

# UPDATE ON IMPLEMENTATION OF VEDP REFORMS

JLARC Economic Development Subcommittee  
November 13, 2017

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President & CEO



**VIRGINIA ECONOMIC  
DEVELOPMENT PARTNERSHIP**

# TOPICS FOR TODAY'S BRIEFING

- Overview of JLARC- and GA-driven reforms at VEDP
- Status recap: JLARC recommendations
- Status recap: new Code provisions
- Highlights of selected reforms
  - Development of strategic plan
  - Creation of Division of Incentives
  - Launch of internal audit function
  - Protocol to improve alignment and coordination with partners
- Update on JLARC-identified clawbacks
- Preview of potential code changes for GA consideration
- Next steps
- Q&A

## OVERVIEW OF JLARC- AND GA-DRIVEN REFORMS AT VEDP

- Focus on improving governance, efficiency, effectiveness, coordination, and accountability, as well as strengthening incentives administration
- Charge to ensure that VEDP addresses all of its statutory duties
- Appointment of new Board, including changes in ex-officio membership (e.g., addition of money committee staff directors, chair of GO Virginia state board, and CEO/executive director of the Virginia Port Authority)
- Appointment of Committee on International Trade and Committee on Business Development and Marketing to advise the Board
- Required creation of a biennial Strategic Plan, annual Marketing Plan, and annual Operational Plan
- Creation of a dedicated Division of Incentives and internal audit function
- Imposition of a variety of new reporting requirements

# VEDP IS ON TRACK TO IMPLEMENT SUBSTANTIALLY ALL JLARC RECOMMENDATIONS BY YEAR-END 2017

VEDP Fully or Substantially Agrees with JLARC Recommendation  
VEDP Partially Agrees with JLARC Recommendation

No.	JLARC Recommendation* Brief Description	VEDP Implementation		Comment
		New Funding Required	Percent Complete** (estimate)	
1	Create a robust strategic plan for VEDP, with stakeholder engagement	no	90%	Full draft document developed; being refined and pending approval
2	Create staff onboarding program; regularly assess staff training needs	YES	60%	Documenting processes across VEDP; share best practices (BI pilot)
3	Develop and implement formal, written policies/procedures for marketing staff	no	80%	Updated all PDs; need refined procedures and final protocols
4	Ensure supervisors provide timely staff expectations; report % to Board	no	95%	Completed PDs for all staff; report % to Board in Nov.
5	Revise VEDP performance metrics to reflect activities, quality, impact	no	90%	Initial metrics adopted in FY18 Ops Plan; refine via strategic plan
6	Clarify CRM data fields and provide training to ensure data integrity	no	80%	Updated Salesforce fields; developing user's manual and training
7	Ensure that staff conform to VEDP policies on working hours	no	n/a	Established regular work hours; using/sharing Outlook calendars
8	Track staff time/allocation; use data to improve efficiency/effectiveness	no	n/a	Significantly addressed via using/sharing staff calendars
9	Request IEDC review of staff performance metrics; report results to Board	no	80%	Updated BI PDs and received IEDC review; report to Board and refine
10	Include adherence to policies in staff reviews, with penalties for variances	no	100%	Added provision to all PDs, plus annual training for supervisors
11	Survey partners to ID improved coordination/service opps.; report to Board	no	100%	Strat. plan survey results presented to BOD; planning annual survey
12	Create and adhere to a detailed annual marketing plan with metrics	no	90%	FY18 marketing plan with metrics in place; refine w/ Strategic Plan
13	Annually deliver training to marketing staff to ensure consistent alignment	TBD	50%	Some initial materials developed; planning training session in Nov.
14	Regularly evaluate effectiveness of mktg. efforts; quarterly report to Board	no	80%	Marketing plan campaigns have ROI metrics; evaluate via committee
15	Update sites/bldgs. database to conform to IEDC standards; report to Board	no	n/a	Thoroughly reviewed data elements; rec'd. additional IEDC guidance
16	Improve transparency of project-related reporting to Board	no	80%	Updated Salesforce; creating user's manual & reporting protocols
17	Clarify mechs. and measure success of mktg.-trade coord.; report to Board	no	90%	Established mechanisms/metrics; pending report to Board
18	Expand data collection on companies utilizing trade programs; report to Board	no	90%	Collected add'l. data for client companies; pending report to Board
19	Develop written policies/procedures for evaluating projects for incentives	no	80%	Basic policies/procedures now in place; refinements in process
20	Require annual report to Board on % of firms meeting reporting requirements	no	90%	Drafted report for COF; pending report to Board
21	Work with TAX and VEC to verify company performance	no	80%	Drafting updated procedures for VEC-based verification
22	Adopt formal standards (by Board) to ensure adequate incentive monitoring	no	80%	Policies recently updated but need additional refinement
24	Ensure (via Board) standards for consistently enforcing/reporting clawbacks	no	50%	Drafted approach; pending Board review
25	Ensure (via Board) perform. extensions are justified, documented, reported	no	100%	Extensions going forward will conform with new code requirements
26	Create dedicated incentives administration division w/ at least 3 employees	YES	100%	Basic structure developed and fully staffed
27	Develop a website to report on status/performance of incentives recipients	YES	50%	Held meetings re: scope; developing incentives website v1.0
34	Create an internal audit division reporting directly to VEDP Board	YES	100%	Engaged DHG as internal auditor following risk assessment

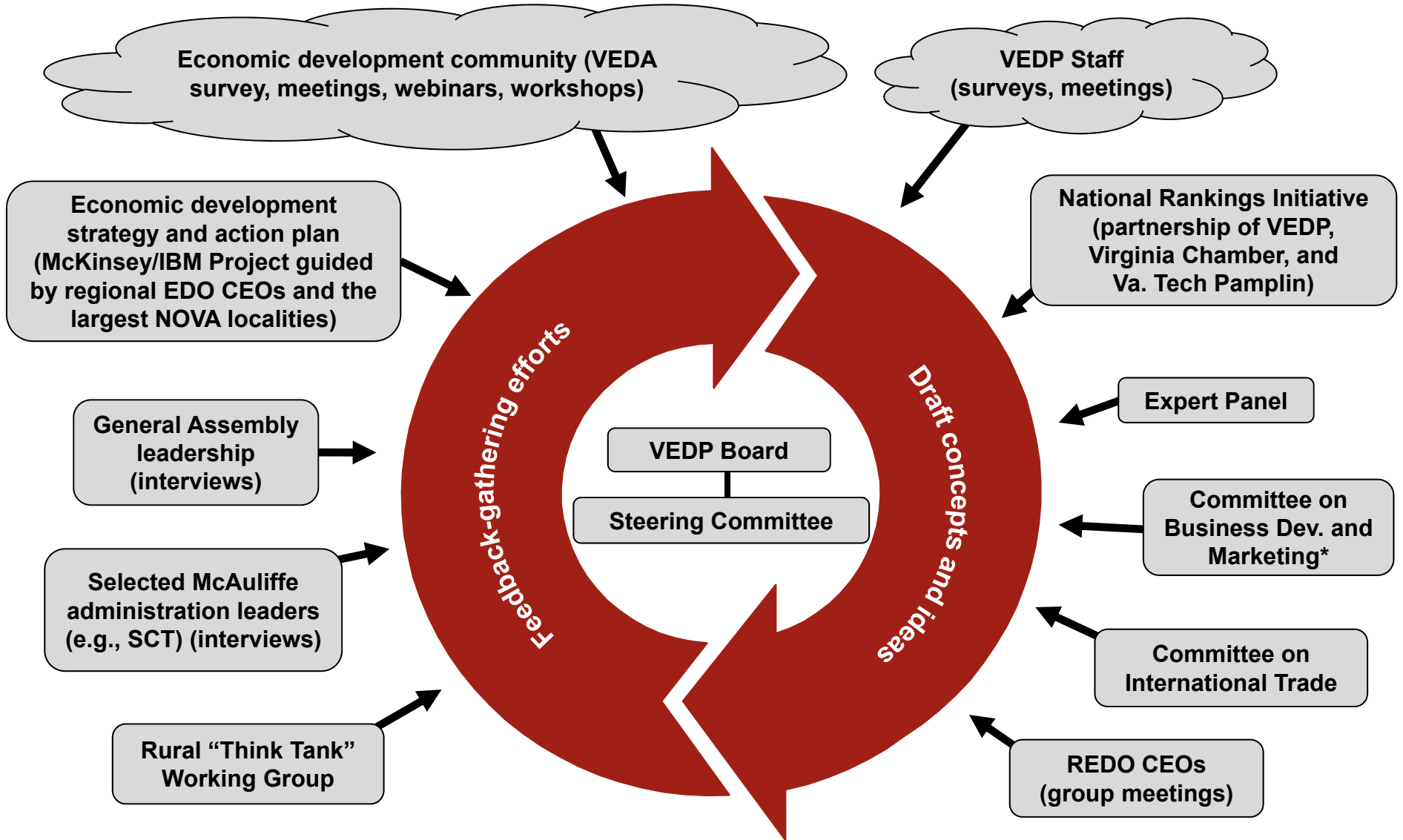
\* Excludes JLARC recommendations that were associated with items for General Assembly consideration (e.g., creating a board of economic development)

\*\* Status percentages include reporting that will occur with VEDP Board this week

## **VEDP IS ON TRACK TO IMPLEMENT SUBSTANTIALLY ALL NEW PROVISIONS IN THE CODE OF VIRGINIA BY YEAR-END 2017**

- Organization of new VEDP Board and its two advisory committees
- Appointment of internal auditor, with an annual work plan
- Development of biennial strategic plan with participation of partners
- Development of annual operational plan and annual marketing plan
- Creation of Division of Incentives, along with due diligence and monitoring/reporting
- Board approval of any incentive agreement extensions
- Completion of a variety of procedures and reporting requirements
- Establishment of Board subcommittee to review VEC information to assist with verification of employment and wage claims

# OUR STRATEGIC PLAN IS BEING CRAFTED WITH EXTENSIVE STAKEHOLDER ENGAGEMENT



\* With timing of committee appointments and Amazon HQ2-related scheduling challenges at VEDP, this committee has not yet been consulted as extensively as some of the other groups.

# WE ASSEMBLED A STRONG STEERING COMMITTEE TO GUIDE OUR STRATEGIC PLANNING EFFORTS

- Peter Blake, Director, State Council of Higher Education for Virginia (SCHEV)
- Shannon Blevins, Associate Vice Chancellor for Economic Development & Engagement, UVa-Wise
- Beth Doughty, Executive Director, Roanoke Regional Partnership
- Barry DuVal, President & CEO, Virginia Chamber of Commerce
- Evan Feinman, Executive Director, Tobacco Region Revitalization Commission
- Amanda Glover, Director of Economic Development & Tourism, Augusta County
- Victor Hoskins, Director, Arlington Economic Development
- Joshua Lewis, Executive Director, Virginia's Industrial Advancement Alliance
- Christopher Lloyd, Senior Vice President and Director, Infrastructure and Economic Development, McGuireWoods Consulting
- Barry Matherly, President and CEO, Greater Richmond Partnership
- Ken McFadyen, Director of Economic Development, Botetourt County
- Stephen Moret, President and CEO, VEDP
- Christy Morton, Executive Director, Center for Rural Virginia and Council for Rural Virginia
- Arthur Moye, Jr., Executive Vice President, Virginia Maritime Association
- Catherine Riley, VP of Marketing, Fairfax County Economic Development Authority
- Curry Roberts, President, Fredericksburg Regional Alliance
- Robin Sullenberger, Board Member, VCCS
- Telly Tucker, Director, Danville Economic Development
- Cathie Vick, Chief Public Affairs Officer, Port of Virginia
- Rick Weddle, President & CEO, Hampton Roads Economic Development Alliance

## **WE ASSEMBLED AN EXPERT PANEL TO ADVISE US DURING OUR STRATEGIC PLANNING PROCESS**

- Jeff Finkle, President/CEO, International Economic Development Council (IEDC)
- Amy Liu, VP and Director of the Metropolitan Policy Program, Brookings
- Dennis Meseroll, Executive Director, Tractus Asia Limited
- Enrico Moretti, Professor of Economics, UC-Berkeley
- Ken Poole, CEO/President, Center for Regional Econ. Competitiveness (CREC)
- Mark Sweeney, Senior Principal, McCallum Sweeney Consulting
- Chip Filer, Associate Professor of Economics, Old Dominion University
- Steve Fuller, Director, Stephen S. Fuller Institute (at George Mason University)



## WITH INPUT FROM GA LEADERS, ADMIN., AND STAKEHOLDERS, WE DRAFTED FIVE ASPIRATIONAL GOALS FOR VIRGINIA AND VEDP

1. Over the next several years, position Virginia to achieve a growth rate (measured by employment and median earned income of workers) among that of the top 5-10 states in the US
2. Ensure that every region participates in the growth of the Commonwealth (i.e., all with positive growth in employment and median earned income of workers)
3. Restore Virginia to its previous leadership position near the top of the national business climate rankings (i.e., average position among the top 3-5 states)
4. Reestablish VEDP as one of America's premier state economic development organizations (principally to better enable accomplishment of the top three aspirational goals)
5. Exhibit collaboration and coordination as hallmarks of VEDP (i.e., place a central focus on the "P" in VEDP)

*IMPORTANT NOTE: A top priority for 2017 is completing implementation of the JLARC recommendations*

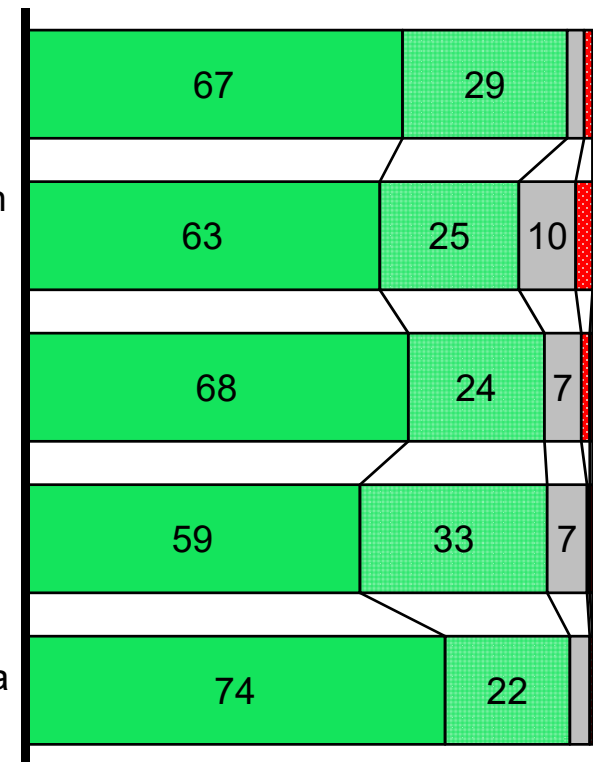
# VIRGINIA'S ECONOMIC DEVELOPMENT STAKEHOLDERS STRONGLY SUPPORT THESE ASPIRATIONAL GOALS

Percent (%)



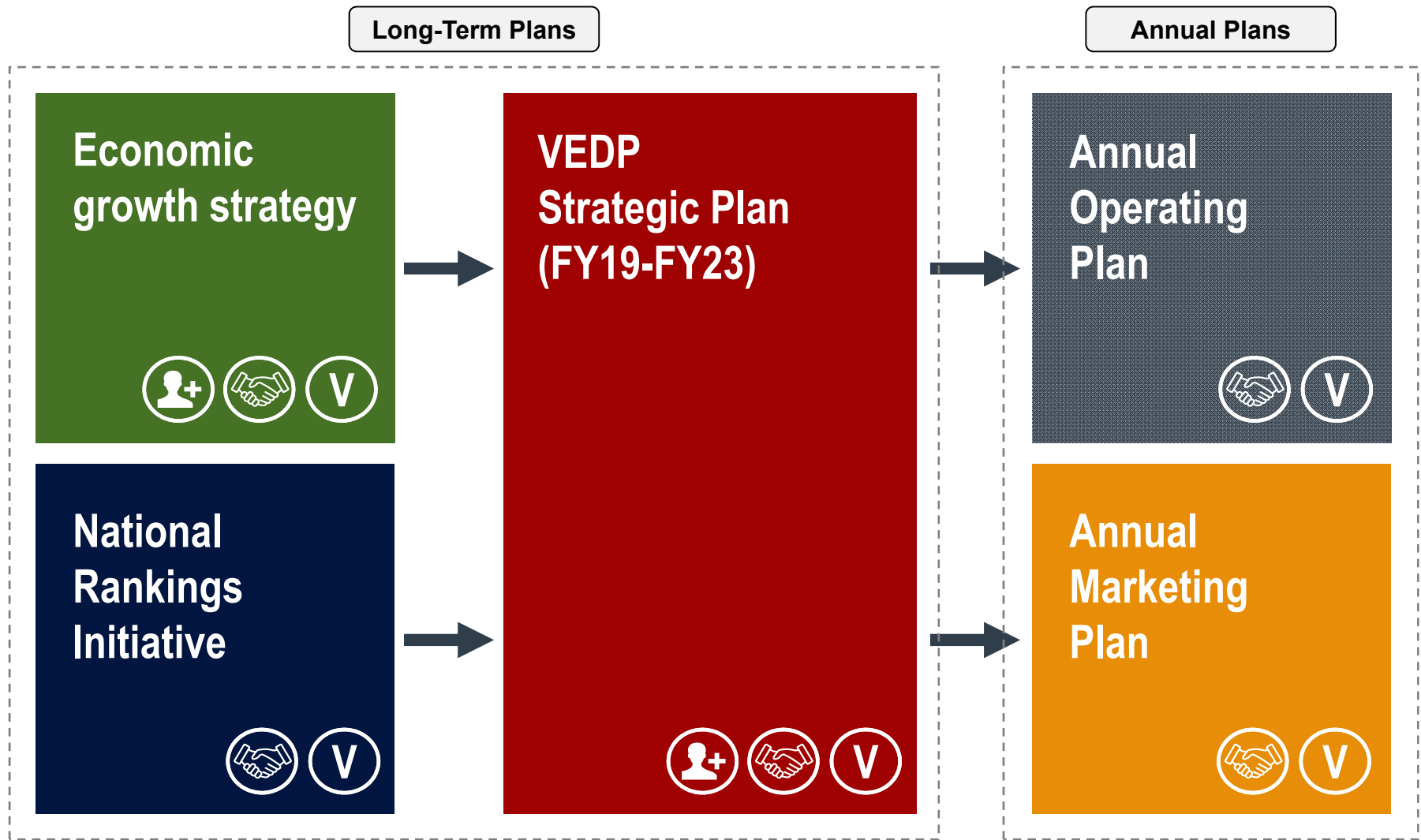
## External Stakeholders

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Source: Survey item completed by 200 external economic development stakeholders in July 2017 (excludes board and staff)

# THREE LONG-TERM PLANNING EFFORTS UNDERWAY WILL DRIVE VEDP'S FUTURE ANNUAL PLANS



All plans will include input from multiple groups:  Outside Consultants  In-State Partners  VEDP Staff

# OUTLINE OF FORTHCOMING STRATEGIC PLAN

- Executive summary
- Introduction (purpose of this document; aspirational goals; preview of remaining sections)
- Assessment of Virginia's economic position
  - Economic context in Virginia – past, present, and (baseline) future\*
  - Assessment of Virginia's economic competitiveness\*\*
- Assessment of VEDP's current position
  - VEDP overview (brief historical highlights; statutory duties and powers; organizational overview)
  - Assessment of the competitiveness of VEDP's core functions against top peers
  - Assessment of how VEDP can best add value relative to its statutory duties and powers
  - Alignment and coordination with economic development partners
- Strategies and initiatives
  - Broad strategic themes with principal initiatives associated with each of them, including estimated impact, cost, timing, and ownership
  - Clarification of which initiatives can be implemented with current resources and which would require additional resources and/or policy changes
- Org., processes, systems (org chart; board; partner coordination; SCT; MEI; governor's E.D. plan)
- Performance indicators and measures
- Conclusion/call to action

\* This section will be drawn from the economic growth strategy project

\*\* This section will be drawn from the economic growth strategy project and national rankings initiative

# THE PLAN WILL INCLUDE THREE TYPES OF STRATEGIES, EACH WITH A DISTINCT SET OF INITIATIVES

1

## Cultivate target industry growth clusters

- Push new boundaries as a U.S. leader in information technology
- Assemble a world-class transportation and logistics hub
- Position Virginia's manufacturing base to be future ready
- Create bus. services and ops. centers of excellence (e.g., HQs)
- Capitalize on Virginia's unique assets to become a leader in promising disruptive technologies (e.g., unmanned systems, genomics, personalized medicine)

2

## Improve VA's economic competitiveness

- Strengthen Virginia's human capital development engine
- Assemble an ample, strategic portfolio of project-ready sites and buildings across Virginia
- Rigorously assess and steadily improve Virginia's state, regional, and local economic competitiveness
- Leverage public-private partnerships to strengthen Virginia's digital infrastructure (i.e., broadband)
- Place a special focus on achieving growth in Virginia's rural regions and small metros

3

## Enhance VEDP's capabilities

- Cultivate world-class execution at VEDP
- Implement robust marketing/branding, lead generation, and site consultant cultivation programs
- Establish best-in-class business and international trade development programs
- Become a national leader in incentives administration

# VEDP IS ADDRESSING THESE NEW, INCENTIVE-RELATED MANDATES AND RECOMMENDATIONS

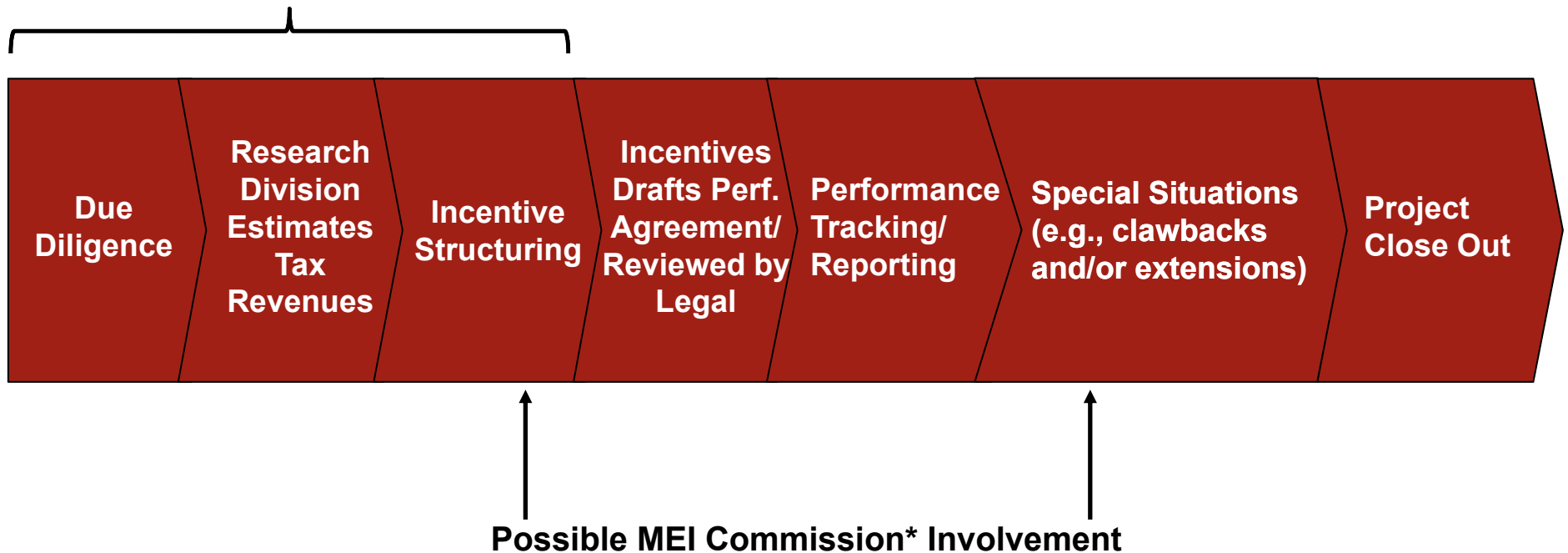
WORKING DRAFT

	Source	
	New Code	JLARC report
1. Create dedicated <b>incentives administration division</b> within VEDP	✓	✓
2. Develop <b>written policies/procedures for evaluating/prioritizing projects</b> for incentives		✓
3. Complete <b>due diligence</b> (plus SCT certification) on incentive offers before Gov. approval	✓	
4. Ensure <b>clawback standards</b> are consistently enforced and reported	✓	✓
5. Ensure <b>performance extensions</b> are justified, documented, and approved/reported	✓	✓
6. Work w/ <b>VDT/VEC*</b> on <b>policies/procedures</b> to verify company performance		✓
7. Adopt formal procedures (via Board) to <b>ensure adequate performance verification</b>		✓
8. Establish Board <b>subcommittee to receive/review VEC verification data</b>	✓	
9. Provide <b>semiannual updates to Board on status of all projects</b> awarded incentives	✓	
10. Provide annual Board report on <b>% of firms meeting reporting requirements</b>		✓
11. Develop <b>website</b> to report on status/performance of incentive recipients		✓
12. Develop <b>strategy for coordinating w/ state agencies</b> that administer incentives	✓	

\* VEDP also will include local Commissioners of Revenue in relevant policies/procedures (e.g., capital investment)

# LIFE CYCLE OF DIVISION OF INCENTIVES INVOLVEMENT IN AN ECONOMIC DEVELOPMENT PROJECT

Project Review and Credit Committee (PRACC) Engagement



\* MEI Commission = Major Employment and Investment Project Approval Commission

## **VEDP'S BOARD HAS ESTABLISHED AN INTERNAL AUDIT FUNCTION**

- Code requires the Board to appoint an internal auditor, reporting directly to the Board, to perform audits and report findings to the Board and the special subcommittee for economic development of JLARC
- Following consultation with experts, Board concluded VEDP should have a Risk Assessment performed to determine how the internal audit function should be constructed and to determine the scope of an audit program
- Using existing favorable billing rates for the Commonwealth, Board engaged Dixon Hughes Goodman (DHG) to perform a Risk Assessment, including development of a proposed multi-year audit work plan
- Following consideration of internal vs. external options, Board engaged DHG as the internal auditor for VEDP
- DHG has drafted an Internal Audit Charter and Audit Policies and Procedures, both of which will be considered by the Board this week




## **TO IMPROVE ALIGNMENT AND COORDINATION, VEDP ENGAGED WITH PARTNERS TO CREATE ECONOMIC DEVELOPMENT PROTOCOLS**

- Topics covered
  - Aspirations (e.g., equitable consideration and promotion of all localities, transparency, continuous improvement)
  - Project management standards (e.g., information sharing, avoidance of steering projects)
  - Communications
  - Handling of RFIs/RFPs
  - Incentives (e.g., due diligence, treatment of intra-state relocations)
  - Business retention and expansion visits (e.g., coordination)
- Protocols document has gone through several revisions – it is expected to be finalized this month
- Adherence to protocols will be a requirement in job duties
- VEDP will conduct an annual survey to solicit feedback from partners on how well the protocols are being followed, including ways that collaboration and coordination may be improved

# VEDP REVIEW OF JLARC-IDENTIFIED REPAYMENT OBLIGATIONS

WORKING DRAFT

 JLARC has indicated VEDP did not have authority to take these actions

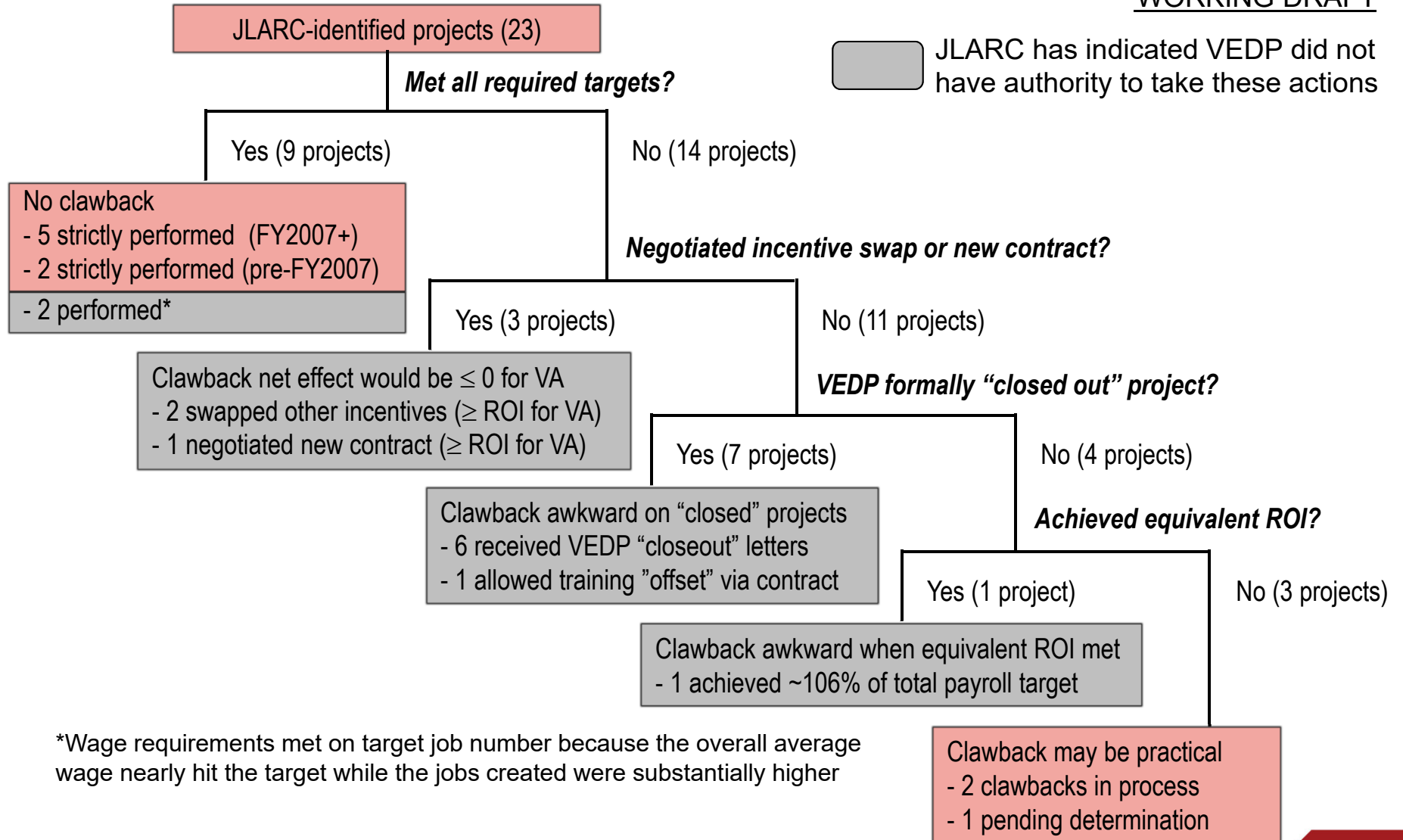
- JLARC identified 23 COF projects for which VEDP-provided data suggested the firms underperformed without a VEDP repayment demand (total est. clawback: \$8.7M)
- VEDP’s subsequent review of these 23 projects indicates the majority performed or otherwise achieved their equivalent ROI targets:

Performance category	# of projects	% of total	Comment
Strictly performed (FY2007 and beyond)	5	22	Met all job, wage, & capex requirements
Strictly performed (pre-FY2007)	2	9	No wage requirements pre-FY2007
Performed	2	9	Wage reqs. met on target # of jobs*
Negotiated incentive swap or new contract ( with $\geq$ ROI)	3	13	Achieved equal or better ROI for VA
Underperformed (unique contract terms)	1	4	Allowed “offset” via training investment
Underperformed (but received VEDP “closeout” letter)	6	26	Most modestly missed perform. thresholds
Underperformed (no “closeout” but achieved equiv. ROI)	1	4	ROI met based on total payroll
Underperformed (did not achieve equiv. ROI)	3	13	Clawback in process for 2 projects
<b>Total</b>	<b>23</b>	<b>100</b>	

\*These two projects met their job and investment targets; VEDP has estimated that wage requirements were met on the target job number because the overall average wage nearly hit the target while the jobs created were substantially higher

# VEDP HAS IDENTIFIED CASES WHERE CLAWBACKS MAY BE A PRACTICAL OPTION

WORKING DRAFT



JLARC has indicated VEDP did not have authority to take these actions

\*Wage requirements met on target job number because the overall average wage nearly hit the target while the jobs created were substantially higher

## REVISED APPROACH FOR HANDLING INCENTIVE STRUCTURING, PERFORMANCE MONITORING, AND CLAWBACKS IN THE FUTURE

- VEDP typically will avoid providing up-front incentives for any firm considered to be moderate- or high-risk (post-performance incentives may be provided in those cases)
- Performance agreements will be strictly enforced, unless the Code is amended to give VEDP flexibility for (a) close misses and/or (b) situations in which the company generates a higher ROI than required but without strictly meeting the terms of the performance agreement (e.g., creating fewer jobs but at much higher salaries)\*
- Clawback offsets against other state incentives will not be made unless the Code is amended to explicitly allow that practice\*
- Projects will be closed out with companies only after the full incentive performance agreement terms have been met
- Any extensions will require documented justification and Board approval
- Annual company progress reports will be updated to require a company forecast regarding attainment of performance requirements to enable the Board to better monitor active incentive performance agreements

\* This approach likely will result in harm to company relationships from time to time

## POTENTIAL CODE CHANGES FOR GA CONSIDERATION

- While keeping eligibility standards in place, consider shifting performance standard to a payroll basis leveraging VEC data (with criminal penalties for false reporting) rather than one-off self-reporting of jobs and wages
  - Projects would still be announced with the estimated number of new jobs and average wages, as well as capital investment
  - Actual number of employees and approximate average wages would be reported regularly based on VEC-collected employment data
- Potentially clarify new Code requirement for VEDP to review, vet, track, and coordinate economic development incentives administered by other state agencies and localities when those incentives are offered in conjunction with VEDP incentives
- Consider consolidating various VEDP reporting requirements to improve efficiency, effectiveness, and transparency

## NEXT STEPS

- Finalize economic development protocols document (this month)
- Hold kickoff meeting with Committee on Business Development and Marketing
- Complete Strategic Plan (12/1)
- Publish a formal JLARC implementation progress report to JLARC, GA, and public (December)
- Collaborate with GA leaders on potential Code refinements
- Complete implementation of any remaining JLARC recommendations by early 2018

# Q&A

