



Workforce and Industry Incentives

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

2025 Appropriation Act, Item 25(E).

In-depth incentive reports presented through 2025

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)
June 2024	Custom incentive grants (17)
June 2025	Workforce and industry incentives (10)

Ten workforce and industry incentives are reviewed in this report

- Three workforce training incentives (e.g., VJIP)
- Seven sales tax exemptions to support several relatively small industries (e.g., taxicab companies)
- Spending on these incentives was only 4.3 percent (\$177M) of total spending on all economic development incentives (FY14–FY23)

Total spending on all economic incentives was \$4.2B (FY14–FY23).

In brief

VJIP is one of the state's most widely used incentives, and projects met their job creation goals.

Initial projects would have proceeded in Virginia without the Virginia Talent Accelerator Program, but it is preferred by stakeholders to other workforce incentives and is generally well designed.

Use of the worker training tax credit has been low, and it will expire in July 2025.

Industry tax exemptions have negligible to low economic benefits but serve purposes other than economic development.

In this presentation

Virginia Jobs Investment Program

Virginia Talent Accelerator Program

Worker Training Tax Credit

Industry sales tax exemptions

Virginia spent \$49.4 million on VJIP grant (FY14–FY23)

- Incentivizes job creation and employee training for new and expanding businesses
- Grant funds can be used to offset costs of recruiting and training for new jobs, and retraining existing workers after facility upgrades
- Average grant: \$103,000 per project or \$785 per job

Administered by the Virginia Economic Development Partnership (VEDP).

Findings

VJIP is one of the state's most widely used incentives, and projects collectively meet their job creation goals.

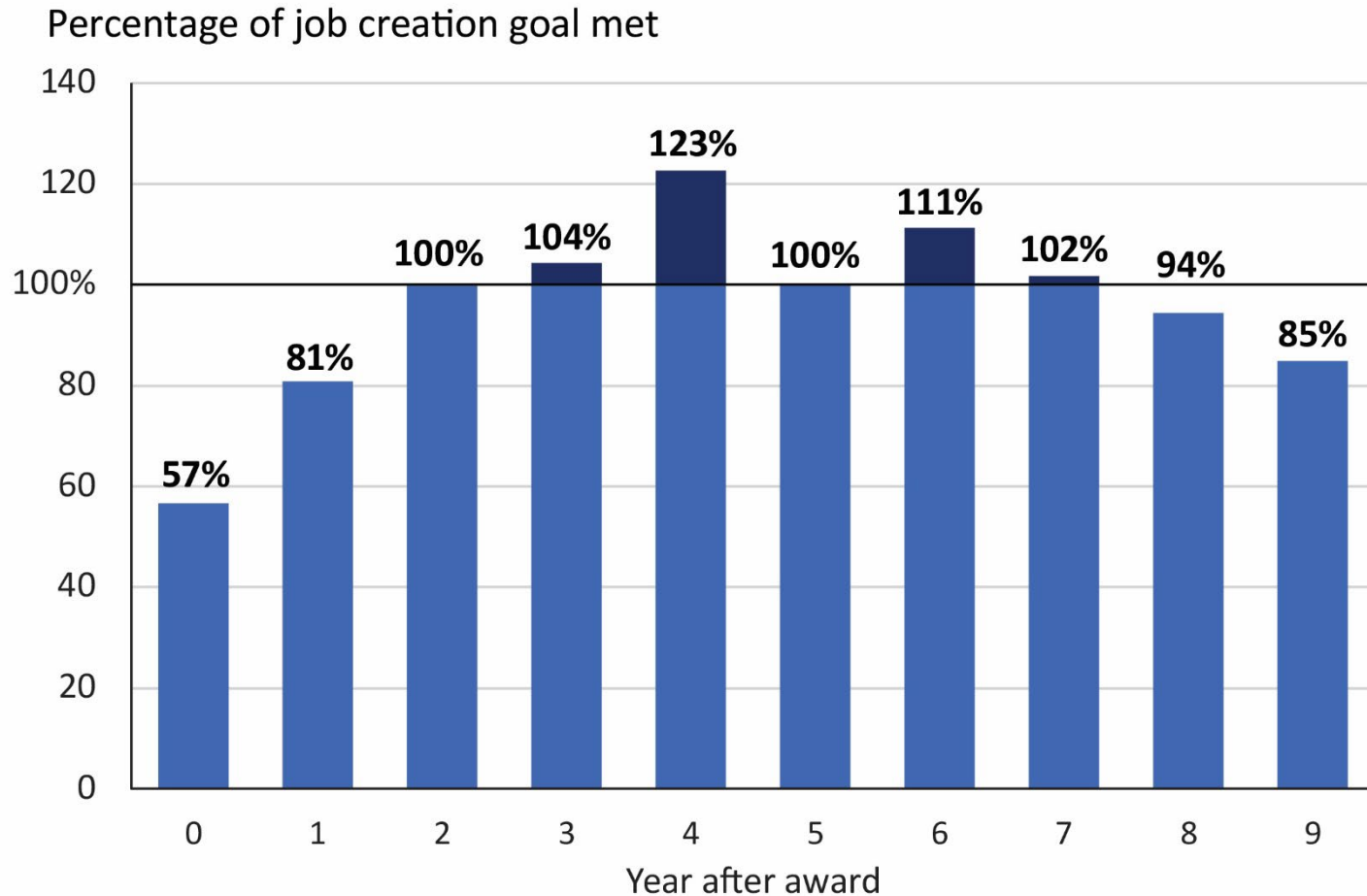
VJIP meets majority of criteria for effective incentive design but has a low wage threshold and has no special provisions for distressed areas.

VJIP is one of the state's most widely used incentives

- One of state's largest incentives in terms of spending and number of awards
 - Averages \$7 million in awards annually
 - Only Real Property Investment Grant provides awards to more projects than VJIP annually (150 vs 70)
- Rated by local economic developers as state's most useful economic development incentive program

Note: Local economic developers rated VJIP most useful out of 33 state economic development incentives on a 2020 survey.

VJIP projects collectively met their job creation goals in year two after the grant award



VJIP meets majority of criteria for effective incentive design but is lacking in two areas

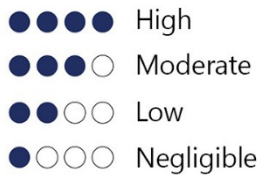
Criteria	VJIP
Minimum eligibility thresholds	●
Due diligence review	●
ROI-based award	6
Tradable industry	●
Pay average local wage or higher	○
Competitive project	●
Project/program cap	●
Special provisions to target distressed areas	○
Upfront awards with performance clawbacks	6

Legend: ● Meets criteria 6 Partially meets criteria ○ Does not meet criteria.

Finding

VJIP has moderate economic benefits per \$1 million spent on the incentive and a moderate return in state revenue relative to other incentives.

VJIP has moderate economic benefits and a moderate return in revenue (FY14–FY23)



Economic benefit
per \$1M spent



45 jobs, \$10M in state GDP, and
\$5M in personal income



Return in revenue
per \$1 spent



42¢

Tying VJIP's wage threshold to the local prevailing wage would improve economic benefits

- Current VJIP wage threshold* is low
 - Less than the local average prevailing wage in every Virginia locality and one-third of average in some high-income localities
 - Can result in projects depressing local wages in high wage/low unemployment areas
- Threshold could be set at 80 percent of local prevailing wage if full prevailing wage is too high

*\$14.40 (1.2x the state minimum wage)

Reducing eligibility thresholds for distressed areas would improve economic benefits

- VJIP has no provisions for reducing job creation and capital investment thresholds in distressed areas*
- Distressed areas benefit more from employment rate increases than more economically advantaged areas
 - Employment of *existing* under- or unemployed residents in distressed areas should reduce social service costs without increasing public infrastructure costs
 - New workers moving to relatively high employment areas to fill jobs will likely increase public infrastructure costs

*VJIP allows wage threshold to be waived in areas with above average unemployment rates.

Recommendations

The General Assembly may wish to consider

- tying the VJIP wage threshold for newly created jobs to a percentage of the prevailing average annual wage in the locality, setting the percentage to at least 80 percent of the local prevailing average wage, and
- reducing minimum eligibility thresholds for distressed areas.

In this presentation

Virginia Jobs Investment Program

Virginia Talent Accelerator Program

Worker Training Tax Credit

Industry sales tax exemptions

Virginia spent \$17 million on Virginia Talent Accelerator Program services (FY21–FY23)

- Created in 2019 to provide customized worker recruitment and training services to attract businesses to the state
- In-kind services, including recruitment assistance, candidate screening and evaluation, worker onboarding, customized training
- Average value of customized services : \$421,000 per project or \$1,520 per job

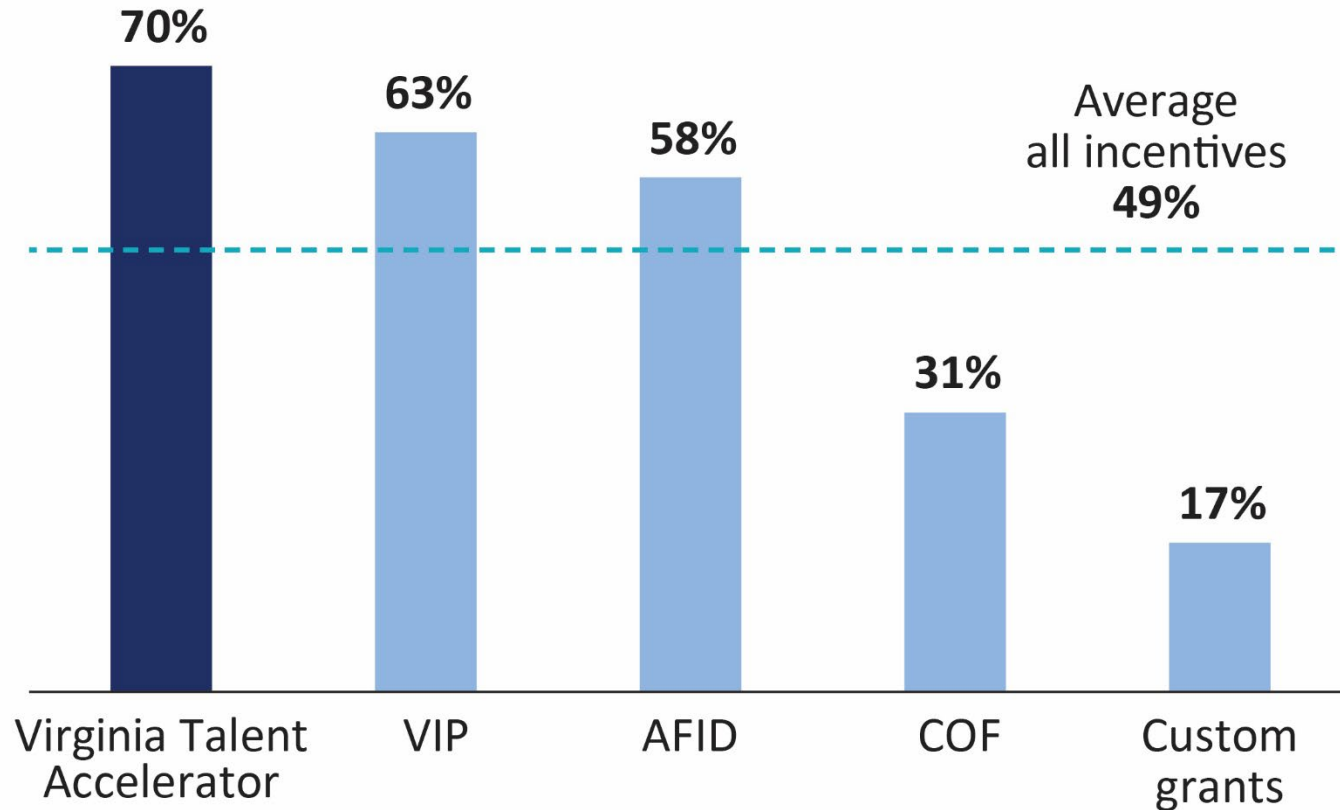
Administered by the Virginia Economic Development Partnership (VEDP).

Findings

Initial projects would have proceeded in Virginia without the Virginia Talent Accelerator Program, but stakeholders prefer it to other workforce training incentives.

The Virginia Talent Accelerator Program is generally well designed.

Most initial projects would have proceeded without the Virginia Talent Accelerator Program



Weldon Cooper Center survey of grant award recipients, 2022.

Stakeholders favor customized workforce training programs over grants and tax incentives

- Services are at no cost to the business, reducing upfront investment required by grants or tax credits
- VEDP provides the training in-house, so businesses do not have to find training resources on their own
- Links companies with a variety of state resources, such as community colleges' workforce training

Virginia Talent Accelerator Program meets most criteria for effective incentive design

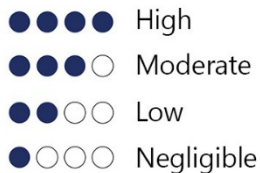
Criteria	Virginia Talent Accelerator Program
Minimum eligibility thresholds	6
Due diligence review	●
ROI-based award	6
Tradable industry	●
Pay average local wage or higher	●
Competitive project	●
Project/program cap	●
Special provisions to target distressed areas	●
Upfront awards with performance clawbacks	●

● Meets criteria 6 Partially meets criteria ○ Does not meet criteria.

Finding

Virginia Talent Accelerator Program has low economic benefits per \$1 million spent on the incentive and a moderate return in state revenue relative to other incentives.

Virginia Talent Accelerator Program has low economic benefits and a moderate return in revenue (FY22–FY23)



Economic benefit
per \$1M spent



32 jobs, \$6M in state GDP, and
\$3M in personal income



Return in revenue
per \$1 spent



44¢

Economic benefits and return in revenue are higher (moderate and high, respectively) when assessed based on market value of services, which VEDP estimates is twice the cost to the state.

Minor changes could improve the Virginia Talent Accelerator Program's effectiveness

- Capital investment threshold would improve the program's economic benefits and consistency with other programs
- If the state wants to continue the program, codifying it in statute would improve accountability of the program

Recommendation

VEDP staff should analyze the capital investments made by projects that have received assistance from the Virginia Talent Accelerator Program and establish a minimum capital investment threshold for the program.

In this presentation

Virginia Jobs Investment Program

Virginia Talent Accelerator Program

Worker Training Tax Credit

Industry sales tax exemptions

Worker training tax credit will expire in 2025 and should not be reinstated

- Use of tax credit has been low: \$230,000 in tax credits used FY21–FY23
- Credit is mostly used for apprenticeships but likely has limited influence on apprenticeship rates
- Credit has negligible economic benefits per \$1 million spent on the credit and a negligible return in state revenue relative to other incentives
- If state wants to maintain an incentive for apprenticeships, it should create a grant program administered by Virginia Works

In this presentation

Virginia Jobs Investment Program

Virginia Talent Accelerator Program

Worker Training Tax Credit

Industry sales tax exemptions

Businesses saved \$11M in sales taxes annually through seven industry exemptions (FY14–FY23)

Industry sales tax exemptions	Average annual savings
Certain printed materials for out-of-state distribution	\$9.9M
Uniform rental and laundry businesses	0.8
Out-of-state nuclear facility repair	0.1
Taxi parts and radios	0.1
Contractor temporary storage exemption	0.1
High speed electrostatic duplicators exemption	<0.1
Controlled environment agriculture	--

Finding

Industry sales tax exemptions were not adopted purely for economic development reasons, and they meet few criteria for effective incentive design.

Industry exemptions were adopted for purposes other than economic development

Exemption	Adopted to ...			
	enhance/ preserve industry competitiveness	provide tax parity	facilitate interstate commerce	not tax intermediate inputs
Printed materials	✓		✓	✓
Uniform rental and laundry businesses	✓	✓		✓
Nuclear facility repair	✓		✓	✓
Taxi parts and radios	✓	✓		✓
Contractor temporary storage	✓		✓	✓
Electrostatic duplicators	✓	✓		✓
Controlled environment agriculture	✓	✓		✓

Industry exemptions meet few criteria of effective economic development incentive design

- All tax exemptions should have an expiration date, but only one industry exemption has one
- Tax exemptions typically do not meet other effective design criteria, but this may not be problematic for those with tax policy purposes
 - “By-right” rather than discretionary with no due diligence reviews prior to being awarded
 - Incentive amount = sales taxes that would have otherwise been paid, not based on ROI* analysis

*ROI=return on investment

Finding

Industry exemptions have negligible to low economic benefits per \$1 million spent on the exemptions and negligible to low returns in state revenue relative to other incentives.

Industry exemptions have negligible to low economic benefits and returns in state revenue (FY14–FY23)



Economic benefit
per \$1M spent



Return in revenue
per \$1 spent

Taxi parts and radios	●●○○○	●●○○○
Uniform rental and laundry businesses	●●○○○	●●○○○
Printed materials	●○○○○	●○○○○
Contractor temporary storage	●○○○○	●●○○○
Nuclear facility repair	●○○○○	●○○○○
Electrostatic duplicators	●○○○○	●○○○○

Controlled environment agriculture exemption adopted in 2023 and was too new to evaluate.

Need for Virginia's industry exemptions should be further assessed

- Many of the exemptions were adopted for other purposes, such as tax policy principles, and not solely for economic development
- Revenue and economic impacts of the exemptions should be assessed against the other benefits they may provide

Recommendation

Joint Subcommittee to Evaluate Tax Preferences may wish to consider reviewing the industry exemptions to determine whether they are meeting worthwhile needs other than economic development and whether they should be maintained, eliminated, or revised.

Several actions could improve accountability and transparency of the exemptions

- Adopt expiration dates for the six industry exemptions without one*
 - Expiration dates improve transparency and increase accountability
- Update estimates of business tax savings for the three exemptions targeted at out-of-state purchasers
 - Existing estimates were generated in 2000 or earlier and inflation adjusted or rely on incomplete secondary data

*Certain printed materials exemption for out-of-state distribution has an expiration date.

Recommendations

General Assembly may wish to adopt expiration dates for the six exemptions that currently do not have one.

Virginia Tax should develop new estimates of business tax savings for the contractor temporary storage, certain printed materials for out-of-state distribution, and out-of-state nuclear repair facilities exemptions.

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