JLARC
JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

September 12, 2023

Location and Expansion Incentives

JLARC Commission Briefing

JLARC evaluation of economic development incentives

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

2022 Appropriation Act, Item 36(E).

In-depth incentive reports presented through 2023

Date	Incentives covered
November 2017	Film incentives (3)
June 2018	Workforce and small business incentives (9)
June 2019	Data center and manufacturing incentives (11)
September 2020	Infrastructure and regional incentives (10)
June 2021	Trade and transportation incentives (11)
June 2022	Science and technology incentives (11)
September 2023	Location and expansion incentives (9)

Nine location and expansion incentives evaluated in this report

Program	Type of incentive	Amount spent FY21
VEDP incentives (Commonwealth's Opportunity Fund, Virginia Investment Program, Major Eligible Employer, Virginia Economic Development Investment Grant, New Company Incentive Program)	Grants, tax incentives	$31.5M
Major Business Facility Job Tax Credit	Tax credit	2.2
Agriculture and Forestry Industries Development (AFID) facility grant	Grant	0.8
Farm Wineries and Vineyards Tax Credit	Tax credit	0.1
Collaborative Economic Development Grant*	Grant	0.0

The largest VEDP incentives are COF ($19M in FY21) and VIP ($8M in FY21). FY21 is the last year in the study period. *This program has not been used to date and is not included in the presentation.

In brief

Commonwealth's Opportunity Fund sways some business decisions and has higher economic benefits than other Virginia incentives. VEDP's other incentives have varying economic benefits and usefulness for businesses.

Major Business Facility Job Tax Credit is not well designed and unlikely to influence business decisions.

AFID facility grant has a limited impact on location and expansion decisions but has other benefits.

Farm Wineries and Vineyards Tax Credit had less impact than other factors on the rapid growth of Virginia's wine industry.

In this presentation

VEDP location and expansion incentives

Major business facility job tax credit

AFID facility grant

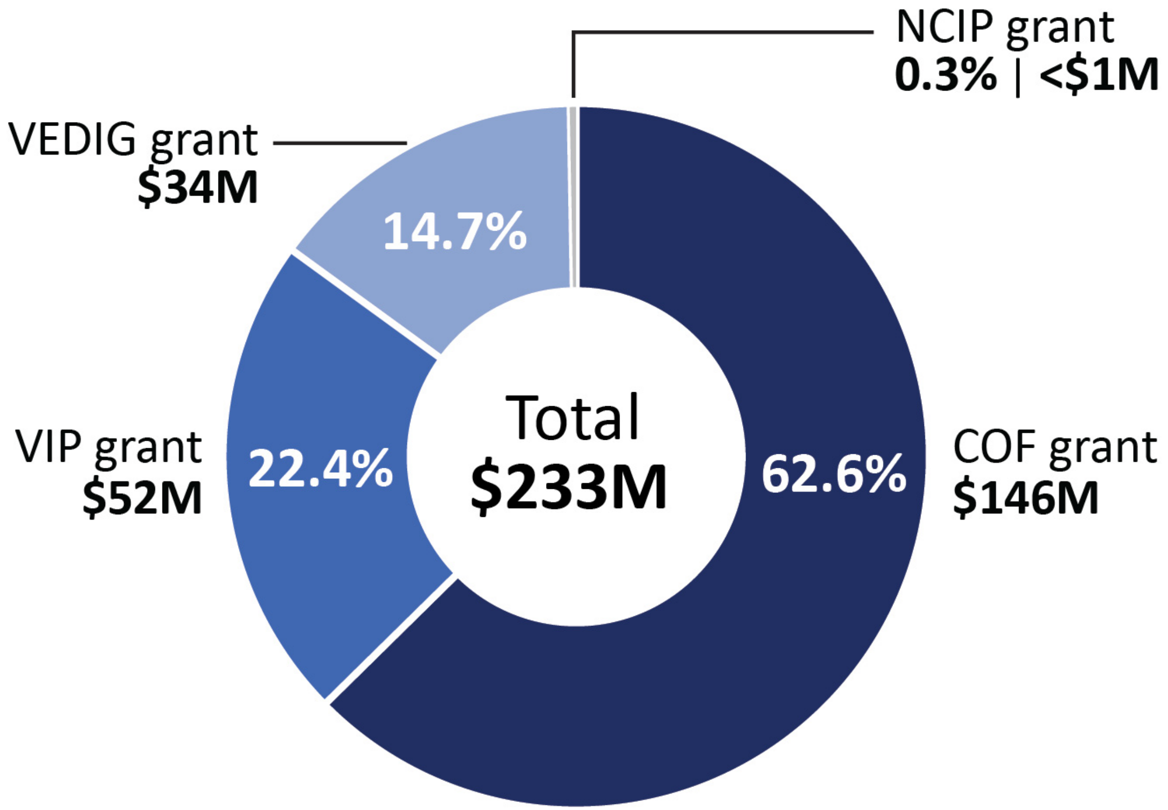
Farm wineries and vineyards tax credit

Five VEDP incentives target business location or expansion projects

Incentive	Purpose	Incentive spending FY21
COF	"Deal closing" fund to secure a project for Virginia	$19M
VIP	Encourage retention and expansion of existing manufacturers	8
VEDIG	Encourage location of significant job creation projects like headquarters	4
New Company Incentive Program	Encourage companies to locate in distressed areas and create jobs	1
MEE	Attract large employers to state	--

COF=Commonwealth's Opportunity Fund; VIP=Virginia Investment Program; VEDIG=Virginia Economic Development Incentive Grant; MEE=Major Eligible Employer grant.

Most spending on VEDP location and expansion programs is on COF and VIP grants (FY12–FY21)



COF=Commonwealth's Opportunity Fund; VIP=Virginia Investment Program; VEDIG=Virginia Economic Development Incentive Grant; NCIP=New Company Incentive Program

Finding

VEDP location and expansion incentives are well designed with exception of the New Company Incentive Program.

VEDP incentives generally meet features of effective incentive design

Criteria	COF	VIP	VEDIG	MEE	NCIP
Minimum eligibility thresholds	●	●	●	●	●
Due diligence review	●	●	●	●	●
ROI-based award	●	●	●	●	◐
Export-base industry	●	●	●	●	●
Pay average local wage or higher	●	○	●	◐	○
Competitive project	●	●	●	●	○
Project/program cap	●	●	●	●	◐
Special provisions to target distressed areas	●	◐	◐	○	●

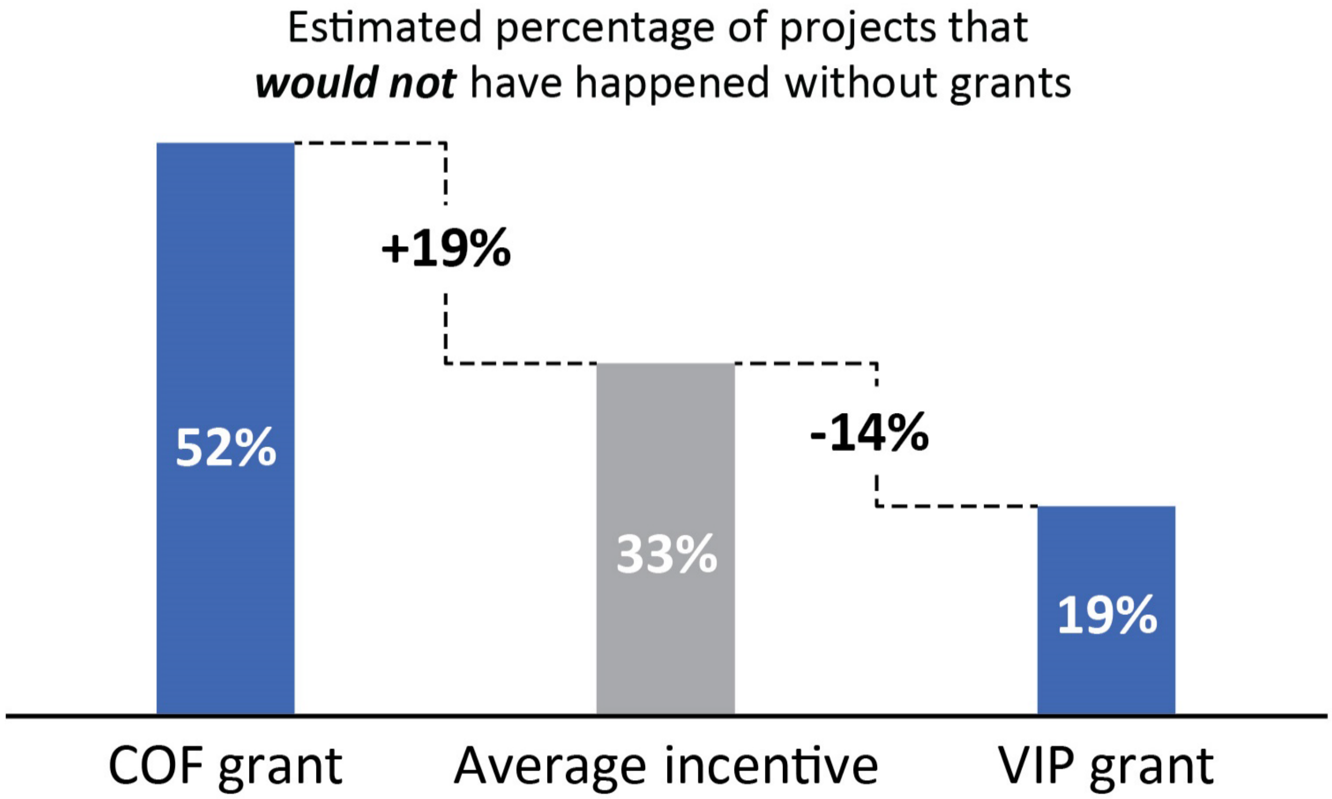
Legend: ● Meets criteria ◐ Partially meets criteria ○ Does not meet criteria.
NCIP = New Company Incentive Program.

Findings

COF and VIP grants may sway some business location and expansion decisions, with COF swaying more than the average incentive.

Both COF and VIP grants were rated favorably by grant awardees and local economic development staff.

COF sways about half of business decisions according to grant awardees



Percentages based on survey responses of grant recipients.

COF and VIP rated favorably by grant recipients and local economic development staff

- COF and VIP awardees rated the grants more favorably than incentives were rated on average
  - COF: higher rating on 10 out of 12 performance areas
  - VIP: higher rating on 11 out of 12 performance areas
- Local economic development staff ranked COF as 3rd and VIP as 6th most useful economic development incentive (out of 34)

Areas of performance include encouraging job creation, investing in machinery and equipment, expanding current facilities, creating new facilities in Virginia, exporting additional products, etc.

Finding

Economic benefits of VEDP's location and expansion grants range from low to high. All VEDP location and expansion grants have high returns in state revenue relative to other incentives.

Economic benefits of VEDP grants vary, but returns in revenue are high (FY12–FY21)

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

	Economic benefit per $1M spent	Return in revenue per $1 spent
COF	●●●● (High) 113 jobs, $24M in state GDP, and $12M in personal income	●●●● (High) 95¢
VIP	●●○○ (Low) 32 jobs, $6M in state GDP, and $3M in personal income	●●●● (High) 79¢
VEDIG	●●●○ (Moderate) 94 jobs, $20M in state GDP, and $13M in personal income	●●●● (High) 79¢

MEE has not approved projects since FY06, but it is estimated to generate high economic benefits and return in revenue. No NCIP projects have completed performance during the study period.

MEE grant has had limited use and is no longer needed

- Only used by two companies since grant was adopted, and no awards since FY06
- Eligibility requirements are unattractive to companies
  - High job creation and capital investment thresholds
  - Delayed payouts with long payout period
- Supplanted by custom grants*

*Performance grants approved by Major Employer and Investment (MEI) commission.

New Company Incentive Program has had limited usage by lower quality projects

- Only two awards since adoption in 2018 to relatively low-paying call centers
- Awards are paid out of COF fund and are potentially ineffective uses of COF funding
  - Neither company receiving New Company Incentive Program grants qualified for COF
  - New Company Incentive Program awards were likely higher than if projects had qualified for COF
- Other programs target distressed areas and could serve these projects

New Company Incentive Program scheduled to expire in 2025.

Recommendation

The General Assembly may wish to consider

- eliminating the MEE grant
- allowing the New Company Incentive Program to expire on January 1, 2025.

Economic benefit of VIP and VEDIG could be improved by beginning grant payments sooner

- Grant payments do not begin until 3 years after the project completed performance
- Later payments reduce grant's influence on business decisions
- Payments could begin in the first year after performance, similar to COF

VIP payments can begin 2 years after performance if project is in a distressed area. No changes recommended for COF at this time.

Recommendation

General Assembly may wish to consider allowing payouts for VIP and VEDIG to be paid out beginning in the first year after performance.

In this presentation

VEDP location and expansion incentives

Major business facility job tax credit

AFID facility grant

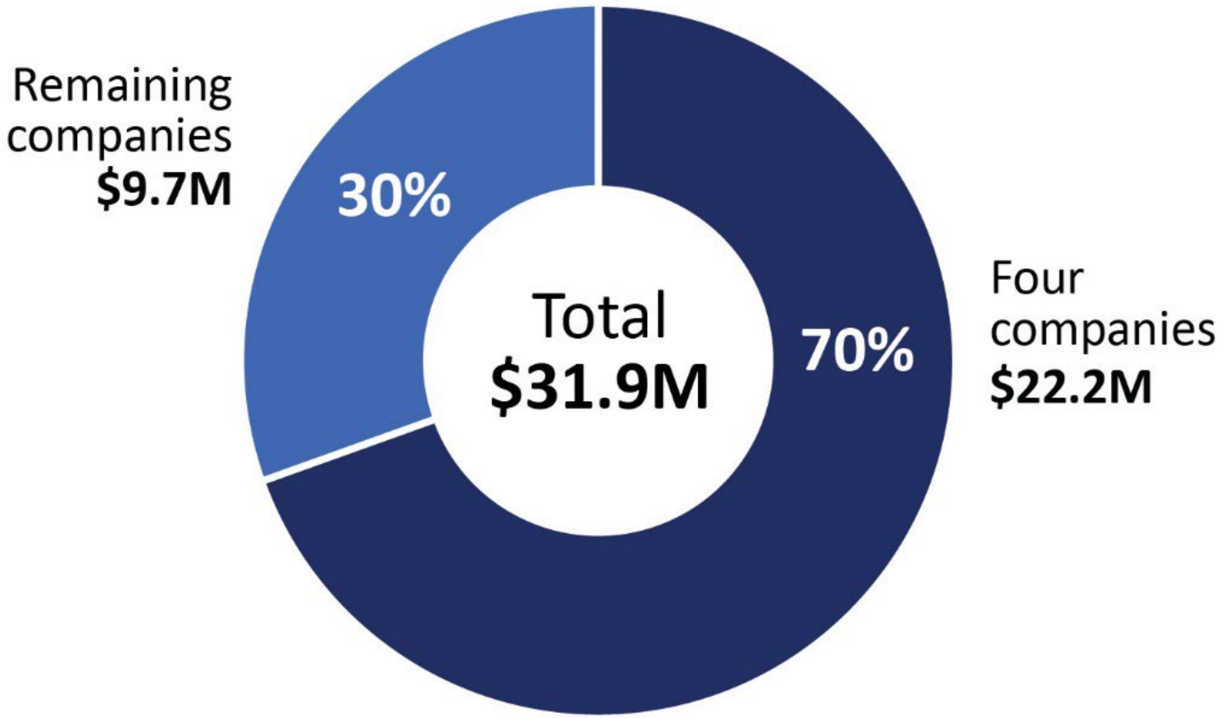
Farm wineries and vineyards tax credit

Major business facility jobs tax credit incentivizes companies to locate in Virginia and create jobs

- Available to non-retail businesses that locate in Virginia and create more than 50 jobs*
- Non-refundable tax credit of $1,000 per job over 50 job* threshold
- Expires June 30, 2025
- Average credit claimed: $98,000 in FY21

*25 jobs if in enterprise zone or economically distressed area.

Four companies received most of total major business facility job tax credit award amount



FY12–FY21

Finding

Major business facility job tax credit is not well designed and unlikely to influence many business decisions.

Major business facility job tax credit lacks most features of a well-designed incentive

Criteria	Major business facility job tax credit
Minimum eligibility thresholds	◐
Due diligence review	○
ROI-based award	○
Export-base industry	◐
Pay average local wage or higher	○
Competitive project	○
Project/program cap	○
Special provisions to target distressed areas	●
Expiration date	●

Legend: ● Meets criteria ◐ Partially meets criteria ○ Does not meet criteria.

Major business facility job tax credit unlikely to influence business decisions

- Credit value is low ($1,000 per job)
  - $4,000 per job (average Virginia grant program*)
  - $8,800 per job (average for other states' job tax credits)
- Stakeholders reported credit functions more as a reward**

*Excluding custom grant awards. **(*Review of the Effectiveness of Tax Preferences*, JLARC, 2012.)

Finding

Major business facility job tax credit has moderate economic benefits per $1 million spent on the incentive and a low return in state revenue relative to other incentives.

Major business facility job tax credit has moderate economic benefits and a low return in revenue

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

Economic benefit
per $1M spent

●●●○

53 jobs, $10M in state GDP, and $7M in personal income

Return in revenue
per $1 spent

●●○○

26¢

FY12–FY21. Majority business facility job tax credit has moderate economic benefits despite its poor design, in part because it requires job creation.

Several changes would improve the tax credit's design and economic impact

- Restrict eligibility to businesses
  - in export-base industries
  - that pay at or above a certain wage level (e.g., VJIP program requires 120% of minimum wage*)
- Adopt a program or per taxpayer cap

*Higher of state or federal minimum wage.

VEDP could administer the tax credit, especially if improvements are adopted

- VEDP better positioned to perform in-depth review than Virginia Tax*
  - Has extensive review and approval procedures for grants it administers
  - Already administers some other tax incentives
- Could better ensure only eligible businesses qualify for credits
- Could make policy recommendations to further improve the tax credit

*Virginia Tax currently reviews and awards major business facility job tax credit.

Major business facility tax credit could be allowed to expire if improvements are not made

- Credit is not well designed and is more of a reward
- Businesses using the tax credit frequently use other incentives that are better designed, such as VEDP grants
- Rather than continuing a poorly designed credit, state should focus on stronger programs to incentivize the businesses it wants to attract

Major business facility tax credit scheduled to expire in 2025.

Recommendations

The General Assembly may wish to consider

- adopting changes to improve the design and economic impact of the tax credit and requiring VEDP to administer it or
- allowing the tax credit to expire if the improvements are not adopted.

In this presentation

VEDP location and expansion incentives

Major business facility job tax credit

AFID facility grant

Farm wineries and vineyards tax credit

AFID facility grant offered to attract and expand agriculture and forestry businesses

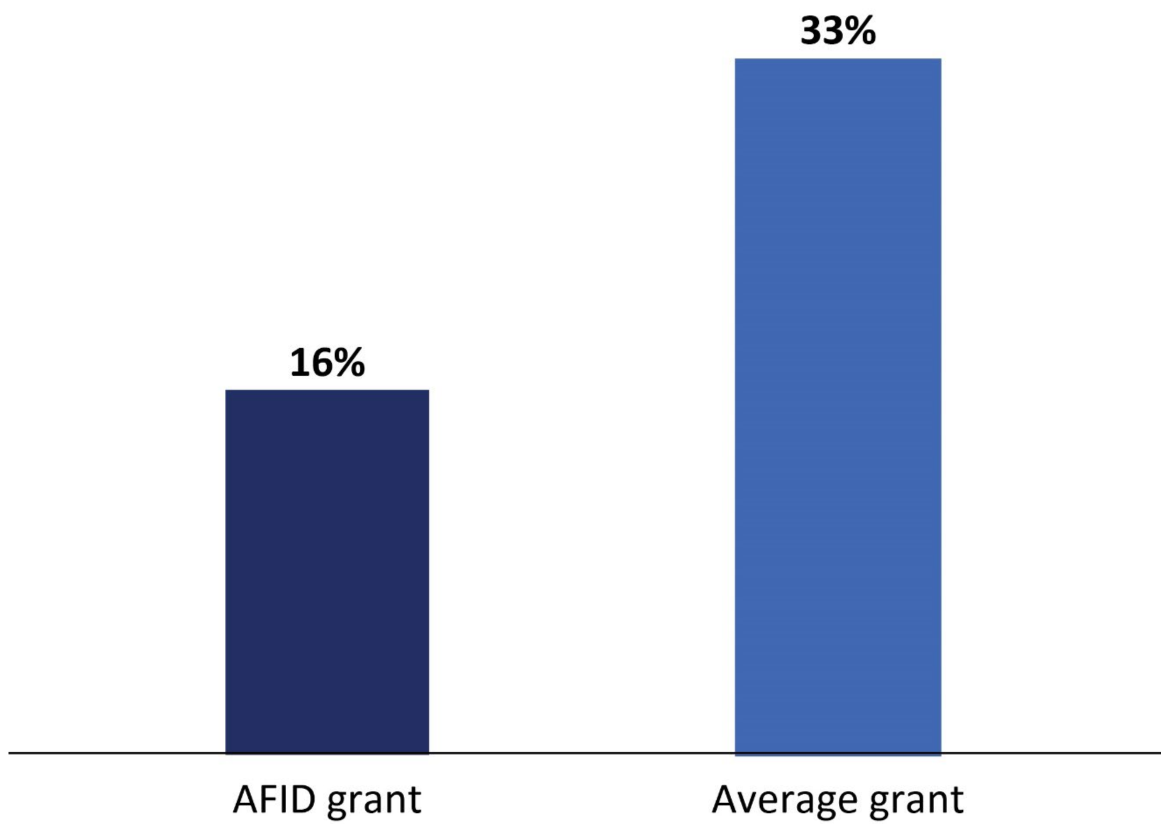
- Available to businesses that process, manufacture, or distribute agriculture and forestry products and
  - create jobs and make capital investment in Virginia
  - purchase at least 30% of their raw products from Virginia sources
- Designed for small agribusinesses that do not meet eligibility requirements for other grants like COF
- Average grant award: $209,000 (FY21)

Administered by the Virginia Department of Agriculture and Consumer Services (VDACS).

Finding

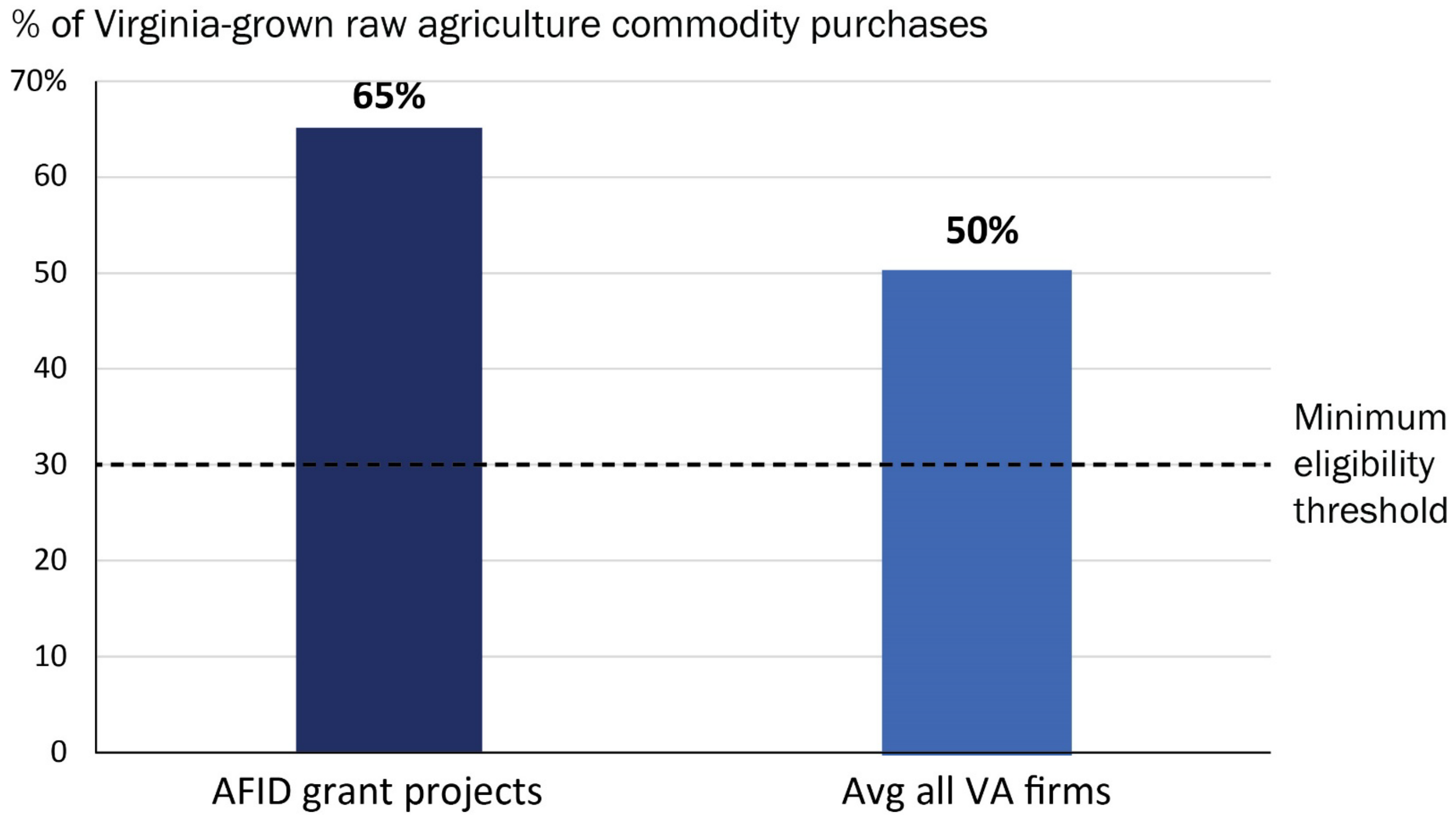
AFID facility grant has limited influence on state agriculture and forestry activity, but the grant may be useful for encouraging purchases of some declining commodities, and stakeholders report it has been useful.

AFID facility grant has limited impact on location and expansion decisions



Based on survey of AFID facility grant recipients, N=40.

Commodity threshold is too low to effectively incentivize Virginia-grown purchases



Grant recipients may help to bolster purchases of certain declining commodities

Commodities grant recipients purchase at higher rates than their statewide share	Declining commodity
Vegetables and melons	✓
Fruits	✓
Forestry, forest products, and timber tract production	✓
Greenhouse, nursery, and floriculture	
Dairy cattle and milk	✓

Stakeholders report grant is useful

- Rated as 2^{nd} most useful state incentive by local economic development staff (out of 34 incentives)
- 2/3 of recipients report it was very important to their ability to invest in machinery and equipment
- 1/2 of recipients report it was very important in their ability to increase purchases of Virginia products

Finding

AFID facility grant meets only some criteria of effective economic development incentives.

AFID facility grant only meets some features of a well-designed incentive

Criteria	AFID facility grant
Minimum eligibility thresholds	◐
Due diligence review	◐
ROI-based award	◐
Export-base industry	◐
Pay average local wage or higher	○
Competitive project	○
Project/program cap	●
Special provisions to target distressed areas	○
Prohibition of award for relocating jobs	●

Legend: ● Meets criteria ◐ Partially meets criteria ○ Does not meet criteria.

Finding

AFID facility grant generates moderate economic benefits per $1 million spent on the incentive and a moderate return in state revenue relative to other incentives.

AFID facility grant has moderate economic benefits and return in revenue

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

Economic benefit
per $1M spent

●●●○

41 jobs, $11M in state GDP, and $5M in personal income

Return in revenue
per $1 spent

●●●○

47¢

FY12–FY21

Several changes would improve economic impact and design of AFID facility grant

- Increase commodity threshold to 50%
- Clarify commodity input value should be based on expenditures (value) rather than volume or weight
- Adopt minimum wage threshold (e.g., VJIP program requires 120% of minimum wage*)

*Federal or state minimum wage, whichever is higher.

Recommendations

The secretary of agriculture and forestry, in consultation with the Virginia Department of Agriculture and Consumer Services, VEDP, and the Department of Forestry should revise the guidelines for the AFID facility grant to

- increase the commodity threshold to 50%
- clarify that the minimum commodity threshold be based on commodity market values or expenditures

Recommendation

The General Assembly may wish to consider adopting a wage threshold for jobs created by AFID facility grant projects.

In this presentation

VEDP location and expansion incentives

Major business facility job tax credit

AFID facility grant

Farm wineries and vineyards tax credit

Farm wineries and vineyards tax credit adopted to promote the growth of Virginia's wine industry

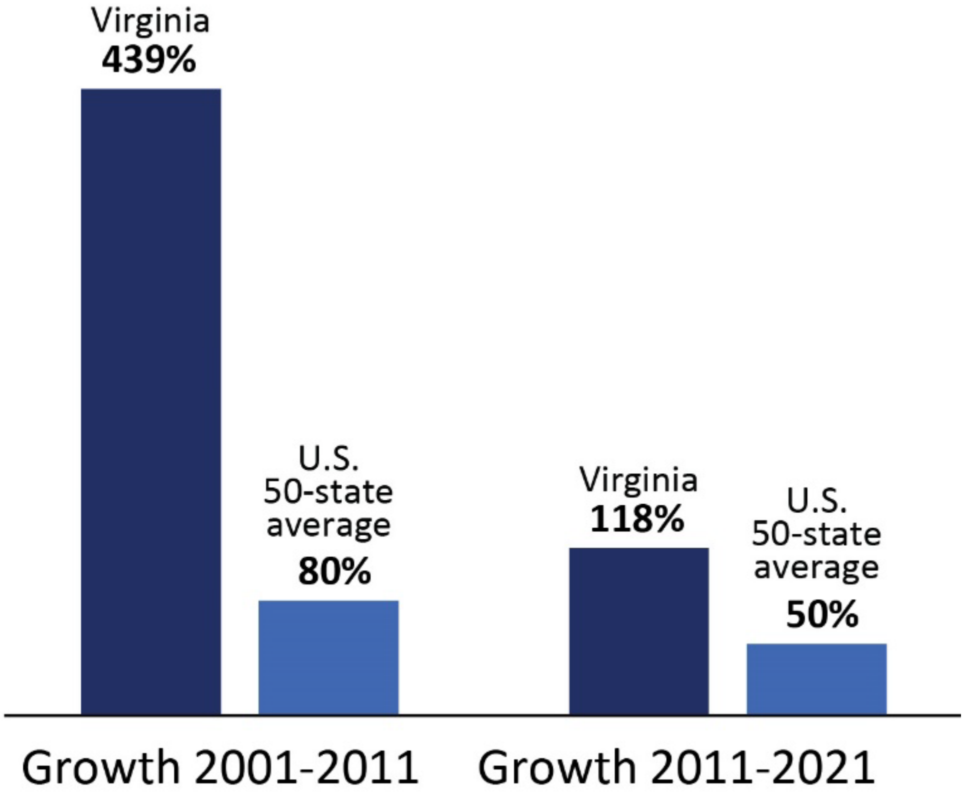
- Tax credit equal to 25 percent of eligible purchases to start or improve a winery or vineyard
  - Fertilizer, irrigation equipment, tractors, grape plants, wine barrels, bottling equipment, etc.
- Program capped at $250,000 per year and prorated if the total credit requests exceed the cap
- No expiration date
- Average tax savings: $5,000 per taxpayer (FY21)

Findings

Virginia's wine industry has grown substantially but likely not because of the farm wineries and vineyards tax credit.

Other state policies and programs promoting the wine industry likely promote Virginia's wine industry growth more than the tax credit.

Virginia wine industry employment has grown significantly, with faster growth before credit adoption



Credit adopted in 2011.

Tax credit is too small to influence wine production decisions

Tax credit as a percentage of wine production costs

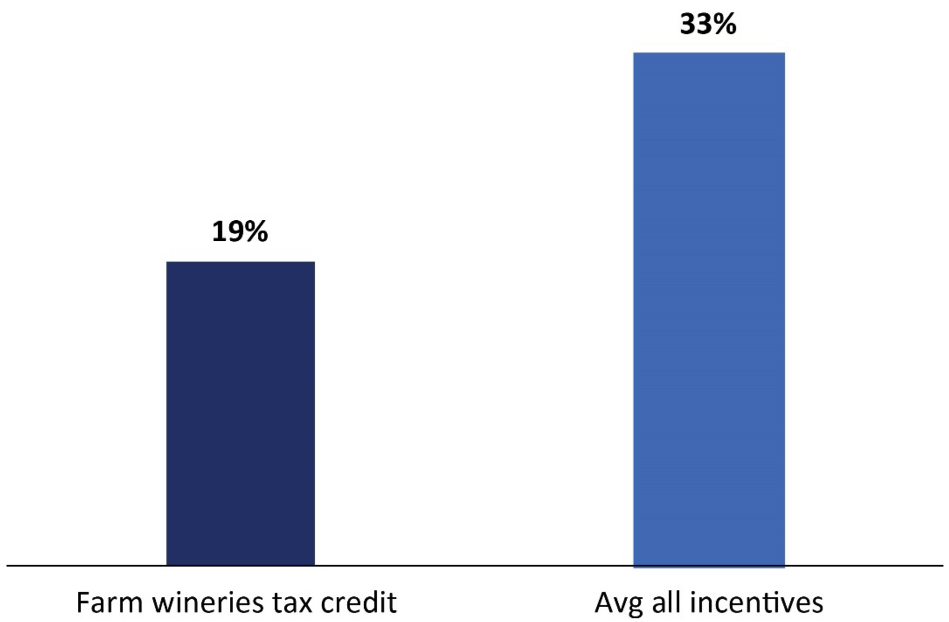
25.0%

Statutory value of credit

2.6%

Actual value of credit

Estimated percentage of projects that ***would not*** have happened without the incentive*



*Survey of incentive recipients.

Tax credit was rated 5th out of 10 programs in importance for wine business growth

Program	Rank
Virginia Winery Distribution Company	1
Technical advice and assistance from Virginia Tech extension service	2
Virginia Wine Board Marketing Office (education, marketing, etc.)	3
Public higher education programs in viniculture/viticulture	4
Farm wineries and vineyards tax credit	**5**
State Winery Signage Program	6
Agriculture and Forestry Industries Development (AFID) Grant	7
Land preservation tax credit	8
Other Virginia economic development incentives	9
Agricultural and Forestal District program	10

Survey responses of tax credit recipients, N=34.

Finding

Farm wineries and vineyards tax credit has negligible economic benefits per $1 million spent on the incentive and negligible return in state revenue relative to other incentives.

Farm wineries and vineyards tax credit has negligible economic benefits and return in revenue

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

Economic benefit
per $1M spent

●○○○

2 jobs, >$0.1M in state GDP, and $0.3M in personal income

Return in revenue
per $1 spent

●○○○

2¢

FY12–FY21

Recommendation

General Assembly may wish to consider eliminating the farm wineries and vineyards tax credit.

JLARC staff for this report

Kimberly Sarte, Associate Director

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Economic impact analysis

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

Economic benefit and return in revenue for the average incentive

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

Economic benefit
per $1M spent

●●●○

56 jobs, $11M in state GDP, and $5M in personal income

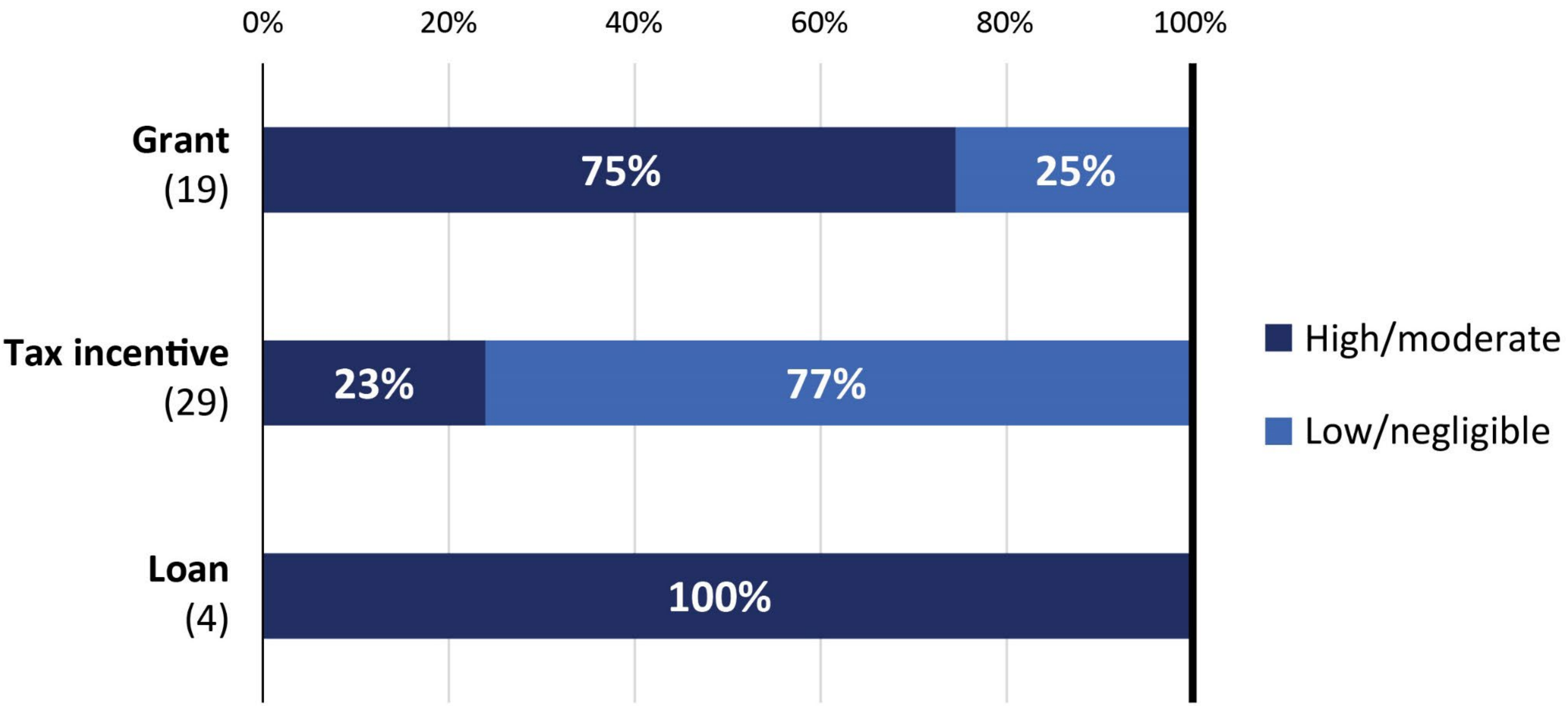
Return in revenue
per $1 spent

●●●○

37¢

FY12–FY21

Grants and loans typically have higher economic benefits than tax incentives*



*Of the 59 incentives evaluated to date for which economic benefits could be estimated.

Next round of incentives: 17 custom grants

Industry targeted	Custom grant for
Motor vehicle manufacturing	Volvo and Morgan Olson
Aerospace manufacturing	Rolls-Royce and Rocket Lab
Computer and electronic equipment manufacturing	Huntington Ingalls, Northrop Grumman, and Micron
Other manufacturing	Lego, Blue Star, Siemens Gamesa, and Merck
Professional, scientific, and technical and Information	CoStar, SRI, Microsoft, Amazon Web Services
Other	Amazon (headquarters) and CMA CGM (transportation)