fairly independently — their efforts are largely uncoordinated within the State.

State economic development programs are also diverse and varied. While there is a secretariat dedicated to economic development, economic development initiatives were conducted by State entities in six secretariats. Funding for these initiatives was more than $517 million in FY 1989, of which $396 million were for transportation initiatives which were economic development related.

STATE STRUCTURE FOR ECONOMIC DEVELOPMENT

In 1986, the Virginia General Assembly created a separate secretariat dedicated to economic development. However, more than 230 economic development programs were conducted by 72 State entities operating under six secretariats during the 1988-1990 biennium (Table 1). Eighty-seven programs were conducted by 23 entities within the Economic Development Secretariat. Forty-three entities which report to the Secretary of Education are involved in economic development activities. These entities are primarily the community colleges and the various State-administered museums. Three entities which operate under the Secretary of Natural Re-

Table 1

Funding of State Economic Development Activities by Secretariat 1988 - 1990 Biennium

Secretariat	Number of Programs 1989	Number of Programs 1990	Fiscal Year 1989 Funding State	Fiscal Year 1989 Funding Other*	Fiscal Year 1989 Funding Total	Fiscal Year 1990 Funding State	Fiscal Year 1990 Funding Other*	Fiscal Year 1990 Funding Total
Administration	0	1	$ **	$ **	$ **	$ 2,810,000	$ 0	$ 2,810,000
Economic Development	87	87	52,463,695	29,553,432***	82,017,127	54,709,341	35,080,667***	89,790,008
Education	117	121	6,374,406	17,344,018	23,718,424	6,882,127	18,191,547	25,073,674
Health & Human Resources	6	0	0	141,900	141,900	**	**	**
Natural Resources	8	7	9,669,580	971,085	10,640,665	8,882,997	140,000	9,022,997
Transportation	15	15	230,235,530	170,700,318	400,935,848	298,893,735	178,534,922	477,428,657
TOTAL	233	231	$298,743,211	$218,710,753	$517,453,964	$372,178,200	$231,947,136	$604,125,336

*Other funds include federal, local, and private funds which are usually required to qualify for or to match a set percentage of State or federal funding, $11,278,690 of which was also reported by non-State organizations on the JLARC Mail Survey of Non-State Organizations for FY 1989.

**Program(s) not funded or operational during fiscal year.

***Not included in these amounts are an additional $122,524,000 and $125,009,000 in industrial development bonds available to businesses in Virginia in fiscal years 1989 and 1990, respectively.

Source: JLARC Mail Survey of State Government Entities, May 1990 and in-person interviews with program staff.

sources conduct economic development initiatives. The Secretaries of Administration, Health and Human Resources, and Transportation each have one agency involved in economic development activities.

However, the Secretary of Economic Development is the organizational focus for implementing economic development policy and programs in State government. Within the secretariat, the Department of Economic Development (DED) is the principal State agency involved in the administration of economic development programs. Because the study mandate directed that JLARC review the organization and management of DED, the organizational structure of this department is presented in detail below.

Economic Development Secretariat

The General Assembly created the separate Secretariat of Economic Development in 1986, by dividing the Secretariat of Commerce and Natural Resources into two secretariats — Economic Development and Natural Resources. The secretariat has evolved since its formation (Figure 1). At the time of its establishment, the secretariat had 11 agencies and three political subdivisions under its auspices. However, at the time of this study it was comprised of the Secretary's Office, 14 agencies, and three political subdivisions or authorities. Most of the agencies currently within the secretariat can be traced to the re-configuration of the old Secretariat of Commerce and Natural Resources. The other agencies were added through transfer from a different secretariat or were newly created. The Governor has recently proposed a change in the structure of the secretariat which would eliminate the Department of World Trade, which was created in 1988.

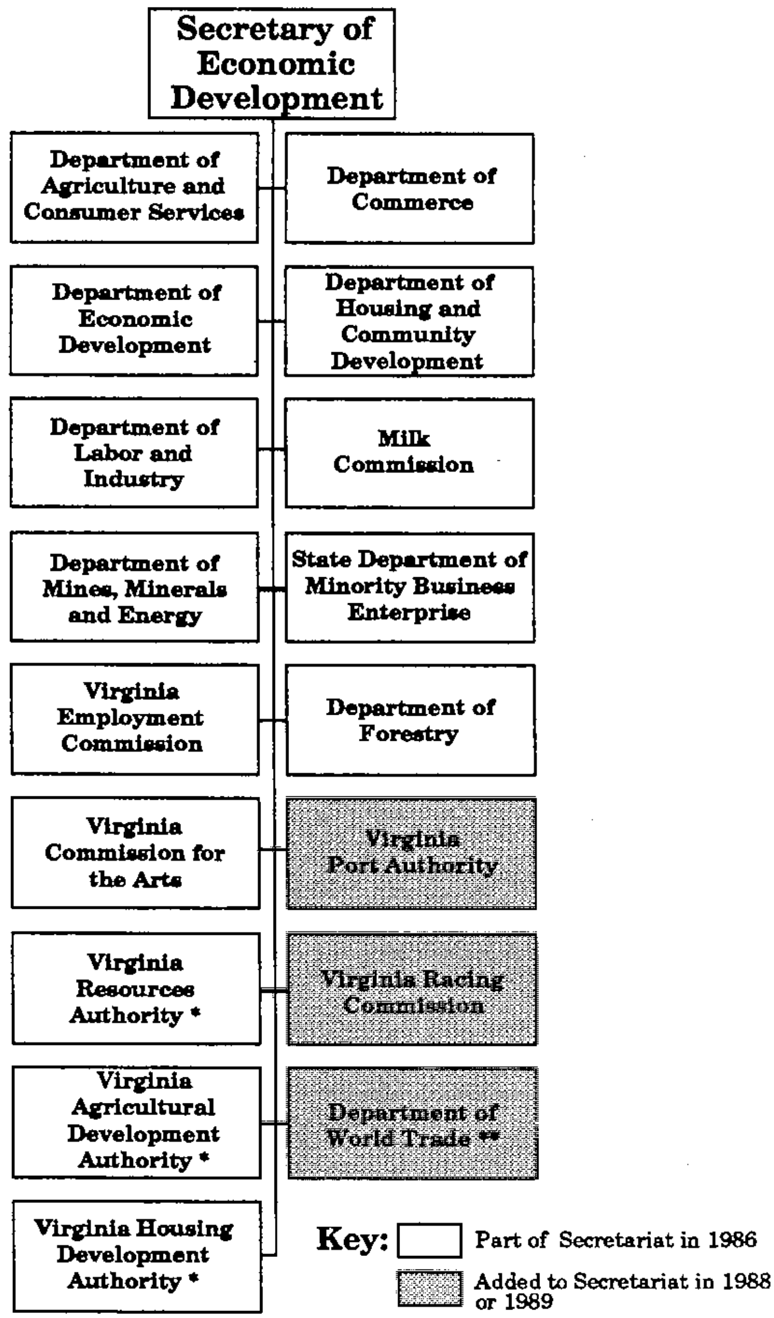
Department of Economic Development

At the time of the JLARC review the structure of the Department of Economic Development was the result of the 1984 merger of the Division of Industrial Development (then a separate State agency) and the Division of Tourism (a division located in the Department of Conservation and Economic Development). Currently, the *Code of Virginia* charges DED with two primary responsibilities: (1) industrial development services and (2) tourism and travel services (§§2.1-548.9 *et seq. Code of Virginia*). However, the responsibilities of DED would change under the Governor's recent proposal to merge the functions of the Department of World Trade into DED. Additional responsibilities would be given to DED for the State's export development function.

At the time of the review, DED was organized into four staff sections and two line divisions (Figure 2). As of September 16, 1990, the agency had a maximum employment level of 189 and total staff of 173. As one way to achieve the required cost savings within the agency, DED instituted a hiring freeze in November 1989, which is in effect on a case-by-case basis for the remainder of fiscal year 1991.

Figure 1

Current Organizational Structure of the Secretariat of Economic Development



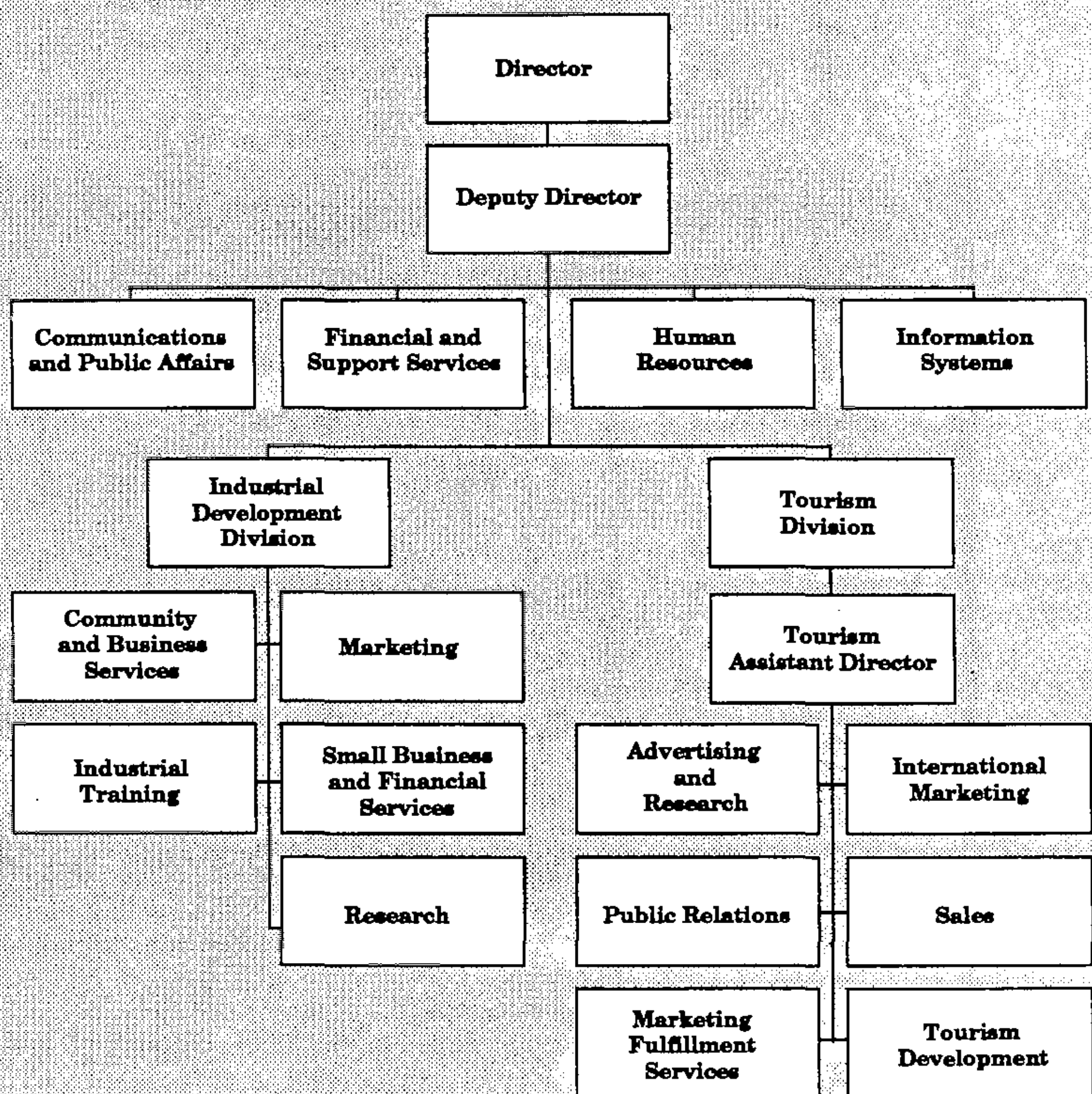
* These three political subdivisions are not appropriated funds through the General Assembly.

**The Governor has proposed elimination of this department as of October 1, 1990.

Source: Organization of Virginia State Government, July 1989, and Report of the Secretary of the Commonwealth, 1985-86.

Figure 2

Organization of the Department of Economic Development



Source: JLARC graphic based on Department of Economic Development organization chart.

Six additional staff were added to DED on October 1, 1990 with the closing of the Department of World Trade. Although the maximum employment level had not changed as of October 10, 1990, it was expected to increase with the addition of the 11 positions from the Department of World Trade.

Total funding for the 1990-1992 biennium was $53.4 million for the department overall, which includes $5.9 million in pass-through funds. However, as of October 10, 1990, DED's biennial budget had been reduced to $48.3 million due to the projected statewide revenue shortfall in FY 1991. DED anticipates that its biennial budget may be increased by approximately $1 million with the transfer of responsibilities and staff from the Department of World Trade to the agency.

Director's Office. The agency director's office is comprised of three staff including the director, the deputy director, and an executive secretary. Four staff sections which provide administrative support to the line divisions are considered part of the director's office. For the 1990-1992 biennium the department was appropriated $11.9 million for administration. As of October 10, 1990, this amount had been reduced to $10.7 to achieve agency savings necessary due to the projected revenue shortfall.

These four support sections — communications and public affairs, financial and support services, human resources, and information systems — were created in 1987 based on recommendations made by the Department of Information Technology (DIT) in an organization and management study of the department. Prior to this reorganization in 1987, DED had only a small administrative unit within the Division of Industrial Development. Three of the four sections provide services to the entire agency while one, communications and public affairs, primarily supports the Division of Industrial Development with six staff members who handle the division's public relations activities. The financial and support services section, with eight staff, is responsible for budget and accounting functions. The human resources section has a staff of four who are responsible for personnel-related activities. Computer operations within the department are supervised by a staff of two in the information systems section.

Division of Industrial Development. As of September 16, 1990, the Division of Industrial Development had 84 total staff. Six additional staff were added to the division when the DWT was closed and the agency's positions transferred to DED. The Division of Industrial Development was appropriated $22.7 million for the 1990-1992 biennium. However, this amount was reduced to $20.3 million as of October 10, 1990, due to the projected revenue shortfall. The division is divided into five sections — community and business services, marketing, industrial training, small business and financial services, and research.

The community and business services section assists localities and existing businesses in several ways. This section conducts the department's primary technical assistance program for localities — the community certification program. In addition, the section maintains files of the industrial sites and buildings available within each community in the State. The staff also sponsor quarterly training seminars for local economic development personnel. Four central office staff are dedicated to visiting chief executives or plant managers of existing manufacturers throughout the State to assist with any problems these employers may be having at the State level as well as to explore possibilities for future expansion.

There are 26 staff within the community and business services section. Two of these staff were added to the section on October 1, 1990 with the closing of the Department of World Trade. While 15 staff are located at the central office in Richmond, the remaining staff are located in three regional offices. The Staunton and South Boston offices had two staff each and the Abingdon office has four staff as of September 1990.

The marketing section concentrates on two separate activities — industrial development marketing and film production marketing. The office has had 33 staff including a director, an assistant director, 16 industrial development marketing managers, four associate marketing managers, and support staff. However, four additional staff were added to the section on October 1, 1990 to conduct export or trade marketing activities due to the closing of the Department of World Trade. Three of these staff will be based in Richmond while one will be in the Herndon office of DED.

The 16 industrial development marketing managers all have similar responsibilities but their assigned territories differ. Territorial assignments include regions within North America, Europe, or the Far East. Twelve marketing managers have Richmond as a home base. One marketing manager is housed at the Center for Innovative Technology in Herndon, Virginia, and three marketing mangers are assigned to the overseas offices — one in Tokyo, Japan and two in Brussels, Belgium.

Industrial development marketing managers travel in their territories eight to ten times a year to visit executives of industries that are considered prospects for establishing new facilities or relocating in Virginia. These managers are expected to develop one-on-one, long-term relationships with corporate executives and to facilitate any visits to Virginia that result from their contacts.

Film promotion activities in the marketing section are conducted by four staff who promote the State as a good location for producing films. Virginia is advertised in the Hollywood trade media, and direct calls are made to production executives. The staff also provide location and production assistance to companies that are interested in filming in the State.

The industrial training section prepares and coordinates training tailored to meet the specific needs of industries that are newly locating or expanding in Virginia. This function was moved from the Virginia Community College System in 1985. The current staffing level of this section is 12.

The small business and financial services section has six staff who administer programs that provide business assistance or financial assistance to small businesses in the State. The financial services include the Virginia Small Business Financing Authority, which administers three programs including a loan guaranty program. Staff also help businesses identify federal, State, and private financing programs that may meet their needs. The section also administers and partially funds six small business development centers throughout the State.

The research section has 11 staff, including six economists and two statistical analysts. This section produces the division's standard publications related to economic development, such as *Virginia Facts and Figures*. Further, the staff prepare relatively short papers on timely issues in industrial development.

Division of Tourism. As of September 16, 1990, the Division of Tourism had 66 total staff. The director's office has two support staff and an assistant director position which is currently vacant. The division is divided into six sections — advertising and research, international marketing, public relations, sales, marketing fulfillment services, and tourism development. A seventh section, salt water sport fishing, was transferred to the Virginia Marine Resources Commission as of July 1, 1990. Total appropriations for the division were $21.0 million for the 1990-92 biennium. This appropriation had been reduced to $17.3 million as of October 10, 1990 due to the anticipated revenue shortfall.

The advertising and research section currently has two staff positions, one of which is vacant. This section supervises the division's research and domestic advertising contracts. One of the projects undertaken by this section is measuring the return on investment for State advertising expenditures. The division uses this measure to show the effect that its domestic advertising efforts have on the State's economy.

The international marketing section is currently staffed by one tourism marketing manager. International advertising has been jointly conducted with Pan American Airlines in France, Germany, and the United Kingdom for several years. Two positions were to be added to this office with the closing of the New York City sales office. However, with the agency freeze on hiring, these positions are vacant.

The public relations section has seven staff. Most of their work is related to editorial services and media relations such as writing press releases for the division, writing travel and feature articles, and fulfilling media inquiries. This section also develops, updates, and distributes several publications such as the *Virginia Travel Guide* and special-interest or event brochures. Free-lance writers and photographers are procured for some public relations work. The section maintains a library with videotapes, films, and pictures for use by the department, communities, and the media.

The sales section is responsible for marketing the State to tour operators and travel agencies. They do this primarily through attendance at trade shows, publications such as *The Tour Planner's Guide*, sales calls, and coordinating site inspection tours for tour operators. In addition, this section provides information to tourists through the State's ten welcome centers. Welcome center staff primarily counsel walk-in visitors and distribute brochures on the many tourist attractions in the State. Welcome centers are located in Bracey, Bristol, Clear Brook, Covington, Fredericksburg, Lambsburg, Manassas, New Church, Rocky Gap, and Skippers. However, one of the Governor's proposals to address the projected revenue shortfall is to close the ten welcome centers.

The sales section has 47 permanent staff, which includes 44 staff located at the welcome centers and in sales offices in Washington, D.C., and Richmond (Bell Tower). The division had a third sales office in New York City. However, the office was closed in June 1990. The permanent staff are supplemented by part-time staff during peak tourism seasons.

The tourism development section, also known as community development, provides technical assistance to communities to develop their areas as tourism attractions or to market their communities. Staff work with local and regional organizations in the public and private sectors. This section was created in 1988 and has two full-time professional staff, only one of whom works with communities.

The marketing fulfillment services section supports the activities of the other sections. This section answers consumer requests for information on Virginia — preparing specialized packages as needed. In addition, it also is responsible for the mail operations of the entire department. The section is staffed by six full-time employees and also uses part-time help during peak seasons.

STATE ECONOMIC DEVELOPMENT PROGRAMS

There were 233 and 231 State programs directed at economic development in FY 1989 and FY 1990, respectively (Table 2). These programs had total funding of approximately $517 million in FY 1989 and approximately $604 million in FY 1990. State funding for these programs was approximately $299 million in FY 1989 and approximately $372 million in FY 1990. The balance of the funding came from federal, local, and private sources. The majority of the local funding for these programs was to qualify for, or to satisfy the matching requirements of, some federal and State programs.

In addition to the amounts listed above, approximately $123 million in FY 1989 and $125 million in FY 1990 was available in industrial development bonds (IDBs). IDBs are a low-interest, tax-exempt source of capital used for financing facilities.

The State programs appear to address a wide range of economic development activities. The Urban Institute, a nationally recognized research organization located in Washington, D.C., developed an economic development typology to classify activities which contribute to the creation of wealth for citizens, businesses, localities and states. To better describe wealth creation activities in Virginia, JLARC staff modified the typology to include three additional classifications of programs: direct product promotion, regulation, and research and development. The modified typology includes nine program areas which describe wealth creation activities in the State:

Table 2

Number and Funding of State Economic Development Activities by Program Type 1988 - 1990 Biennium

Program Type	Number of Programs 1989	Number of Programs 1990	Fiscal Year 1989 Funding State	Fiscal Year 1989 Funding Other*	Fiscal Year 1989 Funding Total	Fiscal Year 1990 Funding State	Fiscal Year 1990 Funding Other*	Fiscal Year 1990 Funding Total
Business Assistance	87	91	$ 10,695,379	$ 3,998,713	$ 14,694,092	$ 12,315,869	$ 4,960,728	$ 17,276,597
Business Attraction	10	10	3,251,257	404,190	3,655,447	3,588,529	0	3,588,529
Community Assistance	36	32	238,386,225	190,051,750	428,437,975	308,231,814	201,172,510	509,404,324
Direct Product Promotion	20	20	8,005,954	1,661,866	9,667,820	3,446,506	956,876	4,403,382
Financial Assistance	13	12	16,989,919	5,471,845**	22,461,764	20,285,528	7,045,905**	27,331,433
Import/Export Promotion	15	15	5,577,526	239,375	5,816,901	6,435,164	272,850	6,708,014
Regulatory	1	1	0	592,565	592,565	0	639,940	639,940
Research & Development	24	24	3,365,842	15,714,358	19,080,200	3,435,031	16,329,525	19,764,556
Tourism Promotion	27	26	12,471,109	576,091	13,047,200	14,439,759	568,802	15,008,561
TOTAL	233	231	$298,743,211	$218,710,753	$517,453,964	$372,178,200	$231,947,136	$604,125,336

*Other funds include federal, local, and private funds which are usually required to qualify for, or to match, a set percentage of State or federal funding, $11,278,690 of which was also reported by non-State organizations on the JLARC Mail Survey of Non-State Organizations for fiscal year 1989.

**Not included in these amounts are an additional $122,524,000 and $125,009,000 in industrial development bonds available to businesses in Virginia in fiscal years 1989 and 1990, respectively.

Source: JLARC Mail Survey of State Government Entities, May 1990, and in-person interviews with program staff.

- *Business Assistance* programs help businesses function more effectively, but are not financial in nature.

- *Business Attraction* programs identify and attract new businesses interested in locating in a state or sub-state jurisdiction.

- *Community Assistance* programs improve the capacity of the local government's economic development efforts through technical assistance and grants.

- *Direct Product Promotion* programs are designed to promote Virginia products for intra- and interstate sale.

- *Import/Export Promotion* programs are designed to raise business awareness about import and export opportunities, to encourage import- and export-related activity, and ultimately to increase export sales.

- *Financial Assistance* programs provide capital through direct loans or loan guarantees to private, for-profit businesses for working capital or business expansion.

- *Regulatory* programs related to economic development have a primary objective of enhancing the sale and marketability of Virginia products.

- *Research and Development* programs related to economic development conduct research and development activities which will directly enhance the sale and marketability of Virginia products or Virginia as a tourist or business location.

- *Tourism Promotion* programs promote the state or a locality as a place to visit so that tourism dollars will be spent.

Business Assistance Programs

The State administered 91 business assistance programs during FY 1990. State funding for these programs was approximately $12.3 million of the total funding of over $17 million. Federal and local funds provided the remainder.

Business assistance programs are administered primarily within the Education and Economic Development Secretariats. The Virginia Community College System operates 53 of the 91 programs as part of its community service role. Many of these programs focus on workforce development through community college training activities. Other programs provide technical assistance to businesses through the Centers for Economic Development housed at the community colleges. Due in large part to the role of the community colleges in business assistance programs, 69 of the 91 State programs are targeted at certain regions; the other 22 are statewide efforts.

Business Attraction Programs

Ten State-funded business attraction efforts were administered through agencies under the Economic Development and Education Secretariats. These programs received total funding of approximately $3.6 million in fiscal year 1990.

The major business attraction efforts of the State were conducted by the Department of Economic Development through its industrial development marketing program. The department also uses approximately $478,300 in State funds to attract the film industry to Virginia through an advertising campaign and location assistance efforts.

The programs conducted in the Education Secretariat, while many in number, are primarily efforts undertaken by community colleges to assist communities in attracting business to their areas. Community college presidents and faculty often serve on the local contact teams which meet with industrial prospects. As such, the amount of State funding supporting these business attraction efforts is minimal, less than $1,000.

Community Assistance Programs

In FY 1990, 32 State community assistance programs were administered by entities within the Administration, Economic Development, Education, Natural Resources, and Transportation Secretariats. Approximately $509 million in funds supported these programs, which provide technical assistance and funding to communities to help them improve their physical and human resource infrastructure.

Ten programs administered by the Department of Transportation accounted for 95 percent of the total State funding for community assistance. These funds supported such programs as the U.S. Route 58 corridor development program, industrial road access program, industrial rail access program, airport access program, U.S. Route 28 improvement program, and the coal severance tax road improvement program.

The Department of Housing and Community Development administers five community assistance programs. These programs combine federal and State funds to assist communities in constructing industrial parks and making improvements to physical infrastructure, such as water and sewer availability. In addition, the department provides technical assistance to communities for downtown revitalization and general planning activities.

Direct Product Promotion Programs

Twenty direct product promotion programs were administered in FY 1990 to promote Virginia products for intra- and interstate sales. These programs were primarily administered by the 12 agricultural commodity boards and the Department of Agriculture and Consumer Services.

Examples of the programs include Virginia's finest trademark program and the farmer's market network. Virginia's finest trademark program promotes quality-tested Virginia products to food retailers and consumers. The farmer's market network establishes distribution outlets around the State. These outlets allow farmers to collectively market their agricultural products to wholesale institutional buyers.

Total funding for direct product promotion programs was approximately $4.4 million in FY 1990. This includes $3.4 million in State funds and approximately $567,000 from taxes on the promoted products.

Import/Export Promotion Programs

State entities administered 15 programs which focused on increasing export promotion by businesses and increasing the utilization of Virginia ports for import and export activity in FY 1990. State funding for these programs totaled $6.4 million. The major State initiatives in promotion of imports and exports were conducted by two State agencies.

The Virginia Port Authority (VPA) directed approximately $4.7 million in State funds to economic development initiatives in FY 1990. The VPA used the funding for national and international marketing of VPA facilities. In addition, the VPA operates the inland port in Front Royal, which was designed to increase the import/export tonnage handled by the VPA.

One other State agency, the Department of World Trade, has had major involvement in export promotion. The department received approximately $500,000 in State funds during fiscal year 1990 to administer its international trade services program. This program was designed to increase exports of manufactured goods and services by Virginia businesses through market stimulation and the promotion of information and technical assistance. The Governor recently proposed that the Department be eliminated and its functions be absorbed into the Department of Economic Development.

Financial Assistance Programs

In FY 1990, 12 financial assistance programs were administered by State government entities. These programs received a total of $27.3 million — $20.3 million in State funds and $7.0 million in federal and local funds. An additional $125 million was available in industrial development bonds.

These programs are primarily administered by agencies within the Economic Development Secretariat. For example, the Department of Housing and Community

Development administers four financial assistance programs — two revolving loan funds, the enterprise zone program, and the State's industrial development bond program. The Department of Economic Development operates the Virginia Small Business Financing Authority and until recently dedicated two staff positions to the Rural Virginia Development Foundation's Virginia Economic Development Corporation (VEDCorp). VEDCorp recently filed papers to become a private corporation and was expected to have been incorporated by December 1990.

Regulatory Programs

Economic development regulatory programs are those State regulations or other controls which have a primary objective of enhancing the sale and marketability of Virginia products. One State program, dairy industry regulation, was identified during this review. Its funding, derived from tax on milk, was approximately $640,000 for FY 1990.

The majority of regulation for Virginia agricultural products are federal programs. As such, the regulations are federal, not State. These programs were not included, as they did not address State initiatives.

Research and Development Programs

Research and development programs typically support other economic development programs or activities. In FY 1990, 24 research and development programs were administered by State entities in the Economic Development and Education Secretariats.

In FY 1990, these programs received total funding of approximately $19.8 million, approximately $3.4 million of which was from the State. The rest was received primarily from the federal government. For example, the Virginia Employment Commission conducts industrial development research that is used to maintain, improve, and expand economic development. In FY 1990, this program received $1.3 million in federal funds and approximately $761,000 in State funds.

Tourism Promotion Programs

State entities administered 26 tourism promotion programs in FY 1990. Entities within the Economic Development, Education, Natural Resources, and Transportation Secretariats administered the programs.

Total funding for tourism promotion by State entities was approximately $15 million. State funding provided approximately $14.4 million, and approximately $600,000 in other funds was received for these programs.

While the Department of Economic Development's tourism advertising program is the major marketing program for Virginia, other programs promote a particular attraction or area of the State. For example, the Virginia Military Institute promotes the New Market Battlefield. Chippokes Plantation Farm Foundation spends funds to promote the museum at the plantation.

The Department of Transportation administers five tourism promotion programs. Three programs are directed at road access and improvement for State- or federally-owned tourist attractions around Virginia.

NON-STATE ORGANIZATIONS AND PROGRAMS

In addition to State structures and programs, more than 500 non-State organizations conducted economic development initiatives in FY 1989. During that year, these groups reported spending approximately $279 million on economic development, of which approximately $31.6 million was State funds (Table 3). The total funding for non-State economic development initiatives during FY 1989 is a conservative figure because it excludes staff salaries and other operational costs. Further, it includes only the initiatives of non-State organizations which responded to the JLARC survey.

The major activities funded by these groups included tourism promotion, business attraction, business assistance, and community assistance. More detailed information on non-State economic development organizations and programs can be found in JLARC's *Catalog of Virginia's Economic Development Organizations and Programs*.

Regional Economic Development Organizations

Groups of localities have formed regional organizations to help achieve various economic development objectives. Several of these organizations implement economic development activities. These include planning district commissions (PDCs), industrial development corporations, and economic development authorities. These organizations promote cooperation on a regional level and reduce fragmentation of economic development efforts by localities. Further, regional efforts can result in the more efficient and effective use of limited resources.

Planning District Commissions. Section 15.1-1400 et. seq. of the *Code of Virginia* defines a planning district commission as a public body. The *Code* further defines the purpose of PDCs as being to "promote the orderly and efficient development of the physical, social, and economic elements of the district by planning, encouraging, and assisting government subdivisions to plan for the future...."

PDCs reported varying levels and types of involvement in economic development activities throughout the State. One of the 22 PDCs in the State did not respond

Table 3

Economic Development Expenditures, by Non-State Organizations, by Program

Program Type	Number of Organizations Conducting Type of Program	Fiscal Year 1989 Funding: Non-state*	State**	Total	Percent of Funding from State
Business Assistance	209	$ 4,624,952	$ 826,181	$ 5,451,133	15.2%
Business Attraction	224	12,076,162	1,076,961	13,153,123	8.3
Community Assistance	142	14,513,004	9,870,719	24,383,723	40.5
Direct Product Promotion	14	458,661	125,000	583,661	21.4
Export Promotion	26	218,870	167,690	386,560	43.4
Financial Assistance ○	81	188,666,609	4,612,850	193,279,459	2.4
Research & Development Support	42	771,911	11,617,391	12,389,302	93.8
Tourism Promotion	262	22,634,909	359,125	22,994,034	1.6
Other □	64	3,930,299	2,936,723	6,867,022	43.7
TOTAL ■	508	$247,895,377	$31,592,640	$279,488,017	11.3%

Note: Estimates were accepted; 1989 calendar year accepted for 1989 fiscal year. Includes only program costs — no administrative costs. Figures reflect the responses of only those organizations which returned the JLARC survey. Therefore, figures and percentages are extremely conservative estimates of actual economic development expenditures by non-State organizations.

* Non-State funds include local, private, and self-generated monies as well as direct federal grants or appropriations.

** State funds include lederal funds which are administered by State agencies. Of the total State funding reported, $15,414,565 was not accounted for by the JLARC Mail Survey ol State Government Entities.

○ Financial assistance includes $182,829,001 in industrial development bond issues.

□ Other category includes education and information and renovation of historic tourism properties.

■ Number of organizations conducting programs totals 508; most organizations conduct more than one type of program. Total funding levels include program dollars reported by two organizations which were not able to disaggregate funding to particular program categories.

Source: JLARC Mail Survey ol Non-State Organizations, March - July 1990.

to the JLARC survey. However, the other 21 PDCs reported varying levels of involvement in economic development activities during FY 1989. PDCs reported spending $1.6 million on economic development activities in FY 1989.

While the types of activities undertaken vary, most PDCs are involved in community assistance activities. Many of the PDCs provide information on certain economic conditions within the area for local government officials to use in presentations to prospective industries. Other PDCs have developed written economic development plans for the localities within their regions. Still other PDCs are more directly involved in preparing communities for industry recruitment. For example, the Accomack-Northampton PDC was actively involved in the area's recent community certification effort.

Industrial Development Corporations. Industrial development corporations are generally non-profit corporations established to represent local governments in a proximate area. Localities represented by the regional corporations contribute a proportionate share of the corporations' operating costs.

Section 13.983 of the *Code of Virginia* recognizes these regional entities and empowers them to stimulate business prosperity and economic welfare. Fourteen regional corporations operating in the State have been formed to represent a total of 57 communities (Figure 3). One of these corporations was not formally established until February 1990. However, the other 13 reported spending a total of $3.8 million on economic development activities in FY 1989. These corporations were primarily involved in business attraction, business assistance, and financial assistance activities.

Economic Development Authorities. Only one regional economic development authority exists within the State. The Virginia Coalfield Economic Development Authority was created in 1988 by the General Assembly to enhance the economic base of the counties of Lee, Wise, Scott, Buchanan, Russell, Tazewell, and Dickenson and the city of Norton. The Authority reported $2.2 million in funding for FY 1989.

Local Organizations

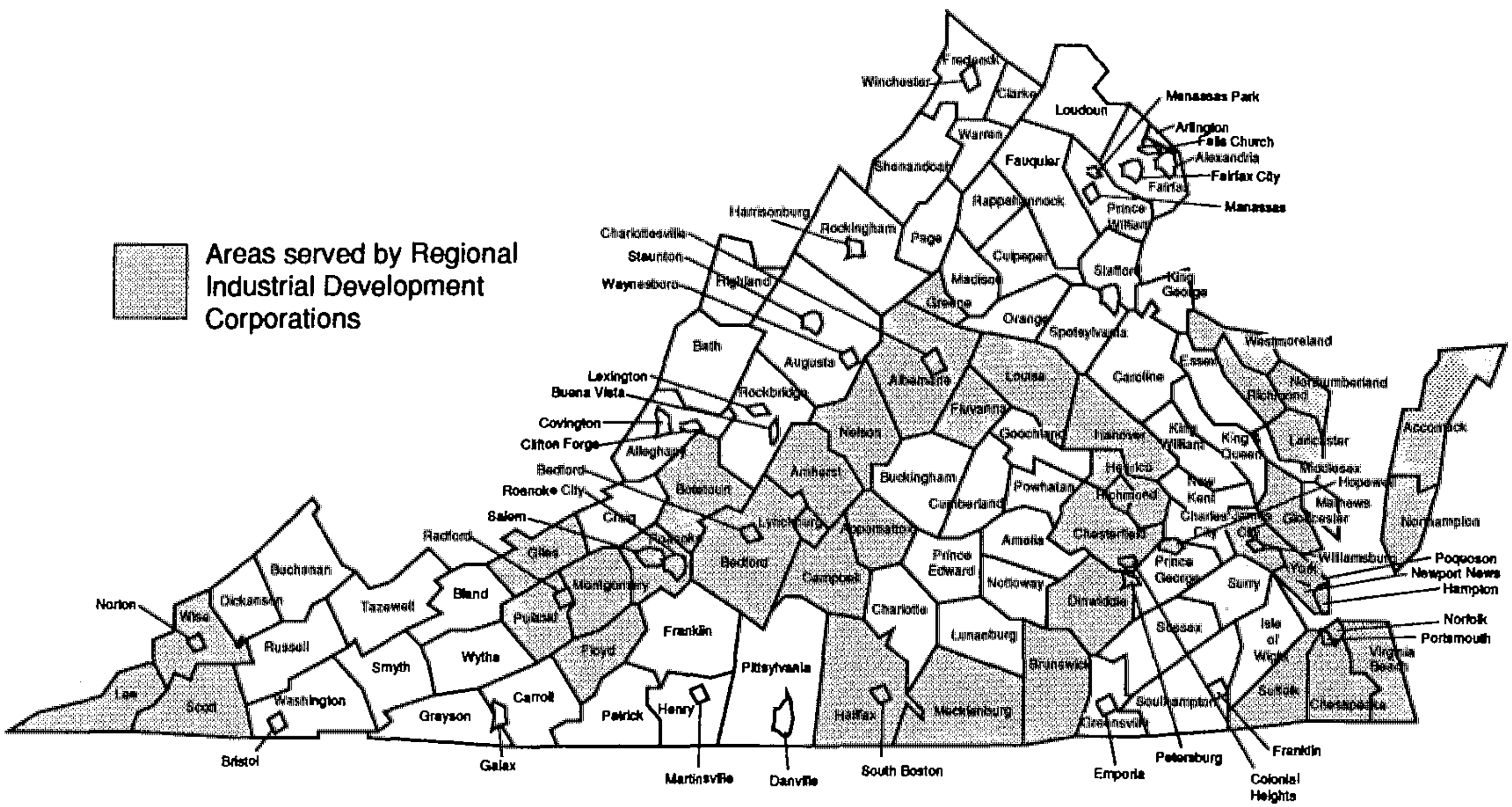
Often localities conduct their own economic development initiatives. Some local governments staff economic development offices in addition to belonging to regional economic development organizations.

Local economic development organizations include industrial development authorities (IDAs) and local government offices. These offices may be staffed by volunteers or local government employees.

Industrial Development Authorities. Section 15.1-1376 *et. seq. of the Code of Virginia* allow localities to establish industrial development authorities and convey to them the powers of political subdivisions. These statutory powers allow IDAs to issue

Figure 3

Regional Industrial Development Corporation Service Areas



Source: JLARC Mail Survey of Non-State Organizations, March-July 1990.

bonds, lease and purchase properties, and borrow money. Many IDAs were initially established to provide financing for businesses and industries through industrial development bonds. The IDAs were able to cover their operational costs through application fees and annual charges associated with the bonds. However, due to the federal government abolishing the tax-exempt status of these bonds, few are now issued. As such, many IDAs have either become inactive or have refocused their activities.

Forty-eight IDAs reported active involvement in economic development during FY 1989. These IDAs spent approximately $188.1 million on economic development activities. The activities reported by these IDAs varied. While some IDAs assist local governments in their industry recruitment and retention activities, others — such as the Halifax County IDA — handle all economic development activities for the locality. Several localities, including Virginia Beach, Lynchburg, and Norfolk, have turned land over to their IDAs for development or sale. Many IDAs reported involvement in the development and promotion of industrial parks. Involvement of approximately one-fourth of the IDAs was limited to issuing industrial development bonds.

Local Government Offices. Local governments in 107 communities reported conducting their own economic development activities. These local governments spent a total of $38.5 million on economic development initiatives in FY 1989. The amount of resources dedicated to economic development at the local level varies substantially.

Some localities have offices dedicated to economic development. For example, Chesterfield County has an Office of Economic Development with eight full-time staff. In addition, the office employs a consultant for economic development activity in Europe. These activities supplement membership in two regional industrial development corporations — the Metropolitan Economic Development Council and the Appomattox Basin Industrial Development Corporation.

Other localities or communities have but one position dedicated to economic development. Fifteen local governments reported only one full-time position dedicated to economic development. These localities include the City of South Boston, Rappahannock County, and the Town of Gordonsville.

Still other local governments rely on individuals with other primary duties to conduct economic development activities on an ad hoc basis. Eleven reported that the only staffing for their economic development activities was provided by one person on a part-time basis. Examples of such localities include Orange County, the City of Colonial Heights, and Richmond County.

Quasi-Public and Private Organizations

Several other economic development organizations exist in the State. These include one quasi-public organization and numerous private groups. Private groups include local industrial development corporations; chambers of commerce; statewide associations; banks, utilities, and railroads; business incubators; private industry councils (PICs); tourism attractions; and organizations dedicated to promoting tourism for more than one attraction or area of the State.

Center for Innovative Technology. The Center for Innovative Technology (CIT) was chartered by the General Assembly in 1984. The CIT is a quasi-public organization created to enhance and exploit scientific strengths available in Virginia universities and apply them to technology-based industry. As such, the CIT is primarily involved in developing new or advanced technologies through research. However, the Center for Innovative Technology is also involved in assisting businesses within Virginia. The objective of this business assistance is to help companies implement technologies which are new to them.

Industrial Development Corporations. Local industrial development corporations are typically for-profit corporations but may also be established as non-profit corporations. Thirty-one local industrial development corporations reported that they operated in Virginia during FY 1989 and spent $3.4 million on economic development activities. Non-profit corporations are often funded by, and function as the economic development office of, local government. For-profit corporations often help to enhance local industrial development through purchase of land, facility construction, and negotiation of lease-purchase agreements. These corporations are generally organized by citizens and businessmen of a particular locality to help promote its economic growth.

Chambers of Commerce. Chambers of commerce are private non-profit corporations. Seventy-six chambers of commerce in Virginia reported involvement in economic development activities, spending $1.4 million on those activities in FY 1989. Across the State, chambers function to provide information for prospective businesses and tourists. However, some chambers have a more active role in economic development.

In some instances, the chamber is the primary economic development organization in a locality. For example, the chamber in Alexandria functions as the local government office for economic development with the exception of tourism promotion activities, which are handled by the city. This chamber is primarily funded by the City of Alexandria.

More than 80 percent of all chambers responding reported involvement in business assistance efforts. For example, the Greater Lynchburg and the Galax-Carroll-Grayson chambers both sponsor industrial call programs aimed at addressing needs and concerns of local businesses. Others, such as the Charlottesville-Albemarle County chamber and the Roanoke Regional chamber, are involved in small business development efforts.

Three-fourths of the chambers reported some type of involvement in tourism promotion. Many of these chambers are involved in printing and distributing promotional materials. Others, such as the Waynesboro-East Augusta chamber, operate local or regional visitor information centers.

Statewide Associations. Twenty-five statewide associations reported spending a total of approximately $2.9 million on economic development activities during FY 1989. These associations generally promoted tourism statewide or provided business assistance and product development assistance to members.

Banks, Utilities, and Railroads. A total of 21 banks, utilities, and railroads reported involvement in economic development and spending of $3 million in FY 1989. While every bank, utility, and railroad responding reported involvement in business attraction activities, many also reported community assistance and business assistance activities. Business attraction efforts were primarily undertaken to support efforts of other non-State organizations. Community assistance was often provided in the form of grants to localities and other organizations involved in economic development.

Business Incubators. Business incubators, which can be publicly or privately owned and operated, are innovation centers or multi-tenant buildings designed to assist small businesses. This assistance is typically provided through affordable, start-up office space for new businesses. Businesses are co-located, usually in one building, and share professional services. Three incubators, located in Richmond, Charlottesville, and Hopewell, responded to the survey. These incubators reported spending more than $179 thousand in FY 1989. In addition, one locality — Lynchburg — reported operating an incubator.

Private Industry Councils. Private industry councils (PICs) are formed by employers, educators, and labor and community leaders to plan workforce training and, in some cases, to administer the Job Training Partnership Act. Although much of the staffing for PICs is comprised of volunteers, PICs are private organizations with employees who receive salaries.

One of the objectives of PICs is to incorporate private sector expertise in the design and implementation of job training strategies for communities. This objective is achieved in widely different ways throughout the State.

Four private industry councils reported involvement in a variety of economic development initiatives and total spending on economic development initiatives of approximately $650 thousand. The South Central Employment and Training PIC is especially active. This PIC helped fund a tourism promotion piece on "Plantation Country," and its job training services are usually offered to prospective industries as part of the localities' marketing package.

Tourism Attractions. In addition to efforts conducted by State tourism programs, numerous tourism attractions in the State conduct their own advertising. As such, they bring visitors into the State and contribute to the State's economic development. During FY 1989, 113 attractions reported spending a total of $17.4 million on tourism promotion.

Organizations Promoting More Than One Tourism Attraction or Destination. Tourism promotion was also undertaken by 14 other non-State organizations during

FY 1989. These organizations included loosely-defined regional groups and independent convention and visitors bureaus. These organizations spent a total of $1.7 million on tourism promotion activities, including restoration of historic properties.

Other Organizations. Thirty additional organizations reported active involvement in economic development with a total spending level of $2.0 million during FY 1989. These groups were involved in a variety of activities including business attraction, tourism promotion, business assistance, and community assistance. Many of these groups were formed to promote downtown revitalization or to promote a specific area of a locality.

SUMMARY

This chapter has provided an overview of the many and diverse economic development organizations and programs in Virginia. It is the first such description of all State and non-State economic development efforts to be conducted in Virginia. As such, it provides initial information on the varied efforts of more than 500 governmental, private, and quasi-public entities involved in economic development initiatives.

While State programs are just one aspect of the economic development initiatives in Virginia, they are a very important aspect. Many of the non-State organizations look to State initiatives to provide a focus and direction for their efforts. Therefore, the quality and focus of the State programs are especially important as they help define more than $769 million in economic development efforts.

Many State economic development activities are conducted outside the Economic Development Secretariat and the Department of Economic Development. However, these two entities have primary responsibility for the State's economic development policies and programs, respectively. Therefore, their efforts in these areas are especially important in directing other efforts which occur at the State and local levels.

III. Assessment of State Economic Development Programs

As described in the previous chapter, more than 200 economic development programs were conducted by State entities during fiscal year (FY) 1990. Information concerning funding levels, service areas, and goals and objectives was collected on all these programs during the course of this study.

However, in-depth assessments were conducted on 18 of the State's economic development programs. In order to address the mandated assessment of the performance of the Department of Economic Development (DED), all programs administered by DED were assessed. In addition, three other programs were assessed which appeared to be either functionally aligned with DED or appeared to have the potential to overlap with DED's programs.

Overall, the assessment indicates that the programs are providing services with which clients are highly satisfied based on the JLARC survey results and focus group interviews. The full complement of programs appears to provide a wide range of services to communities, businesses, and industries. However, many of the individual programs do not reflect a clear and defined policy focus, while others are too narrowly focused (Exhibit 1). As such these programs may not be addressing Virginia's most important economic development needs. Further, three programs appear to have insufficient program accountability, which limits the ability to assess if goals and objectives have been achieved.

While some of the programs have instituted an evaluative component, in-house evaluations of these programs have not been sufficient to determine if State strengths are being capitalized on most effectively or if needs are being adequately addressed. Most of these evaluations have concentrated on determining the economic impacts of the programs. However, because of methodological shortcomings in these evaluations, the true economic impact of the programs has not been accurately determined. In addition, there are several programs for which data are not maintained to support an accurate assessment of the program's efforts. These problems need to be addressed before a definitive statement can be made concerning the success of the State's economic development efforts.

DIVISION OF TOURISM PROGRAMS

The Division of Tourism has statutorily defined responsibility to encourage, stimulate, and support tourism and travel in the Commonwealth. The division fulfills that responsibility through tourism promotion efforts which combine domestic advertising and marketing, public relations, international advertising and marketing, and community development activities.

Exhibit 1

Identified Shortcomings in Economic Development Programs

Program	No Shortcomings Identified	Insufficient Policy Guidance	Insufficient Accountability	Inaccurate Assessment of Economic Impact	Program Design Limits Utilization
Division of Tourism					
Domestic Advertising				●	
Public Relations	●				
International Marketing				*	
Community Development		●			●
Division of Industrial Development					
Industrial Training		●	●	●	
Industrial Development Marketing		●	●		
Film Development Marketing	●				
Shell Building	●				
Community Certification					●
Regional Offices					●
Industrial Call Program		●			●
Small Business Development Centers				●	
Quarterly Training Seminars	●				
Building and Site Inventory	●				
Virginia Small Business Financing Authority					●
Other Economic Development Programs					
VPA National and International Trade	●				
Technology Transfer		●	●	●	
Virginia Economic Development Corporation (VEDCorp)				**	

*Data to assess the program's economic impact are currently being collected by the Department of Economic Development.
**Program's economic impact cannot yet be measured. Corporation is being formed.

Source: JLARC analysis.

While two of the programs administered by the division did not appear to have major shortcomings, deficiencies were found in the division's domestic marketing and community development activities. The economic impact of the domestic advertising is not accurately measured. The division inaccurately uses information, which inflates the program's impact. An accurate measure of economic impact should be developed before conclusive statements on the success and benefits of the program can be made.

It appears that the State's role in bringing tourists into Virginia is being achieved with the current advertising campaign. However, since the division uses larger private attractions to draw people into the State, the division should balance this approach with an increased effort to promote the lesser-known attractions to out-of-state visitors. Further, the division should increase the assistance available to communities and smaller attractions to enable them to better promote themselves to out-of-state and intrastate visitors.

Domestic Marketing

The Division of Tourism has developed its domestic marketing program to attract visitors to Virginia from the United States and Canada. Domestic marketing activities include attendance at trade shows to market Virginia; maintenance of welcome centers and sales offices; and advertising through television, magazines, and newspaper inserts. The Division of Tourism uses trade show attendance and information disseminated through welcome centers to supplement the major media advertising campaigns.

The assessment of domestic tourism promotion efforts indicates that the use of "brand name" advertising to attract visitors into the State appears to have been successful in generating inquiries. While this effort capitalizes on the strengths of the State and may provide the greatest return for dollars spent, the division needs to balance the brand name approach with additional promotion of the smaller attractions. Although the division has used welcome centers to supplement its brand name advertising, these centers could be better utilized in promoting the lesser-known attractions throughout the State. The division needs to look for low-cost ways to promote these attractions.

Brand Name Advertising Should be Balanced with Promotions of Lesser-Known Attractions. Advertising has concentrated on marketing what Virginia is best known for — mountains, history, and beaches — with brand names. According to the division director, this brand name approach builds on the perceptions of consumers by selling the strengths of the State. However, by using this approach in its advertisements, the division is also helping market private attractions. As such, State funds are being used to "promote" private attractions and could be seen as influencing the competitive mix of private attractions.

Highlighting specific areas such as Virginia Beach or attractions such as theme parks is done to "hook" potential visitors into making an inquiry about Virginia.

Information about additional attractions throughout the State is then included in the materials sent to them. The division director states that the success of larger attractions will spill over to the smaller destinations and attractions.

The use of brand name advertising has been very controversial within the State. Some attractions have expressed concerns about consistent naming of competitors in ads, and certain areas of the State have complained about a lack of representation. For example, although there are several caverns on or near the Blue Ridge Parkway, the division often used the same cavern, identified by name, in its ads. The director of DED recognized that this practice could put other caverns at a competitive disadvantage and recently directed that the advertisements be changed to eliminate this situation.

Advertising using brand names generated more than 410,000 inquiries during CY 1990 (Table 4). Because these inquiries were generated by promoting individual attractions or specific areas of the State, this approach should be balanced with activities that promote smaller, lesser-known destinations. While welcome center displays and counseling, public relations story placements, and the informational materials sent to people who respond to ads help to promote smaller attractions, more could be done.

In recognition of this problem, the director of DED recently initiated a "See Virginia First" campaign. This campaign is designed to promote attractions in Southwest Virginia to the residents in the rest of the State. The department will provide technical assistance to localities and attractions so that they are able to promote themselves. This type of activity needs to be expanded to other areas of the State.

Welcome Centers and Sales Offices are Cost-Effective Promotional Tools. Virginia has ten State-owned and operated welcome centers which provide travel

Table 4

Inquiries Generated from Domestic Advertising

Inquiry Sources	CY 1988	CY 1989	% Increase
Magazines, Newspapers, and Other Sources	131,212	173,197	32.00%
Bulk Requests	1,697	2,078	22.45
800 Calls Advertising	144,746	235,661	62.81
TOTAL	277,655	410,936	48.00%

Source: Division of Tourism monthly reports.

information and serve as rest stops for interstate and highway travelers (Figure 4). These centers are located throughout the State on major highways and thoroughfares.

Two of the stated purposes of these welcome centers are to: (1) provide quick, accurate responses to travel questions and (2) increase the length of stay of visitors to this State. In addition to State welcome centers, there are 30 local and regional travel information centers. Although the division has assisted in the establishment of these local and regional centers, the centers are funded and administered by localities and regional organizations.

The Division of Tourism also has two sales offices located in Richmond and in Washington, D.C. These sales offices primarily function in much the same manner as welcome centers by providing information about Virginia destinations and attractions to consumers on a walk-in basis.

As part of the plan for addressing the revenue shortfall, the Governor recently recommended that the State welcome centers be permanently closed. According to the Secretary of Economic Development, the State will not administer or fund welcome centers past March 31, 1991. However, the assessment of welcome centers indicates they effectively supplement the State's advertising campaign. Therefore, efforts should be made by the State to keep at least some of the centers open. Three findings support this position.

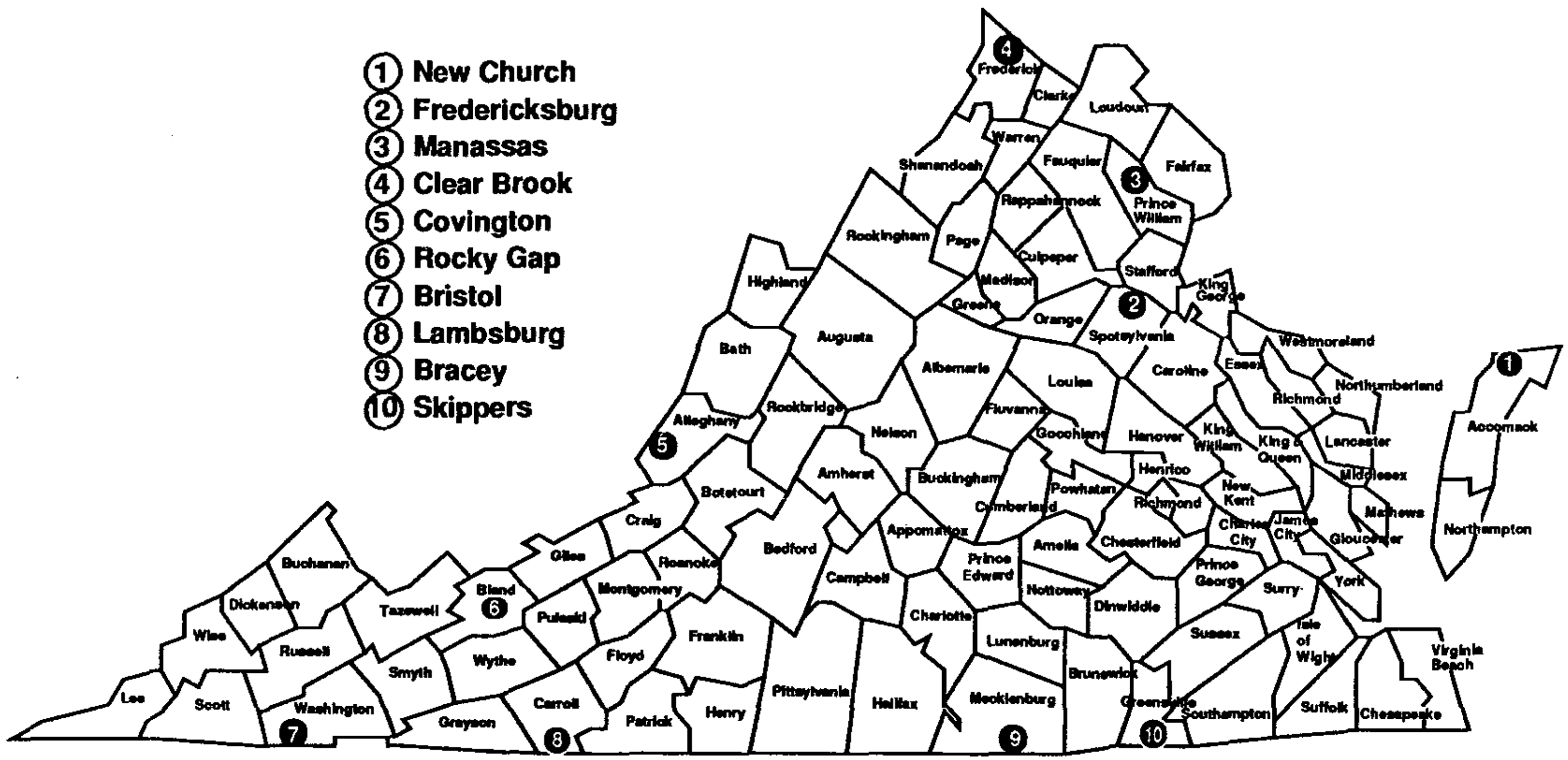
First, welcome centers provide a public relations service for the State which cannot be quantified. They serve to welcome the traveling public to Virginia. During site visits, JLARC staff observed welcome center staff while counseling travelers. All were extremely courteous and were able to provide requested information.

Second, welcome centers appear to be effective marketing tools which generate revenue to the State as well as to localities, local businesses such as restaurants and hotels, and tourism attractions. They do this by assisting travelers in determining where they will stop for meals and accommodations and what sites to see. Further, through extended visitation related to center counseling, centers help the Commonwealth recoup operating expenditures in the form of State taxes (Table 5). JLARC staff used DED data to calculate the amount of tax revenues generated by the welcome centers. On average, centers generated additional tax revenues for the State through their counseling efforts which increase the amount of time visitors spent in Virginia. This additional State tax revenue amounted to an estimated 66 percent of the centers' DED operating expenses in 1989.

Third, welcome center counseling and brochure displays are an important promotional tool for the smaller, lesser-known attractions. A 1988 DED study of welcome center visitation found that smaller attractions benefited when travelers stopped at welcome centers. Thirty-eight percent of travelers that visited smaller attractions reported that they altered their original plans on the basis of information obtained from the welcome centers.

Figure 4

Location of State Welcome Centers



Source: JLARC staff graphic.

Table 5

Estimated Revenue from Visitors Counseled by Welcome Centers During Calendar Year 1989

Welcome Center	CY 1989 Visitors Counseled	CY 1989 Estimated Revenues*	CY 1989 Estimated State Taxes Returned**	FY 1990 DED Operating Costs	FY 1990 VDOT Operating Costs	CY 1989 % of DED Operating Costs Recovered by State Tax	CY 1989 % of DED & VDOT Operating Costs Recovered by State Tax
Bracey	136,483	$ 3,180,006	$111,300	$ 117,885	$ 147,966	94.41%	41.87%
Bristol	64,729	1,508,163	52,786	120,367	100,063	43.85	23.95
Clear Brook	78,171	1,821,357	63,747	121,557	111,934	52.44	27.30
Covington	95,938	2,235,322	78,236	117,635	111,105	66.51	34.20
Fredericksburg	126,959	2,958,100	103,534	116,448	122,877	88.91	43.26
Lambsburg	77,318	1,801,482	63,052	118,701	149,052	53.12	23.55
Manassas	72,662	1,692,999	59,255	139,954	123,477	42.34	22.49
New Church	110,322	2,570,464	89,966	125,015	74,950	71.96	44.99
Rocky Gap	68,582	1,597,937	55,928	108,532	132,668	51.53	23.19
Skippers	154,125	3,591,059	125,687	122,404	129,898	97.39	49.82
TOTAL	985,289	$22,956,889	$803,491	$1,208,498	$1,203,990	66.49%	33.31%

Note: FY 1990 costs were used as proxy for CY 1989.

*Based on estimated average expenditures per person-night of $48.03 — (Division of Tourism Welcome Center Study, 1988) — adjusted for inflation to $52.30.

**Assumes expenditures subject to State tax rate of 3.5 percent. Formula: number of visitors counseled X percentage that increased length of stay X average number in travel party X additional nights stayed in Virginia X average expenditures per person night X State tax rate (visitors counseled X 0.11 X 2.7 X 1.5 X $52.30 X .035).

Source: JLARC analysis of 1988 Division of Tourism Welcome Center Study, Division of Tourism's monthly report forms, December 1989, DED Expenditures - Budgeted and Expended, and Department of Transportation welcome center operation expenditures, FY 1989 and 1990.

Given the current budget restrictions, it may not be possible for DED to keep open all of the centers. Therefore, prioritization of effort and assistance in financing the centers may be necessary. For example, DED could keep open those centers which counsel the most visitors or those centers which are in locations without local and regional centers. In addition, DED should continue to work with local governments, regional tourism groups, and private organizations to determine if there are other innovative approaches to keeping the centers open.

However, the effectiveness of welcome centers, if kept open, and the Richmond sales office in promoting smaller attractions as well as intrastate visitation could be enhanced. To assist in promoting visitation to Virginia, the Washington, D.C. sales office features a different event and geographic region of the State each month through exhibits and special literature. For example,

> *At the time of the JLARC visit to the Washington, D.C. sales office, a promotion on Native Americans and related events in Virginia was being coordinated with the Bureau of Indian Affairs. This promotion included exhibit cases with museum pieces; displays on Indian life; contemporary crafts of Virginia tribes; special showings of videos; free literature, brochures, and handouts about the Native American population in Virginia; and supplemental travel material for touring Indian sites.*

This type of initiative is a low-cost means of promoting specific areas and smaller attractions. Implementation of this initiative would not supplant the role of welcome centers in promoting all areas of the State since the statewide information provided through counseling and brochure displays would not change. A featured area of the State each month could also be used effectively at the Richmond sales office to promote intrastate visitation.

Recommendation (1): **The Department of Economic Development should balance the brand name advertising approach with increased efforts to promote smaller attractions. The "See Virginia First" campaign initiated in Southwest Virginia should be expanded statewide. The Division of Tourism should more fully utilize the promotional capabilities of welcome centers, if kept open, and sales offices in promoting smaller attractions. Because welcome centers help to increase visitation to smaller attractions, efforts should be made to keep centers open. DED should develop a strategy for prioritizing which centers should be kept open and for obtaining assistance in financing centers.**

Recommendation (2): **The Richmond sales office should be better utilized to promote intrastate visitation. Each month the Richmond sales office and welcome centers, if kept open, should utilize the approach initiated by the Washington, D.C. sales office and feature different geographic areas and related events, with coverage given to each area of the State on a rotating basis.**

Measurement of Tourism's Impact

In each of fiscal years 1989 and 1990, the division spent $3.6 million to fund domestic advertising. In FY 1990, another $120,000 was spent on contracted research to aid the division in assessing the impact of that advertising. As an integral component of its marketing efforts, the division assesses the results of its advertising in a variety of ways:

- assessment of the number and type of inquiries,
- advertising conversion studies,
- an annual Virginia summer vacation visitor study,
- advertising tracking studies,
- vacation planning studies,
- assessment of the effectiveness of advertising fulfillment pieces,
- a return on investment (ROI) formula, and
- an assessment of the impact of travel on Virginia counties and cities.

The majority of the assessments are used internally by the division to guide its advertising campaigns and appear to be reliable measures. However, there are problems with two evaluation measures used to assess economic impact: the ROI formula and the evaluation of the impact of travel on Virginia's counties and cities. The first appears to overstate the economic impact of tourism advertising. The second appears to overstate the economic benefits of tourism and travel to certain Virginia localities.

Current Return on Investment Formula Overstates Impact of Advertising. The Division of Tourism annually reports the results of its return on investment analysis to the General Assembly as a justification for its advertising budget. A return on investment formula for Virginia's domestic advertising was developed by the division in 1985 with assistance from the U.S. Travel Data Center (USTDC), the Center for Public Service at the University of Virginia, and the School of Business Administration at the College of William and Mary. The return on investment formula attempts to measure the economic return to the Commonwealth in tax and other revenues from out-of-state pleasure visitors to Virginia who used Division of Tourism advertising to plan their visits (Exhibit 2). As developed, the formula relies on information published in the division's annual report *Travel in Virginia* as well as other surveys and studies.

Recent ROI results reported by the division state that for every dollar spent in 1987 on domestic advertising by the Division of Tourism, $3.05 was returned to the State in local and State taxes associated with the travel industry. For 1988, the ROI was reported as $3.53 for every ad dollar spent. As of October 1990, the ROI for 1989

Exhibit 2

Return on Investment Formula Used by the Division of Tourism for 1988 Domestic Tourism Advertising

STEP ONE	Person trips to Virginia by visitors from out-of-state **19.7 million** out-of-state person trips
STEP TWO	Out-of-state visitors to Virginia for the purpose of pleasure only amounted to 54.3% **19.7 million x .543 = 10.70 million** out-of-state pleasure travelers
STEP THREE	Average out-of-state pleasure visitor stayed 3.5 nights **10.70 million x 3.5 = 37.45 million** person nights
STEP FOUR	Average per-person-night spending by out-of-State visitors was $63.71 **37.45 million x $63.71 = $2.38 billion** person-night spending
STEP FIVE	Of out-of-state visitors, 11.2% used advertised information from Virginia Division of Tourism **$2.38 billion x .112 = $266.56 million** influenced by advertising
STEP SIX	Virginia Division of Tourism advertising expenditures for CY 1988: $4,000,256 **$266.56 million ÷ $4.0 million = $66.64** spent in Virginia per ad dollar
Return on Investment	Amount of tax returned to state: 5.3% **$66.64 x .053 = $3.53** in taxes returned to the State per ad dollar **ROI $3.53 : $1.00**

Source: Division of Tourism analysis of: (1) USTDC National Travel Survey and Travel Economic Impact Model results for 1988 (as published in the division's annual report, *Travel in Virginia*, 1988); (2) NFO, Inc., *Virginia Vacation Traveler*, 1988; and (3) VPI&SU, *The Summer Visitor in Virginia*, 1988.

was reported as $3.53 for every ad dollar spent. As of October 1990, the ROI for 1989 had not been estimated because the information used in the formula had not been made available to the division by the USTDC.

According to division staff, these returns on investment are "conservative" estimates because they include "only out-of-State visitors to Virginia; pleasure visitors only — those visiting the state on business or a combination of business and pleasure are not included; only those staying in paid accommodations while in Virginia; no foreign visitor spending; and only those people who said that they received and used travel information provided by the Virginia Division of Tourism." However, evaluation of the formula and its components revealed that the return on investment is not conservative as reported.

First, while certain information is reported accurately in *Travel in Virginia*, the division uses it incorrectly in the ROI formula. Specifically, the data obtained from *Travel in Virginia* for steps three and four of the formula do not measure what they are purported to measure. The formula represents steps three and four as measuring the number of nights stayed in Virginia by out-of-state pleasure visitors and the amount of spending per night by out-of-state visitors, respectively.

However, JLARC staff contacted the USTDC, which was the source for the numbers reported in *Travel in Virginia*. The USTDC confirmed that these numbers definitely include travel for purposes other than pleasure, such as travel for business or conventions. The USTDC further confirmed that even though the numbers in *Travel in Virginia* are reported as out-of-state visitors, they may also include intra-state visitation to destinations exceeding 100 miles from the travelers' residence. When questioned about these discrepancies on July 27 and August 2, 1990, division staff indicated that they had not discussed with the USTDC what the components used within the ROI actually measured.

Second, the data source for step two in the formula was changed in 1988 to a source which estimated a higher percentage of pleasure visitors. Division staff stated that the higher percentage of pleasure visitors estimated from this survey was more representative of actual pleasure visitation to Virginia, but they did not offer a technical explanation for the difference. However, since this survey estimated a higher percentage of pleasure visitors, its substitution in the formula produced a more favorable return on investment. Even though these visitors traveled in Virginia during 1986 and 1987, the division plans to use the 1987 number again in the 1989 formula.

Third, the percentage of out-of-state visitors that used advertising information from the Division of Tourism (step five in the formula) is suspect for several reasons. The summer visitor survey is an in-person interview which collects data from individuals traveling in Virginia. Data are collected on travel activities during one summer month. The division then annualizes the data from this survey to project 12 months of travel. However, because summer is the peak tourism season in Virginia with more people traveling, this projection may overstate the percentage of out-of-state visitors who used division information.

In addition, the interview sites are selected by division staff. Sites selected are primarily the attractions advertised by the division or sites which distribute division materials to travelers, including those surveyed. Two types of sites where information has been collected by the summer visitor survey are particularly problematic: larger attractions which are featured in the division's advertising, and travel information centers. These travel information centers have included local and regional centers and the division's own sales office in Richmond. These centers distribute vacation planning materials and other literature disseminated by the division. Since the survey asks about the utilization of this literature, both types of sites preselect the visitors with the most exposure to division materials.

Fourth, the division ignores the effect of local government, regional organization, and private advertising on vacation decisions. If a visitor responding to the summer visitor survey indicates that one of many sources used in vacation planning was the Division of Tourism, the division assumes that only its materials convinced the person to visit Virginia. However, these visitors could have also used materials provided by local, regional, or private groups. If other materials were used in vacation planning, then the effect of division advertising cannot be isolated. Even if the division is but one of many information sources, the State takes credit for influencing the vacation plans of visitors.

Fifth, the actual return on investment (the amount of tax returned to the State) reported by the division includes tax revenue generated to localities, not just revenue generated back to the State (final step in the formula). If the estimated amount of tax revenue generated were limited to State taxes only, the division's ROI formula would result in $2.07 and $2.40 being returned to the State for every dollar spent on advertising in CY 1987 and CY 1988, respectively.

Further, other states have expressed concerns about how the economic impact of tourism advertising is assessed. For example, a review of tourism advertising by the State of Illinois Office of the Auditor General found problems with USTDC data. The report cited USTDC data as not being sufficient to determine cost-effectiveness of the tourism promotion program in Illinois because these data combine business and pleasure travel dollars. As in Virginia, the tourism promotion program in Illinois is targeted to pleasure travelers.

A new means of evaluating advertising effectiveness is needed. It would be more appropriate to use advertising conversion studies because they are directly linked to the number of individuals who saw ads paid for by the State. Conversion studies survey a sample of people who made information requests on the basis of viewing an ad to determine the percentage that actually visited Virginia. Use of these studies would help determine the effectiveness of the advertising and fulfillment materials used by the division in getting individuals to visit Virginia. In addition, use of conversion studies would permit the division to more closely control the timeliness and the quality of the data. Further, the number of survey efforts needed, and their related costs, would be reduced.

the best placement for ads. They could be modified and used to evaluate overall effectiveness of advertising dollars.

Recommendation (3): **The Division of Tourism should continue to assess the impact of its advertising on the Virginia economy, but should not use the formula or data currently used. Instead, the division should modify its domestic advertising conversion study to measure the impact of its advertising by adding a question on average daily travel expenditures. The conversion study should continue to ask questions on number of travelers in each party, number of nights stayed in Virginia, and primary areas and attractions visited while in Virginia.**

The division should use the results of this conversion study to compute the amount of revenue returned to the State in the form of State taxes from these visitors. The division advertising expenses should then be factored into the amount of State tax revenue to determine a return to the State for these advertising dollars.

Reported Impact of Travel on Virginia Counties and Cities Should Not Be Purchased Nor Published. As part of its annual report *Travel in Virginia*, the division lists the impact of travel on Virginia counties and cities in terms of total expenditures, travel-generated payroll and employment, and State and local tax receipts. These figures are disaggregated to city and county levels such that a dollar amount or employment level is identified for each locality in Virginia. The figures are derived from the USTDC's travel economic impact model, which relies on a variety of national and State estimates as well as the USTDC's own national travel survey. Unlike the return on investment formula, the model measures all types of travel — not just pleasure visitors from out-of-state. According to a USTDC representative, the model estimates the portion of each type of activity and expenditure which is travel-generated.

While the numbers and dollar amounts derived from the model are supposed to be related to travel, they include services provided to residents in each locality such as restaurants and automobile dealerships. In fact, several participants in the focus group interviews commented that the numbers published for their localities cannot be correct because they have limited or no tourism in their areas. For example,

> *One local official participating in a focus group interview stated "it is baffling to look at the report* [Travel in Virginia] *and see how much money is generated from my county.....I would like more accountability on how they come up with dollar figures in rural counties with nothing in them." The USTDC model indicated that this county generated more than $1 million in travel expenditures during 1988.*

* * *

A second local official commented that tourism may occur in his locality but he is not aware of it. The model generated approximately $70 million for this locality in travel expenditures during 1988.

Division staff have also indicated that these numbers may be somewhat inaccurate, but the division continues to publish them. Further, division staff have indicated that the levels of effort and cost associated with obtaining this information from the USTDC continue to increase. Lack of timeliness by the USTDC in providing the data has also been a concern for the division.

Recommendation (4): **The Division of Tourism should not purchase the economic impact information from the USTDC. Further, the division should not publish the economic impact information, nor should the division distribute this information to localities.**

Community Development

Although a broader role in community development was recommended by the Joint Subcommittee Established to Study Promotion of Tourism in Virginia in 1987, to date assistance provided by the division has been limited. One staff member is assigned to provide technical assistance to localities and attractions that are developing themselves as tourism destinations. This staff member meets with local officials or attraction representatives to help them assess the tourism potential of the area or attraction. Much of the determination of tourism potential is made on the basis of whether there is a product, such as a site or attraction, to be developed. If all agree that there is potential for involvement in tourism, then the program staff member helps the locality or attraction identify ways that this potential can be actualized.

During eight focus group interviews around the State, local officials and economic development personnel expressed concern about a lack of sufficient attention from the Division of Tourism. Provision of one-on-one technical assistance has been limited. Although the community development program staff member stated that demand for tourism technical assistance had been met, only six or seven communities have received in-depth assistance in assessing their tourism potential since the office was created in 1988.

The Division of Tourism should assume a role *vis a vis* localities more similar to that of the Division of Industrial Development. Namely, the role of the State in economic development is two-fold, marketing strengths and helping communities address needs or weaknesses. Therefore, a broader role for the Division of Tourism in community development is appropriate. The division should assist localities and attractions in developing their tourism potential. Without assistance from the State, smaller attractions and certain geographic areas cannot effectively market or present themselves to tourists. Community development efforts should help ensure that the Virginia travel industry is prepared to meet the needs of the tourists which State (and private) advertising and public relations efforts attract. Further, these efforts should help localities and attractions promote intrastate visitation, not just attraction of out-of-state visitors.

State involvement in tourism development should be to serve as a catalyst for local and private development, however. In fact, the community development program staff currently emphasizes to communities and attractions assisted that they should not become involved in tourism promotion unless there is broad-based support from local officials and merchants. Such private support is necessary to fund the structures necessary to attract and serve the touring public.

Recommendation (5): **The Department of Economic Development should increase the level and types of community development assistance available from the Division of Tourism. Community development activities within the Division of Tourism should consist of the provision of technical assistance for developing tourism potential, developing sites, and helping communities attract private investment. Communities should be notified that this assistance is available and a systematic prioritization should be used to determine order of assistance and level of effort to be provided.**

DIVISION OF INDUSTRIAL DEVELOPMENT PROGRAMS

The programs administered by the Division of Industrial Development reflect the State's philosophy of providing assistance, which is not financial in nature, to business and industry. In addition, the State's philosophy of assisting localities is also reflected in the division's programs.

The historical orientation toward industrial recruitment is still maintained in the division through its industrial training, industrial development marketing, shell building initiative, building and site inventory, community certification, and industrial call programs. However, the department complements this orientation with other programs directed at the film industry, local communities, and small businesses. These other programs include film development marketing, regional offices, training seminars, small business development centers (SBDCs), and the Virginia Small Business Financing Authority (VSBFA).

No problems were identified with the services provided to clients of any of the programs. In fact, clients reported high satisfaction with the State's services. Further, the assessment of programs in the division found no major shortcomings associated with four programs. These four programs were the shell building initiative, building and site inventory, film development marketing, and quarterly training seminars.

The assessment did reveal deficiencies in the other seven programs. Some deficiencies have adversely affected the accountability of programs in that the actual economic impact of the programs cannot be accurately determined. Further, other programs are so narrowly focused that their utility is limited.

Industrial Training Assistance

Industrial training assistance has been available to industries in Virginia since 1965. Prior to 1985, the program was administered by the Virginia Community College System (VCCS). Because of various problems in VCCS administration of the program, responsibility for program funding and management was shifted to the Department of Economic Development in 1985.

As currently administered, the industrial training program has several deficiencies. DED does not adequately control the program. Eligibility criteria do not provide any real function in that the agency attempts to service nearly all requests for assistance. Further, the department does not control the budget for the program. Department management and program staff have indicated that the program, as the only financial incentive offered to new industries, is critical to industry location decisions. Because they also believe that industries currently operating in Virginia should not be put at a competitive disadvantage relative to new companies, there currently is no limit on the number of times a company can receive training assistance nor on the dollar amount of assistance provided a particular company.

In addition, budget estimation procedures are flawed and imprecise. Consequently, budget needs have consistently been overestimated. Finally, the economic impact of the program is overstated by the pay-back analysis which is conducted as a justification for the industrial training budget.

The current assessment of industrial training builds on two previous reviews of the program. In 1975, JLARC completed a review of the VCCS which cited several shortcomings of the industrial training program and made recommendations for improvement. A more recent review completed by the Department of Planning and Budget (DPB) in 1988 also noted program shortcomings and made recommendations. While actions have been taken to implement many of the earlier JLARC and DPB recommendations, some of the program shortcomings cited in 1975 and again in 1988 still exist (Exhibit 3).

Although there are program shortcomings, all but one of the 20 companies responding to the telephone survey reported that they were very satisfied with the services provided. Further, during focus group interviews conducted around the State, local and regional economic development personnel indicated that the industrial training program was an important industry recruitment and retention tool.

Overview of Industrial Training Program. Companies primarily request training for two reasons: they are new to Virginia or they are expanding within Virginia. Most of the training currently done is for companies that are new to Virginia. A third type of training is provided less frequently. This assistance is limited to retraining employees for new skills associated with technological changes in either equipment, processes, or product lines in a company.

The type of training conducted for companies generally falls into two categories: pre-employment services and on-the-job training. Pre-employment services

Exhibit 3

Recurrent Program Problems Found In 1975, 1988, and 1990 Reviews Of Industrial Training

Problem	Cited in 1975 JLARC Report	Cited in 1988 DPB Report	Found in 1990 JLARC Assessment
Need for Revised Eligibility Guidelines	yes	yes	yes
Lack of Control Over Program Budget	no	yes	yes
Overestimation of Budgetary Needs	no	yes	yes
Flawed Pay Back Analysis	yes	yes	yes

Source: JLARC analysis of 1975 JLARC report on *The Virginia Community College System* and 1988 DPB report on *A Review of the Commonwealth's Industrial Employee Training Program.*

include assistance in the recruitment of employees through advertising, and coordination of screening and selection through the Virginia Employment Commission (VEC). Pre-employment training typically includes an orientation about the company and an opportunity for company management to observe trainees in small group exercises. This training may also include classroom instruction in basic skills required for the job such as mathematics or blueprint reading.

Training instructors may be directly employed by DED or companies may supply their own instructors. When company instructors are used, they are reimbursed for instruction time based on an hourly rate. In addition, a company may be reimbursed for up to 50 percent of the "reasonable" cost involved in transportation, food, and lodging for instructors.

An industrial training project manager assigned to the project works with the company to design a training program which will meet the company's needs. The project manager also conducts a third type of training for company personnel who will be used as instructors. This training, known as train-the-trainer, constitutes one of the primary program design tools and also instructs company personnel in "proper" teaching techniques. The project manager is also responsible for coordinating related training services. These services include audio-visual services to assist in both pre-employment and on-the-job training; leasing of adequate training facilities when the client facility or an area school does not have space available; provision of instructional materials such as books, workbooks, and manuals; and leasing or purchase of standard training equipment and tools.

Current Eligibility Guidelines Do Not Function As Screening Criteria. The industrial training program has guidelines for determining company eligibility for services. However, the eligibility criteria are very broad and can be applied to most companies. According to current program guidelines and practices, a company is eligible for services if it meets at least two of the following three criteria:

- adds or brings in 15 or more related jobs,

- has "significant" capital investment, and

- will have an economic impact on the area.

To receive retraining assistance, the company must meet the criterion for capital investment.

According to the program director, these criteria are intended to be flexible. Therefore, what constitutes "significant" investment is not defined — there is no minimum amount for capital investment specified in the program guidelines. Nor are there any standard procedures for verifying financial soundness and determining that this investment will take place. Lack of guidelines in this area has resulted in projects being undertaken for companies which have gone bankrupt during or after the training program. For example,

> *One company had three training projects approved for a total of 132 trainees to be paid wages between $6.00 and $9.00 an hour. However, less than one-third of the estimated trainees were trained and hired for the first project. A note in the company file indicated that the company was unable to penetrate the market it had anticipated.*
>
> *Even so, a second project was approved less than one week after the first project was completed. This project was completed as planned without incident. Again, simultaneous with closure of the second project, a third project was approved. According to a note in the company file, ten months later the third project was closed because company sales were slow and eight employees had been laid off. Actual project expenditures for training at this company totaled approximately $42,000.*
>
> *JLARC staff attempted to contact this company, without success, as part of the telephone survey. Subsequent contact with the State Corporation Commission confirmed that the company had "terminated" five months after DED closed the third project.*

In addition, there is no procedure for determining what the economic impact on a particular area will be. This criterion allows the number of employees to go below the minimum of 15. It also permits training for low-paying jobs because, according to the program director, certain areas of the State will benefit from these employment opportunities. Training for companies which pay near or below poverty wages perpetuates the problem of underemployment, as reported by participants in 16 of the 18 focus group interviews held throughout the State. Underemployment is characterized by workers being paid low wages relative to their skill and education levels.

The program director stated that very little training is done for companies which pay less than $5.00 an hour. However, an assessment of the actual wages paid to new hires during FY 1990 reveals that nearly one-fourth of the 6,786 trainees hired received starting wages of $5.00 an hour or less. Further, approximately 60 percent of the individuals hired earned starting wages of $6.50 or less per hour. Review of program files and the telephone survey of companies also provided examples of companies employing individuals at low wages. For example,

> *One company received assistance in two training projects between 1987 and 1989. For both projects, new employees received between $3.75 and $4.00 an hour to start. Assuming a standard work year of 2,080 hours, these workers earned gross annual incomes between $7,800 and $8,320; both of which were well below federal poverty guidelines of $11,650 for a family of four for that time period.*
>
> *The JLARC survey of companies confirmed that trainees hired during the second project were earning as much as $5.25 an hour as of July 1, 1990. Assuming a family of four, this was still below federal poverty guidelines of $12,700 for 1990.*

* * *

> *Between 1987 and 1988, another company received assistance in training for positions that paid $4.51 an hour to start. More than two years after this project was completed, employees in these same positions were paid $4.69 an hour. Gross annual income for these employees as of July 1, 1990 was $9,755. Only 20 percent of the employees initially trained and hired are still with the company, however. According to the company representative interviewed by JLARC staff, a lot of employees quit because of the low pay and poor work conditions.*

While the current eligibility criterion of 15 or more related jobs appears reasonable, the other two criteria are not sufficiently defined. Rather than require a "significant" amount of capital investment, a minimum amount should be established. Some states require capital investment of at least $1 million and/or tie in capital investment to the amount of training reimbursement. However, since Virginia does not offer other financial incentives and assists existing industries with their expansions, a minimum amount of $500,000 seems a more reasonable requirement for capital investment. The third criterion, economic impact, should be based on the wage levels to be paid by the industry. The minimum wage paid by industries for which training is conducted should be $6.50 an hour. Assuming a standard work year of 2,080 hours, this would amount to a gross annual income of $13,520, which barely exceeds federal poverty guidelines ($12,700 per year) for a family of four.

Recommendation (6): **The Department of Economic Development should revise the eligibility criteria for its industrial training program. Training should only be conducted for companies which meet all of the following three criteria: 15 or more related jobs added, a minimum of $500,000 capital investment, and starting wage rates of $6.50 an hour or more.**

Industrial Training Budget Has Not Been Sufficiently Controlled. The number of training projects undertaken by DED steadily increased during the 1980s, until it leveled off at approximately 200 projects each year. To cover the expenses associated with this increased project load, DED has had to request supplemental appropriations each year. These appropriations are also requested to cover costs associated with "unforeseen" projects. Unforeseen projects are those which are neither active nor anticipated at the time the budget is developed.

In FY 1989, unforeseen projects comprised 21 percent of the total project load. In FY 1990, 45 percent of projects were unforeseen. While some training for unforeseen companies is expected each year, nearly one-half of the unforeseen projects had start dates within four months of the time the supplemental request was submitted. Many of these should have been included on lists of companies with a probability or possibility of needing training, and therefore should have been factored into the budget estimate. Even though DED develops lists of "probable" and "possible" companies with training needs for each year, these lists were discounted in the FY 1990 budget process.

According to industrial training program staff, this was done in an effort to follow a DPB recommendation to use historical data. Therefore, the percentage of unforeseen projects from the previous year was used, not to supplement these lists, but instead of them.

However, it appears that DED misinterpreted the DPB recommendation regarding the use of historical data in the budget estimation process. The DPB report did recommend that a historically-based funding allowance for unforeseen projects be incorporated into budget submissions. However, the DPB recommendation did not intend for the historical data to take the place of the probable and potential listings developed, since the report recommendation also referenced continued use of the probable client listings.

Currently, there is no limit on the number of times a company can use training services for expansions. Therefore, many companies take advantage of training services more than once — one of the companies for which training was conducted during FY 1990 had received assistance seven times before. During FY 1990, 51 companies were repeat clients for expansions. These 51 companies had a total of 64 training projects under way during the year.

Further, there is no limit on the dollar amount of services provided to any one company. For example,

One company had three different projects approved for a total budget of approximately $450,000 over the three-year period 1987 to 1990. The total number of trainees approved for these projects was 147.

* * *

A representative of another company, which has used industrial training assistance four times, told JLARC staff during a telephone interview that the company had used the program to simply cut its operating expenses. The company representative said that the company was profitable and could have easily afforded to conduct its own training but used industrial training assistance because the money was available.

The approved budgets for the two most recent projects for this company totaled $180,000 for a total of 345 trainees. Budget and trainee information was not available for the other two projects undertaken for this company.

Given the number of companies provided services, the inability to accurately predict the number of unforeseen companies which will need services, and the need to continually request additional appropriations, it appears that limits on the amount of training conducted in any one year should be set and announced. Revision of the eligibility criteria should help to ensure that the program costs do not exceed budget allocations. Further, the repeated use of industrial training services, especially by companies which are capable of conducting their own training, indicates that a maximum dollar amount for services provided to any one company should be established.

Industrial Training Does Not Appear to Be a Critical Factor in Industry Location Decisions. Part of the problem in controlling the budget has been the department's philosophy regarding newly locating industries. Program staff often cite the availability of industrial training services as being critical to many industries' decisions to locate in Virginia. However, industries report that industrial training generally is not the most important factor in their decision to locate in Virginia.

The JLARC survey of industrial prospects found that 60 percent of companies locating in Virginia cited industrial training assistance as a very important factor in their decision. However, less than two percent indicated that it was one of the most important factors in their decision. Industrial training ranked behind 14 other factors and even with another four factors.

In order of importance, the other factors in rank order were (1) availability of labor, (2) cost of labor, (3) proximity to markets, (4) availability of existing shell buildings, (5) quality of labor, (6) Right-to-Work laws, (7) availability of sites appropriate to specific company needs, (8) quality of highway transportation system, (9) amount of financial incentives received, (10) attitude of local and/or regional government officials, (11) quality of public education, (12) attitude of State government officials, (13) port availability, and (14) attitude of business people.

The results of the JLARC survey are similar to those of a survey conducted by DPB. The DPB survey found that only two of 43 companies ranked the availability of the industrial training program as highly important in their decision to locate or expand in Virginia.

Recommendation (7): **The Department of Economic Development should limit the training projects conducted in any one year to the amount of the department's originally approved budget for industrial training. The approved budget amount should be announced each year to economic development organizations using the program to market Virginia to industrial prospects. The phrase "if funds permit" should be added to the informational literature printed on the program. Training for unforeseen projects should be conducted only as funding permits. Further, the department should set a maximum dollar amount for training reimbursements to any one company.**

Budget Estimation Process Continues to Be Deficient. The DPB report identified problems related to the budget estimation process which are still occurring. DED has not been able to accurately predict expenses for individual projects. Therefore, the department continues to overestimate budget needs for the training program.

The total budget for each project is based on the number of trainees, the length of each training cycle, and the number of training cycles. Other factors include the trainee to instructor ratio and associated reimbursements, advertising expenses, and audio-visual expenses. A major portion of each budget is for instruction costs. Project managers are supposed to revise individual project budgets on a quarterly basis when there are changes in these factors or delays in the project. They are also supposed to determine the annual expenses associated with each project.

As a result of the DPB review, DED has implemented procedures which should allow it to more accurately predict and track project budgets. However, review of the projects completed during fiscal years 1988, 1989, and 1990 indicated projects generally spend much less than their approved budgets (Table 6). For example,

> *The projects completed in FY 1990 spent only 77 percent of their total approved budgets. The Department of Planning and Budget cited the same problem in their 1988 report for the 70 completed projects they reviewed. The reasons for the difference in the amount budgeted for each project and the actual amount expended are not clear because training information in company files is not adequately documented.*

> *Part of the difference in the amount budgeted for each project and the actual amount expended can be attributed to an overestimate of the*

Table 6

Difference in Approved Budget Amounts and Total Amounts Expended for Projects Completed in FY 1988, 1989, and 1990

	Total Approved Budget	Total Amount Expended	Percent of Approved Budget Spent
Projects Completed in FY 1988	$2,348,754	$1,555,131	66%
Projects Completed in FY 1989	$3,663,243	$2,287,936	62%
Projects Completed in FY 1990	$2,436,807	$1,870,903	77%

Note: Includes project costs only.

Source: JLARC analysis of industrial training project budget and expenditure information for fiscal years 1988, 1989, and 1990 provided by DED.

number of trainees. However, this is clearly not the only reason for the difference. Two of the projects completed did not provide any training services. Certainly the budget process cannot foresee all such events. However, only 18 of 50 projects spent within five percent of their approved budgets, four of which spent exactly what was budgeted.

According to industrial training staff, delays and plant closings account for much of this underspending, but the total project budget for each year does not factor in the possibility of project cancellations, delays, or cutbacks. Individual project managers are supposed to factor this into the annual budgets for which they are responsible. However, a uniform procedure is not used and no guidance is given.

Recommendation (8): **The Department of Economic Development should further refine its system for devising industrial training project budgets. DED should develop and use a uniform procedure for factoring cancellations and delays into its industrial training project budgets.**

Impact of Program on Commonwealth Has Been Overstated. Industrial training program staff conduct an analysis of the time it will take for the Commonwealth to recoup program expenditures through increased revenue from State taxes.

The model used by DED derives an average starting wage for trainees hired by each company, multiplies that wage by the hours for one work year, and then calculates the amount of State personal income and sales taxes returned to the State for a family of four with those earnings. The number of trainees hired during the year is multiplied by the State taxes to derive the total return to the Commonwealth. The total expenditures of the industrial training program are then divided by the State revenue to derive a pay-back period (Exhibit 4).

The impact of the industrial training program on the Commonwealth is overstated because of the underlying assumptions used in the analysis. This is a concern because the pay-back analysis is one of the justifications for budget allocations. Further, certain modifications suggested in the JLARC and DPB reports have not been made.

First, although the actual average starting wages are calculated for each company, the analysis uses VEC average wage rates for Virginia whenever they are known. According to the economist who does the analysis, actual wages are used for non-manufacturing industries because a good source for the wages paid by these industries statewide is not available. The VEC wages are used whenever possible primarily because these numbers are "documented" and because they represent "the average wages for each industry in Virginia rather than the wages paid by the particular companies for which training was conducted." However, use of average wages for an entire industry overstates the first year wages for trainees hired, thereby shortening the pay-back period. Average industry wages include long-term employees who are at the top of their pay scales.

Second, the model used by DED assumes that all trainees were unemployed at the time they entered the industrial training program and that they earned no wages during the entire year prior to entering the program. However, a DPB survey of trainees who were hired by client companies found that only 19 percent of trainees had been unemployed before training. In addition, when a company receives on-the-job training for filled positions, DED takes credit for the total wages of workers already employed by the company. The difference in wages earned before and after training should be used.

Third, there are problems with the assumptions about tax revenue generated to the Commonwealth by trainees hired (see Exhibit 4). Trainees are assumed by DED to be married heads of households of four, filing joint returns. However, demographic data on marital status and number of dependents are not collected from trainees. If these assumptions are indeed correct, DED is assisting in training individuals for annual incomes which are near or below federal poverty guidelines. For example, the actual average annual income earned by trainees during FY 1990 ($14,310) was just above federal poverty guidelines for a family of four. Assuming a standard work year of 2,080 hours, trainees who earned $6.10 an hour or less fell below federal poverty guidelines.

In addition, even though DED used the 1989 Virginia income tax schedule for trainees hired during FY 1990, the tax reform credit given that year was not factored

Exhibit 4

Modifications to the Average Wage and Tax Assumptions in the Pay-Back Analysis for Trainees Hired During FY 1990

	DED Analysis Using Average Industry Wages	JLARC Analysis Using Actual Starting Wages
Average Hourly Wages Earned Per Trainee	$9.36	$6.88
Average Annual Earnings Per Trainee*	$19,469	$14,310
Average State Taxes Returned Per Trainee		
Personal income tax**	$433	$175
Tax reform credit	—	(140)
State sales tax °	307	180
	$740	$215
Estimated State Taxes Collected From Hired Trainees □	$5,021,640	$1,458,990
Total FY 1990 Expenditures to Train 6,786	$4,355,844	$4,355,844
Pay-Back Period ■	.87 years	3.0 years

*Assumes 2,080 hours per work year.

**Personal income tax assumes family of four, married, filing jointly with standard deductions.

° State sales tax rate of 3.5 percent. DED assumes 45 percent of annual income spent on items subject to this tax. JLARC assumes 36 percent.

□ Formula for estimation is number of trainees hired (6,786) multiplied by average State taxes returned per trainee.

■ Formula for estimation is expenditures to train hired trainees ($4,355,844) divided by estimated taxes collected from hired trainees. Assumes companies stay open and at full-strength.

—DED did not factor in the tax reform credit given for 1989 personal income tax.

Source: JLARC analysis of Department of Economic Development cost-benefit analysis for industrial training in FY 1990, Virginia Department of Taxation 1989 Virginia Income Tax Table and Tax Reform Credit Table, and Virginia Department of Taxation information on estimated expenditures and associated taxes for individuals by income brackets.

into the estimated revenue. This tax reform credit decreases the amount of revenue returned to the State.

Further, DED assumes that newly hired trainees spend 45 percent of their income on items subject to the 3.5 percent State sales tax. If indeed these wages are the only income earned by trainee households, then this assumption is generous. According to the Virginia Department of Taxation, individuals earning between $10,000 and $15,000 (before taxes) annually spend approximately 36 percent of their income on items subject to the State sales tax.

Finally, the DED pay-back analysis model also assumes that employees stay on the job for at least one year. Actual retention data cannot be used in this model because program staff do not track retention adequately. Before training services begin, company clients are informed that they must complete a form regarding retention of trainees hired. While these forms are sent out, follow-up is not conducted to ensure that they are returned. In addition, no use has been made of returned forms. Retention data which include wages after one year are not collected. Collection of retention data was recommended in the previous JLARC study.

Recommendation (9): **The Department of Economic Development should modify the industrial training pay-back analysis to ensure that it yields an accurate picture of State benefits from the program. The analysis should use actual average starting wages for companies that hired trainees. The sales tax assumption should be modified to reflect actual practices for the average income level earned. In addition, the pay-back analysis should make use of retention data currently being collected to determine the average retention period for industries that received training. Further, the department should modify its collection of retention information to include retention one year after training and increases in wages during the first year on the job.**

Industrial Development Marketing

Virginia's industrial development marketing program is designed to establish a long-term relationship with manufacturing and other basic industries so that when they decide to relocate or expand operations, they will consider Virginia. Respondents to the JLARC survey of industrial prospects indicated a high level of satisfaction with the services provided by DED. While data which would permit an assessment of cost-effectiveness of marketing territories are not systematically maintained, it does appear that better use of staff resources could be made in some territories — especially given current fiscal constraints. Further, it appears that industrial development advertising may play a limited but important role in marketing Virginia to businesses. However, information collected by marketing staff could be utilized to better target advertising.

Overview of Industrial Development Marketing Program. Industrial development marketing primarily involves:

- sales calls to domestic and foreign industries,

- provision of specific information necessary for a relocation decision (such as available sites, tax rates, wage levels, markets, etc.), and

- personal assistance in coordinating and accompanying industry representatives on visits to the State as part of their relocation decision.

Print and television advertising has also been done to promote Virginia as a good place to do business. This advertising was directed at chief executive officers and other industry decision makers. However, funding for advertising was eliminated in November 1989 by the former Secretary of Economic Development. Given current budget constraints, the current Secretary of Economic Development has not reinstated funding for industrial development advertising.

According to the industrial development marketing program director, equal emphasis is given to making sales calls and servicing industries which are actively considering relocation to Virginia. Fifteen marketing managers have assigned territories in the United States, Canada, the Far East, and Europe. One other marketing manager has been assigned to providing information for joint ventures and acquisitions. Both the European and the Far Eastern territories have marketing managers in foreign offices as well as in the Richmond office. However, the other marketing territories are each handled by a single marketing manager.

Regardless of whether or not their territories have prospects actively considering Virginia, marketing managers are expected to be in their territories eight to ten times each year making sales calls — usually for one week at a time. The balance of their time is generally spent preparing for these sales calls and providing personal assistance to industries which are actively considering locating in Virginia.

Industrial Development Advertising Should Incorporate the Information Developed by Marketing Managers. During focus group interviews, many local officials and economic development personnel expressed concern about the suspension of industrial development advertising. They stated that the State's advertising program was important to their own industry recruitment efforts, because industry awareness of Virginia should precede awareness of a particular locality.

While advertising may help build industry awareness of the State, its influence on industry decisions to consider Virginia when relocating is unclear. In 1982, 1985, and 1989 the department contracted evaluations of its advertising program to determine effectiveness in building ad awareness and in establishing Virginia as a desirable place to do business. The 1989 study found that ad awareness had increased significantly since 1985. It further found that awareness is strongest in the southeast and worst in the far west.

While the JLARC survey of industrial prospects did not attempt to measure awareness of Virginia through advertising efforts, it did ask companies to indicate what made them consider Virginia in their relocation decisions. Company analysis was cited by 65 percent of the respondents. However, only seven percent of the respondents reported that they considered locating in Virginia because of ads seen in magazines and trade journals. No companies reported that they considered locating in Virginia because of television advertising.

The State's industrial development advertising campaigns are managed by staff within the communications and public affairs office, not staff within the marketing office of the Division of Industrial Development. Consequently, these campaigns have not benefited from input from the marketing managers who work with industrial prospects. The marketing managers regularly meet and interact with the individuals who are the targets of the advertising, and these managers know what is important to companies looking to relocate. Because the marketing managers have the most knowledge of the industries that are the targets of this advertising, it appears that their input would be beneficial to the advertising campaigns, if reinstated.

Recommendation (10): **If funding for industrial development advertising is reinstated, the Department of Economic Development director should ensure that input from the marketing managers is solicited and used to make decisions concerning the content and placement of ads.**

Marketing Territories Should Be Redefined. According to the program director, current territories were defined to ensure fairly equal distribution of Fortune 100 and Fortune 500 companies. The number of industries which have relocated to Virginia from particular regions of the United States or other countries was not considered in the development and assignment of marketing territories; nor was the number of industries actively considering relocation.

Analysis of industry activity within each of the defined marketing territories indicates that there is significant variation among territories and that designation on the basis of Fortune 100 and 500 companies may not be the best indicator (Table 7). For example,

> *During calendar years 1988 and 1989, 56 industries in New Jersey, Pennsylvania, and Delaware actively considered relocating to Virginia — eight of these industries relocated to Virginia. During the same time period, six of the 22 industries in New York City and Long Island which considered relocating to Virginia actually did. In the West territory, none of the 23 industries considering relocation decided to move to Virginia.*

It appears that some marketing territories may require additional coverage on the basis of actual industry activity. This could be done by giving certain regions lower priority for sales calls, and doubling up in other regions on responsibility for servicing industries which are actively considering relocation.

Currently, the marketing program gives the same staff resources to penetrating the less productive territories that it gives to those which have produced numerous

Table 7

Industries Actively Considering Relocation to Virginia and Industries Actually Locating in Virginia During Calendar Years 1988 and 1989, by Marketing Territory

Marketing Territory	Number of Industries Actively Considering Relocation to State	Number of Industries Locating in Virginia
1. Northeast	44	12
2. New York City/ Long Island	22	6
3. New Jersey/Pennsylvania/ Delaware	56	8
4. Virginia/Maryland/ Washington, D.C.*	27	4
5. South	29	3
6. Great Lakes	48	6
7. Mid-West	34	6
8. West	23	0
9. California**	1	0
10. Canada**	5	0
11. Europe**	9	3
12. Far East**	22	4
TOTAL	320	52

* Data for one year only.

** Data for less than one year due to realignment of territories with the addition of new marketing managers.

Note: Active consideration means that the industry has made at one visit to Virginia.

Source: JLARC analysis of DED industrial development marketing office monthly project activity lists for 1988 and 1989.

industry relocations. This may not be the most effective utilization of limited financial and staff resources, especially during periods of fiscal constraint. It appears that periodic evaluation of territorial assignments is necessary. The program should more closely monitor the number and types of industries relocating to Virginia from each territory in order to more efficiently allocate staff resources to the proven markets. The territory assignments should also capitalize on advertising efforts so that more resources are devoted to markets with higher ad awareness levels.

The costs and benefits associated with current marketing territories should be evaluated and used to guide territory assignments. However, a cost-benefit assessment was not done as part of the JLARC study because the department could not provide program costs by individual marketing territory.

Recommendation (11): **The Department of Economic Development director should evaluate the current industrial development marketing territories and their staff assignments and should do so periodically in the future. This evaluation should include an assessment of the costs and benefits associated with each territory and the level of ad awareness within each territory. Prospect activity, number of industry relocations, and ad awareness within geographic areas should be considered in the development of territory boundaries. In addition, consideration should be given to assigning more than one marketing manager to those territories which have relatively large numbers of industries considering and actually relocating in Virginia.**

Marketing Program May Need to Be Refocused to Be Accountable to State Needs. The current marketing program may need to be slightly refocused to ensure that marketing managers are servicing industries which are the "best fit" for Virginia. Certain aspects of the program may need to be redefined to enable this.

Because marketing managers see their role as presenting the best product to industries to get them to locate in Virginia as opposed to any other state, they generally are not concerned about where in Virginia industries locate. While many local officials stated during group interviews that they felt "overlooked" by industrial development marketing efforts, the analysis of sites shown to industries over a two-year period does not support these concerns. Sites in most regions were shown as part of at least one industry visit even though the visit process is controlled in large part by the industries considering relocation. Sites shown must meet the industries' specifications.

During focus group interviews, local officials and economic development personnel also stated that the marketing program should balance its current efforts by focusing on recruiting industries that would generate positive long-term outcomes for the State. As summarized by department management, the marketing philosophy for industrial development is "any job is better than no job." The industrial marketing program has no standard criteria for what industries should be contacted or assisted. Instead, marketing managers individually decide which industries they will call on during their visits to their marketing territories. The marketing program should consider prioritizing its efforts based on a systematic determination of an industry's desirability related to level of capital investment, proposed wages to be paid, and other benefits to the Commonwealth and its citizens.

Further, while a standard goal of 100 visits is set for each marketing manager, this goal does not reflect differences in prospect activity within each of the territories. In addition, marketing managers operate without knowledge of the budgets for their individual territories. According to one marketing manager, "you spend until someone tells you to stop."

Recommendation (12): **The Department of Economic Development director should ensure that formal procedures are established to guide and monitor the activities of program staff in each marketing territory. These procedures should include (1) developing a process for identifying high priority industries for marketing efforts, (2) developing budgets for each marketing territory, (3) developing a methodology for tracking expenditures by marketing territory, and (4) developing staff evaluation criteria and goals that are based on the potential of each territory.**

Community Certification Program

The community certification program is closely linked to the State's industrial development marketing program. It was designed to assist localities in developing the infrastructure necessary to support manufacturing industry. The certification program is the primary technical assistance activity offered by DED.

The program is designed so that communities receive certification if they meet 31 program standards within an 18-month period. If communities cannot meet the requirements during that time, they can re-enroll in the program. The standards relate to seven major requirements for local economic development, community information, quality of life, a local contact team, available financing, a local existing industry program, and available sites and buildings.

It appears that the program provides a valuable service to many localities in the State. However, the program serves only a subset of communities which need technical assistance.

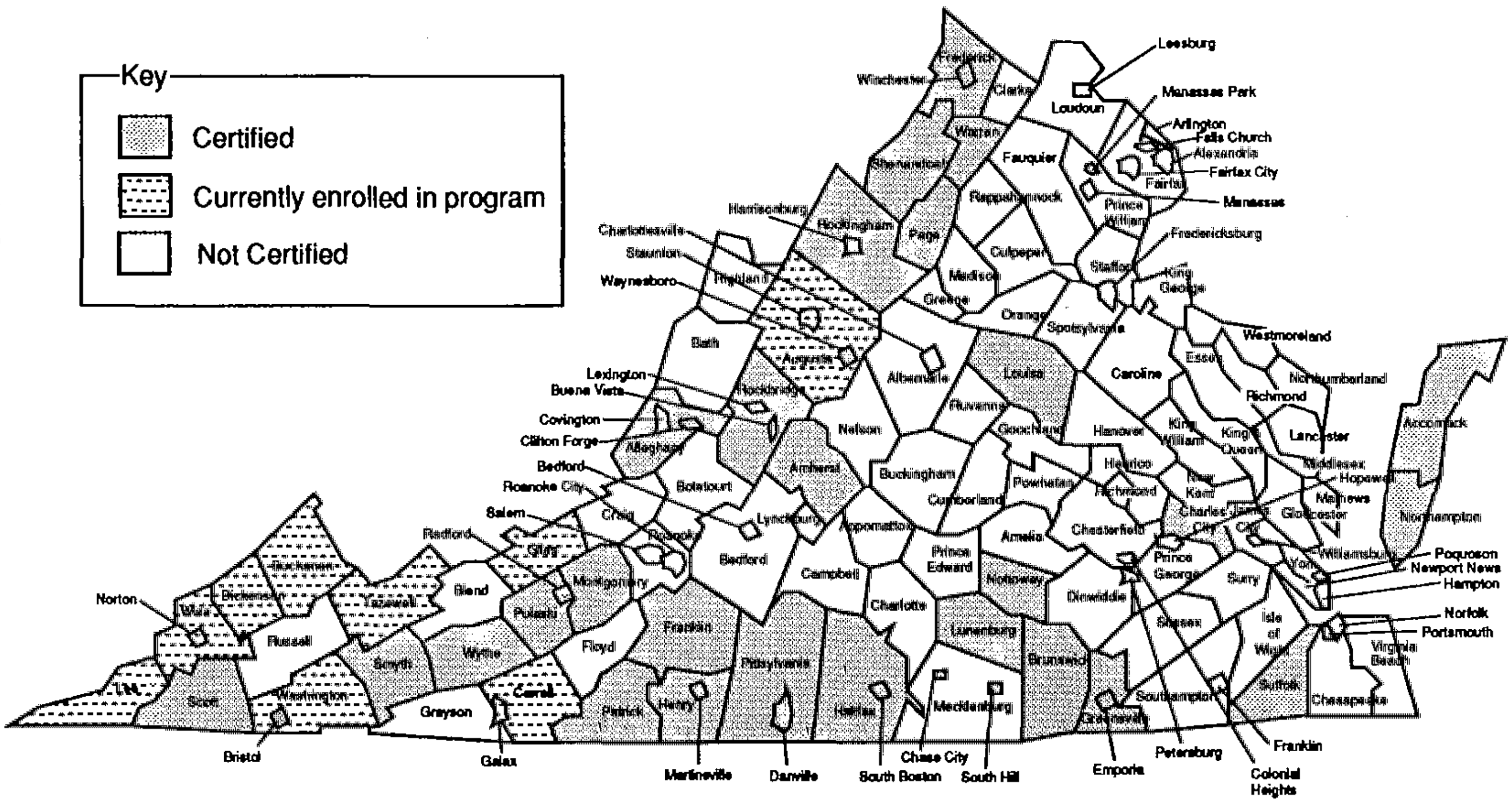
Local officials and economic development personnel expressed a variety of views on this program during focus group interviews. The majority of officials and economic development personnel who had been involved in the program rated it favorably. They stated that the program allowed them more exposure to DED than they would have had without it. Further, they commented that the program was a valuable planning exercise for the community. However, while the types of industries the program is designed to help attract may be appropriate for the State overall, several other local officials stated that the industrial emphasis of the program was not appropriate to their localities.

The industrial emphasis of the program helps explain why more than 60 localities have not been involved in the program. In eight focus group interviews, participants stated that, while their communities were not ready for or did not desire the types of industry which DED focuses its efforts on, they did need technical assistance for economic development.

Since the program was initiated in 1983, slightly more than 50 percent of the State's localities have been involved in the program. A total of 79 localities or towns have enrolled in the program — 41 of which have achieved certification (Figure 5). The number of communities enrolling in the program has decreased over the last several

Figure 5

Certified Communities in Virginia



Source: JLARC analysis of Community Certification Program information, March 1990.

years. Since 1988, six localities have enrolled in the program for the first time. These localities are all located in Southwest Virginia and were required to enroll in the program to receive funding from the Southwest Virginia Economic Development Grant Fund.

The reasons for localities not becoming involved in the program vary. However, the program's focus on preparing communities to receive large industries is not appropriate to many communities. During group interviews, many local officials stated why their communities were not involved in the program.

> *One local industrial development director stated, "We looked at the certification program. With the expansion of Northern Virginia we didn't have industrial land to qualify. We only have 40 acres remaining for industrial development and this is in small parcels."*

* * *

> *A local official stated during another group interview that "the community certification program sees economic development one way, the mechanisms work well but not everyone fits. There needs to be flexibility for counties who don't have infrastructure or land. Small businesses and industries don't fit into the DED model."*

DED community and business services staff attempt to visit every community within Virginia at least once each year. However, the technical assistance provided to communities not enrolled in the community certification program is primarily limited to these annual visits and quarterly training seminars. During focus group interviews, local officials and economic development personnel not involved in the program stated that they felt they were not getting needed assistance from the division. Specifically, technical assistance in the following areas was cited as being needed:

- developing local existing business call programs;
- determining what types of information businesses considering locating need and where to obtain this information;
- developing marketing materials such as brochures;
- developing leadership in local industrial marketing efforts; and
- identifying, planning, and achieving other types of industrial development.

The assistance needs cited are not necessarily covered through the visits and the training seminars. Therefore, given that approximately 44 percent of localities have not been involved in the program but may desire economic growth and development, DED should increase the technical assistance available to communities outside the community certification program.

Recommendation (13): **The Department of Economic Development should make additional technical assistance opportunities available to address the needs of localities that are not involved in or served by the community certification program.**

Industrial Call Program

Staff within the Division of Industrial Development periodically call on manufacturers within the State of Virginia. The overall purpose of these visits is to retain industry by:

- expressing appreciation to the company for conducting business in Virginia;
- learning about the company's operation, ownership, and history;
- providing general information about available State programs; and
- offering the company ombudsman services for any problems related to State government.

The assessment of this program revealed two problems with the program as currently implemented. First, the criteria for visits are not consistent with the existing retention needs of the State. Second, the length of time between visits is excessive and should be shortened.

Overview of Industrial Call Program. DED has determined that approximately 2,100 of the 5,800 manufacturing firms within Virginia should be visited by industrial call program staff. DED uses the employment level of the company to decide if the firm should be visited. Generally, manufacturers with 50 or more employees are called on. However, in some areas of the State, a company may have as few as 20 employees and still be included on the call list. In other areas, a company must have as many as 100 employees before it is included.

During visits, industrial call program staff identify information needs as well as problems experienced by companies. DED staff assist, if possible, in the resolution of company problems. Often, this assistance is related to regulatory guidelines or requirements. In such cases, DED staff may simply help clarify requirements or may act as a liaison between the company and the regulatory agency. For example, an industrial call program staff member helped one company negotiate an extension for coming into compliance on wastewater regulations with the State Water Control Board. A note in the company file indicated that this company had taken considerable steps to improve its wastewater discharge prior to the need for an extension. The industrial call program staff member also coordinated with the Center for Innovative Technology (CIT) to explore the possibilities for technological research which could reduce the wastewater problem for this company.

Most visits to companies are made by three central office staff members. Visit schedules are organized on a planning district commission (PDC) basis. One Abingdon regional office staff member makes all visits to manufacturers in Southwest Virginia (PDCs one through four). With the current complement of staff making visits, it takes approximately four years to complete one cycle of visits throughout the State.

Criteria for Visits Not Consistent with Existing Retention Needs of State. Although the overall objective of the program is to retain existing industry, DED has not determined which regions of the State have retention problems and has not given these regions priority in the visit schedules. For example,

> *An assessment of the manufacturing business closures and contractions throughout the State indicates that 17 PDCs have experienced employment losses and/or numbers of businesses closing or contracting which exceeded the State PDC average. For eight of these PDCs, losses were substantially greater than the State PDC average.*

> *On the Eastern Shore (PDC 22), the number of manufacturing businesses which contracted, 14.6 percent, was more than four times the State PDC average of 3.2 percent. The loss of 6.9 percent of total manufacturing employment through manufacturing business contractions was more than three times the State PDC average of 2.2 percent. When viewed in terms of total employment and total numbers of businesses in the PDC, the manufacturing business contractions were also more than three times the State PDC averages.*

Ten of the focus group interviews conducted around the State revealed that local officials and economic development personnel have concerns about retaining existing industry in their localities. Even if these localities have their own industrial call programs, they may not be able to resolve company concerns related to State regulations and policies.

In addition, there currently is no linkage between the companies visited and those which have significant economic impacts in a given area of the State. The program focuses on manufacturers of a certain employment level. A retention effort directed at other basic industries in Virginia has not been made. The key manufacturers in each PDC should be identified and targeted for increased visitation. This may mean that companies with employment levels below the current standard would be regularly visited — especially in PDCs with retention problems. Further, other basic industries such as corporate headquarters and regional distribution centers should be targeted for visits in PDCs where they are among the larger employers.

Recommendation (14): **The Department of Economic Development should modify the industrial call program to better meet the retention needs of the communities within the State. First, the scope of the program should be expanded to include other key basic industries within each PDC as well as**

manufacturers. Second, industrial call program staff should systematically assess each PDC to identify key basic industries and to identify business retention problems. Third, visit priority should be given to PDCs with business contraction employment losses and business closure employment losses which are above the State average. Fourth, consideration should be given to lowering the employment level for visits made to manufacturers in areas which have business retention problems.

Visit Cycle Needs to be Shortened. Yearly goals for the number of visits to be made have been established: however, goals were not met in fiscal years 1989 and 1990 (Table 8). Although industrial call staff generally make company visits alone, a joint visit initiative has been implemented for fiscal years 1990 and 1991. On joint visits, a central office staff member accompanies the Abingdon regional office staff member on his visits to companies. According to the program director, these joint visits are conducted so that central office staff can learn about Southwest Virginia manufacturers.

Rather than doubling up on visits, staff should be assigned to ensure that there is coverage of PDCs which have business retention problems as well as companies which were last visited three or more years ago. If central office staff wish to learn more about the manufacturers in Southwest Virginia, more efficient procedures should be established to enable them to do so. For example, staff members could review detailed visit reports prepared by the regional industrial call staff member or schedule periodic meetings to discuss Southwest firms.

If the program objectives of making companies aware of State services and assisting them in resolving problems related to State government are to be met, staff resources need to be maximized and the visit cycle needs to be shortened. Even though it takes approximately four years to complete one visit cycle with the current complement of staff, the program director has stated that ideally there should be no more than three years between visits. However, in some instances, even more frequent visits may be necessary. During a review of company files, changes in company ownership and plant management staff were often noted. Therefore, even on a three-year visit cycle, many plant managers could be unaware of DED services even though their facilities have been visited previously by industrial call program staff.

Recommendation (15): **DED should modify its industrial call scheduling procedures to maximize its staff resources and ensure more timely visits to existing industries. Steps should be taken to ensure that all industries on call lists are visited within a three-year period. Routine joint visits should be suspended in favor of more productive individual visits. Attempts should be made to visit businesses which have experienced changes in company ownership or plant management soon after these changes occur. Further, the Department of Economic Development director should consider assigning one additional staff position to the industrial call program to ensure that the visit cycle is shortened. One position resulting from the recommended restructuring of the department could be reallocated to this program.**

Table 8

Industrial Call Program Visits Made by Central Office and Abingdon Regional Office Staff During Fiscal Years 1988, 1989, 1990, and 1991

	FY 1988	FY 1989	FY 1990	Planned FY 1991
Visits Goal				
Central Office	360	540	520*	600
Regional Office	88	175	175	150
Actual Visits Made				
Central Office	398	451	493**	—○
Regional Office	82	104	141	—
Number of Staff Making Visits				
Central Office	3□	3	3*	3
Regional Office	1■	1	1	1
PDCs Included in Visit Cycle				
Central Office	6,7,9,10 13,14,16	5,6,8,11 12,15,22	4,11,15 17,18,19	3,4,7,9,10 11,12,13 14,16,20,21
Regional Office	1,2,3,4	1,2,3,4	1,2,3,4	1,2,3,4

*Goal was reduced from 600 to reflect nearly five months when one program staff could not make visits for medical reasons.

**Includes 54 visits made jointly with Abingdon regional office staff.

○ Will include 75 to 100 joint visits with Abingdon regional office staff.

□ Includes two staff added in January 1988.

■ Staff did not begin making visits until December 1987.

Source: Department of Economic Development.

Regional Offices

The Division of Industrial Development has established regional offices in Abingdon, South Boston, and Staunton (Figure 6). The primary purpose of these offices is to provide assistance to the communities enrolled in the community certification program and, to a lesser extent, to provide general technical assistance to all communities in their geographic service areas. Services include helping localities with comprehensive planning, examining industrial sites to determine marketability, and providing information about other DED programs.

The assessment of the services provided by the regional offices indicates that the activities of the Staunton and South Boston regional offices need to be refocused. The need for community assistance services provided by the regional offices appears to have decreased. Further, the geographic areas served by these regional offices have experienced business retention problems. Refocusing the regional office directors' activities to include industrial retention may be warranted. This would allow the regional offices to better meet the needs of their service areas. It could also help improve scheduling of industrial call visits.

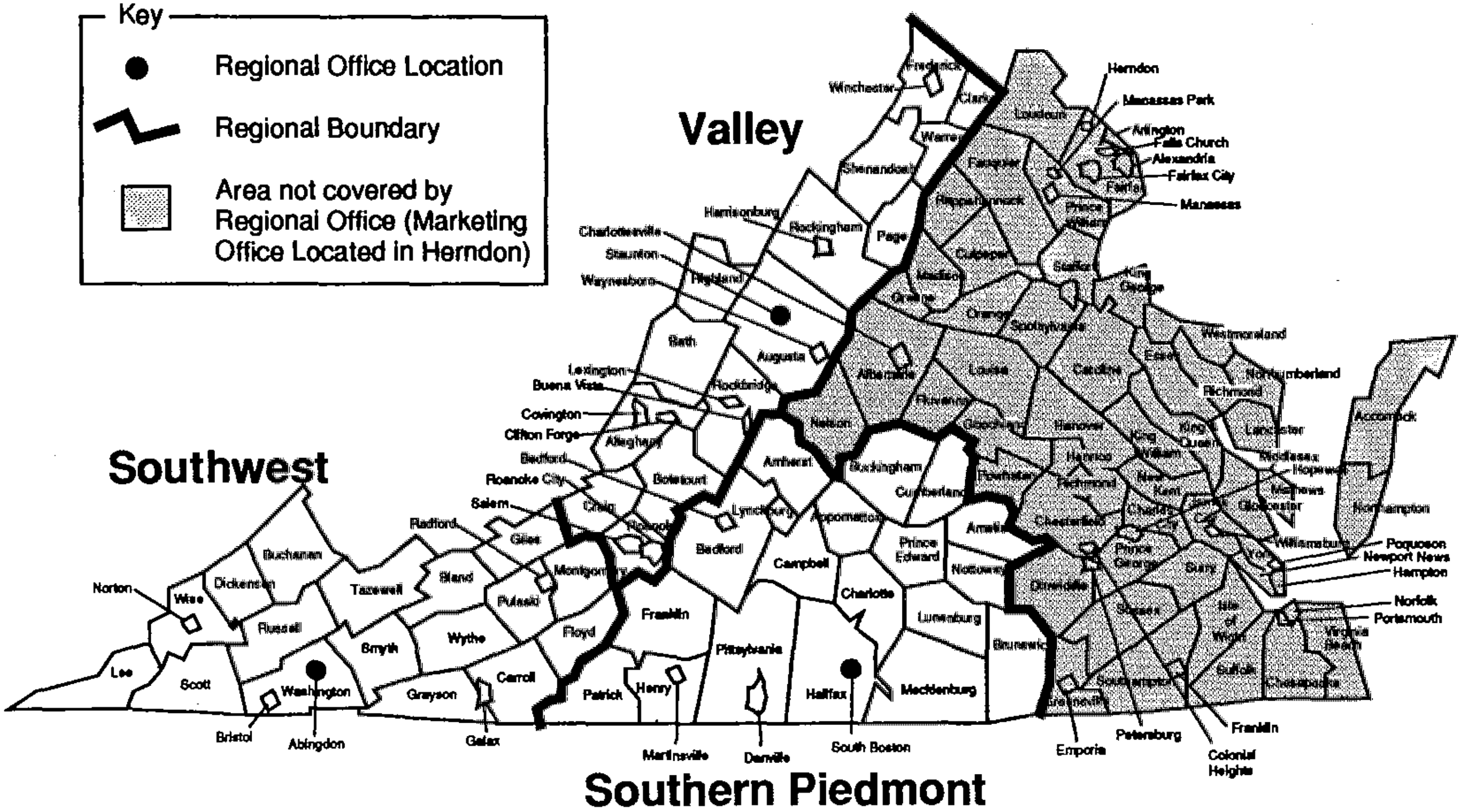
The need for assistance with the community certification program has decreased in two of the regional offices. More than 60 percent of the localities served by the Staunton and South Boston regional offices have achieved certification while only 29 percent of the localities served by the Abingdon office are certified. Further, 11 localities in the Abingdon regional office area are currently enrolled in the community certification program. Therefore, the Abingdon regional office will be providing these communities technical assistance as they work toward achieving certification. However, only two localities in the Staunton and none in the South Boston area are currently working towards certification.

While the Abingdon regional office currently has one staff member dedicated approximately 75 percent to visiting industries as part of the industrial call program, the other two regional offices do not have this responsibility. However, the PDCs comprising the geographic service areas of both regional offices experienced business retention problems among manufacturing industries. These problems included business closures and contractions. For example,

> *In PDC 6, which is covered by the Staunton regional office, manufacturing employment comprised approximately 29 percent of total employment during the first quarter of 1988. However, by the end of the third quarter of 1989, the employment lost from manufacturing business contractions was 5.7 percent of total manufacturing employment, well in excess of the State PDC average of 2.2 percent. In terms of total employment for all industries within the PDC, these manufacturing contractions represented a loss of 1.6 percent, nearly three times greater than the State PDC average of .6 percent.*

Figure 6

Division of Industrial Development Regional Office Territories



Source: JLARC analysis of in-person interviews with regional office staff.

The number of manufacturing businesses contracting was also greater than the State PDC average — but only slightly. This indicates that the problem was with larger employers.

* * *

PDC 13, covered by the South Boston regional office, also experienced problems with employment losses from manufacturing business contractions. In this PDC, manufacturing employment comprised 41.5 percent of total employment. The loss of 4.2 percent of manufacturing employment approximately doubled the State PDC average. Further, the loss of 1.7 percent of total employment for all industries through these manufacturing contractions was three times the State PDC average.

Recommendation (16): **The Department of Economic Development director should refocus the activities of the Staunton and South Boston regional offices. Industrial call program staff should instruct regional office directors on the necessary techniques and information needed to call on existing industry. Regional office directors in Staunton and South Boston should then make calls on existing industry within their service areas a priority.**

Small Business Development Centers

In 1988, the General Assembly gave the Department of Economic Development responsibility for establishing and overseeing small business development centers in Virginia. DED issued a request for proposals for center funding to 500 institutions and organizations within the State. Four of the ten proposals submitted were selected for funding during CY 1989. Another two proposals were approved for funding in January and April of 1990. DED plans to add one or two more centers before the end of calendar year 1990 and eventually to have 11 or 12 centers statewide. Centers were established to provide management and technical assistance to small businesses — and to enhance Virginia's economic development through this assistance.

The assessment of small business development centers revealed two problems which affect the accountability of the program and lead to overestimation of the program's impact. First, centers report services inconsistently. Second, the definitions for, and measurements of, reported economic impacts are inconsistent among centers.

Small Business Development Center Program Overview. Centers provide services to businesses with 500 or fewer employees, and individuals interested in starting a business are also eligible for services. Services are generally of two types: one-on-one counseling or seminars and workshops. Counseling can be short-term or more in-depth and is usually related to general planning, financial needs, or technical needs. Training seminars and workshops often provide technical assistance to new small businesses and may be co-sponsored by other organizations.

Each center is funded in part by local sponsors — who must provide at least 50 percent of the total funding (Table 9). Funding provided by State universities andcommunity colleges is considered part of the local match. Virginia became part of the federal U.S. Small Business Administration (SBA) small business development

Table 9

Small Business Development Centers Partially Funded Through the Department of Economic Development During Calendar Year 1990

Center Location	Date DED Funding Initiated	Local Match	State Funds	Federal Funds	Total Center Funding
Farmville	January 1989	$111,392	$95,906		$207,298
Harrisonburg	January 1989	96,801	83,344		180,145
Richmond	April 1989	93,606	20,750	$59,844	174,200
Charlottesville	July 1989	51,790		44,590	96,380
Hampton Roads	January 1990	81,894		70,510	152,404
Roanoke	April 1990	61,219		58,781	120,000
TOTAL		$496,702	$200,000*	$233,725	$930,427

NOTE: Federal funds from the Small Business Administration were provided to DED for program administration calendar year 1990. Since SBA funding is received on a calendar year basis, this program currently operates on a calendar rather than a fiscal year basis.

*An additional $50,000 in State funds is used for DED administration of the program.

Source: JLARC analysis of information provided by the Department of Economic Development.

center program as of January 1, 1990. Therefore, the federal government provided DED with $300,000 for program funding in calendar year 1990.

Standard Definitions Needed for Reporting Services Provided to Clients. In their quarterly reports to DED, each center reports the services delivered to clients in a different manner. This leads to an overestimation of the number of clients served and inflates the program's impact.

Reports are to include short- and long-term counseling of clients and the number of workshops held, along with the corresponding number of attendees. While consistency in reporting workshops did not appear to be a problem, reporting of counseling hours was a problem. Three of the four directors interviewed classified short-term counseling as being less than 12 hours and long-term counseling as lasting 12 hours or more. However, the fourth director specified the cut-off point as ten hours.

On the basis of two additional problems in this area, the number of counseling hours and clients are generally overstated in the reports to DED. What was included by the directors as counseling hours varied. Although all directors included one-on-one counseling, three included preparation time, and two also included travel time. If the distinction between short-term and long-term is intended to be on the basis of contact hours, then inclusion of preparation and travel incorrectly classifies as long-term some short-term clients.

Further, the way in which clients and counseling hours are reported leads to double-counting of clients from one quarter to the next. Because reports are done on a quarterly basis, clients who receive ongoing counseling are reclassified as either short-term or long-term and are counted as if they were new clients. Therefore, the total number of clients served by a center in a given year is overstated by the number of clients receiving services extending into more than one quarter. Double-counting of clients in reports could be resolved by adding another reporting category so that the quarterly counseling hours for new clients would be differentiated from those of ongoing clients.

Current Measures of Economic Impact Should Be Defined and Used Consistently. The evaluation component for the program does not have standardized definitions, methods for data collection, or time frames for data collection. Because there is no consistency in the evaluation component, the economic impact of the program to date has not been accurately determined.

Directors currently report the economic impacts of their services (capital investment; increased sales; and jobs saved, created, or stabilized). DED has defined jobs saved as "those in companies that were in danger of going under or having a lay-off" and jobs stabilized as those in "client companies that are not in danger of either going under or having a lay-off, but which are strengthened by our counseling assistance." However, more than one director indicated that DED had not provided operational definitions for any of these measures. Two directors stated that, because these measures are interpreted differently, what they count as jobs stabilized are reported as jobs saved by another director. One director does not report any sales increases because he does not know how to measure this.

There is no standardization in the way economic impact data are collected. To some extent directors rely on client determinations about what the impact of services will be. However, one director uses ranges for economic impact and assigns probabilities. Directors reported that they occasionally contact clients to determine impacts but usually only report what they know from service provision during each quarter.

Recommendation (17): **The Department of Economic Development should strengthen the accountability of the small business development centers by clarifying the definitions and reporting processes related to client services and program impacts. The definitions for client services should include what constitutes short-term and long-term counseling and what constitutes a counseling hour. The department should also revise the quarterly reporting process to ensure that clients who receive services during more than one quarter are correctly accounted for as ongoing clients. In addition, the Department of Economic Development should develop standard operational definitions for all economic impact measures as well as a standard procedure for collecting impact data from clients for the small business development center program.**

Virginia Small Business Financing Authority

In 1984, the Virginia General Assembly established the Virginia Small Business Financing Authority to provide financial assistance to small businesses in Virginia. Section 9-205 *et. seq.* of the *Code of Virginia* establishes that the VSBFA can borrow money, issue bonds, make loans, and guarantee loans made by financial institutions.

The VSBFA has administered three types of financing programs since it was established. These include tax-exempt industrial development bonds (IDBs), taxable commercial paper, and working capital loan guaranty programs. IDBs are low-interest sources of financing for land, building, and capital equipment needs of small manufacturers. Backed by a letter of credit, taxable commercial paper provides long-term fixed asset financing to small businesses at a lower interest rate than conventional sources. Most of the activity of the VSBFA currently is in the working capital loan guaranty program. Under this program, when a bank approves a business for a loan, the bank contacts the VSBFA which guarantees a percentage of the loan. Therefore, the small business is able to borrow more than it could have without the guarantee.

While the need for financial assistance to small businesses has been documented, the review of the VSBFA indicates that it has limited utility in meeting the stated needs of the small businesses in Virginia. Further, the limited economic impact of the program indicates that the current program may not be essential to the economic development activities of the State. Therefore, the Authority needs to develop other types of financing programs directed at the small business community.

This assessment identified three concerns about the VSBFA and its programs. First, the types of assistance provided by the VSBFA have been limited by State and federal actions. This has resulted in the program not providing the types of assistance that many small businesses need. Second, the working capital loan guaranty program, which is the Authority's primary program, may overlap with a program administered by the U.S. Small Business Administration. Third, unlike other authorities in the Economic Development Secretariat, the VSBFA does not appear to be able to generate operating revenues sufficient to cover its operating expenses.

Types of Assistance Offered Not Meeting Needs of Small Businesses. Assessment of the program indicates that the assistance provided to small businesses is limited. According to interviews with the VSBFA executive director, local officials, economic development personnel, and private lending institutions, there are two primary reasons for this limited service.

First, State and federal regulations have constrained the types of assistance the program is able to provide. The majority of the Authority's activity, until recently, has been the issuance of tax-exempt industrial development bonds. In September 1990, the U.S. Congress revoked the tax-exempt status of these bonds. As such, the benefit — lower interest rates — to small businesses has been eliminated. Further, the VSBFA was not allocated any bonds in 1990 to continue the bond program, although the Department of Housing and Community Development received more than $125,000,000 in industrial development bond allocation.

Second, according to focus group interview participants and others involved with small businesses, the greatest need for small businesses is for loans ranging in size from $2,500 to approximately $25,000 — in large part to cover start-up costs. In addition, according to bank officials, these loans are difficult, if not impossible, for banks to make because the risk factor is so great. Since banks do not make these loans, the VSBFA cannot guarantee them. Therefore, the need for loans in amounts between $2,500 and $25,000 is not being met through this program.

Further, through the working capital loan guaranty program the VSBFA guarantees up to $150,000 (or 50 percent, whichever is lower) of a bank loan or line of credit provided to a small business by a private lending institution. During this review, JLARC staff contacted a loan officer from one-third of the private lending institutions which had worked with the VSBFA to have loans guaranteed. According to loan officers, the VSBFA's loan guaranty program allows private lending institutions to provide additional financing to the small businesses which they would make loans to anyway — without increasing the institutions' risk. However, the program does not increase the number of small businesses that are provided loans.

The VSBFA relies on lending institutions to contact the Authority when they identify a suitable loan candidate. However, most of the loan officers contacted indicated that the VSBFA loan guarantee is used relatively infrequently. For example:

A loan officer stated during a telephone interview that he currently is working with 150 small businesses in a six-county area of Virginia. However, this lending institution referred only one of the 150 businesses to the VSBFA program.

In addition, other State agencies that work with small businesses on a regular basis indicated that few businesses they worked with have used the VSBFA's programs. For example,

The Department of Minority Business Enterprise referred a business to the VSBFA for financial assistance. The business did not use the VSBFA program because it was able to get a lower interest rate at a private lending institution.

State Program May Overlap Some Aspects of the Federal Loan Guarantee Program. The U.S. Small Business Administration also provides loan guarantees to small businesses. In federal FY 1990, the SBA guaranteed $23.3 million in loans for Virginia small businesses.

The SBA program guarantees up to 90 percent of a small business loan or $750,000, whichever is less. In comparison, the VSBFA program will only guarantee up to 50 percent or $150,000, whichever is less. The only concern raised about the SBA program is that the loan application process is longer and is more time-consuming for the private lending institutions. However, both programs appear to use the same criteria for determining eligibility for the guarantees.

Future VSBFA Operating Revenues May Not Cover Operating Expenses. According to the executive director of the VSBFA, annual fees assessed on businesses for the outstanding amount of their industrial development bonds have been a primary source of revenue for the VSBFA. In fiscal year 1989, these fees accounted for approximately $150,000 or 46 percent of the total operating revenue for the Authority. Another 34 percent or $110,000 was generated from interest income on the VSBFA's $1 million reserve fund (Table 10).

As stated previously, industrial development bonds are no longer being issued by the VSBFA. While revenue from the bonds will continue for the next five years or so according to the VSBFA executive director, the revenue amount will decrease each year. This decrease will occur because the assessed fee is based on the outstanding amount of the bond, which will also be decreasing over the term of the bond.

The executive director stated that the fees paid to participate in the loan guaranty program will make up some of this income loss. However, in fiscal year 1989, these fees generated only $7,160 in revenue for the VSBFA. Further, the VSBFA had an operating loss of $21,879 in fiscal year 1989 even though DED provided the Authority with one full-time staff member as well as office space and equipment. Therefore, the ability of the VSBFA to cover its future operating expenses is questionable.

Table 10

VSBFA Operating Revenues and Expenses

Financial Statement	Fiscal Year 1987	Fiscal Year 1988	Fiscal Year 1989
OPERATING REVENUE:			
Service fees	$ 91,873	$156,310	*
Application fees	17,900	4,150	*
Interest Income	64,273	75,406	$110,163
Industrial development bond fees	*	*	149,913
Working capital loan guarantee fees			7,160
Recoveries of loan guarantees paid			65,003
Miscellaneous	390		
TOTAL	$174,436	$235,866	$322,714
OPERATING EXPENSES:			
Office Operating Costs	$ 95,642	$134,343	$204,689
Bad debt expense			19,080
Amounts paid under loan guarantees**			120,824
TOTAL	$ 95,642	$134,343	$344,593
OPERATING LOSS OR GAIN:	$ 78,794	$101,523	($21,879)

*Auditor of Public Accounts did not report revenue using this category during the fiscal year.

**Small businesses that receive loan guarantees were unable to pay back their loans. The VSBFA had to pay the private lending institution for this loss.

Source: JLARC analysis of Auditor of Public Accounts, Reports of Audit for the fiscal years ended June 30, 1987, 1988, and 1989.

Recommendation (18): **The VSBFA should work with financial institutions and other sources of private investment to develop additional financing programs for small businesses. However, based on the limited number of small businesses being provided financial assistance and the VSBFA's future ability to generate adequate revenue to cover its operating expenses, if such additional programs are not developed by the beginning of FY 1992, the General Assembly may wish to consider eliminating the Virginia Small Business Financing Authority.**

OTHER ECONOMIC DEVELOPMENT PROGRAMS

Three other economic development programs were assessed. These include the Virginia Port Authority's (VPA) national and international trade marketing, the technology transfer program jointly administered by the Center for Innovative Technology and the Virginia Community College System, and the Virginia Economic Development Corporation (VEDCorp).

Two State agencies have significant functional responsibility for export promotion activities in Virginia. This assessment examined one of these agencies -- the Virginia Port Authority. Because the Department of World Trade was established in 1988 and was not fully staffed until 1989, its programs were in an initial stage and were not assessed in-depth. The assessment of the VPA revealed no significant concerns. Overall the VPA has been successful in marketing Virginia ports.

The assessment of the technology transfer program indicates that there is duplication between this program and the SBDC program currently administered by DED. Further, because an accurate measure of the program's economic impact is not currently available, this program, which was established as a pilot, should not be expanded statewide at this time.

The Virginia Economic Development Corporation was included in the JLARC review because during the course of the study it was staffed by DED employees. However, the intention of the program is that it become a private corporation which helps enhance rural development in Virginia. VEDCorp has filed papers to incorporate with the State Corporation Commission to make it a private entity. DED no longer provides dedicated staff to the program.

Technology Transfer

The technology transfer program was developed as a public-private partnership to assist small- and medium-sized businesses in improving their productivity through technological advancement. This program is funded by the Center for Innovative Technology and the Virginia Community College System. The technology transfer program was initiated in September 1987 as a pilot program with directors of economic and technology development located at several VCCS campuses. The directors work with businesses to identify problems where there may be a technological solution and to assist these businesses in finding the resources to implement that solution. Directors are intended to be brokers of technological information and resources. In FY 1990, services were provided at 12 community colleges with total funding of approximately $1.2 million.

The assessment of the technology transfer program identified three concerns which indicate that the pilot program should be further defined and results evaluated prior to consideration of program expansion. First, the CIT has not adequately defined what types of services the directors are to provide. Therefore, the technology transfer program provides general business assistance services which appear to duplicate those offered by SBDCs. Second, program coordination by the CIT has not been sufficient. Third, the reported economic impact of the program is not reliable.

Lack of Definition Has Resulted in Provision of General Business Assistance Services. Although initially developed to assist small- and medium-sized businesses, eligibility for services is not restricted to any particular size or type of company. (The CIT defines small businesses as those with 500 or fewer employees and medium-sized businesses as those with between 500 and 1,500 employees.) Any company may request assistance. In fact, organizations and localities are also served. In FY 1989, 61 percent of projects initiated were undertaken for manufacturing industries. Another 22 percent of projects initiated were for service industries. The balance of projects were undertaken for entities classified as public administration; wholesale and retail trade; finance, insurance, and real estate; agriculture, forestry, and fishing; mining; construction; transportation; communication; and electric, gas, and sanitary services.

Further, within this program, there is no standard definition for "technology" or "technology transfer." Instead, each director has his own broad definition for these terms. Eligibility for services is supposed to be tied to the application of a technology which is new or innovative to the client — not necessarily "state of the art." However, directors have broad discretion in determining if what they are doing has a technological component. Directors indicated that much of what they do could be considered "low technology." Low technology according to one director would be implementing a tickler filing system, while to another it would be assisting in the purchase and installment of off-the-shelf computer software.

In addition, many projects do not have a technological component but provide general business assistance such as developing business plans, assisting with marketing, or locating sources of financial assistance. These projects are similar to those undertaken by small business development centers. For example,

> *Assistance in the development of a business plan for opening a book store was provided in one project. The director also linked the client with a national association. The director worked on this project on and off for two months.*

* * *

> *One project undertaken in FY 1989 was to provide assistance in starting a business to teach rhythm and dance to young children. The project was to include development of a business plan and videotaping of a rhythm and dance session. However, free videotaping services could not be located. The director determined that the client did not have the necessary resources for a viable venture and closed the project. The director spent four hours on this project.*

* * *

Another project undertaken in FY 1989 was to assist a firm in finding sources of capital to relieve it from impending bankruptcy. However, after two months, the director was unable to find the necessary financial assistance and the project was closed.

* * *

One client who wished to open a health club needed assistance in the review and documentation of its business plan. Market research was determined to be critical to the plan. Therefore, the director provided several citations relevant to the particular client. The client concluded that the business would not be viable because there was an insufficient market for it. The project director worked with this client over a period of 11 months.

According to the CIT, the technology transfer program provides different services from small business development centers. However, the FY 1989 interim assessment contracted by the CIT indicated that approximately one-half of all projects provide assistance which could be classified as general business assistance or technical information of a general nature. Individual directors also confirmed that many of the projects undertaken are not necessarily technologically related. For example,

One director stated that directors are supposed to stay away from providing general business assistance. However, in practice they do provide these services. At the very least, they always listen to the company's concern or make a referral.

* * *

Another director estimated that 45 percent of the services he provides are more in tune with those provided by small business development centers than services provided by technology transfer. All requests for service are directed to him, however, since the area does not have a small business development center.

Because, in practice, there are no limitations on who may be served or how, directors appear to focus their time and resources inappropriately much of the time. Consequently, only a few projects which have technological applications to an entire industry — not just one company — have been undertaken. For example,

One director received a request for assistance in marketing surface mount technology and other electronic technologies from a full-service contract electronics manufacturer. Use of surface mount technology decreases size and weight of electronic products, improves electrical performance, lowers cost, and facilitates automation of production.

Because this director had also received several requests from electronics manufacturers for assistance in finding and implementing such *advanced manufacturing technology, a special project with industry-wide applications was designed. The director worked with private consultants, various community colleges and universities, and the CIT to develop and present a teleconference on advanced electronics manufacturing technologies. This teleconference was broadcast to 32 sites in and out of Virginia. The teleconference assisted the original client as well as electronics manufacturing firms seeking state of the art technology.*

If directors become too involved in providing general business assistance they cannot devote sufficient amounts of time to providing technology assistance, particularly projects with industry-wide applications. Although the CIT program manager has indicated that industry-wide applications are a priority for the program, projects with an industry-wide effect are undertaken infrequently. Therefore, the program needs to be redefined such that its goals and objectives focus on the dissemination of technology and information related to such technology. Further, eligibility criteria for services should be instituted to ensure that the program does not function primarily as a general business assistance program.

Recommendation (19): **The Center for Innovative Technology should clearly define the role of the technology transfer program by determining the types of technology to be transferred and the types of businesses or organizations which are to be served by the program. The newly defined program role and eligibility criteria should be communicated to all directors of economic and technology development.**

Integration of Host Community Colleges May Not Be Sufficient. During interviews, most directors cited a lack of interaction and coordination between the CIT program and their host community college. This lack of interaction may be related to limited use of community college faculty, staff, and curricula in resolving projects. Only 18 percent of the projects completed in FY 1989 used VCCS resources. In addition, two of the community colleges responding to the JLARC survey of state government entities indicated that the college received no benefits from hosting a director. One of these directors is no longer being hosted by a community college because the college had a limited role. As of July 1, 1990, the director at the Northern Virginia Community College was moved to the CIT.

Although the majority of funding comes from the CIT, technology transfer directors are considered employees of the VCCS. They are managed on a day-to-day basis by the VCCS and generally report directly to the president of the community college. The CIT is responsible for coordinating the program statewide with bimonthly meetings of all directors. Directors provide the CIT with a yearly accounting of their activities and copies of all case records. According to the CIT program manager, CIT interaction with host community colleges has been limited. The "awkward" nature of coordination with the CIT was one of the reasons cited by the Northern Virginia Community College for discontinuing the program.

Recommendation (20): **Since the current structure for the technology transfer program limits the involvement of host community colleges, the CIT program director should increase interaction with community college presidents and supervision of program directors. Further, consideration should be given to eliminating the program at community colleges which do not benefit from hosting a director.**

Program's Economic Impact as Reported is Meaningless. Although directors report several different impacts for the services they provide clients, only one is cited by the CIT as the program impact. In their case records, directors report their clients' estimates of the economic value or return to the company for services received both at one and three years after implementation of the solution. In FY 1989, the total value of services reported for one year after implementation was $6.2 million, and after three years the value was estimated to be $21.5 million. This amount seems impressive given the operating costs for the program of $1.1 million during the same year.

However, there is no standard formula for determining this value. At the time of service delivery, directors ask clients to estimate the value of services provided. According to one director, guidance in estimating this amount is rarely given to clients. Instead, directors accept the values estimated by clients without question. When asked if he would question a client estimate of $1 million, this director stated "probably not." The amount reported could be an estimate of new business, a cost savings, or something else — which may not be based on any tangible measures.

Other impacts reported by directors are not used to evaluate the program. These include:

- increases in business volume,
- retention of existing business,
- production cost savings,
- manpower savings,
- time saved in introducing new products,
- stronger competitive position,
- stronger managerial capacity,
- stronger technical capacity,
- various benefits to the host community college, and
- number of jobs saved or created.

Unlike the value of services, these estimates are provided by the director. However, they are also very subjective.

Recommendation (21): **The Center for Innovative Technology should develop standard program impact measures to evaluate the technology transfer program. These measures and their definitions should be communicated to all economic and technology development directors. The measures could include increased business volume, retention of existing business, cost sav-**

ings in production, manpower savings, time saved in introducing new products, improved competitive position, improved managerial capacity, improved technical capacity, benefits to the host community college, and number of jobs saved or created. In addition, a definition for what constitutes economic value of services to clients should be developed. Guidelines on how to assist clients in estimating this value should also be developed and communicated to directors. Directors should provide guidance to clients in their estimation of economic value of services.

Pilot Program Should Not be Expanded at this Time. There is not enough evidence to support expansion of the program to other community colleges throughout the Commonwealth; the current structure of the program does not support increased involvement of community colleges. Program impact cannot be determined from the current measures due to problems in computing the economic value of services.

Many services duplicate those of DED-administered small business development centers. Therefore, the geographic coverage of the SBDCs should be considered before new sites are selected for the technology transfer program (Figure 7).

Recommendation (22): **The Center for Innovative Technology should institute eligibility criteria and refine program impact measures prior to any further consideration of expansion of the program. Directors should collect information on all program clients in a uniform manner for a minimum of one full year. If at that time, evaluation measures indicate that the program has been effective, expansion of the program could be considered. If the program is expanded, the CIT and DED should jointly consider the geographic coverage of the small business development centers before new sites are selected for technology transfer programs.**

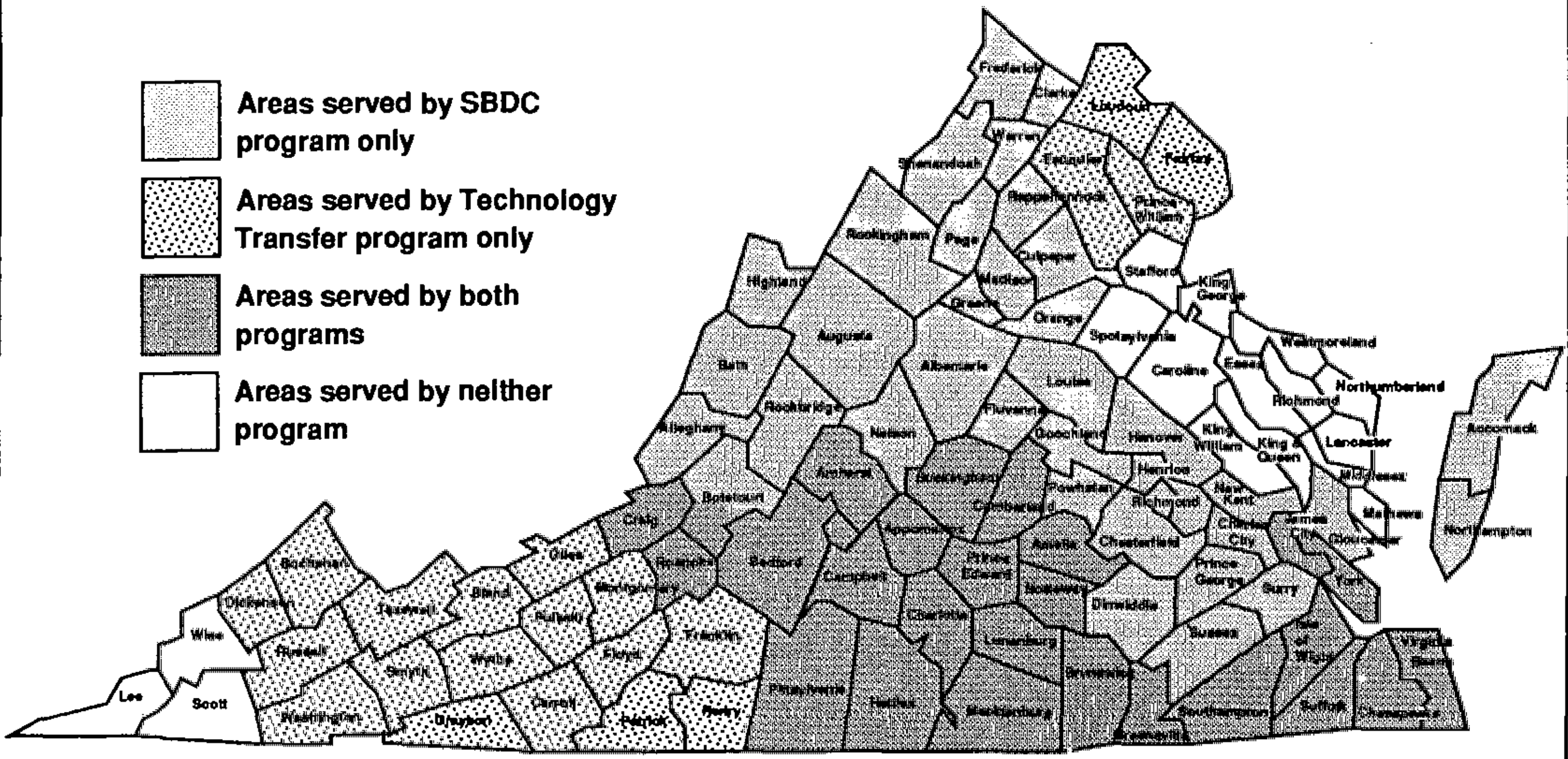
Virginia Economic Development Corporation

In 1984, the General Assembly established the Rural Virginia Economic Development Foundation. The Virginia Economic Development Corporation has been the only program initiative of the foundation. VEDCorp was designed as a public-private partnership to provide investment capital for new and expanding small companies in rural Virginia.

Efforts to develop VEDCorp began in 1984 with the dedication of one full-time staff member in the Department of Agriculture and Consumer Services. This staff member was moved to the Department of Economic Development in 1988. The Department of Economic Development provided an additional full-time staff member to assist in the effort of raising the private capital necessary for VEDCorp to incorporate. In September 1990, the Governor announced that more than $11 million had been committed to VEDCorp and that the papers for incorporation had been submitted to the State Corporation Commission. Therefore, DED reassigned both full-time staff members to other duties within the agency.

Figure 7

Geographic Coverage of the Technology Transfer and Small Business Development Center Programs



Source: JLARC analysis of (1) SBDC service regions provided by DED and (2) technology transfer community college service reigons as reported by CIT.

The functional relationship of VEDCorp to DED changed during the course of this study. Further, since incorporation was not yet completed, analysis of the economic impact of VEDCorp was not possible during this review.

CONCLUSION

Virginia has established a diverse set of programs to address economic development in the State. Many of these programs can demonstrate instances where they have contributed to events which have benefited the State's economy. However, an in-depth assessment of these programs reveals weaknesses in the programs. These weaknesses can be attributed to a combination of factors including: (1) insufficient policy direction and (2) problems in program administration which inhibit program accountability and accurate determination of economic impact. While the services provided by these programs are generally good, these shortcomings need to be addressed to enable the State to maximize its return on funding directed at economic development initiatives.

The following chapter outlines changes necessary in the Department of Economic Development to better manage programs. Recommended changes would provide better controls and data on the programs so that comprehensive evaluations can be conducted. These evaluations can then be used to make the programs more effective, determine true economic impact, and assess the achievement of stated goals and objectives.

IV. Organization and Management of the Department of Economic Development

JLARC focus group interviews and survey results indicate that the Department of Economic Development (DED) is well-respected in the economic development community within Virginia as well as among company officials and economic development professionals in other states. The agency has been given considerable support and attention by both the legislative and executive branches. This has helped the agency achieve its current high status among its peer agencies.

Legislative attention in recent years has been given the agency by two subcommittees which studied tourism and industrial development activities undertaken by the agency. In addition, the executive branch has also reviewed the organization and management of the department as well as conducted an in-depth study of the industrial training program. These studies identified a number of problems which needed to be addressed by the agency:

- The Joint Subcommittee Studying Economic Development 1987 report recommended 23 additional staff positions and the creation of a small business development center program. In 1988, the same subcommittee recommended the establishment of the Virginia Economic Development Corporation (VEDCorp) and the shell building program.

- In 1987, the Joint Subcommittee Established to Study the Promotion of Tourism in Virginia recommended that five new programs and additional staffing be added to the Division of Tourism, adequate administrative and management support be provided the division, and it be "recognized as a co-equal division within DED."

- The 1987 Department of Information Technology (DIT) comprehensive review of DED recommended restructuring the department by combining several sections with duplicative functions, and that four administrative offices and an agency deputy director position be created to address the management problems within the agency.

- The 1987 Department of Planning and Budget (DPB) review of DED's industrial training program recommended increased management controls to enhance staff efficiency and budgeting activities.

The current director has made many improvements in the overall management of the agency, some of which were in response to the prior studies. This review found that additional attention needs to be given to the management of the agency and that some problems which were previously identified have not yet been fully addressed by the department (Exhibit 12).

Exhibit 12

Current Organization and Management Concerns Noted in Previous Studies

Recommendation	1987 HJR 13 Report	1987 DIT Study	1988 DPB Review
Consolidate dissemination of economic information from the two divisions		X	
Consolidate policy analysis and governmental relations, graphic and audio-visual, and mail/ transportation services		X	
Implement greater systematization and standardization in industrial development marketing program		X	
Implement management controls in the industrial training program		X	X
Improve budgeting and accounting process for the industrial training program			X
Increase staffing for tourism research, public relations, and computer development	X	X	
Recognize the Division of Tourism as a co-equal division within the department	X	X	

Source: JLARC staff analysis of HJR 13 Joint Subcommittee Established to Study Promotion of Tourism in Virginia Report, HJR 132 Joint Subcommittee Studying Economic Development Report, DIT Organization and Management Study of the Department of Economic Development, and DPB Review of the Commonwealth's Industrial Employee Training Program Reports; and interviews with DED staff and program reviews.

The JLARC assessment identified two major concerns with the current organization and management of DED. These concerns need to be addressed so that the agency is able to function more efficiently and effectively.

First, the organization of the agency needs to be modified to establish the department as a single entity rather than two separate divisions with little communication or coordination. While the basic structure of the agency appears reasonable to support its current functions, changes are necessary to provide for a more efficient use of staff resources and State funds. In addition, the proposed changes should result in a stronger research unit which can better respond to the policy analysis and evaluation needs of the agency and the Economic Development Secretariat.

Second, better day-to-day management is needed to enable the agency to be fully accountable. Many of the management concerns could be addressed with the development and dissemination of written procedures for administrative and program activities.

STRUCTURE

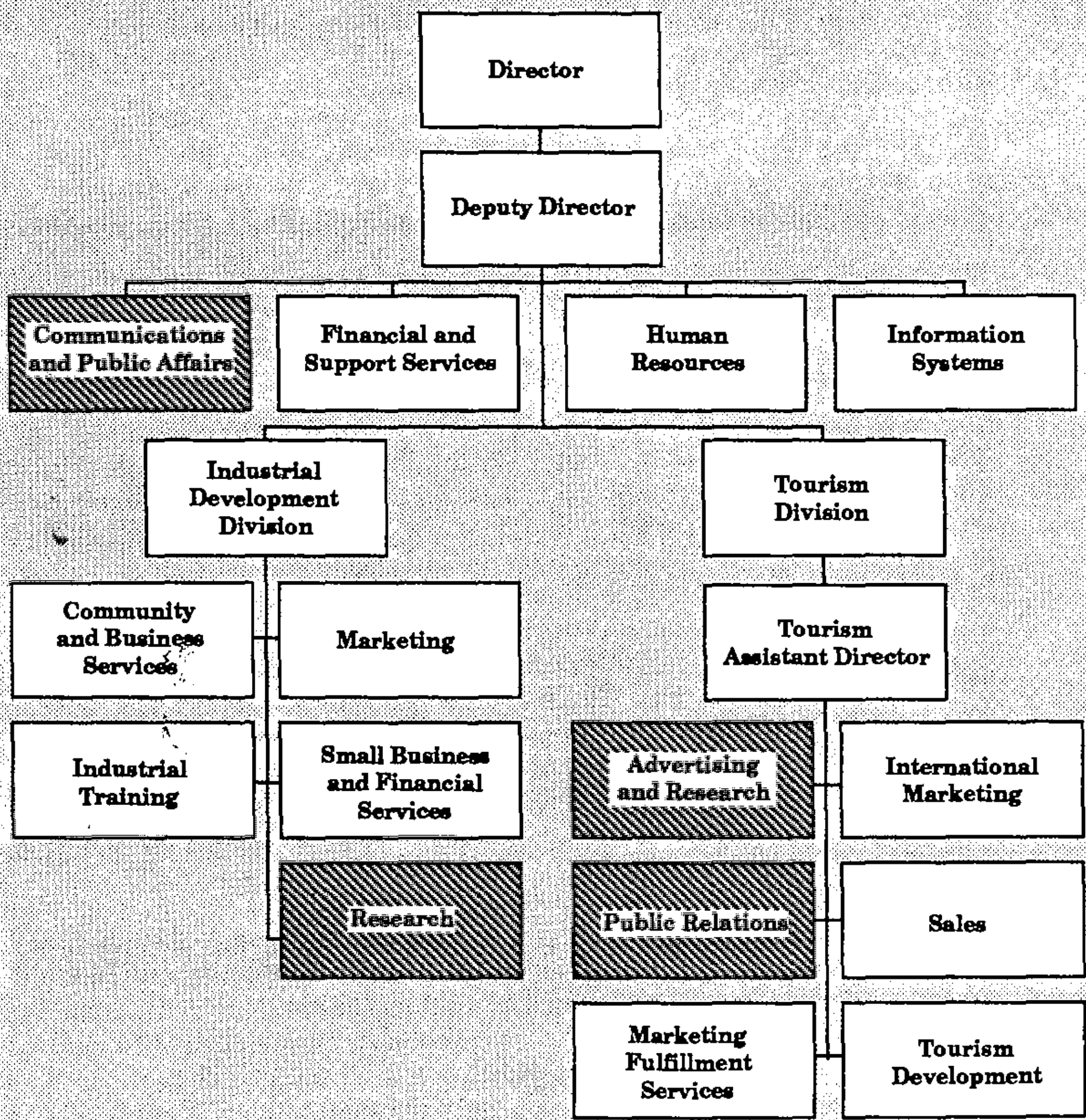
The structure of DED is the result of the 1984 merger of the Division of Industrial Development and the Division of Tourism. Following the merger, few actions were taken to consolidate similar functions within the agency. Instead, each division has basically continued to operate as a self-contained independent entity.

An organizational assessment was undertaken to analyze the structure of DED and the way functions are aligned and divided within the agency. Organization charts, position descriptions, documents describing the role and activities of DED, budget and accounting documents, work products, and findings from staff interviews were assessed to identify the functions conducted by DED and how they are departmentalized within the agency. The departmentalization was further examined to determine if it results in inefficient use of resources because of fragmentation or duplication of effort.

The results of the organizational assessment indicate that overall the agency has a reasonably configured structure to perform its mission. However, the efficiency of the agency's operations could be enhanced through consolidation of certain similar functions. The agency currently administers the functions of research, public relations and advertising as divisional, rather than departmental functions (Figure 8). The agency should consolidate the two divisional sections of research into a unified departmental section of research and policy analysis. Further, the agency should combine the functions of industrial development and tourism advertising and public relations into a single departmental section. These changes would provide for more efficient use of staff and resources.

Figure 8

Current Structure of the Department of Economic Development with Proposed Offices for Consolidation Highlighted



Source: JLARC analysis of Department of Economic Development February 1990 organization chart.

Some structural changes recommended in this report have been identified in two prior studies of DED. The reports issued by the HJR 13 Joint Subcommittee Established to Study Promotion of Tourism and the DIT review recommended similar consolidation and staffing procedures (Exhibit 13).

Further, it is anticipated that these functional changes would help to increase perceptions, both internal and external to the agency, that economic development in Virginia has two distinct yet unified components — industrial development and tourism promotion. Throughout the study numerous comments have been raised that indicate that there is competition among the two divisions as to their relative importance and that tourism is viewed as less a component of economic development than is industrial development. Comments of this type have been expressed by staff members in the Division of Tourism, the Division of Industrial Development, and by local and regional officials and economic development personnel throughout the State. For example,

Exhibit 13

JLARC Structural Concerns Noted in Previous Studies

Concern/Recommendation	1987 HJR 13 Report	1987 DIT Study
Increase staffing for tourism community development	X	X
Consolidate dissemination of economic information from the two divisions		X
Consolidate policy analysis, governmental relations, graphic, and audio-visual functions		X
Increase staffing for tourism research and public relations	X	X
Recognize the Division of Tourism as a co-equal division within the department	X	X

Source: JLARC analysis of HJR 13 Joint Subcommittee Established to Study Promotion of Tourism in Virginia Report, DIT Organization and Management Study of the Department of Economic Development, in-person interviews with DED staff, and program reviews.

A tourism section director stated during an interview that when two independent entities are merged, somebody ends up with an inferiority complex. The perception is that tourism's work is not worth what industrial development's work is worth.

* * *

An industrial development staff member noted during an interview that morale was not good in the agency and that the staff were further apart now than they were when the two divisions were located in different buildings.

* * *

During a focus group interview, participants stated that most localities consider both tourism and industrial development important parts of economic development. However, "the marriage of tourism and industrial development hasn't worked as well as we would like."

Due to the Governor's proposal to close the Department of World Trade (DWT) and place its programs in the Department of Economic Development, a functional analysis of three agencies within the secretariat was conducted. The results of that analysis indicate that the functions of the Department of World Trade are more closely aligned to those of the Virginia Port Authority (VPA) than to DED. However, DED has incorporated the functions of the DWT into its existing structure and agency officials indicate that the realignment will serve to enhance DED's capabilities.

Duplication of Public Relations and Advertising Functions

Within DED, three sections perform similar public relations and advertising functions for the two divisions. These sections — communications and public affairs, tourism public relations, and tourism advertising and research — should be consolidated into one department-wide section of public relations and advertising.

Consolidation of these three sections would have three benefits for the agency. First, because these functions will be supervised by the agency deputy director, it would provide similar status and oversight to industrial development and tourism public relations and advertising functions. Second, it would eliminate the duplicate functions within separate sections. Third, consolidation would allow at least two staff positions to be reallocated to other DED sections. By consolidating the sections, only one managerial position would be required. The other two managerial positions could be abolished and reallocated to programs where staffing has been identified as a concern.

Overview of Public Relations and Advertising Functions. The communications and public affairs section is structurally positioned to serve as the public relations and advertising contract management section for the agency. However, in actuality, the section conducts public relations for the Division of Industrial Development. For example, a total of 88 press releases were prepared by the section during calendar year 1989; none of these were for tourism activities (Table 11).

The communications and public affairs section has four professional staff positions — a director, a public relations manager, and two graphic designers. In addition, the section director also supervises the industrial development advertising contract. Currently, one graphic designer position is vacant.

The tourism public relations section currently performs a variety of public relations activities that support the Division of Tourism's tourism promotion program. These activities include writing press releases, preparing articles for distribution to the media, and conducting writers' tours. This section has four professional staff including a director and three staff who share responsibility for editorial, audio-visual, and media relations activities.

Table 11

Press Releases Prepared by Communications & Public Affairs Section January 1, 1989 to December 31, 1989

Subject	Number of Releases
Announcements of company locations	26
Announcement of certified communities	2
Announcement of recertified communities	3
Dedication of new facilities	12
Expansion of companies in State	5
Groundbreakings	6
General news about industrial development	8
Personnel activities	9
Small business & financial services section	7
Virginia Racing Commission	10
TOTAL	88

Source: Department of Economic Development Memorandum, August 10, 1990.

The tourism advertising and research section manages the tourism domestic advertising contract and research contracts. Limited research is performed in-house. Other activities include providing information and directing public service announcements. This section includes two professional staff — an advertising director and a tourism research manager. The research manager position is currently vacant.

Public Relations and Advertising Functions are Duplicated. The current separation of duties by topic (tourism or industrial development) and not by function results in three inefficient uses of staff resources which would be corrected through consolidation. First, duplication of function between the sections could be eliminated (Exhibit 14). For example, providing information to the public would be a function of one section, not three sections, within the department.

Second, fragmentation of duties, which currently exists because of the way functions are divided, could be decreased or eliminated. For example,

The tourism public relations section has three staff who spend part of their work duty time preparing and producing promotional guides, brochures and publications. These duties account for between 10 and

Exhibit 14

Duplicated Public Relations and Advertising Functions

Function	Communications & Public Affairs	Tourism Public Relations	Tourism Advertising/ Research
Coordinate special events	X	X	
Design and edit publications and brochures	X	X	
Develop public service announcements	X		X
Maintain relationship with media	X	X	X
Maintain slide and photograph library	X	X	
Manage advertising contract	X		X
Manage gift program	X	X	
Provide information to public	X	X	X
Write and distribute press releases	X	X	
Write publications and brochures	X	X	

Source: JLARC analysis of DED staff interview results and position descriptions, July 1989 through August 1990.

25 percent of each staff members' work duty time. Other duties include working with the media and providing information. The communications and public affairs section has two staff who spend part of their work duty on the same tasks.

* * *

According to position descriptions and interviews, the communications and public affairs director spends 15 percent of his work duty time managing the industrial development advertising contract. The Division of Tourism's advertising director spends 50 percent of his time managing the tourism advertising contract.

If the sections are consolidated, job duties for the staff could be redefined to eliminate this fragmentation.

Third, the need for two managers would be eliminated. These functions as currently structured utilize three managerial positions to supervise section activities. The need for two of these positions would be eliminated. This would allow DED management to reallocate these positions to program staff positions.

Recommendation (23): **The Department of Economic Development director should consolidate the communications and public affairs and tourism public relations section along with the tourism advertising director position into one section. This section, public relations and advertising, should report to the agency deputy director. The agency director should abolish two manager positions from the public relations and advertising section and reallocate these positions to other parts of DED. In addition, the agency director should examine the activities of the remaining staff assigned to this section to determine if duties can be redefined and if all positions need to remain in this section.**

Duplication of Research Function

Two DED sections perform research to enhance the agency's marketing efforts. These sections, industrial development research and tourism advertising and research, should be consolidated into one research and policy analysis section for the department. The department recently consolidated the research function from the Department of World Trade into its industrial development research office. This consolidation combined with the consolidation recommended in this report should enhance the research capabilities of the department.

Consolidation of this function would have three benefits. First, consolidation will create a unit which should be able to conduct the research, analysis, and evaluation necessary for the Department to conduct internal evaluations of its programs and for the State's economic development policy effort. Second, additional in-house research support would be available to the Division of Tourism. Third, consolidation should provide the Division of Industrial Development research staff with more appropriate work duties.

Consolidation Would Enhance Ability to Conduct the Research and Analysis. Consolidation will create one unit, research and policy analysis, which will bring together staff with skills in a variety of distinct but interrelated areas. Research staff in tourism have expertise in marketing research while industrial development research staff have knowledge of other subjects that impact economic development such as taxes, regulations, and labor.

Consolidation would provide a centralized, diverse research staff to conduct the research and analysis necessary for the State's economic development policy planning effort. This group of nine research specialists in economic development would be able to conduct on-going analyses necessary to examine trends in Virginia's economic climate. Further, they would be able to undertake special projects to examine changes in the broader economy that may necessitate changes in Virginia's approaches to economic development. This type of research and analysis is critical to the secretary's planning efforts.

Further, the unit would be able to participate in the internal evaluations necessary to provide full accountability of DED programs. The unit should be able to conduct the research design, data collection, and analysis efforts necessary to provide internal assessments of the economic impact of DED's programs. Therefore, the economic impact of the State's funding of tourism promotion, industrial marketing, small business development centers, and industrial training could be assessed. Since the unit would be able to conduct more of the research in house the quality of that research could be better controlled and the methodological flaws cited in the current evaluation efforts of these programs corrected.

Additional Tourism Research Could Be Conducted In-House. The consolidation of the tourism and industrial development research sections would result in additional in-house research support being available to the Division of Tourism. Interviews indicate that the actual tourism research conducted in-house is limited because only one staff position is assigned to this function. This results in the majority of the research necessary for tourism promotion being conducted by contractors. Therefore, the research manager essentially functions as a contract manager and not a researcher. According to the manager, the majority of the research activities could be conducted in-house with additional research staff.

The consolidation of the two sections should result in contract research cost savings. In FY 1990, the Division of Tourism spent approximately $120,000 on contracted research. Given the increased capabilities of a department-wide research section, more of this research should be able to be conducted in-house.

Consolidation Should Provide More Appropriate Work Duties for Industrial Development Research Staff. There are ten professional positions in the industrial development research section — six economists, two statistical analysts, and two positions from the Department of World Trade which are currently vacant. Currently, the economists appear to perform activities more appropriate for writers and editors. According to the position descriptions for these staff, 40 percent of their work time is spent writing and editing publications. These publications appear to require limited research and data analysis. Rather, they appear to be compilations of information that is readily available from other printed publications such as those produced by the Virginia Employment Commission.

> *An assessment of information contained in the major annual publication of the research section,* Virginia Facts and Figures, *indicates that actual analysis for the publication was limited. The changes in each edition were primarily limited to updating numbers. Approximately 40 percent of the 265 statistics were updated from the 1988 edition for the 1989 edition. Five new statistics were included in the 1989 edition. The other 58 percent (153 statistics) did not change.*
>
> *From the 1989 to the 1990 edition, approximately 56 percent of the 304 statistics were new or updated. Of these, two-thirds (115) were updated figures.*

Interviews with research staff confirmed that their activities have changed from conducting research and analysis to editing publications. Further, Division of Industrial Development staff indicated that more research and analysis would be helpful in their program planning activities. Program staff indicated that more in-depth comparisons of Virginia to other states would be useful, as would in-depth analysis of Virginia's economy.

Recommendation (24): **The Department of Economic Development director should consolidate the industrial development research section and the tourism research manager position into one section. This section, research and policy analysis, should report to the agency deputy director. The agency director should examine the capabilities of this section of research and policy analysis to conduct all research necessary for adequate evaluation and planning for industrial development and tourism promotion. The director should reassess the necessity for contracted research and ensure that research is conducted in-house when possible.**

Elimination of Assistant Director of Tourism Position

The DED director has recently stated that he is becoming more personally involved in tourism activities. He further stated that he plans to maintain this increased level of involvement. This has made it possible for the division director to be more involved in the day-to-day supervision of the division's activities.

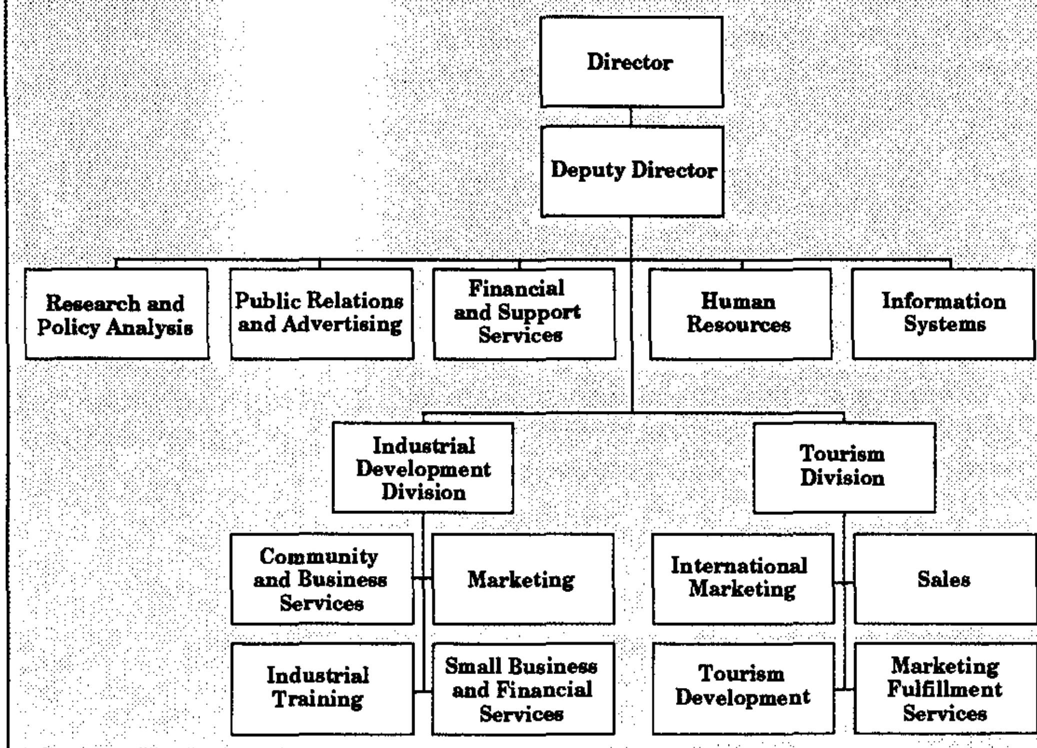
Structural changes recommended in this report coupled with the agency director's increased involvement in tourism activities indicate that the position of the assistant director for the Division of Tourism could be eliminated. This position is currently vacant and the agency appears to be adequately compensating for this vacancy. The tourism section directors have assumed many of the responsibilities of the assistant director position.

Further, the recommended structural changes will reduce the span of control for the division director (Figure 9). This reduction also indicates that the assistant director position may not be necessary. Six section directors currently report to the assistant director. The proposed changes reduce the number of section directors in the Division of Tourism to four.

Recommendation (25): **The Department of Economic Development director should evaluate the need for the Division of Tourism's assistant director position and serious consideration should be given to eliminating this position. If the position is abolished, it should be reallocated within the Division.**

Figure 9

Proposed Structure of the Department of Economic Development



Source: JLARC analysis.

Absorption of the Department of World Trade Export Development Function

Budget concerns have resulted in consideration of eliminating the Department of World Trade and shifting responsibility and staffing related to export development to the Department of Economic Development. Since one other State agency — the Virginia Port Authority — has export-related capabilities, the missions and capabilities within the DED and VPA were assessed and compared to those of the DWT. This assessment indicated that export development would be more appropriately placed within the VPA than in DED, should the DWT be eliminated (Exhibit 15). However, as of October 1, 1990, the Governor closed the Department of World Trade and merged its staffing and responsibilities with DED. This change has increased the responsibilities of DED to include export development. According to the director of DED, the agency plans to integrate the export development function into the industrial call program. In addition, the industrial marketing program will be enhanced to include international trade. Further, the research capabilities of DED will be expanded to include the international trade data formerly maintained by DWT.

The Department of World Trade was established in 1988 to consolidate the export development function into one agency. The department has been responsible for promoting the export of Virginia products and services. Its mission has been to contribute to long-term economic growth via an increase in international commerce. The department established three goals related to this mission:

- to increase the base of exporters,
- to increase the volume of current exporters, and
- to measure and focus on exports of service industries.

The DWT has had three programs to meet these goals. First, staff have assisted businesses in identifying and analyzing markets for their products. Second, staff have participated in foreign trade shows to develop trade leads for Virginia companies. Third, staff have conducted special market research. DWT staff have worked with first-time exporters, current exporters, service industries, agricultural products producers, forestry products producers, and coal industries.

The current mission of the Virginia Port Authority is to increase trade — both export and import — through Virginia ports. The VPA does not target Virginia businesses for export over other businesses in the United States, nor does it provide technical assistance in identifying market potential and marketplaces. Prior to creation of the DWT, the Virginia Port Authority did help small- and medium-sized businesses develop their export potential; this was done through the Virginia Export Trading Company (VEXTRAC). However, this function and VEXTRAC (three full-time equivalent positions) were absorbed into the Department of World Trade when it was established.

Exhibit 15

Assessment of Export-Related Functions and Capabilities Within the Department of World Trade, Virginia Port Authority, and Department of Economic Development

Export-Related Capability	Department of World Trade	Virginia Port Authority	Department of Economic Development
Mission includes export	yes	yes	no
Specialized research and database on exports	yes	yes	no
International sales offices*	no	yes	yes
Established program to assist existing Virginia businesses	yes	no	yes
Business services directed at export	yes	yes	limited
Industrial sectors served broader than basic employers	yes	yes	no
Geographic location of administration tied to ports	yes	yes	no
Multi-lingual international marketing staff	yes	yes	limited

*During interviews, Department of World Trade staff indicated that international offices would be necessary component for export development. No offices were established, however.

Note: Assumes functions prior to the elimination of DWT.

Source: JLARC interviews with DWT, VPA, and DED officials, July 1989 through June 1990.

The mission of the Department of Economic Development is two-fold: to heighten awareness of Virginia as a major tourism destination and to promote and maintain an attractive business climate which will assist in the expanding of the economy of Virginia. As part of its mission, DED does have a complement of staff dedicated to assisting existing Virginia businesses in technical and regulatory areas. This is the only capability which DED has that the VPA does not. However, DED's industrial call program only encompasses the manufacturing sector; DWT's current business development extends to other industrial sectors. Further, DED staff expertise in export development is limited. Much of the assistance in this area has been referral to the VPA or DWT.

In all other areas, VPA's export-related capabilities meet or exceed those of DED. For example, whereas VPA maintains extensive databases on international trade partners and export, DED databases and research capabilities have not been related to export. In addition, during interviews DWT and VPA staff indicated that the DWT had relied on VPA information about exports. While the Department of Economic Development has two foreign offices, they provide services to industries looking for reverse investment by opening a facility in the United States. The VPA has five international offices which are placed and directly linked to trading partners.

Prior to the absorption of DWT by DED, it appeared that the VPA was the more appropriate agency to reassume the export function carried out by DWT. However, since DWT has been closed, DED has begun to integrate export development into its complement of programs. If DED follows through with its plan to enhance its economic development efforts by strengthening its current programs, the function should be allowed to remain at DED. However, if this enhancement does not take place and international trade is not given sufficient emphasis at DED, the function should be transferred to the VPA offices in Norfolk.

MANAGEMENT CONCERNS

Although program services are highly rated and appear to meet the needs of the recipients, stronger agency management and direction is needed to ensure agency accountability. As with all State agencies, a high level of accountability is necessary to ensure that public funds are used efficiently and effectively. Several areas of DED's management need to be improved so that the agency is able to demonstrate full accountability of its administrative and program operations.

Several of the management concerns identified in this review have been identified previously (Exhibit 16). The DIT study of the agency's organization and management cited concerns about lack of policies and procedures and communication. The DPB study was more limited in scope but identified problems with industrial training policies and procedures. The Auditor of Public Accounts (APA) has repeatedly cited the agency for not having adequate accounting and procurement policies and procedures. The Department of General Services (DGS) has also found the agency's management of procurement to be deficient.

The assessment of the agency's management was based on a review of existing agency policies and procedures, budgeting and accounting records, position descriptions, organization charts, and staff interviews. These documents were compared to State management guidelines to determine if DED's management practices

Exhibit 16

JLARC Management Concerns Noted in Other Reviews and Studies

Concern	1987 DIT O&M Study	1987 DPB Industrial Training Study	Auditor of Public Accounts Audits	Department of General Services
Lack of administrative policies and procedures				
Accounting			X	
Procurement	X		X	X
Personnel	X			
Lack of program policies and and procedures				
Industrial training	X	X		
Regional offices and industrial development marketing	X			
Lack of communication				
Between divisions	X			
Throughout agency	X			
Within divisions	X			
Lack of centralized human resources administration				
Training	X			
Position descriptions	X			

Source: JLARC analysis of Department of Information Technology (DIT) Organization and Management Study of the Department of Economic Development; Department of Planning and Budget (DPB) Review of the Commonwealth's Industrial Employee Training Program Report; Auditor of Public Accounts Audit Reports for fiscal years 1985, 1987, 1988, and 1989; Department of General Services Procurement Review records; Department of Accounts expenditure records; in-person interviews with DED staff; and file and document reviews.

were adequate to ensure agency accountability. Stronger agency accountability could be achieved with better management practices in two areas.

First, the agency has very few written internal policies and procedures. The lack of administrative procedures has resulted in noncompliance with State procurement and accounting policies. The lack of program policies and procedures has resulted in inadequate management and oversight of some program and staff activities.

Second, communication within the agency needs improvement. The staff of the two program divisions appear to have limited knowledge of the other division's activities. This has resulted in a continuation of separateness between the two divisions. In addition, DED has a large number of staff not located within the central office. Communication with these staff members needs to be improved.

Administrative Policies and Procedures

Written policies and procedures are necessary to direct on-going operations, to assist management and staff with decision-making, to ensure a relative consistency and coordination of activities, and to provide a basis for control. State agencies, such as the Department of Personnel and Training and the Department of Accounts, establish and communicate broad Statewide policies for many administrative areas. However, agencies are expected to develop internal written procedures to ensure that their staff comply with these policies. In addition, written procedures ensure that all staff perform similar functions consistently. DED has few written administrative procedures. This has resulted in instances of noncompliance with State accounting and procurement policies.

Accounting. Until May 1990, DED did not have an established policy that addressed how the agency intended to maintain adequate internal controls as required by the Office of the Comptroller. While the policy has now been established, DED has not established procedures for ensuring that the internal controls are followed. Since fiscal year 1985, the Auditor of Public Accounts has cited instances of noncompliance with State guidelines because of the lack of an internal control policy and procedures (Exhibit 17). According to APA staff, if appropriate procedures were in place, the majority of these noncompliance issues could be eliminated. For example,

> *APA staff reviewed a sample of 38 vouchers during the fiscal year 1989 audit. These 38 vouchers were all agency vouchers totaling $50,000 or more. Coding errors were found on eight of these vouchers. Three of the eight errors were resolved during the audit. However, five of the errors (13.8 percent of the vouchers) were attributed to improper accounting procedures. APA has established an acceptable level of five percent for errors attributed to improper accounting procedures. DED's error rate of 13.8 percent is significantly higher than the APA established standard.*

Exhibit 17

APA Findings Concerning DED's Lack of Internal Controls

Finding	Fiscal Year Audit 1985	1987	1988	1989*
Does not comply with federal guidelines				X
Does not enforce timely repayment of travel advances		X	X	X
Does not ensure accuracy of expenditure data				X
Does not have a formal policy on maintenance of internal controls		X	X	
Does not have strong enough payroll processing controls				X
Does not limit advance payment amounts		X		
Does not properly code accounts payable		X		X
Does not properly maintain fixed asset accounting and control system		X	X	X
Does not properly prepare financial statements			X	
Does not properly reconcile accounting records to State Comptroller's records	X	X	X	X
Does not restrict entertainment expenses		X		
Does not use receiving reports to document receipt of goods	X			

Note: No audit was conducted by the APA for fiscal year 1986.

* In a September 1990 memorandum to the Comptroller, the Department noted that many of the APA's findings on lack of internal controls are being corrected. The memorandum states that procedure have been instituted which should address the problems cited by the APA.

Source: JLARC analysis of APA's Reports on Audit for the fiscal years ended June 30, 1985, 1987, 1988, and 1989.

Review of Department of Accounts expenditure records indicate that these types of accounting errors continued to be made during fiscal year 1990.

> *Lack of internal controls resulted in payments being charged incorrectly to divisional cost centers. In FY 1990, $3,566 was paid to the University Business Innovation Center, a program funded by the Division of Industrial Development from a Division of Tourism cost center. Also in that year, the Software Productivity Consortium (SPC) was paid $8,444 from the industrial location assistance appropriation. The 1989 Appropriations Act specifies that payments to the SPC are to be made from the administrative and support services appropriation.*

The Department addressed internal controls in a September 1990 memorandum to the Comptroller. The memorandum states that many of the APA's findings are being addressed. The memorandum notes that procedures have been established which should address the problems cited by the APA.

Budgeting. Budgeting is necessary to plan and control the expenditure of funds for agency activities. DED has no established internal budgeting procedures. Rather, budget procedures vary throughout the agency. The division directors determine what types of budgeting procedures, if any, will be followed by their staff members. While the tourism division staff develop internal budgets for their programs, the industrial development and administrative division staff do not.

The Division of Tourism establishes an annual operating budget for its programs and activities. Tourism section directors and program staff are able to manage their programs by monitoring expenditures against these established budgets.

According to information obtained during interviews with section directors and program staff in the Division of Industrial Development, the only program with an operating budget is the industrial training program. Further, this program is the only industrial development program which involves the section director and program staff in the budget formulation process. However, many department staff members indicated that having operating budgets would be a useful management tool.

> *One section director stated that he does not develop his section's budget, the division director does. He stated that "I haven't gotten the idea that I have a budget." He does have an idea of what the section spends. In addition, the section director said that he would feel better knowing what he has because it would help prioritize program activities.*

* * *

Two other section directors stated during interviews that the monthly expenditure reports always indicate negative balances because no operating budgets are established. Instead, expenditures are subtracted from "0" beginning with each new fiscal year. Therefore, while they are able to maintain an accounting of their expenditures, the balance is not easily obtained, nor is it available for use as a management control for the section directors.

Procurement. DED has no written internal procurement procedures. According to DED management, the agency currently has no plans to develop them. Since 1987, both the Department of General Services and the APA have formally recommended that these policies and procedures be developed because of the agency's noncompliance with State procurement policy (Exhibit 18).

Exhibit 18

DED Noncompliance with State Procurement Policies

Action	Department of General Services 1987*	1990*	Auditor of Public Accounts 1987	1988	1989
$13 million ad contract solicitation process not in accordance with Public Procurement Act**	X				
No written agency procurement procedures	X		X	X	X
Used sole source procurement without documenting justification for non-competitive procurement	X	X	X	X	X
Services procured by staff who do not have procurement authority within the agency***		X			

*The Department of General Services conducted a comprehensive assessment of DED's procurement activities in FY 1987. The 1990 review was a more limited review to address a complaint of a procurement violation by an independent contractor.

**The solicitation process was stopped by the Department of General Services.

***JLARC review indicates that contracts continue to be signed by the director of the Division of Tourism as late as April 1990. The division director still does not have this authority.

Source: JLARC analysis of APA Reports on Audit for the Department of Economic Development, fiscal years 1987 through 1989, and DGS Purchasing Review Office records for the Department of Economic Development, July 1990.

The following are two examples which indicate the necessity for developing and communicating procurement procedures to agency staff.

> *In fiscal year 1989, 80,000 copies of the* Virginia Travel Guide *were printed by emergency procurement. The cost of this printing was $51,000. Emergency procedures allow a procurement outside standard procurement procedures (which require obtaining competitive bids). These procedures are to be used only when there is insufficient time for following standard procedures. According to DED staff, they only had 24 hours to decide whether to have the 80,000 copies printed.*
>
> *State emergency procurement policy requires that written documentation of determination be prepared that establishes the basis for the emergency and why the contractor was selected. This determination is to be signed by the agency director or by his designee. This determination is to be placed in the procurement file. According to APA staff, however, this written determination was not prepared by the agency.*
>
> * * *
>
> *In fiscal year 1990, the Department of General Services became aware of another DED violation of the Virginia Public Procurement Act. DGS termed this violation "serious."*
>
> *The Division of Tourism entered into an informal agreement with a private sector contractor in April 1989 to assist in the development of the Tourism 2000 strategic plan. A contract, totaling over $22,000, was not signed until August 1989. The contract was signed by the Division of Tourism Director.*
>
> *Sections 11-41 and 11-62.2 of the* Code of Virginia *require that contracts be awarded following competitive bid procedures, and that a contract be signed and executed prior to work being performed. Further, these sections require that the contractor be paid within 30 days of billing. The Division of Tourism did not follow any of these procedures. Further, the Division of Tourism director does not have procurement authority within the agency and therefore should not have signed the contract binding the agency.*

Personnel. The Department of Personnel and Training *Policies and Procedures Manual* includes policies for over 30 broad personnel areas. According to Department of Personnel and Training staff, agency human resource officers should establish internal procedures to ensure that staff comply with these State policies. In addition, agencies are responsible for establishing their own personnel policies for areas not covered by State policies.

DED has six formal personnel policies and procedures that have been disseminated to all agency staff. These include policies on employee orientation, equal employment opportunity and affirmative action, performance appraisal, and terminations and layoffs. The need for written agency procedures is recognized by staff in the human resources section. Staff in the human resources section stated that written procedures need to be developed for training, education reimbursement, recruitment, and compensation and classification. However, agency management has no plan for the development of these procedures.

Recommendation (26): **The Department of Economic Development director should ensure that written procedures are developed to guide agency operations and to ensure compliance with State policies. The director should ensure that written procedures are developed for all administrative operations including accounting, budgeting, personnel, and procurement. These procedures, once developed, should be distributed to all agency staff and updated as needed to ensure compliance with State policies.**

Program Policies and Procedures

The program activities of DED require that staff interact with high level industry representatives and local officials in conducting their job activities. Much of this interaction occurs out of the office and is conducted in fairly unsupervised settings. Further, much of the information collected by DED staff in these settings can be used by other programs and staff within the department.

Department management stated that staff need a certain amount of autonomy and freedom to do their jobs. Based on the evaluations of staff performance by the clients being served, the quality of job performance is quite good.

However, an assessment of the record management procedures within the department indicates that management controls need to be strengthened. This control could be achieved through the development and enforcement of certain program procedures. Three programs appear to lack appropriate administrative oversight and procedures necessary for proper management and accountability. Programs which need improved management and oversight are in the industrial development division and include industrial training, industrial call, and marketing.

Improvements in Administration of Industrial Training Program to Date Are Not Sufficient. Several of the administrative problems in the industrial training program found in this assessment were also noted in the two prior reviews of the program (Exhibit 19). While procedures have been revised, continuing problems with records management indicate additional oversight is needed. Further, procedures need to be developed to ensure uniform preparation of quarterly budget projections by project managers.

Exhibit 19

Recurrent Problems Found in 1975, 1988, and 1990 Reviews of Industrial Training

Problem	Cited in 1975 JLARC Report	Cited in 1988 DPB Report	Found in 1990 JLARC Assessment
Need for More Administrative Oversight	yes	yes	yes
Lack of Uniformity in Procedures	yes	yes	yes
Unreliable or Erroneous Records	yes	yes	yes

Source: JLARC analysis of 1975 JLARC report, *The Virginia Community College System;* and 1988 DPB report, *A Review of the Commonwealth's Industrial Employee Training Program.*

Review of a random sample of 119 project files as well as project summary reports indicates several problems with records management (Table 12). First, important project information was not contained in project files. According to program guidelines, all project files are supposed to contain documentation on a program master card of the cumulative project expenditures and number of trainees trained and hired. However, this card was found in less than 15 percent of the files reviewed.

Second, industrial training has established a computerized system to track the status of projects against approved budgets — including all expenditures incurred to date, future expenditures, and number of trainees trained. Comparison of project summary reports for fiscal years 1989 and 1990 with files reviewed indicates that the summary reports did not accurately document the status of at least 47 of the 119 project files reviewed.

Third, projects which have had no activity for several months or have been completed are classified and maintained as if they are still active. Fourth, each company which has received training assistance is supposed to be sent a form to complete on the number of trainees hired who are still employed six months after training. However, follow-up forms had not been sent to 16 of the 61 companies which received training and had projects completed in calendar years 1988 or 1989. Another 26 companies had been sent a form but had not returned it.

Table 12

Industrial Training Records Management Problems

Problem	Projects Affected Number	Projects Affected Percent
Inadequate documentation of cumulative project expenditures	106	89%
Inadequate documentation of number of trainees trained and hired	52	44%
Project status incorrect on program summary report*	47	17%
Files inaccurately maintained as active**	9	8%
Retention follow-up form not sent to companies***	16	26%
Retention follow-up form sent to companies but not returned***	26	43%

Unless otherwise specified, N for percentage is based on 119 files reviewed.

* N for percentage is based on 284 distinct projects listed on end of year project summary reports for fiscal years 1989 and 1990.

** Includes five projects with notations in the files indicating that the training had been completed or the project cancelled and four projects with projected completion dates that had passed but no explanation of project delay or any other documentation for several months.

*** N for percentage is based on the 61 companies which had training projects completed in CY 1989 or CY 1990 and which should have been sent a form to complete prior to the time of the file review.

Source: JLARC analysis and review of industrial training files May, June, and August 1990; project summary reports for FY 1989 and FY 1990 provided by DED; and project estimations for FY 1990 supplemental budget request provided by DED.

Review of the quarterly budgeting process indicates that uniform procedures are not followed within the industrial training section. Project managers are required to provide the estimated costs by quarter, the maximum number of trainees to be trained, expenditures and number of trainees to date, and the projected expiration date for each project. According to program management, project managers are supposed to factor delays and cancellations into their project budgets. However, no guidance is given by management of the industrial training program to help ensure that this is done in a uniform manner. All of this information is compiled and used by the section as its quarterly budget.

The section has established a procedure for project managers to complete these quarterly budgeting activities. Review of quarterly budget estimates for FY 1990 and the actual expenditures for those projects indicates that all project managers tend to overestimate the costs for their projects. However, there are wide variations in the accuracy of projections by project managers. Three project managers estimated costs for their projects to within 70 percent of the actual expenditures for the year, but all other project managers significantly overestimated costs. This indicates that uniform procedures for developing these estimates need to be developed.

Recommendation (27): **The Department of Economic Development director should ensure that the industrial training program institutes uniform procedures for estimating project budgets and for file maintenance and documentation. Project files should contain documentation on the reasons for project delays and cancellations, the actual project expenditures, and the actual number of people trained and hired. Project files which indicate more than a six-month project delay or a cancellation should be designated inactive and the project should be closed. Retention data should be collected from all companies for which training is conducted. Sending and receipt of retention data forms should be more closely monitored so that follow-up can be conducted with companies that have not returned forms.**

Industrial Call Program Needs Additional Procedures and Oversight. Industrial call program staff gather information about the experiences of existing industry in the State during on-site visits to manufacturing companies. This information is used by staff throughout the Division of Industrial Development to monitor business trends. Although this information is supposed to be maintained in industrial call program files, review of these files indicates deficiencies in the documentation procedures used in the program and in the scheduling of visits to companies. These problems indicate that additional administrative oversight of the program is necessary.

During the file review, the contents of 155 company files were examined. According to the program manager, each file should include an introductory letter to the company and the documentation following each visit. The introductory letter is from the agency director bearing greetings from the Governor and acknowledging the company's importance to Virginia. The letter also indicates that a representative of the department would like to meet a company official, tour the facility, and discuss any problems the industry may be having doing business in the State. The letter states that the representative will call shortly to schedule a visit. Documentation following this visit should include a visit report, which contains information on the industry with any problems the industry is experiencing noted, as well as a letter of appreciation for the visit. According to the program manager, the file should also contain notations of the resolution of these problems when they pertain to State agencies or regulations.

Three concerns related to file documentation and maintenance were found: many company files did not contain visit reports even though visits had been made, defunct and inactive company files were maintained as if they were active companies, and documentation of follow-up was inadequate (Table 13). Active companies are those which are operating in Virginia. File reviews also indicated a fourth concern

Table 13

Visit Status for Company Files Maintained as Active

Visit Status	Central Office	Abingdon Regional Office
No Visit Ever Made	26*	2
Most Recent Visit Prior to FY 1988	20**	8
Most Recent Visit During FY 1988	13	11
Report in file	7	11
No report in file	6	0
Most Recent Visit During FY 1989	30	10
Report in file	2	9
No report in file	28	1
Most Recent Visit During FY 1990	27	8
Report in file	1	8
No report in file	26	0
TOTAL FILES/REPORTS REVIEWED***	116	39

NOTE: Visit counted as having been made if letter of introduction contained in file, even though no other documentation available.

*Thirteen of these company files only contained information dated 1985 or earlier.

** Seven company files indicated visits had not been made since FY 1984 or earlier.

***Random sample of 155 files pulled from an approximate total of 2,500.

Source: JLARC review of DED industrial call program files in the DED central office (May 31, 1990) and in the Abingdon Regional Office (June 12, 1990).

related to standardization of reports. While the file maintenance problems in the Abingdon regional office were relatively minor, numerous problems were found in the central office — where in some cases the most recent visit reports had not been filed for more than two years. With a few exceptions, visit reports from December 1987 on were not in company files at the time the central office file review was conducted on May 31, 1990. However, more than 175 reports were found on the program director's desk waiting for his approval prior to filing and dissemination to division staff. Therefore, the information collected by the program was not readily available to DED staff if needed by them. In some instances, visit reports were not yet written.

According to the program director, central office staff often delayed writing reports after each visit for up to two months. Priority was given to scheduling and making more visits. However, this practice created a backlog of reports for review as well as deficiencies in file maintenance. In addition, the usefulness of the program in alerting DED staff to business trends was compromised because reports are not circulated in-house until filing occurs.

On August 21, 1990, subsequent to the JLARC file review, industrial call program staff implemented a new procedure for writing, approving, and filing visit reports. Reports must be written within 15 working days of each visit made. Review by the program director must be accomplished within another 15 working days. Reports will then be disseminated and filed. Transmittal dates are being tracked. A second abbreviated review of central office files in September confirmed that the backlog of reports previously found had been filed.

The review of central office files also revealed that most of the follow-up from visits consists simply of sending informational brochures, which is generally documented in the appreciation letters. However, in many cases, the files did not indicate whether or not more complex problems or needs identified during the visit were addressed by program staff. For these cases, it was not clear if there was a documentation problem or if follow-up had not been done.

The file review indicated that visits are generally scheduled within two weeks of sending the introduction letter to companies. The length of time between the sending of introduction letters and the scheduling of visits could not always be determined because of file documentation problems. However, there were seven confirmed instances over the past two years when the visit did not occur until one, two, or three months had passed. Workloads should be balanced and monitored to ensure that visits are generally made within two weeks of sending letters to companies.

The file review also revealed that there is a difference in the way central office and regional office staff write visit reports as well as in the information included in these reports. Within the central office, visit reports consist of descriptive narrative which typically focuses on the company's history, product, and plant layout. Valuable information about wages, employment levels, and company concerns may not be included or may be "hidden" within the report. The current process for writing and reviewing these reports is very time-consuming. Reports are dictated onto a tape which is transcribed by support staff; they are reviewed one or more times prior to being given to the program director for review.

In addition, central office visit reports generally do not include current company contact information such as addresses and telephone numbers. Current company contact information is not in company files either, but is on the most recent call list developed for each PDC — maintained in other files.

The Abingdon regional office visit reports follow a standardized format. Rather than writing a "new" report for each visit, information can be plugged into a standard form. This expedites the writing process and allows program staff to concentrate on other activities. In addition, each visit report clearly indicates the company's current address, telephone number, and appropriate contact person. Other items covered within each report include whether or not a plant tour was conducted, major suppliers, expansion plans, employment levels, wage rates, and follow-up to be done.

Recommendation (28): **The Department of Economic Development director should ensure that additional oversight is given to the industrial call program. This should help ensure that the industrial call program staff develop and use a standardized format for visit reports, such as the one currently used within the Abingdon regional office. Although the industrial call program has instituted a new operating procedure for report writing, dissemination, and filing, the agency director should also ensure that the program receives additional oversight. The sending of letters and scheduling of visits should be closely monitored to ensure that visits are made within a two- to three-week period. Follow-up appreciation letters should be sent within one to two weeks of each visit, at the same time the visit report is drafted. All visits and subsequent follow-up should be clearly documented in program files within two weeks of the visit. Company files which indicate plant closings or have had no activity or visits within the past five years should be removed from active status.**

Written Procedures Need to Be Established for the Industrial Development Marketing Section. The industrial development marketing section operates with very few written procedures for marketing managers to follow during negotiations between local officials and industrial prospects. According to the director of industrial development marketing, marketing managers are supposed to bring the local officials and prospects together so that they can conduct their negotiations. Industrial development marketing mangers are not to negotiate for either party but only facilitate the negotiations.

While the majority of the localities expressed satisfaction with the professionalism of the marketing managers during focus group interviews, economic development personnel in two localities voiced concerns about the procedures followed by the marketing managers.

Two local economic development personnel stated that several of the marketing managers had "overstepped their bounds" during the negotiation process. They stated that the marketing managers make promises such as free or reduced-price land to the industries. These were not the intentions of the localities. When the localities did not back these offers, the industries did not locate there.

The high level of autonomy given marketing managers coupled with the fact that the marketing section has added more than seven new staff since 1989 indicates the need for written procedures for marketing activities.

Recommendation (29): **The Department of Economic Development director should ensure that written procedures are developed for the industrial development marketing section. At a minimum these should fully establish the procedures to be utilized by the marketing staff during negotiations between industrial prospects and localities.**

<u>*Procedures for Communication Between Regional Offices and Marketing Staff Not Enforced.*</u> The 1987 DIT review noted concerns and made recommendations concerning the communication between the regional offices and industrial development marketing staff. In 1988, the director of the Division of Industrial Development developed a procedure to formalize the communication between the regional offices and the marketing program. This was necessary since the marketing managers were showing sites in areas covered by regional offices but were not informing the regional office staff. The procedure, as written, directs the marketing managers to notify the regional office directors when they bring prospects into the region.

However, the practice of the marketing managers does not appear to have changed with the formalization of the procedure. According to marketing managers and regional office directors, marketing managers only communicate with regional office directors when the marketing managers need information which they think the regional offices can supply.

Local economic development personnel appeared to be aware of internal problems, such as this, within the Department. As the following example indicates the department appears to local officials and local and regional economic development personnel as lacking cohesion.

A local official stated that he learned that a marketing manager had shown a prospect sites within his locality without informing him. The local official thought that the regional director was involved in the prospect visit. The local official called the regional office director to complain. The local official's call was the first indication that the regional office director had that another DED staff member had been in his region. The regional office director had to tell the local official that he knew nothing about the visit but would find out and get back to him.

Recommendation (30): **The Department of Economic Development Director should ensure that procedures which are developed to address communication deficiencies between the regional offices and industrial development marketing program staff are enforced.**

Communication

Agencywide communication is important to convey overall agency objectives and activities. While communication between agency upper management is formalized through monthly meetings and communication at this level does not appear problematic, communication at other levels within the agency does not appear to be fully developed. However, there have been recent efforts to improve communication within the Department.

Agencywide communication is limited at DED, and problems have resulted. During interviews, many staff indicated that they were unaware of the activities of the other division. In addition, communication at the division level does not seem to be fully established. The Division of Tourism holds monthly division-wide staff meetings, while the Division of Industrial Development does not. If these meetings were held, they would provide opportunities for information exchange on activities which impact programs throughout the Division. They would also ensure that staff receive the same information the same way.

In addition, communication between the two divisions' central office staff and those in the 15 domestic offices outside of Richmond appears problematic. Division of Industrial Development regional staff indicated during interviews that they provide information to the central office to enhance its programs but they receive little or no information in return. Several Division of Tourism staff noted a lack of communication regarding routine divisional activities. Many of these staff felt isolated from the central office.

> *The Division of Tourism develops a marketing plan each year. This plan is used to guide division activities throughout the year. It establishes work priorities for staff and program goals and objectives which staff are expected to meet. However, JLARC staff interviewed five Division of Tourism staff members working outside the central office, and found that none were aware of this annual plan even though it contains goals and objectives for their offices and establishes their work priorities. One tourism staff member even stated that the staff at the attractions and local representatives in her area know more about what is going on in the department than she does.*

* * *

> *Welcome center managers and sales office staff stated that they have contact with their central office supervisor about once a month. All*

five center managers interviewed stated that they are generally unaware of what is going on in the division and in the department. One stated that she had herself put on the mailing list for information from attractions in her area. While the central office receives information from attractions on a regular basis, this information does not appear to be shared with staff outside the central office.

The weakest communication linkages appear to be those between the two program divisions. This weakness contributes to the two divisions continuing to operate separately rather than as one agency. Approximately one-half of the 58 interviewed staff members stated that they knew little or nothing about the activities and programs in the other division.

The agency director has begun to hold agencywide staffing meetings as of March 1990. It is anticipated that these meetings will be held quarterly to update staff on administrative matters and to encourage communication between the staff of the two divisions.

Recommendation (31): **The Department of Economic Development director should take steps to strengthen departmental communication. At a minimum, division-wide staff meetings should be held regularly, formal communication procedures should be established, and formal communication linkages should be initiated where needed.**

Other Management Areas of Concern

Two other management practices were also identified as concerns. These two areas are DED's club memberships in three downtown Richmond clubs, and an excessive span of control for one tourism section director.

Club Memberships. DED uses State funds to maintain club memberships for five staff members at three downtown Richmond clubs. In addition, the department maintains club memberships for each of its three regional office managers located in Abingdon, South Boston, and Staunton.

The necessity for multiple memberships at one club is questionable. According to an April 1988 DED memorandum to the Assistant Comptroller, the memberships "are not intended to serve as perqs for agency staff. They are intended solely to give us the ability to entertain and negotiate with prospects in privacy in an appropriate environment." Therefore it appears that agency accountability could be better maintained by holding club memberships in the director's name, rather than in the names of individual staff members.

The need for appropriate settings for prospect negotiations is not questioned. However, the need for five memberships at three different downtown Richmond clubs is questionable. According to the agency director the clubs are used quite often and the use is not restricted to the individuals listed as members. Dining privileges can be used by other staff members when they are entertaining prospects.

Recommendation (32): **The Department of Economic Development director should evaluate the need for multiple club memberships in three different downtown Richmond clubs. In addition, all club memberships should be maintained in the name of the Director of the Department of Economic Development.**

Span of Control. Span of control refers to the number of staff supervised by one manager. One DED section director, the tourism sales director, was identified as having an excessive span of control which has resulted in communication and supervision problems.

This position currently supervises the ten welcome center directors. If the welcome centers remain open and are a program administered by DED, reassignment of one staff position to this section would correct the problem. However, if the welcome center staff and activities are no longer part of DED, the reassignment would not be necessary. The section director and this staff position would both have acceptable spans of control.

The tourism sales section director's span of control is currently 14 staff, 11 of whom are not located in Richmond. These 14 positions implement a wide variety of programs and perform multiple tasks. The American Management Association (AMA) has established six to ten staff as an accepted span of control for supervision of individuals performing multiple tasks.

The section's staff located outside the central office indicated that a lack of supervision and communication with the director was a problem. The director typically visits the welcome centers once each year. These visits coincide with the annual performance evaluations of the welcome center managers.

If the welcome centers remain in DED, this span of control problem could be corrected by the reallocation of one staff position. Interviews and review of the position description for one Tourism staff position, a tourism marketing supervisor, indicate that this position should also report to the sales section director. While this position is currently assigned to the tourism community development section, the position is responsible for few community development program activities. In fact, the position's duties are more in line with the sales section's activities. Over 30 percent of the position's time is spent on welcome center activities including brochure approval, training programs, and newsletters.

Recommendation (33): **The Department of Economic Development director should relocate the tourism marketing supervisor position currently in the tourism community development section to the tourism sales section to supervise the welcome centers. However, if welcome centers are no longer administered by DED, the tourism marketing supervisor should be assigned additional community development duties.**

V. Economic Development Policy

The Commonwealth does not have a comprehensive written policy to direct and provide a focus for its extensive and diverse economic development efforts. The complex nature of economic development, as illustrated through the information in previous chapters of this report, makes such a policy statement a necessity.

In general, Virginia's economic development efforts appear to be directed toward appropriate ends. However, some problems are evident which can be addressed in the future if a meaningful policy, based on thorough assessment of Virginia's needs, is created. For example, workforce quality is frequently mentioned as a problem in many areas of the State. However, adequate attention does not appear to be focused on this problem. A comprehensive policy, based on a thorough assessment of the different economic development needs of the State, would help place this problem in context and ensure that it receives an appropriate amount of attention.

For the State to establish a meaningful policy, a policy development process must first be developed. Three essential elements are necessary to support such a process. The first element is essentially in place, while the second and third need to be developed.

First, an entity must be clearly designated and assigned responsibility for policy development and oversight. Second, reliable information must be available upon which to base policy decisions. Third, a policy development process must be formally articulated and implemented. This process would ensure that the economic development needs of the Commonwealth are regularly and systematically assessed, and that essential information is routinely communicated to the Governor and the General Assembly to guide funding and program decisions.

The policy statement that is generated from the process should address or incorporate several notions. For example, the policy of the Commonwealth should have a comprehensive focus, which includes all appropriate secretarial areas of State government. It should also address long-term concerns, and should reflect the needs of the Commonwealth as identified through various assessments. Examples of concerns or needs identified through the course of this study include workforce training, underemployment of the workforce in various regions of the State, and economic development problems experienced by urban areas.

THE NEED FOR A FORMAL ECONOMIC DEVELOPMENT POLICY

Virginia does not have a formal policy for economic development. Instead, numerous piecemeal statements exist, most with a limited program focus. These statements are set out in written documents, through program goal statements, and in oral statements of policy.

A broad descriptive statement of the Commonwealth's economic development activities can be pieced together by assessing these sources. However, the resulting description would not constitute a policy, but simply a description of Virginia's efforts.

A policy, in comparison, would serve as a framework within which the range of economic development programs would operate. The policy should be articulated to address the long-term needs of the Commonwealth, provide broad guidance as to how those needs are to be met, and be updated as necessary to reflect changes in needs. And, because it should be based on a systematic assessment of needs, it can be used as the standard against which new program proposals can be assessed and priorities set.

Without such a policy, the State is addressing many of its economic development needs in a disjointed fashion. As a result, State resources are not being used as effectively as they could be if they were allocated on the basis of a comprehensive analysis of State needs. Further, the State is not adequately addressing several of the more complex issues, such as workforce quality, which affect economic development.

Piecemeal Statements Do Not Provide Adequate Policy Guidance

The Secretary of Economic Development has orally defined the State's economic development policy as "to increase the number of quality job opportunities for Virginians and to increase the tax base." This statement reflects the mission of one agency within the secretariat — the Department of Economic Development (DED). As such, this policy statement may be sufficient to lend some general direction to marketing activities. However, it falls short of addressing the missions of other agencies within and outside the secretariat. Further, it does not provide direction for the other non-marketing aspects of economic development, such as development and retention of the labor force, retention of existing industry and business, improvement of quality of life, and infrastructure development.

A variety of written documents also help define and describe the State's economic development activities. Analysis of agency mission statements reveals the variety of agency orientations within the Economic Development Secretariat (Exhibit 20).

The missions of the agencies appear appropriate and appear to be related to economic development objectives. However, each mission statement specifically relates to the functions and responsibilities of an individual agency. There is no unifying and comprehensive policy statement available to which these mission statements can be compared. Such a statement is necessary to assess if needs are not being recognized and are "falling through the cracks," or if program priorities appear to be out of alignment with the needs of the State.

Exhibit 20

Examples of Written Policy Statements Reflected in Mission Statements of Agencies Within the Secretariat of Economic Development

Agency	Mission Statement
Department of Agriculture and Consumer Services	Promote the broad economic development of Virginia's Agriculture industry and the welfare of all consumers in the use of goods and services
Department of Commerce	Protect the public health, safety, or welfare through the enforcement of standards of conduct and practice in business and the professions in conformance with the Governor's program for balanced regulations
Department of Economic Development	Encourage, stimulate, and support the economic development of the Commonwealth by implementing an annual travel and tourism marketing campaign designed to heighten awareness of Virginia as a major tourism destination and maintaining and promoting an attractive business which will assist the expansion of the economy of Virginia
Department of Forestry	Conserve, develop, promote, and protect the forest resources of the Commonwealth
Department of Housing and Community Development	Provide research and analysis on community and economic activities; administer grants and loans to finance community and economic development; enhance the quality of an individuals' and community life by promoting suitable safe housing, healthy and economically viable communities; providing community services assistance, policy analysis and research in the fields of community planning and management, housing and economic development; and providing for building and fire safety regulations
Department of Labor and Industry	Provide for the safety, health, and welfare of employees in both the private and public sectors
Department of Mines, Minerals, and Energy	Enhance the development and conservation of energy and resources in a safe and environmentally sound manner in order to support a more productive economy in Virginia
Department of Minority Business Enterprise	Increase business development assistance for minority entrepreneurs through the initiation of new programs; and encourage, enlist and institute greater minority utilization in our free enterprise system by developing, coordinating, and utilizing the resources of State government
Department of World Trade	Strengthen the export environment for Virginia products and services
Milk Commission	Assure the inhabitants of the Commonwealth a constant supply of pure wholesome milk
Virginia Commission for the Arts	Support and stimulate excellence in the arts for all people in Virginia
Virginia Employment Commission	Assist all members of the labor force to become gainfully and productively employed, contributing and/or participating to their optimum potential with minimum dependency on government
Virginia Port Authority	Foster and stimulate shipment of waterborne commerce through Virginia's ports through promotion, development, construction, maintenance, and operation of harbors, seaports and terminal facilities within the state; increase the maritime commerce, both foreign and domestic through the ports; and protect, promote, maintain, and further develop Virginia ports
Virginia Racing Commission	Control, promote the horse industry and regulate and control horse racing and pari-mutual wagering in the Commonwealth

Source: JLARC analysis of the 1988-90 Executive Budget of the Commonwealth of Virginia and the 1990-92 Executive Budget of the Commonwealth of Virginia.

Other written documents which contain statements of economic development policies include budget documents, brief policy directives specified within the *Code of Virginia*, and goal and objective statements which are available for some programs (Exhibit 21). While the most comprehensive policy statements are found in budget documents, these statements change each biennium. Further, they appear to be summations of past initiatives and do not provide a future focus for economic development.

Brief policy directives contained in the *Code of Virginia* typically relate to specific programs established by the legislature and are necessary for program administration. However, they cannot take the place of a broader coordinative policy statement, and in fact they should be coordinated within the State's broader statement of policy.

Description of Economic Development Efforts

Although numerous economic development programs have been described and critiqued in previous chapters of this report, it is helpful to summarize and describe Virginia's efforts for this discussion of policy. This summary statement indicates the "complexity" of economic development and illustrates why a policy is needed.

An assessment of the objectives for programs currently administered indicates that Virginia primarily takes two approaches to economic development: addressing needs within the State to strengthen Virginia's competitive advantages, and marketing the State's strengths (Exhibit 22). However, primary emphasis in terms of total funding and total number of programs is given to addressing needs.

Four types of programs address State needs: community assistance, business assistance, financial assistance, and regulatory. A total of $554.6 million was spent during FY 1990 on 136 programs in this area.

Other programs focus on marketing the State's strengths. During FY 1990, the State directed 95 programs at a cost of $49.5 million in this area. Direct product promotion, import/export promotion, business attraction, tourism promotion programs and research and development programs typically support the marketing of certain products of the State or certain geographic features or attractions.

Shortcomings Evident Under the Current Piecemeal Process

Overall, the general orientation of the State's economic development activities appears appropriate. By addressing needs, the State increases its competitive advantages by making Virginia more attractive to industry and by making localities better able to promote indigenous economic growth. By marketing strengths, Virginia has capitalized on its natural assets to attract new investment. Further, the State has

Exhibit 21

Examples of Written Economic Development Policy Statements Contained Within Budget Documents, Statute, and Program Goals

Subject	Written Policy Statement
BUDGET DOCUMENTS	
Executive Budget Recommendations 1988-1990 Biennium	"In recent years, the focus of state economic development programs has shifted from a primary reliance on domestic industrial recruitment to a broader perspective with more reliance on: growth and development of existing industries; international firms and markets; assistance to small, developing businesses; and upgrading the labor force through industrial training."
Executive Budget Recommendations 1990-1992 Biennium	"Virginia's strategy for economic development during the 1980s focused primarily on four major areas: taking advantage of our resources, pursuing international markets, reducing economic disparities, and addressing reduced federal spending."
POLICY DIRECTIVES IN STATUTE	
Rural Virginia Development Foundation	"The General Assembly finds that there exists a need for diversified economic opportunity in many rural areas of the Commonwealth. Many rural communities face poor economic conditions manifested by high unemployment, under-employment and low farm income. Such problems can be alleviated by small businesses. Creation of a Rural Virginia Development Foundation is within the public interest to promote small industry, improve management development and labor productivity, and to identify, encourage, and coordinate new approaches to economic development in rural communities of the Commonwealth."
Chesapeake Bay Preservation Act	Healthy state and local economies and a healthy Chesapeake Bay are integrally related; balanced economic development and water quality protection are not mutually exclusive.
Industrial Development Authorities	"It is the intent of the legislature by the passage of this chapter to authorize the creation of industrial development authorities by the several municipalities in this Commonwealth so that such authorities may acquire, own, lease, and dispose of properties to the end that such authorities may be able to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises and institutions to locate in or remain in this Commonwealth and further the use of its agricultural products and natural resources....."
Virginia Coalfield Economic Development Authority	"The economy of Southwest Virginia has not kept pace with that of the rest of the Commonwealth. The economic problems of Southwest Virginia are due in large part to its present inability to diversify. The Southwest has suffered, and continues to suffer, widespread unemployment in great disproportion to the rest of the Commonwealth. The Virginia Coalfield Economic Development Authority will assist the seven county and one city coal producing areas of the Commonwealth to achieve some degree of economic stability."
Enterprise Zone Act	"It is hereby declared that the health, safety and welfare of the Commonwealth of Virginia are dependent upon the continual encouragement, development, growth, and expansion of the private sector within the Commonwealth and that there are certain areas in the Commonwealth that need the particular attention of government to help attract private sector investment. Therefore, it is the purpose of this Act to stimulate business and industrial growth in such areas which would result in neighborhood revitalization of such areas of the Commonwealth by means of regulatory flexibility and tax incentives."
PROGRAM GOALS	
Forest Management Program Objectives	"The goals of the Forest Management Program are (1) to achieve annual pine reforestation of 114,000 acres by 1990; (2) to identify all local pine tracks requiring thinning by 1990; (3) to encourage pine thinnings on all stands by age 18 to 22; (4) to develop vendors to carry out recommended management practices, and (5) to test and evaluate herbicides for pine silviculture.
Tourism Sales and Promotion Program Objectives	The goals of the Tourism Sales and Promotion Program are (1) to maintain market share above 3 percent of the North American motorcoach market in traditional and new markets as determined by the National Tour Association's economic analysis by June 30, 1990; (2) to increase Canadian visitors to Virginia by 3 percent through targeted marketing efforts by June 30, 1990; (3) to increase travel agents' awareness of Virginia as a vacation destination and generate 5 percent more agent inquiries by June 30, 1990; (4) to provide assistance and information to visitors at state welcome centers on an on-going basis and maintain the success rate of increasing length of stay of 11 percent of visitors counseled; and (5) to increase by 5 percent the number of contacts made with consumers, groups, and trade through sales offices in New York, Washington, and Richmond by June 30, 1990.

Source: *Virginia — Leading the Way; The Challenge of Growth; Code of Virginia* §§3.1-27.38, 10.1-2100, 15.1-1375, 15.1-1636, and 59.1-272; Department of Forestry Strategic Plan, 1985 - 1990; and the Department of Economic Development Division of Tourism 1989 Marketing Plan.

Exhibit 22

State Program Emphases by Type of Program Administered During FY 1990

Type of Program Administered	Primary Objective	Number of Programs	Funding Level	
			State	Total
Business Assistance	Needs	91	$ 12,315,869	$ 17,276,597
Business Attraction	Strengths	10	3,588,529	3,588,529
Community Assistance	Needs	32	308,231,814	509,404,324
Direct Product Promotion	Strengths	20	3,446,506	4,403,382
Financial Assistance	Needs	12	20,285,528	27,331,433
Import/Export Promotion	Strengths	15	6,435,164	6,708,014
Regulatory	Needs	1	0	639,940
Research and Development	Strengths	24	3,435,031	19,764,556
Tourism Promotion	Strengths	26	14,439,759	15,008,561

Note: The funding level for transportation infrastructure development programs (community assistance) represents approximately 78 percent of all State funding for programs. If these transportation programs are excluded, the number of community assistance programs administered is 22. State funding drops to $15,641,079 with total funding of $38,278,667. This would change the relative emphasis of State funding on a per-program basis so that business attraction, import/export promotion and tourism promotion would also have funding levels which approximate or exceed the average for all State programs administered.

Source: JLARC Mail Survey of State Government Entities, May 1990, and in-person interviews with program staff.

initiated activities which enable it to carry out an appropriate role — that of catalyst for private economic development efforts.

As a result of the State's efforts having been conducted in a piecemeal fashion without a comprehensive or coordinated policy, the needs of the State do not appear to be addressed as efficiently and effectively as possible. Current State efforts are narrowly focused on the needs of a subset of areas. Other complex issues affecting economic development are not being adequately addressed. Further, because programs are not coordinated, certain programs may be duplicative, overlapping, or in conflict with other programs.

Current Approach Is Too Narrowly Focused. The State is not directing its efforts based on a comprehensive picture of the economic climate and needs within the State. Program efforts are therefore often directed only to a subset of geographic areas and a subset of needs.

For example, local officials and economic development personnel stated in focus group interviews in the Northern Virginia, Hampton Roads, and Richmond areas that the State only seems to be addressing the needs of the rural localities in the majority of its efforts. They stated that State programs and initiatives do not fit the specific development needs of their urban localities. The review of economic development programs supports these comments. While urban development needs are acknowledged, little has been done through State efforts to address those needs. The two following examples further illustrate this point.

> *During fiscal year 1990, approximately $233.4 million was targeted for rural development. In contrast to this emphasis on rural development, the State appropriated only $1.9 million specifically for urban area programs, during this same time period.*

* * *

> *Certain on-going programs, such as DED's community certification program, are designed to help areas attract manufacturing industry. As such, these programs are more appropriate for larger rural areas. According to information obtained in focus group interviews, these programs do not meet the needs of urban and some smaller rural localities, such as those in Northern Virginia, Hampton/Tidewater, Richmond, and the Northern Neck. These areas are not able to support the types of industries the State is attempting to attract.*

Current Approach Does Not Address Long-Term Needs of the State. Under the current approach to economic development, several economic needs of the State are not being adequately addressed. For example, the State needs to address the issue of workforce quality for both the current workforce and the workforce of the future. Workforce quality was cited as a very important factor in a location decision by 87 percent of the industries responding to the JLARC survey of industrial prospects. The State has not articulated a long-term approach or policy concerning this issue, and some of its current programs or approaches may actually be hindering rather than enhancing workforce quality.

Current business attraction programs focus on getting industries to locate in the State, even though certain of these industries may be contributing to underemployment problems within several regions of Virginia. Underemployment is characterized by relatively skilled or educated individuals working in jobs which pay relatively low wages. It appears that the State is providing services to many industries paying wages in the range of $3.35 to $6.50 an hour. For example,

> *Interviews with DED marketing managers indicated that while DED does not actively recruit some types of low-paying industry, such as garment makers or "cut and sew" operations, marketing managers will provide services to these types of industries when contacted by them. DED's director of industrial development marketing stated that marketing managers attempt to dissuade the low-paying industries from locating by informing them that they will have trouble recruiting and maintaining workers.*
>
> *However, DED also provides industrial training services to "cut and sew" operations and other low-paying industries. In FY 1990, nearly 17 percent of the 6,786 individuals who were trained and hired through DED's industrial training program were for "cut and sews," which paid on average starting wages of $4.19 per hour. Assuming a standard work year of 2,080 hours, these individuals would earn annual wages of $8,715.*
>
> *Low wages are not limited to the garment or apparel industry, however. Approximately 60 percent of the 6,786 individuals hired by all types of industries earned starting wages of $6.50 or less per hour. Further, more than 22 percent of these DED-trained workers earned starting wages of $5.00 or less per hour. Again assuming a standard work year of 2,080 hours, these workers would earn annual wages of $13,520 and $10,400 or less, respectively.*
>
> *The JLARC survey of companies which received training assistance collected information on starting wages and wages paid as of July 1, 1990, for those employees trained through the program. The survey revealed that 13 of the 20 companies responding paid starting wages of $6.00 an hour or less. Four companies reported that employees were paid on average $3.49 an hour to start. After two or more years on the job, these same employees were paid on average $4.73 an hour, an increase of $0.79. Seven companies reported paying, on average, starting wages of $4.95 an hour. After employees had been on the job between one and two years, they were paid on average $5.71 an hour, an increase of $0.76. One company reported that, slightly more than*

one year after training was completed, none of the approximately 200 trainees were still with the company. Training for the other company had not been completed for a full year; therefore, wage increases were not meaningful.

The problem of underemployment was raised as a concern in 16 of the 18 focus group interviews held throughout the State. Local officials and economic development personnel expressed concerns about the quality of the industries that the State is helping locate in their areas, and the quality of the jobs provided.

Underemployment is a problem in itself, but can also hinder enhancement of workforce quality. Underemployment of the current workforce, while providing jobs, does nothing to help further the skill level of the workforce.

The issue of workforce quality is not one that can be addressed solely by programs administered by DED. The marketing and training programs conducted by DED largely reflect, rather than control, workforce quality. This issue needs to be addressed with a long-term comprehensive policy and a specific strategy which combine the efforts of elementary and secondary education, vocational education, higher education, workforce training, Job Training Partnership Act programs, and other programs which are not typically considered economic development. These programs need to be coordinated with DED marketing and training efforts to ensure that the State is attracting the highest quality industries it can for the present, and that comprehensive efforts are made to develop the highest quality workforce for the future.

<u>*Economic Development Initiatives Not Coordinated Under Current Approach.*</u> Although the responsibility for establishing economic development policy structurally rests with the Secretary of Economic Development, actual economic development activities are influenced by the interplay of the six secretariats under which economic development programs are administered. This has resulted in non-coordination of efforts and duplication among programs. The 72 State entities currently conducting economic development programs do so without overall formalized direction and coordination. Lack of coordination can and has resulted in the administration of programs with overlapping goals and objectives. For example,

Two State programs appear to provide similar services to small businesses, although each program has a unique set of objectives. The small business development centers funded through DED were designed to provide general information and counseling to small business owners. The technology transfer program, jointly administered by the Center for Innovative Technology and the Virginia Community College System (VCCS), was designed to assist businesses in implementing advanced technology which will improve the economic viability of the business. However, the program assessment revealed that approximately one-half of all technology transfer clients were served for non-technological problems similar to those handled at small business development centers.

* * *

The Department of Economic Development has an industrial development office in Northern Virginia and has assigned a marketing manager the task of promoting Virginia — particularly Southwest Virginia — to Northern Virginia businesses which are considering expansions of their current operations, not relocations. This marketing manager also promotes Southwest Virginia to businesses within Maryland and the District of Columbia that are considering relocating their operations.

George Mason University administers a similar program, "economic bridges." According to the director, the program assists Northern Virginia businesses in either expanding or moving portions of their current operations to Southwest Virginia. During FY 1990, $129,000 in State funds were used to administer the program. Since the objectives of the economic bridges program appear to duplicate the objectives of the DED marketing program, State resources dedicated to the economic bridges program may not have been put to their most efficient use.

In addition to State entities which administer economic development programs, more than 500 regional and local groups administer economic development programs. However, there currently is no means of coordinating the efforts of all parties involved in economic development — at the local, regional, and State levels. Further, the local goals and economic abilities to support certain State efforts are often not recognized in the State's policies for economic development. For example,

Focus group interview participants in the Northern Neck stated that their area is not suited to, nor does the area want, the large manufacturing industries which the State tries to attract. Therefore, participants in the area stated that the opportunities presented them by the State to help their economy diversify were limited.

Other focus group interview participants indicated that, although their localities feel they have tourism potential, they have been told by the State that they do not have marketable sites. While the areas represented by these participants do not have large attractions which the State itself would promote in its tourism advertising, they do have outdoor recreation opportunities as well as smaller attractions. Efforts to assist communities in marketing themselves for intra-state visitation have been extremely limited, however. The State has done very little to help these types of localities help themselves.

Coordination is also lacking between the State entities which administer economic development programs and those which promulgate environmental regulations which affect economic development. Further, the State has not developed a systematic mechanism whereby the projected impact of one on the other is considered prior to enactment of regulations or new economic programs. Consequently, certain regulations may have unintended effects on the State's economic development, and vice versa. For example,

> *During focus group interviews held throughout the State, several local officials and economic development personnel voiced concerns about the economic impact of regulations such as the Chesapeake Bay Preservation Act. According to participants, these regulations could have potentially adverse effects on industry location and retention in areas around the Bay.*
>
> *The Chesapeake Bay Preservation Act affects 48 cities and counties in the State. The Act requires that all new buildings, regardless of size, pass stringent tests to determine their effects on water quality in the Bay. It is anticipated that the Act will prohibit the development of many hundreds of acres of property. Further, the testing process will require additional time and expense for developers. As such, the impact of this Act on economic development will probably be substantial. However, according to interviews with DED staff and the Secretary of Economic Development, they were not asked to provide input on the perceived economic impact of the Act prior to its enactment.*

COMPONENTS OF A COMPREHENSIVE AND COORDINATED ECONOMIC DEVELOPMENT POLICY

As indicated by the duplication, lack of coordination, and other problems currently experienced with State economic development programs, a comprehensive, meaningful policy should be developed to coordinate and guide Virginia's economic development efforts. This policy would define the State's overall philosophy and direction for economic development. It would also help avoid the types of problems and shortcomings described in the previous section.

Due to the complexity of economic development in Virginia, the State's policy should be a written one, which addresses Virginia's general orientation to economic development. While some of the issues to be included in the policy statement represent current decisions which need only formal articulation, approaches to other issue areas need to be developed.

Policy Format

The policy statements which currently exist vary in format and content. Statements can vary from orally conveyed single sentences to complex lengthy manuals outlining intentions and guidelines in minute detail. A good policy statement, however, is one which most closely meets the needs of the entities that will have to work with the policy.

Because Virginia's economic development effort is fairly complex and needs to be communicated to many participants and interested parties, Virginia's policy should be communicated in a written form. The policy should clearly describe the State's philosophy, objectives, and priorities for economic development.

The policy should be supplemented by appropriate companion documents, such as plans, strategy statements, and program guidelines, to ensure that Virginia's approach to economic development is not conducted in a piecemeal fashion. These documents should help the Secretary of Economic Development ensure that:

- the State's highest priorities are met;
- duplication, overlap, and other inefficiencies are eliminated;
- the efforts of public and private entities conducting economic development activities within localities and regions are considered during the policy development process; and
- decision-makers and others with an interest in economic development have a consistent and accurate source of information concerning State efforts.

General Concepts for Inclusion in Virginia's Policy

The program assessments, climate analysis, focus group interviews, and other research activities conducted during this study point to the need for consideration of a number of general guiding principles or concepts in developing Virginia's policy. These general concepts would reflect Virginia's orientation to economic development. They would also help ensure that Virginia's needs are addressed through program and funding decisions.

First and foremost, Virginia's policy should have a broad, comprehensive focus. To maximize its efforts, the State must take into consideration the full range of Virginia's economic development needs, strengths, and programs. The policy should not be bound by the parameters of the Economic Development Secretariat, but should address economic development concerns across secretariats.

Second, the policy should be focused on long-term solutions as well as short-term initiatives. Care should be taken through the policy development process to ensure that short-term initiatives are coordinated with, and support, desired long-term outcomes.

Third, the policy should reflect Virginia's intention to consciously guide and direct its economic future. In other words, the policy should move the State toward planning for, and aggressively pursuing opportunities for, growth which allows Virginia to capitalize on its current assets, while enhancing its future.

Fourth, the policy should encourage cooperation, coordination, and communication. The policy should be clearly written and contain sufficient detail to enable all interested parties to understand the State's orientation and intended actions regarding economic development. This clarity and detail will enable specific disputed points to be identified, debated, and resolved before — rather than after — program implementation.

Program Components For Inclusion In Virginia's Policy

The evaluations and analyses conducted for this study also identified a number of specific program-related issues that should be considered during the policy development process. Many of these issues were articulated throughout the State in focus group interviews (Exhibit 23).

Some of these issues represent current policy decisions that should be formally articulated. Other issues represent deficiencies in Virginia's current approach which need to be formally considered. Issues which should be included in the policy statement are financial incentives, workforce quality and underemployment, agriculture, urban concerns, international trade, regulation and quality of life, and military concerns.

Financial Incentives. Virginia's current approach to economic development is primarily to address deficiencies and needs within Virginia's communities, and to market Virginia's strengths. Under this approach, Virginia has traditionally avoided direct financial incentives to companies to entice them to locate in Virginia.

Virginia's one financial incentive is the industrial training program. Although the program reimburses qualified companies for the cost of training provided to employees, at the same time it provides skills training to citizens of the Commonwealth. The program therefore provides a direct benefit to Virginia's workforce.

The avoidance of direct financial incentives appears to have been a wise decision on the part of Virginia decision-makers. Other states have used these incentives with varying success. Two national studies recently published stated that surveys of industries have indicated that financial incentives are not important to location decisions. Further, some states such as Pennsylvania have made large financial incentives available to industries to get them to locate only to have the industries leave in a short time. The state then has nothing to show for its financial investment.

Workforce Quality and Underemployment. Workforce quality and the related issue of underemployment are not being adequately addressed through current programs. Examples used throughout this report indicate the need to fully integrate education initiatives, training programs, and marketing efforts to ensure that Virginia is attracting the highest quality industry and producing the highest quality workforce for

Exhibit 23
Most Frequently Cited Issues During Focus Group Interviews

ISSUES RAISED BY FOCUS GROUPS	Focus Group Number*								
	1	2	3	4	5	6	7	8	9
DED Management									
Communication With Local and Regional Groups Could Be Improved			●	●		●	●	●	
Much Improved Under Current Director	●	●	●				●		
DED Programs									
Industrial Development Marketing Program									
• Industrial manufacturing focus not applicable to all areas	●		●	●	●	●		●	●
• Marketing managers do not know the State and its localities		●	●	●	●	●	●		●
• Does not market entire State, only easiest "sells"	●	●		●	●			●	●
• Elimination of State industrial advertising will hurt local efforts	●		●				●		
• Need to attract higher paying companies		●	●						
• Program is better now than it has been			●						●
Industrial Training Program									
• Important since it is State's only incentive		●	●	●		●	●	●	
Community Certification Program									
• Program helpful to communitites			●	●	●		●	●	●
• Limited in types of communities which can participate	●	●			●	●	●	●	
• Communities which are not participating need services also	●	●			●	●			
Small Business Programs									
• Technical assistance services lacking	●	●	●	●	●	●		●	●
• Financing programs not providing type and size of loans needed		●	●			●		●	
Industrial Call Progam									
• Need technical assistance for local and regional efforts		●		●		●		●	●
• Program needs more emphasis at State level		●		●		●			●
Tourism Promotion Program									
• Brand name advertising should not be used	●	●	●	●				●	
• State technical assistance services limited to few areas		●	●			●		●	
• Program is excellent					●		●		●
• Accountability of ROI questionable	●	●							
• Problems with attitude of staff			●	●					

Exhibit 23 (Continued)

ISSUES RAISED BY FOCUS GROUPS	Focus Group Number* 1	2	3	4	5	6	7	8	9
State Policy									
Limitations of current approach									
• Needs to address workforce quality and underemployment	●	●	●	●		●	●	●	●
• Does not provide for coordination of State programs	●	●		●	●	●	●	●	●
• Needs to address importance of education to economic development	●	●	●		●	●	●	●	
• Limited to rural areas	●				●		●		
• Needs to recognize the importance of agriculture to economic development				●		●			●
• Growth management policy is needed					●	●			●
• Not addressing effects of potential cutbacks in military					●		●		
Economic development and regulation									
• State needs to develop a water policy		●				●	●		
• Chesapeake Bay Act may impact economic development						●	●		●
• Non-tidal wetlands regulation may impact economic development		●					●		●
• State needs to consider one-stop permitting for air, water, and other regulations		●	●						
• Regulation and economic development need to be balanced	●	●							
Need for coordination									
• Need coordination between VDOT and DED		●	●	●	●	●			●

*** Key to Focus Groups**

Focus Group	Planning District Commission(s)
1	15
2	13, 14, 19
3	5, 11, 12
4	6, 7, 9, 10
5	8
6	16, 17, 18
7	20, 21
8	1, 2, 3, 4
9	22

Note: Each focus group listed represents two group interviews held with participants from the listed PDCs, except in group 9 where one group interview was held, and group 4 where three group interviews were held.

Source: JLARC analysis of focus group interviews, May and June 1990.

the future. The administration has initiated a program, "Workforce 2000: A Partnership for Excellence," which intends to examine workforce issues in the business community and in the economic development and education secretariats. However, due to the complexity of this area and the number of program efforts which need to be addressed, additional inter-secretariat efforts are needed to fully address the issue.

Agriculture. The current oral policy as articulated by the Secretary of Economic Development does not address the role of agriculture in the State's economic development. The policy needs to address the relationship of agricultural diversification and product promotion to the State's economic development efforts.

Urban Economic Development. The State's current focus on rural initiatives and industrial manufacturing are not appropriate to urban areas. Many of the State's larger cities are experiencing problems due to out-migration of citizens to suburbs, large numbers of vacant buildings, and large numbers of office spaces which are not filled. Urban economic development should be recognized in the State economic development policy and more fully addressed through programs such as DED's marketing efforts.

International Trade. During the previous administration international trade was a priority. The priority given to international trade efforts under the current administration is not yet clear. Further, the focus of the State's international trade activities needs to be determined, as does the importance of international trade to economic development.

Military Concerns. Currently the State is not addressing the potential effect of the U.S. Department of Defense proposed 25 percent cut-back in its military forces. While the "back-log" of projects at some of Virginia's defense contractors may not be affected during these cutbacks, it is reasonable to assume that some of the 174,600 military personnel assigned to Virginia will be affected. Although it may be too early to initiate programs in this area, thought needs to be given to the approach Virginia will use so that the changes in the configuration of the military are an asset and not a detriment to the State's economy. Appendix C contains a more detailed discussion of the effects of possible military cutbacks.

Regulation and Quality of Life. The State policy needs to articulate the relationship of regulation to economic development. Currently, regulation issues are usually determined on a case-by-case basis at the local level. Regulatory concerns should be addressed at the State level to help ensure that unintended effects of regulation on economic development, and vice versa, do not occur.

Conclusion

The concepts and components briefly discussed above serve only as a starting point for identifying and assessing Virginia's economic development needs and for addressing these needs through policy. Many needs are currently addressed by programs, and should also be addressed in policy. As a more systematic policy development process is undertaken, it is likely that numerous other issue areas warranting policy attention will become evident.

MECHANISM FOR DEVELOPING A COMPREHENSIVE AND COORDINATED ECONOMIC DEVELOPMENT POLICY FOR VIRGINIA

To enable the State to develop a meaningful economic development policy, a policy development mechanism or process should be established. As previously discussed, three primary elements or procedures are necessary to support this process: (1) a designated entity which is formally responsible for developing and overseeing a comprehensive and coordinated policy, (2) an institutionalized process through which policy can be developed and modified, and (3) reliable information upon which to base policy decisions. The first element is in place, while the second and third need to be established.

Responsible Entity

An appropriate State entity is already designated with responsibility for economic development policy. Section 2.1-51.39.4 of the *Code of Virginia* empowers the Secretary of Economic Development to "direct the development of goals, objectives, policies and plans that are necessary for the effective and efficient operation of government."

The Secretary of Economic Development position has had authority to develop a comprehensive policy since the position was created in 1986. However, this authority does not appear to have been fully exercised. The previous two secretaries did not develop formal, written policies, but instead orally stated their policies for economic development.

The current secretary has no formal policy at this time, but is in the process of developing an economic development plan for Virginia. At this point, it appears that the primary focus of the plan will be rural development. The plan is not scheduled to be released until June 1991. It is therefore not possible to assess its adequacy at this time.

It is essential that the Secretary of Economic Development exercise full authority in the policy area. As alluded to and stated several times in this report, economic development is a complex area. This complexity, coupled with a lack of strong, comprehensive policy coordination and guidance, has resulted in some problems with economic development efforts. The Secretary should therefore have as his or her primary responsibility ensuring that Virginia has an economic development policy, and that the policy is appropriate.

Recommendation (34). **The Secretary of Economic Development should develop a formal written comprehensive policy to guide the State's economic development efforts. This policy should be a written document, which may be accompanied by companion plans or statements, which is comprehensive, focuses on long-term solutions, defines a proactive role for the State, and encourages communication and cooperation among the secretariats and with local and regional groups. Since the policy will focus on long-term solutions, the scope of the policy should be designed to extend beyond a single administration. The initial policy statement should address areas which currently appear not to be adequately addressed, including workforce quality and underemployment, agriculture, international trade, urban economic development, and military concerns.**

Recommendation (35). **Each Governor should ensure that the Secretary of Economic Development develops a comprehensive economic development policy for the State during the first year of the Governor's term in office. During each Secretary of Economic Development's first year, the previous policy should either be formally incorporated, amended, or rejected. The policy should then be submitted to the General Assembly.**

Mechanism for Developing A Comprehensive, Coordinated Economic Development Policy

A routine mechanism or process should be established to ensure that the State's economic development policy is developed, and that the policy is modified on an as-needed basis. The Secretary of Economic Development already has clearly established authority for policy. Because of the broad nature of economic development, however, a cabinet-level committee should be created to assist the Secretary in developing and overseeing the State's comprehensive economic development policy.

Creation of the Committee. The Governor should issue an executive order creating a cabinet-level committee to assist the Secretary of Economic Development in the development of the economic development policy. Each subsequent Governor should issue a similar order to ensure that the policy development and oversight process continues.

The Secretary of Economic Development should chair the committee. Because of their involvement in economic development interests, the Secretaries of Transportation, Education, Natural Resources, Administration, and Health and Human Resources should also be represented. The Governor could also appoint representatives from regional and local economic development groups and the business community to be part of the committee.

Role of the Committee. The committee would assist the Secretary of Economic Development in assessing the needs of the Commonwealth. The committee would also participate in developing the comprehensive economic development policy which would be submitted to the Governor and the General Assembly.

Once the initial policy is developed, the committee should also be involved in an ongoing assessment of implementation. However, the Secretary, with the assistance of his agencies, would take the lead in this assessment. Other responsibilities of the committee would include:

- holding public hearings or using other mechanisms, such as focus groups, to periodically obtain updated perspectives on economic development needs and how well State programs are addressing these needs;

- recommending changes to policy and programs on an as-needed basis; and

- issuing periodic reports to the Governor and the General Assembly.

Role of the Secretary. The Secretary would chair the committee, and as such would have responsibility for initiating and directing the policy process. The Secretary would initiate committee activities, provide guidance to the committee regarding expected products, timeframes, and necessary activities. The Secretary would also ensure that the research and policy analysis section of DED provide appropriate and timely data to the committee for its deliberation.

Timeframes. The committee would be formed and the policy developed during the first year of the Governor's administration. The policy would be presented, toward the end of the first year, to the budget committees of the General Assembly. The policy could also be presented to the Commerce and Labor Committee of the Senate and the Labor and Commerce Committee of the House of Delegates, if they so desired. This would allow for General Assembly comment and input on the policy.

***Recommendation (36).* The General Assembly may wish to amend §2.1-51.39 of the *Code of Virginia* to specify that the Governor shall provide, through Executive Order at the beginning of the Governor's term, for the creation of a cabinet-level committee to aid in the development of a comprehensive economic development policy for the State. The Secretary of Economic Development shall chair such committee.**

Reliable Information

The availability of comprehensive, accurate, and up-to-date information is essential for informed, rational, and meaningful policy-making. The formation of a unified research and policy analysis section within DED would aid the Secretary and the committee in the policy development and oversight process by serving as a source for such information.

Data sources that could assist during policy development and oversight processes include a continuous assessment of Virginia's economic climate; focus groups, public hearings, or working conferences similar to the recent rural economic development conference; and an up-to-date catalog of economic development programs and organizations. On-going evaluations of existing programs should also be conducted by program managers within their respective agencies and be made available to the committee.

Research and Policy Analysis Section Within DED. As explained in the previous chapter, formation of this unified section within DED would enhance DED's research capabilities. It would also provide the Secretary of Economic Development with additional research and policy analysis resources. This section could collect data from various sources and perform analyses to support the policy development and oversight function.

Assessment of Virginia's Climate. An assessment of Virginia's economic climate was performed by JLARC staff during this study (Appendix B). This assessment compared regions of the State on 38 different indicators. This type of analysis provides information to compare the regions of the State in terms of their strengths and weaknesses, and also to determine if programs appear to be targeted appropriately.

A similar type of analysis should be conducted on a regular basis to aid in policy development and oversight. The Center for Public Service (CPS) has conducted analyses of the economic climates of the various regions of Virginia. However, these analyses do not compare the regions to each other or to the State as a whole. Therefore, they cannot be used in their present form to assess relative strengths and needs of the regions. Further, the CPS effort was a one-time project. This analysis needs to be conducted on a regular basis to continually monitor needs and programs.

Catalog of Programs and Organizations. Knowledge of who is involved in economic development, as well as what they are doing, should be routinely available to policy makers. During this study, entities involved in economic development throughout the Commonwealth were surveyed to collect information concerning programs conducted and levels of effort and expenditure. This information was summarized in Chapter II of this report. The complete catalog, entitled *Catalog of Virginia's Economic Development Organizations and Programs,* is available from the JLARC office as a companion document to this report.

A similar cataloging effort should be undertaken by the DED research and policy analysis section, and updated annually. This information should be automated, and available as needed for use by DED, the Secretary of Economic Development, the cabinet-level committee, the Governor, and the General Assembly.

Public Hearings, Focus Groups, and Conferences. Formal forums should also be periodically convened to solicit information from economic development entities throughout the Commonwealth. These types of sessions are necessary to ensure that local, regional, and private perspectives are considered, and that State policy is not generated in a vacuum without adequate consideration of existing needs. These forums could take the form of public hearings, focus group interviews, or conferences similar to the recent rural economic development conference.

During this study, 18 focus group interviews were conducted in nine areas of the State: Northern Virginia, Northwest Virginia, Western Virginia, Southwest Virginia, South Central Virginia, Hampton/Tidewater, Eastern Shore, Northern Neck, and Richmond. Generally, two group interviews were held in each area. One was composed of local officials, including industrial development authority chairpersons or executive directors and county and city managers. The second group was composed of staff to local and regional economic development organizations and private tourism organizations. These groups provided local and regional perspectives on economic development and supplemented information obtained from other sources.

Ongoing Program Evaluations. Accurate information concerning the outcomes of existing economic development programs should also be available to policy makers. As described in Chapter III of this report, accurate information is not always available and analyses are sometimes based on anecdotal and incomplete or inaccurate information. The DED research and policy analysis section should assist the various DED programs in structuring appropriate data collection mechanisms and program evaluations. Outcomes from these evaluations should also be available to policy makers.

***Recommendation (37).* The Secretary of Economic Development should establish processes and procedures to ensure that adequate, reliable information is available on economic development initiatives and programs.**

Appendixes

Pages

Appendix A

STUDY MANDATE

HOUSE JOINT RESOLUTION NO. 262

Requesting the Joint Legislative Audit and Review Commission to study the Commonwealth's economic development policies and the organization, management, operations and performance of the Department of Economic Development.

Agreed to by the House of Delegates, February 6, 1989
Agreed to by the Senate, February 23, 1989

WHEREAS, the Commonwealth, through its policies, encourages, stimulates and supports industrial development and the expansion of the Commonwealth's economy; and

WHEREAS, the Commonwealth, through its policies, also supports small business programs which enhance the growth of small businesses throughout the Commonwealth; and

WHEREAS, it is the policy of the Commonwealth to promote small industry, improve management development and labor productivity, and to identify, encourage and coordinate new approaches to economic development in rural communities of the Commonwealth; and

WHEREAS, the Commonwealth, through its policies, encourages, stimulates and supports tourism and travel in the Commonwealth; and

WHEREAS, it is the policy of the Commonwealth to promote and develop, through the Virginia Salt Water Sport Fishing Tournament, its salt water angling resources for recreational and economic benefits; and

WHEREAS, the Department of Economic Development, with advice from its affiliated advisory boards, is one of the agencies responsible for administering and executing these policies; and

WHEREAS, since 1982, the Department has experienced significant changes in organization and growth in resources resulting in increased economic activity and employment in the Commonwealth; and

WHEREAS, the General Assembly of Virginia desires to continue Virginia's outstanding economic development performance as a leading state in creating jobs and improving the standard of living for its citizens; and

WHEREAS, the functional area of resource and economic development is among those scheduled for review by the Joint Legislative Audit and Review Commission pursuant to the Legislative Program Review and Evaluation Act (§ 30-64 et seq. of the Code of Virginia) through Senate Joint Resolution No. 18 passed during the 1988 Session of the General Assembly; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission review the Commonwealth's economic development policies and the organization, management, operations and performance of the Department of Economic Development. The Commission's study shall include a review of the planning, budgeting, staffing, procurement, mission, and policy and program functions of the Department.

The Joint Legislative Audit and Review Commission shall complete its work in time to submit its final findings and recommendations to the Governor and to the 1991 Session of the General Assembly. Interim reports shall be provided to the 1990 Session of the General Assembly; and, be it

RESOLVED FURTHER, that in carrying out this review, the Department of Economic Development shall cooperate as requested and make available all records and information necessary for the completion of work by the Commission and its staff.

Appendix B

INTERNAL COMPARISONS

Two national studies indicated that Virginia's economy was healthy in comparison to that of other southeastern states in 1989. However, statewide comparisons often can mask the diversity of the economic conditions of the various regions within the State. Whereas the State appeared to have a healthy overall economy based on data available for 1989, certain regions of the State showed indications of less than healthy economic conditions.

Regions within Virginia were defined using planning district commission (PDC) boundaries. These regions were compared using 38 indicators. Two of these indicators were current as of 1990, 13 as of 1989, 20 as of 1988, and three as of 1987. These indicators were grouped into four major economic characteristics which included:

> *Business Activity* -- organization, location, size, and growth of business enterprises;
>
> *Human Resources* -- supply of qualified, skilled labor and available employment opportunities;
>
> *Physical Infrastructure* -- network of physical facilities required to conduct business or commerce; and
>
> *Quality of Life* -- proximity of hospitals, recreational facilities, and the overall attractiveness and healthfulness of the physical environment.

Each characteristic describes a unique and important aspect of the economic vitality of the regions within the State. The overall business activity of an area is an index of the actual and potential employment, income and growth. The human resources characteristic is a key indicator of an area's attractiveness for development. According to the responses to the JLARC survey of industrial products, one of the most important factors affecting an industry's decision to locate in an area is the quality and availability of its human resources. Physical infrastructure measures an area's ability to physically support business and industry. Quality of life has been noted as an important consideration for communities to attract and maintain business and industry as well as members of the labor force.

Comparisons for each indicator were made using the mean or average values of that indicator for all PDC's within the State.

Each PDC's value was compared to the State average, and the deviation from the State average was computed. Table 1 contains the Statewide PDC average for each indicator. The values of 38 indicators have been tabulated for each PDC, and the complete results are available upon request at the JLARC offices.

Table 1

STATEWIDE PDC ECONOMIC CLIMATE INDICATOR AVERAGES AND RANGES

Economic Climate Indicators	State PDC Average	Range of Indicator Values
<u>Business Activity</u>		
New Businesses as a percent of total businesses	6.8%	3.6%-10.4%
New business employment as a percent of total employment	1.9%	1.1%-3.3%
Business closures as a percent of total businesses	0.9%	0.3%-1.9%
Business closure employment loss as a percent of total employment	1.3%	0.4%-3.3%
Net new businesses as a percent of total businesses	5.9%	2.6%-9.8%
Net new business employment as a percent of total employment	0.6%	-0.8%-2.3%
Business expansions as a percent of total businesses	1.9%	0.9%-3.4%
Business expansion employment increase as a percent of total employment	1.8%	0.8%-3.1%
Businesses contracting as a percent of total businesses	1.2%	0.6%-2.0%
Business contraction employment loss as a percent of total employment	1.5%	0.6%-3.3%
Net businesses expanding as a percent of total businesses	0.7%	0.1%-1.6%
Net business expansion employment increase	0.2%	-1.5%-1.8%

Table 1 (continued)

Economic Climate Indicators	State PDC Average	Range of Indicator Values
Human Resources		
Average locality population	39,551	10,900-150,700
Median Population Age	34.2	30.7-40.4
Net population as a percent of total population	6.9%	-5.3%-24.6%
Personal income per capita	$14,581	$10,779-$25,603
Employment per capita	46.4%	33.3%-77.6%
Labor force as a percent of total population	48.5%	34.8%-65.2%
Unemployment rate	5.5%	1.8%-10.7%
Average weekly wages	$329	$260-$464
High school drop-out rate	4.9%	3.3%-6.2%
Percent of high school graduates attending a two-year college	20.6%	12.1%-31.6%
Percent of high school graduates attending a four-year college	34.3%	22.4%-62.0%
Percent of high school graduates attending a continuing education program	7.2%	3.0%-20.3%
Total education expenditures per pupil	$3,715	$3,222-5,299
Physical Infrastructure		
Single-family building permits per 1000 residents	7.6	2.0-22.7
Average value of single-family building per permit	$64,908	$34,200-$111,400
Nonresidential building permits per 1000 residents	2.2	0.5-5.2
Average value of nonresidential building per permit	$149,017	$31,400-$1,151,500
Average industrial electric rates	$21,181	$16,300-$24,600
Primary road miles per square mile of area	0.17	0.09%-0.28%
Active rail miles per square mile of area	0.21	0.00%-0.53%
Percent of total area dedicated to farming	32%	6%-52%

Table 1 (continued)

Economic Climate Indicators	State PDC Average	Range of Indicator Values
Quality of Life		
Staffed hospital beds per 1000 residents	3.3	1.1-5.9
Infant mortality per 1000 live births	10.1	5.4-14.4
Serious crimes per 1000 residents	25.9	8.7-51.1
Projected median family income	$30,357	$22,700-$52,900
Projected residents per outdoor recreational facility	709	334-1495

Source: Virginia Employment Commission, 1988, 1989, 1990; Center for Public Service, 1987, 1988, 1989, 1990; Sales and Marketing Management, 1989; U.S. Department of Commerce, 1989; U.S.Department of Labor, 1990; Virginia Department of Education, 1989, 1990; Virginia State Corporation Commission, 1990; Virginia Department of Transportation, 1990; Virginia Department of Health, 1989; Virginia Department of State Police, 1989; and the Virginia Department of Conservation and Recreation, 1989.

The analysis of these data indicated that there is variation throughout the State. While this information may not reflect the overall economic condition of Virginia's regions at the moment, it does describe recent internal differences in Virginia's climate.

The comparisons conducted in this analysis are but one way to analyze Virginia's internal economies. The approach, while not perfect, appears to be a good starting point for examining differences within Virginia. It is expected that if internal analyses are institutionalized and used for policy development and program planning, improvements and refinements can be made to the comparisons briefly summarized in the following sections.

Knowledge of the differences in Virginia's regional economies is necessary for planning, designing, and evaluating programs appropriate to the needs of the State's regions. In addition, a periodic comparative analysis of the economic climate could help indicate the types of intervention necessary to limit the detrimental effects of a recessional economy on these areas. Further, the comparisons give guidance for the types of planning that need to be in place for these areas to weather a recessional economy. Finally, for many of the regions which are below the State average on several indicators, it is reasonable to expect that during periods of cutbacks in State funding for intervention programs these regions may continue to decrease in economic vitality.

Business Activity Indicators

Business activity in the State was measured by analyzing six indicators. Data on business activity indicators were derived from the Unemployment Insurance database maintained by the Virginia Employment Commission. This database included information on firms operating during the first quarter of 1988 through the third quarter of 1989. Various constraints were placed on the database to derive realistic estimates for each indicator. Therefore, the numbers in this section, while estimates, constitute the best available data for each indicator.

Within the State there were more than three times the number of new and expanding firms as there were firms contracting or closing. The average number of employment gains resulting from business starts and expansions accounted for almost 4 percent of the total employment for the State. However, four areas of the State varied from this picture somewhat.

Northern Virginia (PDC 8) had the highest percentage of businesses expanding and associated employment gains, but it also experienced the second highest percentage of business contractions of any area of the State. However, the loss was offset by the gain, such that the area had one of the largest level of net expansions and employment gains. In addition, while Northern Virginia had the lowest percentage of new businesses, the average employment growth from those businesses was 14, twice the State average of seven employees. This indicates that while there were a small number of new business starts in the Northern Virginia area, the new businesses were relatively large.

The Radco (PDC 16) and Northern Neck (PDC 17) areas experienced growth in the number of new businesses. However, the number of employment gains associated with these businesses averaged four and three employees, respectively. This indicates that while these areas were growing, the growth was attributed to relatively small businesses which are usually sensitive to fluctuations in the economy.

While the State had an overall employment increase during 1988 and 1989, that increase was small. Eight PDCs experienced overall net employment losses during the period. These included Lenowisco (PDC 1), New River Valley (PDC 4), Central Shenandoah (PDC 6), West Piedmont (PDC 12), Southside (PDC 13), Northern Neck (PDC 17), Southeastern Virginia (PDC 20), and Accomack-Northampton (PDC 22).

Human Resources

Human resources indicators were analyzed to compare regions of the State on the quality and quantity of the 1988 workforce as well as indications of the quality and quantity of that workforce for the future. Northern Virginia (PDC 8) and Richmond Regional (PDC 15) do not appear to have underemployment problems as evidenced by low unemployment rates, high wage levels, and high net in-migration. In addition, education statistics for the areas are well above average and include high per pupil spending and high percentages of students attending four-year colleges.

However, the more rural areas of the State -- Lenowisco (PDC 1), Cumberland Plateau (PDC 2), Southside (PDC 13), Piedmont (PDC 14), and Accomack-Northampton (PDC 22) -- had substantially higher unemployment rates than the Statewide average. Further, the areas generally demonstrated two characteristics of underemployment: (1) high out-migration indicative of limited employment opportunities in the area, and (2) below average personal income levels. Implications for the future workforce for these areas also appear questionable. On average, the areas have low expenditures for public education and small percentages of high school graduates attending four-year colleges.

Physical Infrastructure

Indicators of physical infrastructure were compared to determine the variation in the network of physical facilities necessary to conduct business. Because data were not available in a usable form, one important indicator of physical infrastructure -- commercial water and sewer availability -- was not assessed.

The Radco area (PDC 16) had the highest level of residential building permits and the value of those permits was one of the highest in the State. The PDC's location between the large urban areas of Northern Virginia and Richmond may explain the high level of residential building activity in the area.

Five PDCs -- Lenowisco (PDC 1), Cumberland Plateau (PDC 2), Central Virginia (PDC 11), Piedmont (PDC 14) and Accomack-Northampton (PDC 22) -- lack transportation systems as these areas do not have access to interstate highways within the PDC. Middle Peninsula (PDC

18) also lacks highway access and has limited access to rail transportation.

The other pervasive infrastructure shortcoming for these areas is the lack of single family and commercial building activity. Three PDCs were identified as having below average levels of permits being issued for both single family and commercial buildings. These include the Lenowisco (PDC 1), Cumberland Plateau (PDC 2), and Mount Rogers (PDC 3) areas.

While Southside (PDC 13), Piedmont (PDC 14), and Accomack-Northampton (PDC 22) have average levels of commercial building activity, the value associated with the buildings are below average. This indicates that either lower cost or smaller structures are being built in these areas.

Quality of Life

Quality of life is a hard concept to measure. However, for purposes of this study, five indicators were analyzed independently and in combination to rank the quality of life in the various regions of Virginia.

Three areas the Fifth (PDC 5), Thomas Jefferson (PDC 10), and Richmond Regional (PDC 15) had large numbers of hospital beds and recreational facilities available. Northern Virginia (PDC 8), Southeastern Virginia (PDC 20), and Peninsula (PDC 21) had the highest number of serious crimes for 1988. In addition, Southeastern Virginia (PDC 20) also had one of the highest infant mortality rates in the State along with the West Piedmont (PDC 12) area.

Appendix C

POSSIBLE IMPACTS OF DEFENSE CUTBACKS ON VIRGINIA'S ECONOMY

The federal government is a major contributor to Virginia's economy. The single largest source of federal funding to the Commonwealth -- about $15 billion annually -- is the U.S. Department of Defense (DoD). While the defense industry has some impact on the State's overall economy, the defense industry has a substantial impact in those regions of the State where it is a primary industry, Northern and Southeastern Virginia.

Officials at DoD have stated that despite the recent developments in the Persian Gulf, the federal government is still planning 25 percent reductions in overall defense spending over the next few years. The specific reductions are not yet known. However, the size of the defense presence in Virginia leads logically to the assumptions that these cutbacks will impact Virginia's economy and that the impacts have the potential to be negative.

While the State probably cannot avoid some negative economic impact from the reductions, the severity of that impact may be minimized with sufficient directed planning. Within Virginia, the executive branch is currently monitoring the potential impact of military reductions through an informal task force initiated by the Secretary of Economic Development. While there is still much uncertainty about the cutbacks, it is important that the task force expand its planning efforts by obtaining the most comprehensive information on the defense presence in Virginia, by exploring methods for linking needs created by the cutbacks with existing economic development and job training programs, and by critically examining the approaches being taken by other states with a strong defense presence. In this way, the State may be able to turn these cutbacks into opportunities for economic growth and diversification.

Defense Is a Major Industry in Virginia

Nationwide, Virginia has a large share of the defense dollar. Approximately 6.7 percent of DoD's $225.9 billion in expenditures and obligations during federal FY 1989 went to Virginia. Further, during this time period, two of the top ten domestic locations for both DoD expenditures and personnel -- Norfolk and Arlington -- were within Virginia (Table 1). Only two other locations in the United States -- San Diego, California and Washington, D.C. -- were among the top ten for both categories.

Table 1

TOP TEN DOMESTIC LOCATIONS OF U.S. DEPARTMENT OF DEFENSE EXPENDITURES AND PERSONNEL DURING FEDERAL FISCAL YEAR 1989
(Dollars in Thousands)

LOCATION	EXPENDITURES Rank	EXPENDITURES Total Dollar Amount	EXPENDITURES Payroll Outlays	EXPENDITURES Prime Contracts	PERSONNEL Rank	PERSONNEL Total Personnel	PERSONNEL Active Duty Military	PERSONNEL Civilian
St. Louis, Missouri	1	$5,964,931	$421,875	$5,543,056	--	----	----	----
San Diego, California	2	4,534,149	2,563,614	1,970,535	1	52,897	38,304	14,593
Fort Worth, Texas	3	4,122,498	253,070	3,869,428	--	----	----	----
Long Beach, California	4	2,768,945	519,017	2,249,928	--	----	----	----
Sunnyvale, California	5	2,714,630	63,492	2,651,138	--	----	----	----
Groton, Connecticut	6	2,645,758	275,069	2,370,689	--	----	----	----
Norfolk, Virginia	7	2,597,388	2,147,754	449,634	5	34,778	17,558	17,220
Washington, D.C.	8	2,351,840	1,115,876	1,235,964	8	28,159	11,279	16,880
Los Angeles, California	9	2,339,402	202,801	2,136,601	--	----	----	----
Arlington, Virginia	10	2,314,186	1,805,348	508,838	2	47,867	18,363	29,504
Fort Bragg, North Carolina	--	----	----	----	3	44,715	40,535	4,180
Fort Hood, Texas	--	----	----	----	4	43,159	38,369	4,790
Camp Pendleton, California	--	----	----	----	6	33,919	31,591	2,328
Camp Lejeune, North Carolina	--	----	----	----	7	32,858	29,838	3,020
Wright Pat AFB, Ohio	--	----	----	----	9	26,760	9,462	17,298
Fort Benning, Georgia	--	----	----	----	10	26,186	21,145	5,041

-- Indicates location did not rank in top ten for that category.

Source: U.S. Department of Defense, Directorate for Information, Operations, and Reports, Atlas/Data Abstract for the United States and Selected Areas, Fiscal Year 1989.

Within Virginia, DoD accounted for approximately one-half of all federal government direct expenditures or obligations during federal FY 1989. The majority of these defense-related expenditures, more than $7.8 billion, was for salaries and wages (Figure 1). Another $5.7 billion was obligated for procurement contract awards.

Cutbacks Would Most Likely Affect Seven Geographic Areas Within Virginia

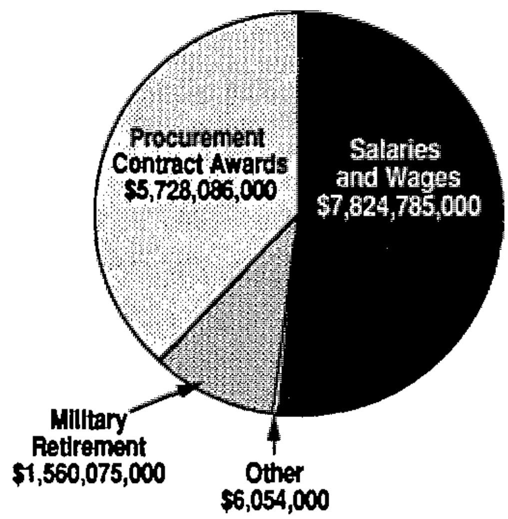
While the defense presence within Virginia is primarily concentrated in Norfolk and Arlington, the broader regions containing these localities (Hampton Roads/Tidewater and Northern Virginia) are also heavily dependent on DoD (Table 2). When DoD expenditures are aggregated to the planning district commission (PDC) level, approximately 88 percent of all expenditures are concentrated in three PDCs -- Northern Virginia (PDC 8), Southeastern Virginia (PDC 20), and Peninsula (PDC 21) (Figure 2).

Other, smaller concentrations are also more evident at the PDC level. Four additional PDCs had total DoD expenditures of more than $200 million each (Figure 3). In the New River Valley (PDC 4) PDC, these expenditures were primarily obligations for procurement contracts, while in the Richmond Regional (PDC 15), RADCO (PDC 16),

Figure 1

U.S. Department of Defense Direct Expenditures or Obligations in Virginia During Federal Fiscal Year 1989

Total: $15,119,000,000



Source: JLARC analysis of *Federal Expenditures by State for Fiscal Year 1989*, U.S. Department of Commerce, Bureau of the Census, March 1990.

Table 2

TOP TEN VIRGINIA LOCATIONS OF U.S. DEPARTMENT OF DEFENSE EXPENDITURES AND PERSONNEL DURING FEDERAL FISCAL YEAR 1989
(Dollars in Thousands)

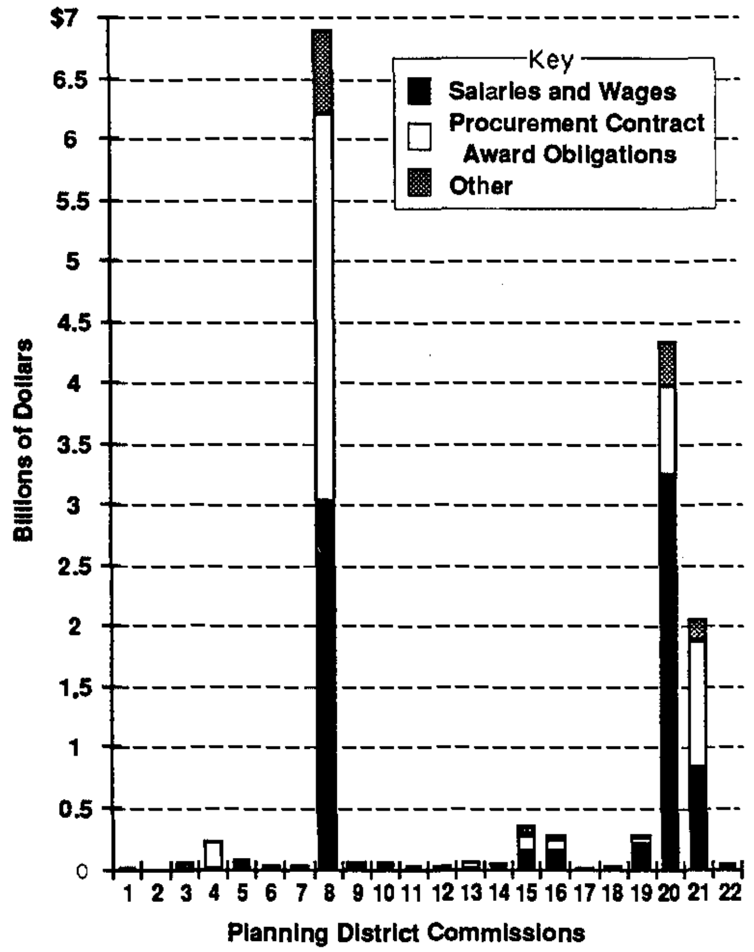
	EXPENDITURES				PERSONNEL			
VIRGINIA LOCATION	Rank	Total Dollar Amount	Payroll Outlays	Prime Contracts	Rank	Total Personnel	Active Duty Military	Civilian
Norfolk	1	$2,597,388	$2,147,754	$449,634	2	34,778	17,558	17,220
Arlington	2	2,314,186	1,805,348	508,838	1	47,867	18,363	29,504
Newport News	3	1,327,128	391,390	935,738	--	—	—	—
Virginia Beach	4	998,065	839,031	159,034	4	14,439	12,159	2,280
Alexandria	5	893,985	565,407	328,578	5	14,037	4,410	9,627
Portsmouth	6	627,454	540,845	86,609	3	18,403	3,273	15,130
McLean	7	622,930	54,960	567,970	--	—	—	—
Manassas	8	599,574	8,982	590,592	--	—	—	—
Hampton	9	519,900	425,340	94,560	--	—	—	—
Fort Belvoir	10	369,058	295,671	73,387	8	9,145	3,283	5,862
Langley AFB	--	—	—	—	6	11,257	9,358	1,899
Fort Eustis	--	—	—	—	7	9,295	6,766	2,529
Quantico	--	—	—	—	9	8,477	6,698	1,779
Fort Lee	--	—	—	—	10	7,595	4,888	2,707

-- Indicates location did not rank in top ten for that category.

Source: U.S. Department of Defense, Directorate for Information, Operations, and Reports, Atlas/Data Abstract for the United States and Selected Areas, Fiscal Year 1989.

Figure 2

Distribution of U.S. Department of Defense Direct Expenditures or Obligations in Virginia During Federal Fiscal Year 1989, All Planning District Commissions



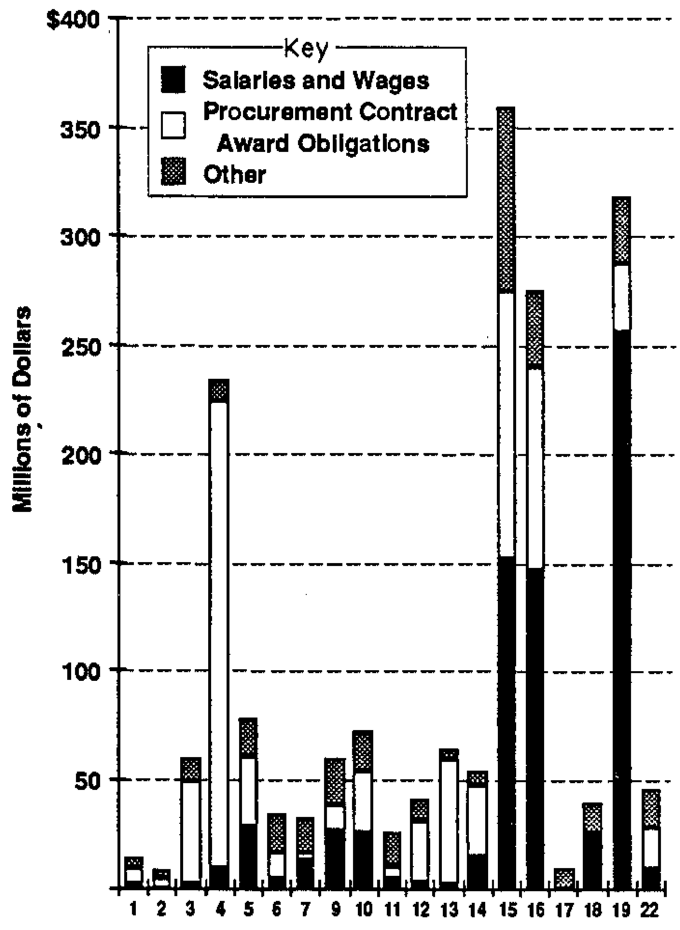
1. Lenowisco
2. Cumberland Plateau
3. Mount Rogers
4. New River Valley
5. Fifth
6. Central Shenandoah
7. Lord Fairfax
8. Northern Virginia
9. Rappahannock-Rapidan
10. Thomas Jefferson
11. Central Virginia
12. West Piedmont
13. Southside
14. Piedmont
15. Richmond Regional
16. Radco
17. Northern Neck
18. Middle Peninsula
19. Crater
20. Southeastern Virginia*
21. Peninsula*
22. Accomack-Northampton

* Effective July 1, 1990, Planning Districts 20 and 21 were merged to form the Hampton Roads PDC, Planning District 23.

Source: JLARC analysis of *Consolidated Federal Funds Report, Fiscal Year 1989, Volume 1: County Areas,* U.S. Department of Commerce, Bureau of the Census, March 1990.

Figure 3

Distribution of U.S. Department of Defense Direct Expenditures or Obligations in Virginia During Federal Fiscal Year 1989, for Planning District Commissions Totalling $400 Million or Less



1. Lenowisco
2. Cumberland Plateau
3. Mount Rogers
4. New River Valley
5. Fifth
6. Central Shenandoah
7. Lord Fairfax
9. Rappahannock-Rapidan
10. Thomas Jefferson
11. Central Virginia
12. West Piedmont
13. Southside
14. Piedmont
15. Richmond Regional
16. Radco
17. Northern Neck
18. Middle Peninsula
19. Crater
22. Accomack-Northampton

Source: JLARC analysis of *Consolidated Federal Funds Report, Fiscal Year 1989, Volume 1: County Areas*, U.S. Department of Commerce, Bureau of the Census, March 1990.

and Crater (PDC 19) PDCs the expenditures were principally for DoD salaries and wages.

The State Needs to Expand Current Planning Efforts

The Secretary of Economic Development has organized an informal task force to examine the potential impacts of defense cutbacks on Virginia. The task force is composed of staff from the Virginia Employment Commission, Department of Planning and Budget, Department of Taxation, and Department of Economic Development (DED).

According to their May 1990 Interim Report, the group plans to: (1) monitor the employment levels of a sample of defense contractors in Virginia; (2) attempt to develop a more detailed profile of the defense industry in Virginia; and (3) develop a model to forecast the impact of various defense cutback scenarios on Virginia's economy. During interviews, members of the task force stated that little has been done in the first two areas. However, plans are underway to issue a request for proposals to develop the forecast model. It is anticipated that this information may be available as early as March 1991, if the process goes according to schedule.

The approach being taken by the task force appears to be a good starting point to determine the nature and scope of military dependency within the State. However, additional emphasis needs to be given to developing a profile of the defense industry. Further, given the broad nature of defense spending in Virginia, it appears that several additional areas need to be explored.

The State needs to develop a skills profile of the DoD civilian and military personnel stationed in Virginia. This information would help determine the overall skills of this workforce, what it can do, and how easy or hard it would be to deal with the transition necessitated by cutbacks. Information on levels and types of skills of DoD employees in Virginia can be obtained at no cost from the federal government. This information could be used by the State to:

- Develop targeted industrial marketing opportunities for the State. An inventory of the levels and types of skills needs to be developed for this potential workforce. This information can then be used to market this workforce to those industries which are in need of the types of skills represented.

- Determine retraining needs of military workers to enable them to avail themselves of job opportunities currently available within the State. The federal government has funded military retraining programs in other states through the Job Training Partnership Act's Title III Dislocated Worker Programs. Virginia should examine the possibilities of using this program for retraining defense personnel.

The State also needs to expand the emphases of existing economic development programs. For example, the technology transfer program currently administered by the Center for Innovative Technology and the Virginia Community College System could be used to identify emerging technology areas which use some of the same technologies as are being used by defense contractors. These defense contractors could then be provided technical assistance to enable them to use their existing resources to shift to non-defense production. Areas which are purported to use some of the same defense technologies and which are current growth industries include recycling, energy efficiency, alternative energy development, and pollution control.

In addition, the State could develop linkages between existing programs and geographic areas which are probable high impact areas for military cutbacks. This is particularly important in the Norfolk and Washington, D.C. metropolitan statistical areas (MSAs) where the military workforce comprised 8.32 and 4.28 percent, respectively, of their total non-agricultural workforces as of September 30, 1989. The industrial development marketing program of the Department of Economic Development could begin steps to identify and recruit possible replacement industry in these areas of the State.

Finally, the State needs to examine the approaches being taken by other states which also have a strong defense presence. Their approaches could provide valuable insight into what needs to be done within Virginia. Further, because these other states could face cutbacks in military personnel, they could be competing more heavily with Virginia for replacement industry.

THE U.S. DEPARTMENT OF DEFENSE IN VIRGINIA

Virginia's economy could be negatively affected by federal government defense cutbacks. Therefore, it is important to understand how the defense industry currently contributes to the State's economy. While the actual impact of the defense industry cannot be measured, DoD clearly contributes to Virginia's economy in four ways: (1) the presence of active-duty military personnel, (2) the employment of civilian residents, (3) the awarding of contracts to procure goods and services, and (4) the presence of defense installations.

It appears that reductions in the defense workforce within Virginia would probably have the greatest impact on the State's economy. The presence of active-duty military personnel adds to the State and local tax bases through contributions to income, sales, personal, and real property taxes. Consumer spending by these personnel also benefits regional business climates. The provision of employment to civilian residents likewise provides these benefits.

However, contracts awarded for goods and services procured by DoD also contribute to Virginia's business climate, and subsequently, to Virginia's tax base through increased employment and sales opportunities. In addition, the presence of defense installations (which necessitates active-duty military personnel, civilian employees, and the procurement of goods and services) provides very tangible benefits to regional economies.

Defense cutbacks in any of these four areas, without planning for replacement, could adversely affect the State's economy. Losses could affect regional employment levels, State and local tax revenues, and regional business climates. These effects need to be assessed and addressed in determining how Virginia can prepare for the economic shifts which could occur as a result of defense cutbacks.

<u>Cutbacks in Active-Duty Military Personnel Would Primarily Affect the Norfolk Area</u>

As of December 31, 1989, approximately 175,000 active-duty military personnel were assigned or duty-stationed in Virginia (Table 3). Nearly two-thirds of these personnel served in the Department of the Navy -- most of whom were either stationed in or had as home port the City of Norfolk.

Information about the geographic concentrations of military personnel helps to determine which areas of the State would be vulnerable to cutbacks. However, additional information helps to contextualize these cutbacks. DoD provided JLARC with summary statistics on military education levels, ages, primary occupations, and dependents as well as information on spending habits and resident status for purposes of payment of state income tax.

Education. Completion of high school was the highest education level attained by approximately 75 percent of all DoD military personnel statewide (Table 4). Less than 20 percent had received one or more higher education degrees. As expected, the education levels varied considerably between enlisted personnel and

Table 3

MILITARY PERSONNEL ASSIGNED IN VIRGINIA AS OF DECEMBER 31, 1989
BY MILITARY HOUSING AREA AND BRANCH OF SERVICE

MILITARY HOUSING AREA	Army	Navy	BRANCH OF SERVICE Marine Corps	Air Force	Coast Guard	TOTAL
D.C. Metropolitan Area	12,800	3,997	2,417	5,993	245	25,452
Quantico/ Woodbridge	8	327	7,535	21	0	7,891
Hampton/ Newport News	8,199	4,114	266	9,265	817	22,661
Norfolk/ Portsmouth	1,776	37,322	2,494	294	1,704	43,590
Petersburg/ Ft. Lee	5,752	5	93	9	0	5,859
Virginia Miscellaneous	1,315	765	116	125	131	2,452
Virginia Fleet PO*	13	66,004	344	18	317	66,696
TOTAL	29,863	112,534	13,265	15,725	3,214	174,601

* Although the Virginia Fleet Port is classified as a military housing area, Norfolk is the home port for these personnel.

Source: U.S. Department of Defense, Defense Manpower Data Center, data provided March 1990.

officers, however. Approximately 90 percent of all officers had one or more college degrees, while less than 3 percent of enlisted personnel did.

Table 4

DEMOGRAPHIC PROFILE OF ACTIVE-DUTY MILITARY PERSONNEL ASSIGNED OR DUTY-STATIONED IN VIRGINIA
AS OF DECEMBER 31, 1989, BY PLANNING DISTRICT COMMISSION

	PLANNING DISTRICT COMMISSION						
	Northern Virginia	RADCO	Crater	Southeastern Virginia*	Peninsula*	Other/ Unspecified	TOTAL FOR STATE
HIGHEST LEVEL OF EDUCATION ATTAINED							
Did not complete high school	1.1 %	0.7 %	1.3 %	6.0 %	1.9 %	3.1 %	4.3 %
Completed high school	45.5	69.1	77.1	83.0	75.1	63.7	74.9
Completed some college	3.9	1.8	5.1	1.5	4.8	5.2	2.5
Awarded baccalaureate degree	19.4	23.0	11.8	6.9	9.9	16.4	10.1
Awarded masters degree	29.2	5.2	4.6	2.6	8.3	11.3	8.1
Awarded doctorate	0.9	0.1	0.1	0.0	0.1	0.2	0.2
ENLISTED OCCUPATION CODE							
Infantry, gun crew, seaman	13.7	22.1	10.5	11.2	10.0	9.8	11.5
Electronic equipment repair	5.5	4.4	0.4	15.1	8.4	20.8	12.6
Communications/intelligence	8.2	6.0	1.7	11.2	4.5	19.9	9.7
Health care	3.9	2.5	8.5	3.4	4.6	3.1	3.8
Other technical/allied	5.3	4.4	3.4	1.1	2.7	0.6	1.9
Functional support	41.2	25.2	26.5	9.9	18.7	27.1	15.4
Electrical/mechanical repair	7.8	11.8	2.5	27.4	28.6	6.0	24.1
Craftsman	2.2	2.4	1.5	5.6	4.3	2.7	4.8
Service/supplier handler	10.1	19.8	22.9	6.2	13.1	7.3	8.4
Non-occupational	2.2	1.4	22.1	8.7	5.2	2.7	7.8
OFFICER OCCUPATION CODE							
General/executive	3.2	2.5	0.3	0.5	0.5	0.6	1.8
Tactical operations	36.2	35.7	10.1	43.1	36.7	31.2	37.8
Intelligence	10.6	2.5	0.2	3.9	3.8	6.8	6.8
Engineering and maintenance	11.6	5.3	5.0	14.1	19.3	15.6	13.1
Scientist/professional	6.3	2.8	3.2	3.2	3.6	17.5	5.0
Health care	5.6	3.3	10.7	11.2	8.8	5.1	7.9
Administrator	13.8	7.0	6.6	5.9	10.3	7.2	10.1
Supply, procurement, allied	8.5	5.5	63.4	7.4	15.8	12.0	10.6
Non-occupational	4.1	35.5	0.4	10.7	1.2	4.2	7.1
AGE AT LAST BIRTHDAY							
Less than 20	2.6	3.5	23.6	9.3	8.4	2.9	8.3
Between 20 and 29	31.8	64.8	41.5	60.9	48.8	43.0	53.6
Between 30 and 39	37.0	24.7	25.9	23.5	31.2	41.6	27.1
Between 40 and 49	25.8	6.6	8.2	6.1	10.9	11.8	10.2
Between 50 and 59	2.7	0.4	0.5	0.3	0.6	0.7	0.8
Greater than 59	0.1	0.0	0.3	0.0	0.1	0.0	0.1
N	29,398	3,946	5,859	110,286	22,661	2,452	174,601

* Effective July 1, 1990, the Southeastern and Peninsula Planning Districts (20 and 21, respectively) were merged to form the Hampton Roads PDC, Planning District 23.

Note: Data from the DoD Defense Manpower Data Center was converted from MMAs to PDCs through the following manipulations: (1) the D.C. Metropolitan, Petersburg/Ft. Lee, Norfolk/Portsmouth, and Hampton/Newport News MMAs were directly converted into the Northern Virginia, Crater, Southeastern Virginia, and Peninsula PDCs (PDCs 8, 19, 20, and 21, respectively); (2) the Fleet P.O. MMA was considered part of the Norfolk/Portsmouth MMA and was added to the Southeastern Virginia PDC (PDC 20); and (3) the Quantico/Woodbridge MMA was split evenly between the Northern Virginia and RADCO PDCs (PDCs 8 and 16).

Source: JLARC analysis of data provided by the U.S. Department of Defense, Defense Manpower Data Center, data provided March 1990.

Age. Although more than one-half of all military personnel were between 20 and 29 years of age, officers were generally older than enlisted men. Approximately 75 percent of officers were between 30 and 49 years of age while 70 percent of enlisted personnel were 29 years of age or younger. However, the median age of military personnel stationed in Virginia was younger than that of the workforce in each PDC.

Contribution to Virginia's Economy by Military Personnel with Dependents. DoD surveyed a sample of the 85,700 active-duty military personnel who were stationed and residing in the Commonwealth and had one or more dependents to determine their contribution to the Virginia economy and tax base. These personnel represented approximately 50 percent of all military personnel stationed in Virginia. The DoD survey found that nearly one-half of the Virginia military family population either owned or were buying their residence. Another 34 percent rented quarters off-base. Total estimated expenditures for their rent and utility costs were greater than $391 million in 1989. The balance of these personnel, approximately 16 percent, lived in quarters on-base.

The survey found that the military family population often made purchases subject to the Virginia State sales tax of 3.5 percent. The median expenditure for such purchases during 1989 was $7,100. Total estimated expenditures for purchases subject to the State sales tax were greater than $825 million in 1989.

State Income Tax Contributions. Twenty-eight percent of these military personnel with dependents expected to pay less than $500 in Virginia income taxes, while 16 percent expected to pay between $500 and $999 in taxes. Another 17 percent expected to pay $1,000 or more in Virginia income taxes. However, 39 percent did not expect to pay any Virginia income taxes. This finding can be attributed to the special privileges accorded active-duty military personnel for payment of state income taxes. When an individual joins the military, he or she must declare a state of residency. Liability for payment of income tax is attributable only to the legal state of residence, not to the state where stationed or assigned.

As of December 20, 1990, 6,024 of the 91,495 active-duty military stationed in the State had Virginia as their legal residence for income tax purposes. However, another 37,625 personnel stationed elsewhere had claimed Virginia as their legal residence. If requested by the State, the Defense Manpower Data Center would be able to provide crosstabs by income levels for personnel claiming Virginia as their resident state.

In addition, the incomes of spouses working in civilian capacities within Virginia are subject to Virginia income taxes. The survey found that a majority of military spouses worked either full-time (43 percent) or part-time (17 percent). However, 10 percent of these spouses were also active-duty military. Because they may be residents of other states, their incomes ($56.8 million of the $605.4 million total estimated spousal income for 1989) may not be subject to Virginia income tax.

Real Estate and Personal Property Tax Contributions. Other taxes paid by military personnel with dependents include real estate and personal property. The survey found that almost 50 percent of military personnel did not expect to pay Virginia real estate taxes -- which is validated by the earlier finding about home ownership. Total estimated real estate tax payments by military members and spouses exceeded $50 million. Only one-third of these personnel expected to pay Virginia personal property taxes. The estimated total for such tax payments exceeded $7.8 million.

Civilian Employment Is Concentrated in Northern Virginia

DoD employed approximately 132,000 civilians in Virginia as of December 31, 1989 (Table 5). More than one-half of these personnel were employed by the Department of the Navy. Further, civilian personnel were concentrated in the Washington, D.C., Hampton/Newport News, and Norfolk/Portsmouth MSAs.

Although information on civilian dependents and spending habits was not available from DoD, summary statistics on the education level, primary occupation, years of service, pay grade, and age at last birthday for these civilians were available (Table 6). Statewide, 40 percent of all DoD civilian personnel had completed high school, while 31 percent had received one or more higher education degrees. Civilians employed in Northern Virginia had, on average, attained higher levels of education than those employed elsewhere in the State. The majority of DoD civilians performed administrative or clerical duties. Nearly 60 percent of DoD civilians had more than ten years of service. Another 60 percent were between 30 and 49 years of age.

Limited comparisons of the DoD civilian workforce in certain regions within Virginia can be made to the entire workforce or population for those areas. As of September 30, 1989, the DoD civilian workforce comprised 63.5 percent of federal government workers in Virginia and 3.82 percent of non-agricultural employment statewide. In the Norfolk and Washington, D.C. MSAs, however, the DoD civilian workforce comprised a much greater percentage of the total non-agricultural workforce. The median age of these civilian personnel varied only slightly by PDC but was much older in all cases than that of the workforce for the PDC.

Table 5

U.S. DEPARTMENT OF DEFENSE CIVILIANS EMPLOYED IN VIRGINIA
AS OF DECEMBER 31, 1989
BY METROPOLITAN STATISTICAL AREA AND BRANCH OF SERVICE

MSA*	Army	Navy	BRANCH OF SERVICE Marine Corps	Air Force	Other	TOTAL
D.C. Metropolitan Area	25,457	26,384	2,789	2,801	12,578	70,009
Hampton/ Newport News	5,239	2,703	0	1,899	142	9,9B3
Norfolk/ Portsmouth	547	34,781	18	2	213	35,561
Petersburg	3,506	0	0	0	2	3,508
Richmond	446	8	2	235	3,593	4,284
Other	3,154	3,653	1	1,099	612	8,519
TOTAL	38,349	67,529	2,810	6,036	17,140	131,864

* Corresponds to MSAs provided by U.S. Department of Defense.

Source: U.S. Department of Defense, Defense Manpower Data Center, data provided March 1990.

<u>Contract Awards for Goods and Services in Virginia Totaled Approximately $6 Billion in FY 1989</u>

While the total dollar amount of the procurement contract awards obligated to Virginia contractors during federal FY 1989 was considerably less than in FY 1988, the pattern of awards was similar to that in past years (Table 7). More than one-half of the total dollar amount (nearly $3.5 billion of $5.9 billion) obligated for prime contracts -- contracts for $25,000 or more -- in Virginia was for the Department of the Navy and the Marine Corps.

Table 6

DEMOGRAPHIC PROFILE OF U.S. DEPARTMENT OF DEFENSE CIVILIANS EMPLOYED IN VIRGINIA
AS OF DECEMBER 31, 1989, BY PLANNING DISTRICT COMMISSION

	PLANNING DISTRICT COMMISSION						
	Northern Virginia	Richmond Regional	Crater	Southeastern Virginia*	Peninsula*	Other/ Unspecified	TOTAL FOR STATE
HIGHEST LEVEL OF EDUCATION ATTAINED							
Did not complete high school	3.7 %	4.6 %	2.9 %	7.5 %	3.8 %	3.9 %	4.7 %
Completed high school	32.6	40.6	44.0	55.1	38.9	36.9	40.0
Completed some college	23.9	38.2	25.7	21.2	32.8	20.5	24.1
Awarded baccalaureate degree	24.9	13.1	18.4	13.9	17.5	28.3	21.0
Awarded masters degree	10.6	3.1	7.7	2.0	6.1	7.8	7.4
Awarded doctorate	4.3	0.4	1.3	0.3	0.8	2.7	2.6
OCCUPATION CODE							
Blue collar	7.5	32.2	12.4	45.1	18.5	14.5	19.8
Professional	21.7	3.1	11.1	8.9	12.4	29.5	17.2
Administrative	36.5	28.3	39.3	14.1	27.8	23.9	28.8
Technical	8.3	9.4	11.1	15.4	14.4	11.9	11.0
Clerical	24.4	25.4	24.8	13.8	24.7	17.6	21.2
Other	1.6	1.5	1.3	2.7	2.3	2.7	2.0
YEARS OF SERVICE							
5 or fewer	24.1	21.9	15.7	21.8	18.6	24.5	22.8
Between 6 and 10	17.5	22.8	20.9	22.2	22.4	18.9	19.5
Between 11 and 15	15.4	15.5	18.2	20.5	19.6	14.1	17.1
Between 16 and 20	15.9	15.2	19.4	16.3	15.1	15.2	16.0
Between 21 and 25	13.0	12.6	14.3	10.6	12.8	14.0	12.4
Between 26 and 30	8.2	8.6	7.6	5.4	7.2	8.5	7.4
31 or more	6.0	3.4	3.9	3.2	4.3	4.6	4.9
Unknown	0.0	0.0	0.0	0.0	0.0	0.2	0.0
PAY GRADE							
GS-1 - 4	9.9	16.5	11.7	10.4	12.7	9.6	10.5
GS-5 - 12	57.1	78.5	74.9	79.8	78.4	70.6	66.9
GS-13 - 15	30.4	5.0	13.3	6.0	8.6	18.2	20.1
SES	0.1	0.0	0.0	0.2	0.0	0.1	0.1
Unknown	2.6	0.0	0.1	3.6	0.3	1.5	2.5
AGE AT LAST BIRTHDAY							
Less than 20	1.5	0.6	0.5	0.7	0.4	1.0	1.1
Between 20 and 29	17.4	15.6	6.8	16.0	9.5	17.8	16.1
Between 30 and 39	25.7	32.1	25.6	32.7	26.7	25.8	27.9
Between 40 and 49	31.3	32.0	40.0	29.8	36.2	33.9	31.7
Between 50 and 59	18.6	17.1	20.8	16.9	22.6	17.8	18.4
Between 60 and 69	5.0	2.5	6.2	3.6	4.4	3.6	4.4
Greater than 69	0.5	0.2	0.2	0.1	0.1	0.2	0.3
N	70,009	4,284	3,508	35,561	9,983	8,519	131,864

* Effective July 1, 1990, the Southeastern and Peninsula Planning Districts (20 and 21, respectively) were merged to form the Hampton Roads PDC, Planning District 23.

Note: Data from the DoD Defense Manpower Data Center was converted from MSAs to PDCs through the following manipulation: the D.C. Metropolitan, Richmond, Petersburg, Norfolk/Portsmouth, and Hampton/Newport News MSAs were directly converted into the Northern Virginia, Richmond Regional, Crater, Southeastern Virginia, and Peninsula PDCs (PDCs 8, 15, 19, 20, and 21, respectively).

Source: JLARC analysis of data provided by the U.S. Department of Defense, Defense Manpower Data Center, data provided March 1990.

Table 7

DOLLAR AMOUNT OF U.S. DEPARTMENT OF DEFENSE PRIME CONTRACT AWARDS OBLIGATED TO VIRGINIA CONTRACTORS DURING FEDERAL FISCAL YEARS 1986, 1987, 1988, AND 1989 BY BRANCH OF SERVICE
(Dollars in Thousands)

Federal Fiscal Year	Virginia Total	Army	Navy and Marine Corps	Air Force	Other Defense Activities
1989	$5,896,749	$1,085,438	$3,461,292	$591,315	$758,704
1988	10,238,011	1,231,193	7,811,879	616,546	578,393
1987	7,807,482	1,293,826	5,182,675	582,833	748,148
1986	5,402,026	1,191,640	2,787,846	542,147	880,393

Source: U.S. Department of Defense, Directorate for Information, Operations, and Reports, Atlas/Data Abstract for the United States and Selected Areas, Fiscal Year 1989.

Five contractors accounted for more than one-third of the otal amount obligated for Virginia awards. Although none of these ntractors ranked among the top five in the United States during deral FY 1989, it is important to note that in previous years, rger awards have been obligated to Virginia contractors. For ample, in federal FY 1988, more than $5.0 billion was obligated to neco, Inc. in Newport News. This was the fourth largest dollar ume of prime contract awards obligated to any one company in the ted States. However, it represented the largest amount awarded to ompany in one state. The dollar volume for the top three anies (McDonnell Douglas Corporation, General Dynamics oration, and General Electric Company) was dispersed among two or states.

Because contracts are just counted in the year they are ated, the lower award in FY 1989 does not mean that less work is conducted in Virginia than in previous years. Rather, much of urrent work is from contract backlogs. Some experts believe utbacks in future awards would not necessarily affect the ctors in Virginia because they could retain more of the work se. However, future cutbacks would probably hurt the smaller in Virginia that function as subcontractors.

Defense Installations Are Located Throughout the State

The locations of defense installations within Virginia correlate with the major locations of DoD expenditures and personnel (Figure 4). According to DoD, there are currently 38 defense installations within Virginia. However, as recommended by the Defense Secretary's Commission on Base Realignment and Closure in 1988, two of these installations and three stand-alone housing installations are in the process of being closed. More recent recommendations for additional closures have been set aside by the Defense Authorization Act of 1991. A final decision on closure of any additional properties will not be made until October 1991. In April 1991, the Secretary of Defense will submit proposed closures to an eight-member commission (to be appointed by the President and confirmed by the Senate) for their review. The commission will deliberate the list and make recommendations to the President, who will in turn make recommendations to the U.S. Congress.

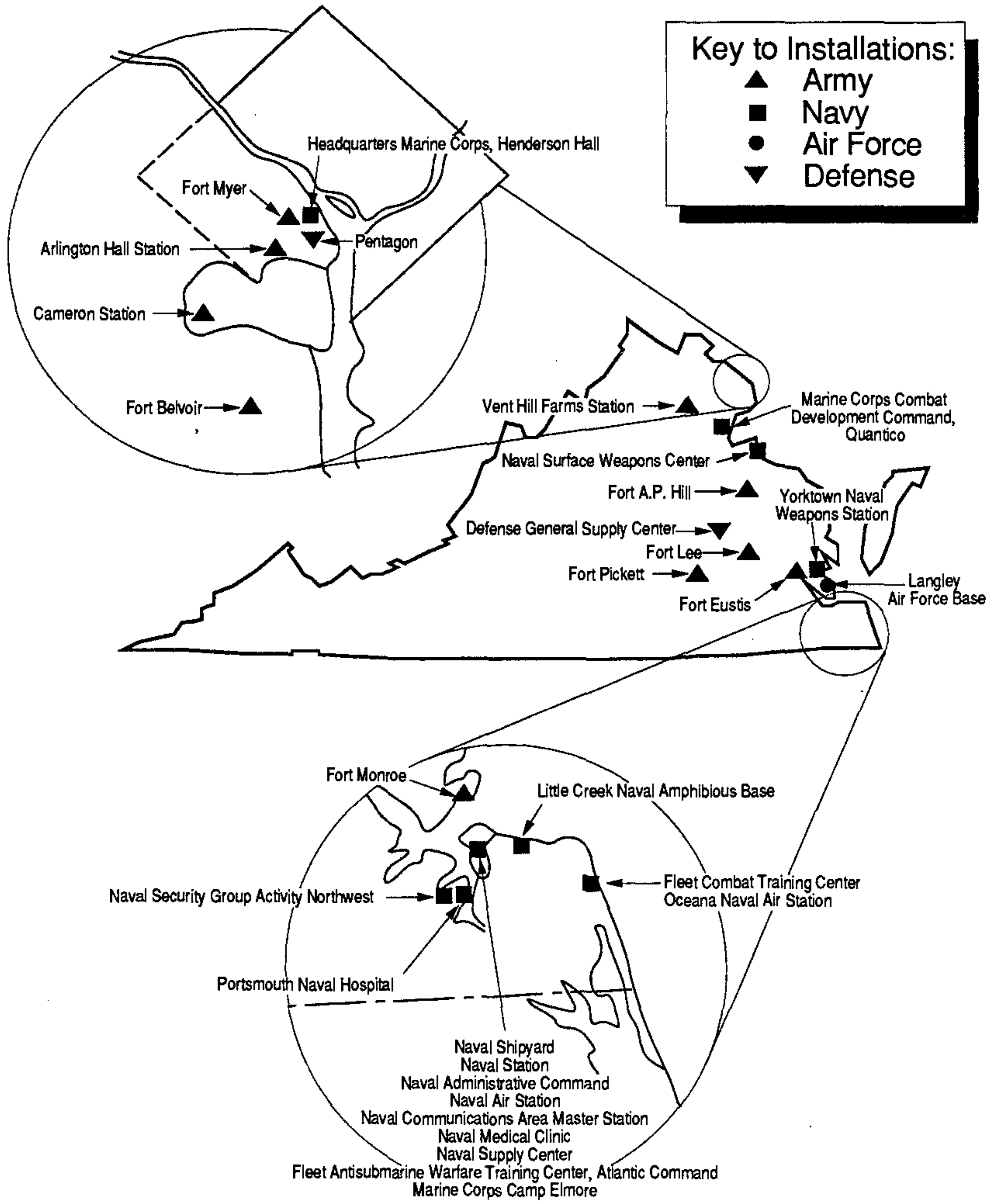
Through the Office of Economic Adjustment, the federal government provides assistance to communities affected by closure of defense installations. According to the director of the office, communities are urged to set up an organization such as a steering committee with the single mandate of planning and implementing successful reuse of the property. After the community has adopted or endorsed a plan for facility reuse, it must garner the resources necessary for conversion of the federal property. Generally, this means that sufficient funds must be available to make the necessary capital investment.

Federal property statutes cover disposal of military installations for certain defined categories of public use -- such as airports, parks, or schools. When put to one of these public uses, the federal property will convey to the local government entity. Other areas on the base with industrial or commercial value are appraised for their market value prior to disposal. Examples include family housing, warehouses, shops, and other commercial or industrial buildings. Differing levels of discount are put on the property depending on its use. Therefore, even property which is not put to public use may be basically free -- for example, conversion of family housing into low-income housing. Further, if there is an airfield, the runway, towers, and parking facilities convey at no cost to the local authority. In addition, the local government can acquire supporting property to fund the airfield -- the local government can convert property into an industrial park and get lease revenue to offset other costs.

The Office of Economic Adjustment has worked with more than 400 communities in making these transitions. Usually within three to four years of the decision to close an installation, the community has completed a comprehensive planning process and regained a number

Figure 4

U.S. Department of Defense Military Installations in Virginia



Note: Figure shows only military installations illustrated on Department of Defense maps, plus the Pentagon.

Source: U.S. Department of Defense, Directorate for Information, Operations, and Reports, *Atlas/Data Abstract for the United States and Selected Areas, Fiscal Year 1989.*

of the civilian jobs on the base. In many cases, communities have increased the number of jobs there previously. The communities have converted bases to several different uses. For example, 42 bases have converted to airports, 75 have become industrial parks, 50 have become educational facilities, and approximately one-third have converted to recreational facilities.

The two military installations in Virginia which are in the process of being closed, Cameron Station and the Defense Mapping Agency, are in Northern Virginia. Alexandria, where Cameron Station is located, has established a committee and has been working closely with the Office of Economic Adjustment for approximately 18 months. However, Herndon, where the Defense Mapping Agency is located, has not requested assistance from the office. The three military housing installations to be closed will simply be auctioned off. All five properties must be converted or disposed of by federal FY 1995. If additional properties in Virginia are approved for closure, assistance from the Office of Economic Adjustment will be available to affected communities. These communities could benefit from this assistance and proactive planning.

COMPETITOR STATES FOR THE DEFENSE DOLLAR

Virginia is not the only state with a large share of the defense dollar. Several other states would also be affected by closure of additional installations or by cutbacks in personnel and procurement contracts. These other states would probably be those competing with Virginia for replacement industry. Many of them have already initiated actions to help minimize or offset cutbacks in defense.

During federal FY 1989, Virginia and several other states and U.S. territories ranked among the top 15 states for various categories of DoD expenditures. Six states (California, Texas, Virginia, Florida, Maryland, and Washington) ranked in the top 15 for all gross expenditure measures considered (Table 8). Five states or territories (Washington, D.C., Guam, Alaska, Virginia, and Washington) ranked in the top 15 for all per capita expenditure measures considered (Table 9).

Many of the states which ranked highly on the expenditure measures have undertaken efforts to help offset cutbacks (Exhibit 1). These efforts have generally been focused on studying the nature and scope of the potential effect of cutbacks on individual workers, communities, or companies. However, several states have established programs for business conversion -- to provide assistance to smaller defense-oriented firms. Community needs have also received attention in several states. Washington, the only state besides Virginia which

Table 8

TOP FIFTEEN STATES AND U.S. TERRITORIES FOR SELECTED U.S. DEPARTMENT OF DEFENSE EXPENDITURES DURING FEDERAL FISCAL YEAR 1989

GROSS EXPENDITURES OR OBLIGATIONS

(Dollars in Thousands)

STATE OR TERRITORY	Rank	DoD Total	Rank	Subtotal Procurement Contracts	Rank	Subtotal Salaries and Wages*	Rank	Active-Duty Military Salary/Wage Component	Rank	Civilian Salary/Wage Component
California**	1	$36,717,000	1	$22,790,482	1	$10,967,532	1	$6,516,801	1	$4,019,648
Texas**	2	16,257,000	2	8,963,987	3	5,250,846	3	3,258,588	3	1,672,697
Virginia**	3	15,119,000	7	5,728,086	2	7,824,785	2	4,154,703	2	3,485,235
Florida**	4	9,839,000	9	4,417,739	4	3,322,029	5	2,215,970	8	952,310
Massachusetts	5	9,776,000	3	8,732,232	—		—		—	
New York	6	8,315,000	4	6,434,122	—		13	749,796	—	
Missouri	7	7,799,000	5	6,264,834	—		—		—	
Ohio	8	6,937,000	8	4,979,728	13	1,584,270	—		6	1,090,390
Maryland**	9	6,734,000	10	3,771,733	7	2,419,075	12	898,527	5	1,378,367
Connecticut	10	6,722,000	6	6,087,792	—		—		—	
Washington**	11	5,950,000	12	2,928,688	8	2,291,749	9	1,293,047	9	867,619
Georgia	12	5,596,000	—		5	3,079,800	6	1,731,308	7	1,077,359
Pennsylvania	13	5,272,000	15	2,791,444	11	2,019,499	—		4	1,488,377
New Jersey	14	5,097,000	11	3,345,309	—		—		10	831,732
Colorado	15	4,960,000	13	2,833,615	—		11	1,008,837	—	
Arizona	—		14	2,833,615	—		—		—	
North Carolina	—		—		6	2,784,749	4	2,258,954	—	
South Carolina	—		—		9	2,052,693	8	1,316,068	—	
Hawaii	—		—		10	2,052,112	7	1,362,357	13	649,481
Alabama	—		—		12	1,615,315	—		11	804,160
Kentucky	—		—		14	1,552,715	10	1,093,166	—	
Illinois	—		—		15	1,521,312	14	729,495	15	625,272
Oklahoma	—		—		—		15	696,112	12	701,145
Utah	—		—		—		—		14	636,128

* Includes active-duty military, inactive military, and civilian wages.

** Indicates state or territory ranked in top 15 for all categories.

— Indicates state or territory did not rank in top 15 for that category.

Source: JLARC analysis of Federal Expenditures by State for Fiscal Year 1989, U.S. Department of Commerce, Bureau of the Census, March 1990.

Table 9

TOP FIFTEEN STATES AND U.S. TERRITORIES FOR SELECTED U.S. DEPARTMENT OF DEFENSE EXPENDITURES DURING FEDERAL FISCAL YEAR 1989

			PER CAPITA EXPENDITURES OR OBLIGATIONS					
STATE OR TERRITORY	Rank	DoD Total	Rank	Subtotal Procurement Contracts	Rank	Subtotal Military Wages	Rank	Subtotal Civilian Wages
Washington, D.C.*	1	$3,422	2	$1,526	4	$802	1	$981
Guam*	2	3,381	13	649	1	1,709	2	937
Alaska*	3	2,562	5	972	3	1,125	6	339
Hawaii	4	2,536	—		2	1,261	3	584
Virginia*	5	2,479	6	939	5	712	4	572
Connecticut	6	2,075	1	1,880	—		—	
Massachusetts	7	1,653	3	1,477	—		—	
Missouri	8	1,512	4	1,214	—		—	
Colorado	9	1,495	8	876	9	339	—	
Maryland	10	1,435	9	804	—		7	294
California	11	1,263	11	784	—		15	138
Washington*	12	1,250	14	615	13	299	12	182
Arizona	13	1,218	10	797	—		—	
Maine	14	1,216	7	896	—		—	
Utah	15	1,153	15	574	—		5	373
Mississippi	—		12	676	—		—	
New Mexico	—		—		14	261	10	199
North Dakota	—		—		7	379	—	
Georgia	—		—		12	311	13	167
South Carolina	—		—		6	423	14	162
Oklahoma	—		—		15	253	9	217
Alabama	—		—		—		11	195
North Carolina	—		—		8	361	—	
Kentucky	—		—		10	321	—	
Kansas	—		—		11	314	—	
New Hampshire	—		—		—		8	266

* Indicates state or territory ranked in top 15 for all categories.

-- Indicates state or territory did not rank in top 15 for that category.

Source: JLARC analysis of Federal Expenditures by State for Fiscal Year 1989, U.S. Department of Commerce, Bureau of the Census, March 1990.

Exhibit 1

EFFORTS RELATED TO DEFENSE CUTBACKS WHICH HAVE BEEN UNDERTAKEN OR PROPOSED IN VIRGINIA AND OTHER STATES

State	Establishment of Governmental Body Or Study Group to Assess Potential Cutback Impacts	Development of Economic Plan to Address Military Cutback Impacts	Expansion of Job Training and Re-training Programs	Establishment of Program for Industry Conversion and/or Assistance	Establishment of Program for Community Conversion and/or Assistance
California	X	X	X	X	
Colorado	X				
Connecticut	X*		X	X	
Florida	X	X	X	X	
Maine	X	X		X	
Maryland	X*		X*	X*	
Massachusetts	X	X		X	
Minnesota	X*			X*	
New York	X				
Ohio	X			X	
Pennsylvania	X				X
Texas	X				
Vermont		X*	X*	X*	X*
Virginia	X				
Washington	X	X		X	X

* Indicates legislation was introduced but was not enacted.

Source: JLARC analysis of State Level Strategies for Economic Conversion and Diversification, April 1990; Analysts Say States Better Able to Adjust to Cuts in Military Spending, March 1990; Cushions for Contractors, January 1990; Worries for Workers, January 1990; Risks by the Region, January 1990.

ranked highly on all DoD gross and per capita expenditure measures, has established a governmental body and developed an economic plan to address military cutbacks. Washington has also initiated business and community conversion programs.

A more recent trend in other states and private industries has been the formation of a loose partnership with DoD to assist in placement of ex-military personnel. Florida has established an office to assist retired or laid off military personnel in finding new careers, particularly as teachers. Many of the military personnel have college or graduate degrees and could be certified as substitute teachers -- thereby helping to fill the teacher shortage in the state. The trucking industry within Florida has also expressed an interest in recruiting some ex-military personnel. Health care and law enforcement are two other employment areas which are being explored as second careers for military personnel in Florida.

CONCLUSION

State officials in Virginia have already recognized that the State is vulnerable to several types of defense cutbacks -- particularly in the Northern Virginia and Hampton/Tidewater areas. While these two areas have the greatest concentrations of manpower and contract obligations, other areas of the State which rely heavily on the defense industry are also vulnerable to cutbacks. For example, the Richmond Regional and Crater PDCs (PDCs 15 and 19) also have significant concentrations of manpower. In addition, subcontractors may be located throughout the State.

No one knows exactly what cuts will be made in the defense budget over the next few years, especially given the situation in the Persian Gulf. However, preparatory steps can be taken to minimize potential impacts. For example, because of the defense manpower concentration in the State, Virginia should proactively assess the characteristics of the military and civilian workforces stationed here. Any cutbacks in these workforces could be made beneficial to the State if training programs were expanded and new industry were brought in to retain laid off individuals. To attract appropriate industry, Virginia must identify industries which match personnel and community profiles in the geographic areas affected.

The retention of military personnel in Virginia could result in additional revenue to the State, particularly from State income taxes. Most of the military personnel stationed in Virginia do not claim Virginia as their resident state for payment of income taxes. If they obtained new employment in Virginia after leaving the military, the State would benefit from additional income taxes.

Further, if the State does not attempt to retain personnel and their families, losses from spousal payment of State income tax could occur.

It is important for the State to be cognizant of the potential impacts of cutbacks in contract awards on firms within Virginia. Economic development programs, which could assist the small subcontractor companies that might be affected by cutbacks in contract awards, are already in place. These programs include the technology transfer program administered by the Center for Innovative Technology and the Virginia Community College System as well as the industrial call program and small business development centers administered by the Department of Economic Development. For example, the technology transfer program could help companies identify new uses or products which could be made with their existing machinery and workforces. Small business development centers have already provided assistance to firms interested in obtaining defense contracts and subcontracts. These centers could continue to work with the firms by exploring other markets.

Appendix D

AGENCY RESPONSES

As part of an extensive data validation process, the major State agencies involved in a JLARC assessment effort are given an opportunity to comment on an exposure draft of the report. Appropriate technical corrections resulting from the written comments have been made in this version of the report.

This appendix contains the following responses:

- Secretary of Economic Development,
- Department of Economic Development,
- Virginia Port Authority,
- Center for Innovative Technology,
- Virginia Community College System, and
- Virginia Small Business Financing Authority

November 1, 1990

To: Joint Legislative Audit and Review Commission
The Virginia General Assembly

From: The Honorable Lawrence H. Framme, III
Secretary of Economic Development

Subject: JLARC Exposure Draft: Review of Economic Development in Virginia

Thank you for the opportunity to review and comment on the October 19, 1990, Joint Legislative Audit and Review Commission (JLARC) Exposure Draft, "Review of Economic Development in Virginia".

I found the methodologies for developing the report, especially regional focus groups, to be inclusive of interested and active parties in Virginia's economic development. The comments of the focus groups and employees within the Department of Economic Development (DED) were insightful. I also believe the report accurately points out the need for more written policy and procedures within DED. It is a good report and will receive positive consideration by this Secretariat.

However, I believe the following comments and observations will improve the completeness and accuracy of the report.

o The report has too narrow a view of economic development. Although the title of the report is "Review of Economic Development in Virginia", the report only addresses, in any detail, the Department of Economic Development. This Secretariat has a more holistic and integrated view of economic development that not only encompasses the seventeen agencies of the Secretariat, but also recognizes the significant influences of transportation, natural resources, education and health and human resources on economic development. We view the economy of Virginia as our constituency and the stewardship of the health of Virginia's economy through economic development as our mission. The report should adopt our broader view of economic development in order to live up to its title, or change the title to reflect its concentration on DED.

o The report recommends consolidating and functionalizing the research and Communications and public affairs components that currently exist as separate organizational entities within DED's divisions of Tourism and [Trade] and Industrial Development. JLARC needs to be aware that this consolidation has already been recommended as part of the restructuring plan for DED to accommodate the merger of the Department of World Trade (DWT). It is currently being implemented.

o The report documents the dichotomy that currently exists between the Divisions of Tourism and [Trade] and Industrial Development within DED. However, it fails to recognize the role that the legislative body played and continues to play in fostering (if not mandating) this separation. The separate budgeting for the two divisions, the strong and separate legislative proponents for the two divisions, and the inability to move funds and staff between the divisions without legislative approval not only aggravate this separation , but make it more difficult to achieve the kind of coordination and consolidations advocated by the JLARC study. Proper recognition of the problem without acknowledgement of a major contributing cause does not foster a "real" solution.

o The report accurately recognizes the lack of an overall economic development policy for the Commonwealth, and recommends that one be developed. This administration recognized this from the outset in January, 1990, and is acting on this. However, we are going beyond the mere development of a policy statement. We are currently developing an integrated, long term economic development strategic plan for the Commonwealth. This strategic plan will be based on the holistic integrated view of economic development described in the first bullet, above. A draft of the strategic plan will be submitted to the Governor.

o The report's observation that the functions of international trade would more appropriately reside within Virginia Port Authority (VPA) than DED only considered the fact that both DWT and VPA dealt in exports, and failed to recognize the following:

  o The marketing strategies, approaches and techniques of VPA are significantly different from the Department of World Trade (DWT). In fact, they are different from DED and VDACS, as well. This difference is spawned by the fact that VPA is the only economic development entity that owns and operates what it markets (i.e., ports and terminals). Whereas, VPA actually enters into contracts with buyers, DWT, DED and VDACS only serve as matchmakers bringing buyers and sellers together. Hence, the synergism in marketing strategies, approaches and techniques between DED and DWT are a driving force for the merger. The lack of that synergy between DWT and VPA would not result in the enhanced marketing that results from the DWT and DED merger.

o The customers for both DED and DWT are the same. They both serve Virginia businesses. DED attempts to get Virginia businesses to expand in Virginia, and DWT attempts to get Virginia businesses to expand their products internationally. This customer synergism is augmented by coordination of the international networks of DED and DWT to foster joint partnering for trade and industrial development.

The similarities, existing synergism and potential for expanded synergism between Virginia's international trade and industrial development activities are so significant that the merger of DED and DWT is an obvious conclusion.

Your report is a good one and reflects the extended effort of the JLARC staff. I believe your recognition and inclusion of the above comments will improve the report. This Secretariat will certainly benefit from the information and recommendations of the report. It reassures us that we are on the right track.

Again, thanks for the opportunity to review the exposure draft.

COMMONWEALTH of VIRGINIA

L. Douglas Wilder
Governor

Office of the Governor
Richmond 23219

Respond to:
Department of Economic Development
1021 East Cary Street
Post Office Box 798
Richmond, Virginia 23206-0798
(804) 371-8100

November 6, 1990

Mr. Philip A. Leone
Director
Joint Legislative Audit
and Review Commission
General Assembly Building
Suite 1100
Richmond, Virginia 23219

Dear Mr. Leone:

Thank you for the opportunity to comment on the recently completed study entitled "Review of Economic Development in Virginia." The Virginia Department of Economic Development is pleased to have been involved in the study and grateful for the skill, thoroughness, and cooperation with which your staff pursued its work, not only within the Department but with Virginia's economic development community at large.

In preparing our response to your findings and recommendations, we will purposely be both brief and focused on major issues. We will not attempt to rebut each observation on which we may disagree, but rather we acknowledge that both formulation of economic development policy and the management of this agency are evolving phenomena that are subject to scrutiny, evaluation, and improvement on a continuing basis. In short, while we may not agree with a number of the report's findings, we will comment in this paper only on the most substantial organizational issues.

<u>Comments</u>:

Recommendations #3 and #4 in the JLARC study concerned the return on investment (ROI) formula and travel expenditure estimates prepared by the U.S. Travel Data Center (USTDC) for the Division of Tourism.

The ROI formula was prepared in cooperation with the U.S. Travel Data Center, the Center for Public Service at the University of Virginia (formerly the Tayloe Murphy Institute), and Dr. Donald J. Messmer of the College of William and Mary. It was prepared in response to a General Assembly expressed-need for a measurement of the Division's return on its advertising expenditures.

Without going into a lengthy point-by-point response, we acknowledge that improvements can be made to the current ROI formula, and we are willing to work with experts in the travel field and economists familiar with ROI formulas to develop a reliable model. The results will be offered to the legislature for their consideration. The ability to perform such an update may be costly, and these costs will be weighed against the anticipated improvements in the measure.

Recommendation #4 stated that the Division of Tourism "not publish the economic impact information from the USTDC, nor should the Division distribute this information to localities. Further, the Division should not purchase this economic impact information from the USTDC." We agree that problems exist with the estimates generated by the USTDC; however, the Center, as the research arm of the Travel Industry Association of America and the tourism research center for the U.S. Department of Commerce (which provides federal funding to the Center), provides the only travel expenditure estimates that are comparable among all 50 states. Some states have contracted with private research firms to generate travel expenditure estimates. Due to significant differences in methodology and input data used, however, these estimates are not comparable to the USTDC estimates and cause much confusion among the states when the figures are released.

While we support the USTDC, we realize errors occur, particularly with data being broken down to the city and county levels. We are making significant progress to improve the locality data being used by the USTDC. For example, the Division of Tourism has been granted access to the Virginia Employment Commission's ES-202 files in non-suppressed form. Similarly, the Division has recently gained access to the actual local tax revenues collected by localities for meals, lodging, and admissions and has compiled a comprehensive list of all lodging establishments by locality with a room count. All of this information will be used by the USTDC in generating final 1988 and preliminary 1989 estimates for Virginia's 136 counties and cities.

We have a contract with the USTDC to produce final 1988 and preliminary 1989 estimates and will honor that contract. However, we will begin to assess the viability of transferring the generation of local estimates in-house. If such a move proves viable, we will initiate action on this immediately.

Recommendations #6 and #7 in the JLARC report concern Industrial Training. Industrial Training is the major incentive Virginia offers in the attraction of new industries. In addition, we believe it is an important component of Virginia's effort to provide a skilled workforce. The highly competitive market place dictates that Virginia offer a comprehensive and flexible training program.

We believe the JLARC report recognizes the necessity for and value of Virginia's Industrial Training program. We, in turn, recognize the responsibility of accountability and will endeavor to improve budget forecasting techniques. We do, however, have concerns with some of the report's specific recommendations regarding Industrial Training.

Recommendation #6 calls for a company to meet three criteria before industrial training services are provided. Criteria regarding minimum number of jobs and capital investment are in place and offer generally no significant change from existing policy. The report adds a minimum wage of $6.50/hour as a requirement.

Given the fairly consistent relationship between lower paying industries and their location in rural areas, we believe it would be counterproductive to other state-sponsored programs designed to improve the well-being of these areas if we denied training to an industry paying less than $6.50/hour. The southwest Virginia site development effort, shell buildings, Communities for Opportunities program, and the target industry studies are all aimed at making it possible for the rural areas of Virginia to participate in the economic advantages enjoyed by the rest of the Commonwealth. The end result of this proposal would hit hardest the areas and individuals of the state least able to absorb the loss.

Recommendation #7 would limit training projects to the amount of the Department's originally approved budget. An analysis of Industrial Training projects for FY 88-89 reveals that 40 percent of the programs for that year were unknown to the Department on July 1, 1988. In other words, nearly half of all Industrial Training projects for that fiscal year fit the category of the unforeseen.

The Department doesn't choose its projects; industry chooses Virginia, a fact which has contributed greatly toward the Commonwealth's coveted economic stability. This growth is an unqualified economic blessing, but it makes even more knotty the issue of forecasting budget needs. Improved estimating procedures still do not enable the Department to predict which companies will decide to locate or expand in Virginia, when it might happen, and what the nature of their training requests might be.

This recommendation is indeed a drastic approach and one which would place the marketing of Virginia to new employers at a serious disadvantage. Even one large company deciding to locate in the Commonwealth can easily put Industrial Training over the amount of its appropriation. This would hamstring our recruitment efforts and foster a level of uncertainty about Virginia's commitment which would be detrimental . Similarly, existing businesses would be hurt as they try to expand in an increasingly limited labor market.

Recommendation #23 suggests the merging of communications and advertising functions of the Tourism and Industrial Development functions into a commonly accessible communications resource. The advertising functions of the Department of Economic Development are divided between the two divisions primarily because they address two very dissimilar audiences, utilize completely different approaches, and employ unique staff requirements.

Industrial development advertising is directed toward a very targeted audience of developers and senior business management utilizing business trade-related media. The purpose of this advertising is to build industry awareness of Virginia as a desirable place to do business. This form of advertising, though somewhat difficult to measure results, has become a key tool of all state industrial development programs and is an important component of the competitive mix.

Tourism advertising is the mainstay of the tourism marketing program in every state. The advertising is targeted at the traveling consumer to cause him to select Virginia as a travel destination and at the travel trade to cause them to market through their different venues, Virginia. Advertising programs are directly related to sales promotion and public relations efforts. In many cases, one is not successful without the other; however, in the question of which comes first, without travel advertising, you do not have a destination marketing program.

Recommendation #24 suggests a merger of functions in the research area similar to the merger of communications and advertising. The Department agrees that certain ostensible synergies are not being realized from the current structure.

On finer examination, however, the individual functions as currently positioned bring a degree of specialization to their respective areas that maximize their responsiveness and effectiveness to the process they are designed to serve. Industrial development research, for example, is designed to provide project-specific economic data to assist the site location process and needs to be responsive first and foremost to the Director of Trade and Industrial Development. Similarly, Tourism advertising and research are mutually supportive and need to be directly responsive to the Director of Tourism as a vital component of the tourism marketing process. In neither case are these functions generic or interchangeable.

The issue of consolidation revolves around not only the kinds of research conducted, but also the users of the information. For Industrial Development, researchers work closely with marketing managers, supplying them with statistics and other data needed to attract potential businesses to the state. In addition, the researchers respond to requests from consultants, site location experts, developers, and others who need specific information to support plans to develop new businesses or to expand existing corporate operations in the state. The nature of the information they require is very detailed and very specific.

Tourism's research efforts are very much consumer-oriented. The information needed, such as estimates of travel expenditures, visitor characteristics, competition in the area, etc. is very specific to the tourism industry.

Despite what appear to us to be compelling reasons to keep these operations separated, we are currently evaluating these functions, especially in view of the recent integration of the Department of World Trade, to identify organizational modifications which will improve operations.

Recommendation #29 suggests written procedures should be developed for the industrial development marketing section. Other portions of the report reflect on the absence of written procedures and indicate concern for accountability of individual performance. The Director of the Department is not insensitive to the modest level of written procedural guidelines in the agency. In lieu of this management technique, however, the current and longstanding practice in the Department has been to effect an environment in which good people are chosen, trained, and permitted to perform in an atmosphere largely unfettered by bureaucratic requirements. Accountability is effected through continuous interaction with supervisors, and evaluation of performance is based on accomplishment. The keenly competitive environment in which the Department operates in virtually all phases of its activities has influenced the conscious implementation of this management approach. The Commonwealth's substantial volume of procedures affecting procurement, travel, personnel evaluations, etc. would appear to provide the necessary administrative framework for the Department's operations. In view of the report's recommendation on this issue, however, we will begin evaluating how best to accommodate this recommendation.

Recommendations #30 and #31 reflect on communications within the Department both at the headquarters and vis a vis outlying offices. Consolidation of the Department's headquarters staff from four buildings to one has and will continue to make an immeasurable positive impact on internal communications as have other activities including all-staff briefings, internal newsletters, and continued application of senior management concern to this issue. Those efforts will persist.

In summary, the draft report contains 37 recommendations of which 28 are focused toward this agency. We have begun the process of carefully evaluating all the findings and determining how best to incorporate them into the Department's operations.

Many thanks.

Sincerely,

Hugh D. Keogh
Director

NOV 1 1990

COMMONWEALTH of VIRGINIA

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J. Robert Bray
Executive Director

October 29, 1990

Mr. Philip A. Leone, Director
Joint Legislative Audit and
Review Commission
General Assembly Building - Suite 1100
Capitol Square
Richmond, Virginia 23219

Dear Mr. Leone:

Thank you for the opportunity to comment on the draft of your report, "Review of Economic Development of Virginia". The Virginia Port Authority staff has no changes to offer on the information you forwarded to this office.

Thank you for the opportunity to participate.

Yours very truly,

J. Robert Bray
Executive Director

cs

Virginia's Center for Innovative Technology

CIT Tower
Suite 600
2214 Rock Hill Road
Herndon, Virginia 22070

(703) 689-3000

November 1, 1990

Mr. Philip A. Leone
Director
Commonwealth of Virginia
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Bldg., Capitol Square
Richmond, Virginia 23219

Dear Mr. Leone:

Thank you for the opportunity to comment on the exposure draft for the review of the Economic and Technology Development Program in which CIT and VCCS have a partnership. We have done a thorough review of the recommendations and the information in the report. Our comments are provided in the following pages.

CIT has identified many of the issues you raise in the report and has, in fact, been addressing these during the pilot and operational phases of the program. We have been working to bring to the program a high level of quality in delivering benefits to companies that need assistance throughout Virginia.

I have discovered an excellent record of accomplishment in successful technology assistance cases during my tenure at CIT. These program accomplishments are provided herein for your use in the report. We are proud of these successes and know the commonwealth's businesses have benefitted by our sponsorship of this program.

I and my staff would be pleased to discuss this with you further if you so desire.

Cordially yours,

Linwood Holton

Linwood Holton
President

aaf

CIT Comments on Recommendations

Recommendation (19) - CIT believes it should not define what type of technology or type of business organization to be served by the program. In order to succeed this program must be driven by technology and company needs. Technology can enter any business type and be of any sort.

Recommendation (20). CIT agrees with the conclusion. The CIT has taken concrete steps over the last year to increase community college interaction and transfer a director from a location that did not benefit that community college. Limited resources and budget would suggest that full coordination would be difficult under one individual, and CIT will increase the management oversight of the program.

Recommendation (21) - CIT agrees with this recommendation and has already taken steps to address it. The exact measures should be left to CIT.

Recommendation (22) - This recommendation has already been instituted by CIT. Under the current CIT director, uniformity is being addressed in reporting and definition of the program.

VIRGINIA COMMUNITY COLLEGE SYSTEM
James Monroe Building • 101 North Fourteenth Street • Richmond, Virginia 23219

NCI

November 1, 1990

Mr. Philip A. Leone, Director
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building
Richmond, Virginia 23219

Dear Phil:

Thank you for the opportunity to review and respond to the portion of the exposure draft of the Review of Economic Development in Virginia that pertains to the technology transfer program co-sponsored by the Virginia Community College System (VCCS) and the Center for Innovative Technology (CIT). The report raises several important issues to which we are pleased to respond.

In preparation for this response, we contacted each president with an active technology transfer program. The presidents had a variety of perspectives, as will be reflected in the remarks that follow.

Clearly, technology transfer and small business development centers (SBDC) complement one another. Where a technology transfer program is present and a SBDC is not, the technology transfer program will receive many requests for service that should go to a SBDC. The converse is also undoubtedly true. Each of these requests must be treated with respect, and service provided if possible under the guidelines. Thus, some investment of time in requests that are ultimately determined not to meet service guidelines is both necessary and appropriate. From the information available to us, it appears that when both programs are available in the same locality, they have tended to work together effectively to their mutual benefit.

We agree that the experience of the pilot programs should be used to refine the focus of the technology transfer program. We believe that this refinement of focus is ongoing and that this is the purpose of the pilot test phase. We note, however, that several presidents pointed out that the scope of the programs in different regions should depend, at least in part, on the availability of other assistance programs and the level of technical sophistication generally found in the geographic area served by the college.

Most, but not all, of the presidents disagree with the conclusion that the programs are not well incorporated into the college operations. These presidents report a sense that the programs have proven to be extremely beneficial to both their colleges and their communities. The nature of coordination with the CIT will likely retain an "awkward" appearance while the present organizational structure is maintained.

We concur that the impact of the technology transfer program cannot be reduced to a simple dollar figure and that the additional impact factors listed in the report, and likely others, may be useful in evaluating the impact of the programs.

As suggested earlier, the program presently has the appearance of being awkward--of having two heads. While we believe this arrangement has worked well during the pilot test phase, we feel that consideration might be given to a new structure for continued implementation. We feel that specific performance goals should be established and CIT should then enter into an agreement with the VCCS and the colleges to provide the program. Under such an arrangement, the VCCS would administer the program under guidelines established by CIT, and CIT would periodically evaluate the performance of the program with respect to the previously-defined goals. Such an arrangement would avoid the difficulties inherent in a dually administered program.

Thank you for the opportunity to present these observations. We are persuaded that the technology transfer program has much merit, and that, as resources may allow, the lessons learned in the pilot phase can be beneficially applied to a continuing and expanded program in the future.

Sincerely,

Dave Pierce

David R. Pierce
Chancellor

V·S·B·F·A
VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

1021 E. Cary Street · P.O. Box 798 · Richmond, VA 23206-0798 · 804-371-8254

November 20, 1990

Charlotte A. Kerr
Chief Legislative Analyst
Joint Legislative Audit and
Review Commission
General Assembly Building, Suite 1100
Richmond, VA 23219

Re: Review of Economic Development in Virginia

Dear Ms. Kerr:

The Board of Directors of the Virginia Small Business Financing Authority (VSBFA) has obtained a copy of your November 14, 1990 Staff Briefing on JLARC's Review of Economic Development in Virginia. On behalf of all of the members of the VSBFA Board, I would like to take exception to several points made in your assessment of VSBFA on page 56 of the Briefing.

First, federal actions effective January 1, 1987 have indeed limited the eligible uses of tax-exempt industrial development bonds (IDBs). More importantly, the uncertainties created each year since then concerning reauthorization of the program by Congress, have made it difficult to market even that which has been permitted. While this has caused the volume of IDBs we have issued to decrease substantially from the heydays of 1985 and 1986, the VSBFA IDB Program and our Umbrella IDB Program continue to be viable and important sources (and in many cases, a small business' only avenue for this type of financing) of low interest financing for small manufacturing firms in Virginia.

<u>**JLARC Note**</u>: For calendar year 1990, the VSBFA did not receive an industrial development bond allocation for its programs from the Governor. In addition, the U.S. Congress revoked the tax-exempt status of industrial development bonds in September 1990. Therefore, the continued viability of the VSBFA's industrial development bond programs is questionable.

Second, VSBFA's Loan Guaranty Program does not duplicate the SBA's 7A Guaranty Program. If anything, our program complements the longer-term focus of the SBA's program. Unlike the SBA Program, VSBFA's Program provides assistance to small businesses in obtaining <u>short-term</u> loans or lines of credit. The VSBFA Program has been very well received by Virginia's banks and is the only program currently available to assist young companies with their vital short-term operating capital needs during periods of growth and expansion. VSBFA's ability to guarantee loans is limited only by the size of its guaranty reserve fund (currently consisting of the $1 million appropriated to VSBFA at its inception in 1984). VSBFA can cover its operating expenses, but must be able to obtain additional state funding to add to its guaranty reserve fund if this important program is to reach more small businesses and thus have a greater impact on Virginia's economy. (In fact, the Governor's Rural Development Strategy Task Force on Financing Rural Development has recognized the value of VSBFA's program and has recommended that our guaranty reserve fund be increased.)

JLARC Note: The use of the VSBFA's loan guaranty program by small businesses is limited not only by the size of the reserve fund but also by private sector lending activity. For the loan guaranty program to provide assistance to small businesses, the private lending institutions making the loans must decide to have the loan guaranteed by the VSBFA. The VSBFA has no control over this decision. During the JLARC review, most of the loan officers contacted indicated that the VSBFA loan guarantee program is used infrequently by their private lending institutions. Therefore, the use of the VSBFA's loan guaranty program is limited by the size of the reserve fund (which had approximately $763,000 available as of September 1990) and by private sector lending activity.

Third, VSBFA has indeed generated operating revenues sufficient to cover its operating expenses. In fact, after covering our normal operating expenses, paying out $137,000 on loans guaranteed and meeting other extraordinary expenses over the years, VSBFA has a current cash position in excess of $1.1 million, i.e., $100,000 more than its initial capital of $1 million.

JLARC Note: According to the Auditor of Public Accounts, the General Assembly's intent is that VSBFA's operating expenses will be covered primarily through the collection of user charges from its programs. In fiscal year 1989, the revenue collected from user charges did not cover the VSBFA's operating expenses. In addition, the primary source of user charges' revenue for the VSBFA has been the industrial development bond programs. Because of State and federal actions concerning these programs which make their future viability uncertain, the amount of revenue generated from them will steadily decrease and be virtually eliminated within five years or so according to the executive director of the VSBFA. In fiscal year 1989, user charges from the industrial development bond programs accounted for 46 percent ($150,000) of the operating revenue for the VSBFA in fiscal year 1989. VSBFA's current complement of programs does not include an alternative which will generate this amount of revenue. Therefore, the future ability of the VSBFA to cover its operating expenses is questionable.

The VSBFA Board held a retreat this past September and explored, in depth, VSBFA's mission and future direction. The Board's goal is to help small businesses in Virginia grow and prosper by offering financing programs not provided by (but which complement) other public or private sources. Our charge is to fill that niche and to avail small businesses with access to financing on the same terms available to large businesses.

Despite VSBFA's limited resources and federal and state constraints, we have accomplished a lot in the past six years. We have issued more than $127 million in industrial development bonds for small businesses, creating 3,750 new jobs in the Commonwealth, and we have sucessfully launched a short-term loan guaranty program by leveraging our initial capital reserve. VSBFA has been in the forefront of developing innovative financing mechanisms, such as our Umbrella IDB Program, which have stimulated the private sector to provide competitive programs for small businesses. The Board is continually re-evaluating current programs in light of changes in the market. To wit, VSBFA's guaranty program was expanded in 1989 resulting in a significant increase in utilization of the program by Virginia's bankers. Now the Board is well on the road to examining the feasibility of new programs. Some may require additional resources. The Board, however, has not lost sight of the fact that VSBFA's enabling legislation is such that we are <u>the</u> Commonwealth's funding vehicle for assisting small businesses statewide and thus VSBFA has the ability to make a significant contribution to economic development in Virginia.

I am sorry we were not given the opportunity to preview and comment on your draft recommendations concerning VSBFA. I respectfully request that this letter, with its corrections to errors in fact in your Briefing paper, be incorporated in JLARC's final report.

Sincerely,

RWilliams

L. Randolph Williams
Chairman

cc: The Honorable Lawrence H. Framme, III
Secretary of Economic Development

Hugh D. Keogh
Director, Department of Economic Development

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