JLARC
JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

REPORT TO THE
GOVERNOR AND THE GENERAL ASSEMBLY OF VIRGINIA

Review of the Tobacco Indemnification and Community Revitalization Commission

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COMMONWEALTH OF VIRGINIA
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In Brief

The Tobacco Indemnification and Community Revitalization Commission (TICR) was established by the General Assembly in 1999 to use tobacco settlement funds to indemnify tobacco growers and revitalize tobacco-dependent localities. TICR has made 1,368 awards totaling $756 million to projects throughout the 41-locality region. Awards have provided significant benefits but have yet to revitalize the region. About half the awards have been for broadband infrastructure, workforce training, scholarships, and financial incentives to attract jobs. Awards have also been made to small local projects with limited revitalization potential. Approximately $606 million remains for future revitalization efforts.

TICR should slow its spending to preserve a larger endowment balance. TICR also should regularly revisit its economic revitalization strategy. Measures of economic stress instead of historical tobacco production should be used to prioritize awards. The General Assembly may wish to specify relevant background for TICR members and reduce the commission's size. To help ensure remaining funds are awarded to strong projects, applicants should show how a project will impact employment, income, and education levels, and provide a methodology and evidence for economic impact estimates. TICR staff should conduct more frequent site visits.

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This report is available on the JLARC website at http://jlarc.virginia.gov

COMMONWEALTH of VIRGINIA

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June 28, 2011

The Honorable Charles J. Colgan
Chair
Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia 23219

Dear Senator Colgan:

Item 30F of the 2010 Appropriation Act directed staff of the Joint Legislative Audit and Review Commission to review the performance of the Tobacco Indemnification and Community Revitalization Commission. Staff were asked specifically to review the Tobacco Commission's economic revitalization strategy and grants, and to make recommendations about its outcome metrics and accountability measures.

This report was briefed to the Commission and approved for printing on June 13, 2011.

On behalf of the JLARC staff, I would like to express our appreciation for the assistance provided by members and staff of the Tobacco Commission, and by staff of the Virginia Economic Development Partnership, the Southern and Southwestern Virginia Centers for Higher Education, and the Institute for Advanced Learning and Research, among others.

Sincerely,

Glen S. Tittermary
Director

GST/jcb

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JLARC Report Summary:

Review of the Tobacco Indemnification and Community Revitalization Commission

Key Findings

- Collectively, the 41 localities in the tobacco region lag the rest of the State on key economic indicators, including unemployment, per capita income, poverty, and educational attainment. Economic challenges are due in part to a decline in tobacco production, and to changes in other key industries. (Chapter 2)

- TICR grants for broadband infrastructure, workforce training and education, and Tobacco Region Opportunity Fund incentives have provided significant benefits for the tobacco region's economy. However, the $756 million in economic development grants awarded by the commission has yet to revitalize the region. (Chapter 3)

- TICR's most strategic initiatives account for approximately half of its awards. TICR does not consistently follow a strategy for achieving economic revitalization and has funded projects that have limited potential for significant economic impact. (Chapter 4)

- If TICR is to maximize the impact of its remaining assets, it should consider spending greater resources on the tobacco region's workforce, such as sponsoring a strategic initiative to identify and disseminate best practices in workforce training and high school completion. (Chapter 4)

- A more effective governance model would include economic development, investment banking, and education expertise on a smaller commission. Changes to the project review process would also strengthen TICR's strategic role. (Chapter 5)

- TICR has devoted staff resources primarily to reviewing applications for funding and processing reimbursement requests, and not to monitoring performance. Improvements to performance monitoring systems are needed. (Chapter 6)

Item 30F of the 2010 Appropriation Act directs the Joint Legislative Audit and Review Commission to "evaluate and report on the performance of the Tobacco Indemnification and Community Revitalization Commission (TICR)." The mandate directs the report to include

- a review of the effectiveness of TICR's economic revitalization grants,
- an evaluation of TICR's economic revitalization strategy, and

- recommendations about TICR's outcome metrics and accountability measures.

Section 3.2-3101 of the *Code of Virginia* states that TICR's mission is to (1) provide payments to tobacco farmers to compensate for the economic effects of the decline in tobacco production and (2) revitalize tobacco-dependent communities. TICR's revitalization mission is the focus of this study. Compensation of tobacco growers will conclude in 2012.

TICR WAS FORMED TO PROMOTE ECONOMIC DEVELOPMENT IN TOBACCO-DEPENDENT LOCALITIES

While funding for TICR comes from the major tobacco companies rather than Virginia taxpayers, the commission's funds are considered public funds.

TICR is a 31-member commission formed by the General Assembly in 1999 to revitalize Virginia's tobacco region and compensate tobacco farmers for the decline in tobacco production. Funding for these activities comes from the State's share of the 1998 Master Settlement Agreement (MSA) between 46 state attorneys general and large tobacco manufacturers. Virginia's share of MSA funds was estimated at $4.1 billion, and TICR is funded with half of that amount. While TICR's funding comes from these major tobacco companies rather than Virginia taxpayers, the commission's funds are considered public funds.

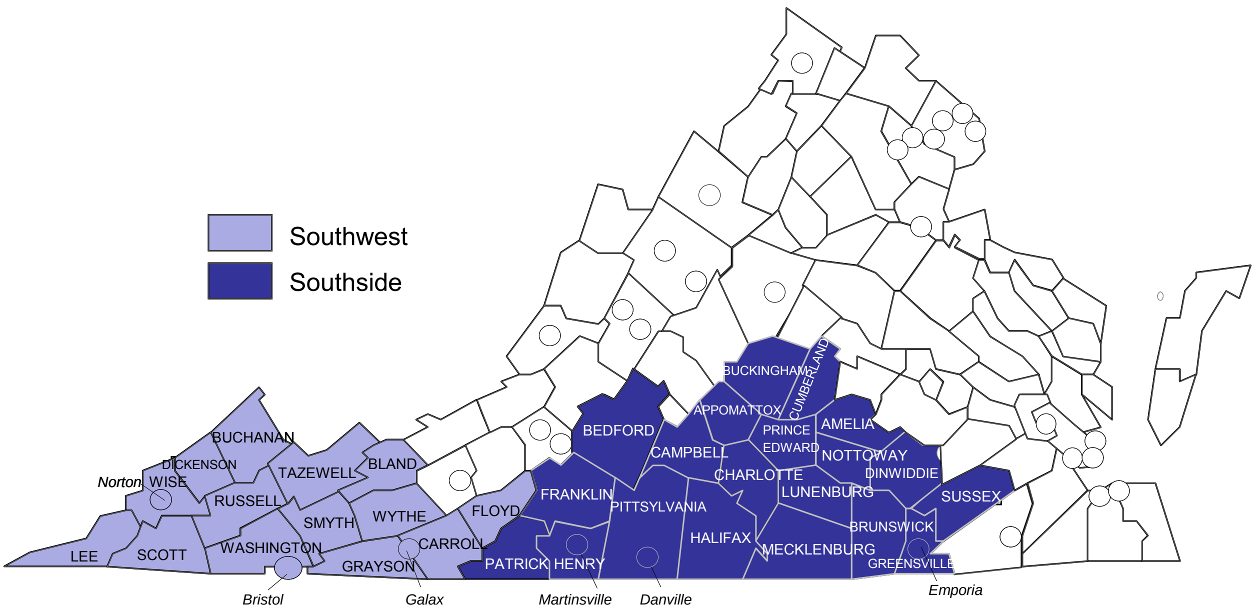
Under legislation passed by the General Assembly in 2002, Virginia securitized half of its future tobacco settlement payments. Net proceeds from bond sales in 2005 and 2007 totaled $1 billion and were deposited in an endowment to be managed by the Virginia Department of the Treasury. When the securitization bonds are paid off, expected in 2032, TICR will once again receive annual payments under the terms of the MSA.

TICR's assets are thus both finite and diminishing. As of June 2011, TICR's total cash and investments equaled $606 million. According to TICR staff, at the current annual "burn rate" of 15 percent of the endowment, TICR's assets will be less than half the current value in four years and less than ten percent of the current value within 14 years. At some point, the endowment balance will decrease to a level that constrains the commission's ability to make significant grant awards.

TICR has defined its economic revitalization mission to mean creating a "more stable, diversified, and growing economy that leads to higher living standards" for the 41 localities that make up Virginia's tobacco region. It seeks to achieve this objective by making grants for economic revitalization projects to local governments, governmental entities, and nonprofit organizations. Examples of projects funded by TICR include industrial parks, public infrastructure, research and development projects, higher education and workforce training initiatives, and tourism projects.

TICR defined Virginia's tobacco region based on tobacco production levels in 1998. The resulting 41 localities were divided into the Southside and Southwest regions shown on the map. The 2010 population of the overall tobacco region was 1,060,188, 13.3 percent of Virginia's total population.

Virginia's Tobacco Region Consists of 41 Southside and Southwest Localities



Source: TICR.

MANY FACTORS CONTRIBUTE TO THE TOBACCO REGION'S NEED FOR REVITALIZATION

Economic challenges have plagued tobacco region localities for at least four decades, and recent declines in key industries have exacerbated these challenges. Due in part to job losses related to changes in the tobacco, manufacturing, textile, and coal industries, the region lags the rest of Virginia in key economic indicators. As of March 2011, the tobacco region had an unemployment rate of 8.3 percent, more than two points higher than the statewide average of 6.3 percent. The tobacco region also lags the rest of Virginia in per capita income, educational attainment levels, poverty levels, and other key factors. Importantly, low educational attainment contributes to economic difficulties in the tobacco region and has been identified as a key obstacle to revitalization.

TICR can play a role in improving the income, employment and workforce skills of people in the tobacco region, but it is important to acknowledge that the scope of the task is large and TICR's resources are limited. The $756 million awarded by TICR over its first 11 years represents about two percent of the region's *annual* economy. (Total non-agricultural economic activity in the region was $34.4 billion in 2007, according to Census Bureau figures.) Lowering the unemployment rate in the 41-locality region to the statewide average (from 8.3 to 6.3 percent) would have required approximately 10,100 additional jobs region-wide in March 2011.

Based on interviews with numerous people involved with TICR, the tobacco region, and economic development, revitalizing a large region with long-term economic and demographic problems includes, at minimum, an emphasis on creating jobs with average or above-average wages, ensuring the availability of a qualified workforce, and providing adequate physical infrastructure.

TICR has set broad goals to address these key concerns, although it has not set clear priorities nor has it made a distinction between localities that have higher levels of economic stress, and may be in greater need of revitalization, and localities in the region that are closer to statewide norms and may have less urgent needs.

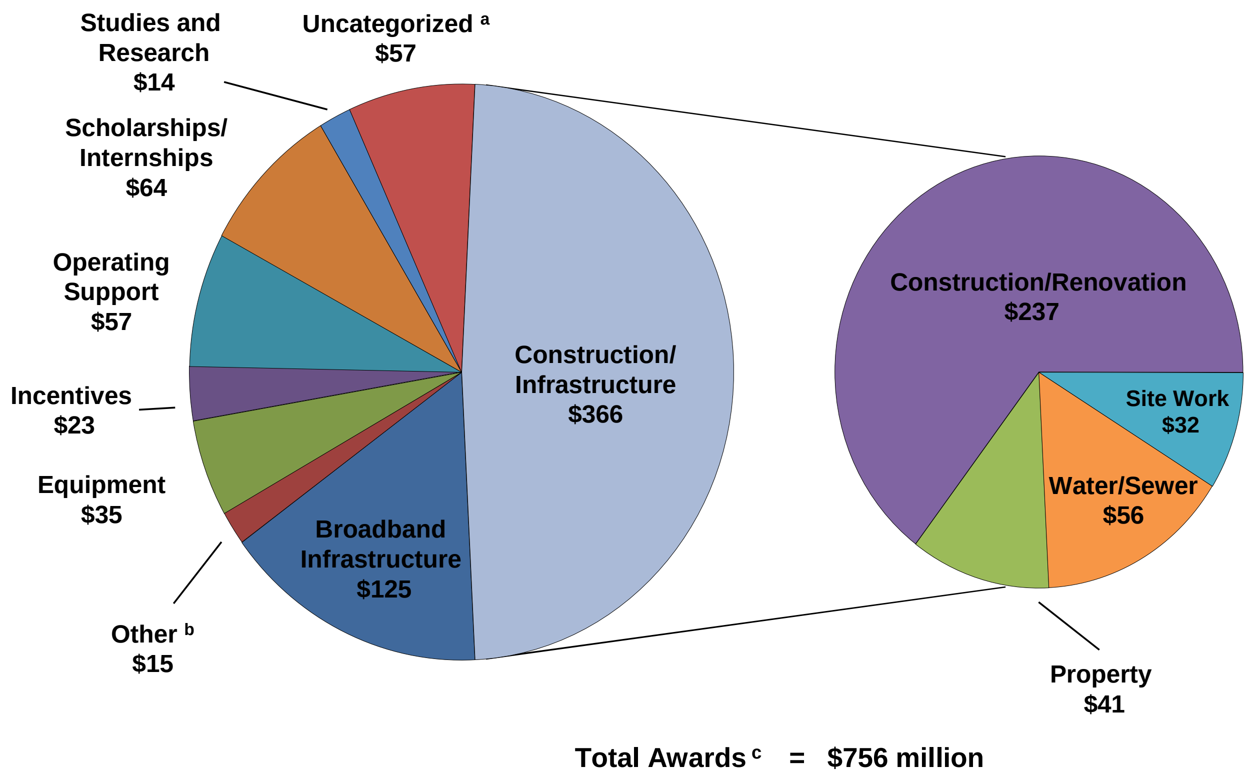
While a broad approach to revitalization may be needed, there is widespread agreement among economic development experts that improving the population's educational attainment and workforce skills are the most important priorities for long-term revitalization of the tobacco region.

In the four years since its endowment was created in 2007, TICR has awarded an average of $93 million each fiscal year. According to a JLARC staff analysis of TICR data, $366 million—48 percent of total grants—has been awarded for construction and renovation work, property acquisition, water and sewer infrastructure, and other site work (see figure, next page). These activities have contributed to the development of industrial parks, workforce and higher education centers, research and development facilities, and many related purposes.

Many projects funded by TICR are likely to pay off over a longer timeframe. Some may take years to impact the tobacco region's economy.

A focus for this review of TICR's performance is how these grants have contributed to economic revitalization in the region. Some economic development projects, such as industrial parks and incentives to private companies, have the potential to provide immediate economic benefits. However, many projects funded by TICR may take years to impact the tobacco region's economy. These projects include research and development initiatives, workforce training and higher education centers, and scholarship programs.

Majority of TICR Awards Have Funded Construction and Infrastructure ($ in millions)



[a] "Uncategorized" awards were not categorized in grant awards TICR data.
[b] "Other" includes cost share, debt service, marketing, and loan awards.
[c] In addition to $756 million in economic development awards, through FY 2011 TICR has made available $298.6 million in indemnification payments to tobacco growers.

Source: JLARC staff analysis of data provided by TICR.

TICR GRANTS HAVE PROVIDED SIGNIFICANT BENEFITS BUT HAVE NOT YET REVITALIZED THE TOBACCO REGION

Many persons interviewed by JLARC staff expressed strong support for TICR. Ninety percent of the local economic developers surveyed for this study said that economic conditions in their areas would be "somewhat worse" or "much worse" had it not been for TICR funding. Many people expressing this support referred to specific projects in their areas, and it is the case that many projects funded by TICR have generated significant economic benefits.

Since 2000, TICR has spent approximately $125 million in projects to expand broadband access in the tobacco region. Most of these grants have gone toward the installation of 1,075 miles of fiber optic cable, providing an infrastructure "backbone" to support high-speed Internet connectivity throughout Southside and Southwest Virginia.

Access to high-speed Internet connectivity appears to have helped TICR's efforts to attract new companies and jobs to the tobacco region. The availability of broadband service has reportedly been an important element in several companies' decisions to expand into the tobacco region. Without access to broadband, access to higher education opportunities would be far more limited because long-distance education programs would not be possible.

As of April 2011, TICR has made 220 Tobacco Region Opportunity Fund (TROF) awards totaling $60 million. TROF awards are often used as "deal-closing" funds to help attract private investment and create jobs in the tobacco region, usually in concert with other public funding sources. These grants have helped localities in the tobacco region secure or retain more than 7,100 jobs and as much as $1 billion in capital investment. In some localities, jobs associated with TROF funding had a noticeable impact on unemployment levels. Some TROF-funded projects have generated enough new employment to change local employment rates.

TICR's grants for workforce training and higher education are also cited by observers as successful. By the end of fiscal year 2010, TICR had awarded $64.1 million for scholarships, student loans, and internships to assist tobacco region residents with the cost of pursuing higher education, including 6,270 individuals working toward four-year degrees. Additionally, TICR has supported community colleges and at least 17 workforce development and higher education centers in the region. These grants are providing positive educational opportunities for tobacco region residents.

TICR's broad statutory goal of economic revitalization of the tobacco region has remained a challenge. The aggregate impact of the commission's $756 million in economic revitalization grants does not appear to have substantially improved economic conditions in the region. Localities in the region continue to lag the rest of Virginia on key economic indicators. TICR's mixed record to date may be a reasonable outcome at this point, given the scope of the task assigned to the commission, its modest resources in comparison to the size of the regional economy, and the two national recessions during TICR's existence. However, TICR has also employed some practices that have tended to undercut its goals.

Although there are examples of TICR's positive impact on the region's economy, TICR's precise contribution to economic revitalization in the region is unclear. Several factors make it difficult to determine with any precision the extent of TICR's impact. Many awards are too recent to yet have a measurable impact. Older awards are difficult to evaluate because TICR does not regularly track outcomes such as the number of jobs created and retained or new capital investment for most of its grants. TICR staff track jobs and capital investment for TROF awards and graduate return rates to the region for its Southside scholarship program, but these grants represent approximately 11 percent of total TICR awards to date. Outcomes for the remaining 89 percent of TICR spending are not well documented.

Outcomes for 89 percent of TICR spending are not well documented.

TICR has also funded many small local projects that had only a marginal potential for economic revitalization. Examples include community centers, farmers markets, local museums, and recreational projects. The report recommends that TICR develop standards for minimum expected economic impact and establish a publicly accessible database of its awards to allow for greater insight into the intentions of the projects it funds.

COMMISSION'S MANDATE REQUIRES A WELL-DEFINED REVITALIZATION STRATEGY

TICR has made several intentionally strategic grants, including in broadband infrastructure, its research and development program, its reserve program for leveraging one-time federal matching funds, its awards for the education and workforce skills of the region's residents, and TROF, which is aimed at bringing new businesses to the region. Across these categories, TICR has spent approximately $400 million, or 53 percent of its total awards. While these programs have been TICR's most strategic, their impact has been mixed.

TICR's other spending decisions have been unconstrained by a deliberate and focused revitalization strategy. The process by which TICR receives proposals does not appear to be driven by TICR's own priorities or strategic vision. As a result, TICR receives a large number of proposals, some of which have limited potential to revitalize the economy of the tobacco region. Because of the number of these proposals and the limited staff capacity to adequately review and evaluate each one, TICR ultimately relies on the applicants to submit good proposals. This process undermines the commission's ability to have a revitalizing impact on the significantly challenged economy of this large region of the State.

Given that the tobacco region's economy and the challenges it faces are always in flux, TICR should implement a formal process for regularly revisiting its economic revitalization strategy. However, TICR's strategic plan has not been revised since 2006, and there appear to be no plans to revisit it. According to TICR staff, applicants do not consistently justify their projects according to the strategic plan. Staff also indicated that while they are aware of the strategic plan, they do not reference it for each application they review. This may be a result of the breadth of the plan itself; one staff member indicated that it is so broad that “almost anything can be justified.”

The conclusion in 2012 of tobacco grower indemnification presents an opportunity because economic revitalization will become TICR’s sole mission. The report recommends that the General Assembly consider amending the *Code of Virginia* to require that TICR reassess and revise its strategic plan every two years. A revised strategic plan should be actionable and focused on a limited number of high priorities. These priorities should be informed by external State and local stakeholders as well as by available data.

ASSETS SHOULD BE WITHDRAWN MORE SLOWLY TO PRESERVE A LARGER FUTURE ENDOWMENT BALANCE

Because of the rate at which TICR is spending its endowment, its assets are projected to decrease substantially before MSA payments to the State resume. Since 2005, TICR has invaded its endowment at the maximum rate of 15 percent five times. At this rate, TICR’s endowment will be less than half of its current value by 2015, according to TICR staff. At some point, the endowment balance will decrease to a level that constrains the commission’s ability to make significant grants. The report notes that existing statutes appear to contemplate a ten percent invasion as routine, and recommends that the General Assembly may wish to amend the *Code of Virginia* to cap annual withdrawals by TICR at no more than ten percent of its endowment.

TICR SHOULD CONSIDER ADDITIONAL STRATEGIC INITIATIVES IN THE REGION’S CURRENT AND FUTURE WORKFORCE

The quality of the tobacco region’s workforce is at least as important as the quality of its economic development infrastructure. TICR has already invested in two of the most important aspects of the workforce: education and health. Still, TICR’s total spending on the workforce has been less than its spending on physical infrastructure assets like buildings and broadband. A future focus should be the quality of the region’s workforce as a key to future economic vitality for the region. The report recommends that TICR consider strategic initiatives in education and access to health care, including identifying best practices and adapting them to the tobacco region.

BASIS FOR MAKING SOUTHSIDE ECONOMIC DEVELOPMENT AWARDS DOES NOT ENCOURAGE REGIONAL REVITALIZATION

The allocation of economic development funds to localities within the Southside region is based on historical tobacco production in 1998. This formula has been in place since TICR’s formation.

While TICR is charged with revitalizing the once tobacco-dependent economies of the State, dividing these resources based on tobacco production in 1998 seems to be no longer relevant.

The allocation formula negatively impacts TICR's ability to achieve regional economic revitalization in several ways. Four localities receive two-thirds of the funding and 14 localities each receive less than two percent. JLARC staff identified cases where the allocation formula resulted in projects having to be phased in over a period of years, driving up project costs.

The report recommends that TICR eliminate the current Southside allocation formula, and use measures of a locality's economic stress to prioritize awards to the most challenged localities. This would enable TICR to distribute funds more strategically throughout the tobacco region, not just to localities in Southside Virginia.

CHANGES TO TICR'S COMPOSITION COULD IMPROVE ITS STRATEGIC ROLE

The composition of the commission hinders the strategic role crucial to the major task of economic revitalization. Just two of the 31 members are required by the *Code of Virginia* to have qualifications relevant to their strategic role as grant makers with more than $600 million in economic revitalization funds remaining to spend. The commission's size and composition may have contributed to awards being made to projects with only limited revitalization potential and that are not well-aligned with TICR's mission.

The report recommends specifying more relevant qualifications for service on the commission, and including the Secretary of Education and the Chancellor of the Virginia Community College System as members, and reducing the size of the commission. One option could accomplish these objectives with a commission of 19 members.

FLAWED EVALUATION PROCESS CONTRIBUTES TO APPROVAL OF PROJECTS WITH LIMITED POTENTIAL

TICR's process for evaluating funding requests does not effectively screen out weak proposals. The commission considers every application for funding, although this policy generates a significant workload that tends to discourage detailed review by the commission. Applications for funding often contain insufficient information, resulting in a widely varying quality and quantity of information for the staff and commission to review. Economic impact analyses are not always submitted, for example, even for large requests.

Limited discussion of even the larger awards by commission members and the ability of applicants to appeal decisions to the full commission have contributed to the perception that awards are sometimes based on factors other than merits. Many stakeholders echoed such concerns about the decision process.

The commission relies heavily on staff to review each request's merits and provide sound recommendations. Limited staff resources and the fact that there is no limit on the number of proposals that may be submitted undercut staff's ability to provide comprehensive reviews.

MOST TICR AWARDS HAVE NOT BEEN PAIRED WITH OUTCOME METRICS

JLARC staff were directed to evaluate and make recommendations on TICR's outcome metrics and accountability measures. Ideally, strong outcome metrics would provide data on how each grant performs relative to its outcome expectations and how it contributes to TICR's overall mission of revitalizing tobacco region localities.

Since 2009, TICR has devoted increased resources to improving outcome measurement for tracking both its overall performance and, more recently, individual project outcomes. However, the new agency-level performance metrics are inadequate for understanding TICR's contribution to revitalization, primarily because the metrics focus only on the broad economic performance of the region and offer no details on TICR's contributions towards these changes. For many of its projects, TICR appears to be moving closer to requiring specific outcome projections from applicants and to pairing its own outcome reporting with these projections.

To date, TICR has developed and implemented outcome metrics for only two of its programs, which constitute just 11 percent of its total awards. Consequently, TICR cannot effectively monitor the performance of most of its grants, nor can it make a verifiable claim about its overall contribution towards achieving regional economic revitalization.

The report recommends that all applicants be required to develop their own outcome metrics and project milestones. The report also recommends that applicants provide a methodology for their individual economic impact estimates and evidence that they have consulted with experts in formulating these projections.

TICR'S ACCOUNTABILITY MEASURES HAVE IMPROVED AND FOCUS ON FINANCIAL ACCOUNTABILITY RATHER THAN PERFORMANCE

TICR has made improvements to its accountability measures since it awarded its first grants in April 2000. The most significant of these improvements addressed the way in which funds were disbursed to grantees.

Between 2000 and 2002, the commission disbursed its awards without requiring evidence as to how grantees spent TICR funds. This process ultimately left the commission vulnerable to improper awardee spending. From April 2002 to the present, TICR has used a reimbursement system to disburse most grant awards. A JLARC staff review of 131 project files, ranging in dates from 2000 to 2010, confirmed that TICR staff dedicate significant resources to screening the invoices that they receive from applicants who are requesting reimbursements from their TICR awards.

Voucher reviews are, however, only one element of a comprehensive approach to ensuring compliance with TICR's expectations. According to the Auditor of Public Accounts, site visits are key to ensuring compliance, yet TICR staff estimated they devote less than five percent of their time to this activity.

Currently, two TICR grant administrators are located in the tobacco region. The report recommends that the commission hire additional full-time staff and conduct a greater number of formal visits to the sites of TICR-funded projects each year.

Chapter 1

Tobacco Commission Was Created to Revitalize the Economy in Virginia's Tobacco Region

In Summary

The Tobacco Indemnification and Community Revitalization Commission (TICR) is a 31-member commission established in 1999 to revitalize communities in Virginia whose economies have historically been dependent on tobacco production. It is funded by an endowment created with payments from the 1998 legal settlement between 46 state attorneys general and the major tobacco manufacturers. Virginia's tobacco region consists of 41 Southside and Southwest localities characterized by high unemployment, low incomes, and slow population growth compared to the rest of the State. To revitalize the economy in these localities, TICR provides grants for projects such as industrial parks, public infrastructure, workforce training and higher education initiatives, research and development, and tourism attractions. Grant requests are reviewed by TICR staff and committees, and are generally approved by the full commission before being distributed on a reimbursement basis. Since its creation, TICR has awarded a total of $756 million, nearly two-thirds of which has funded construction and public infrastructure projects. As of June 2011, approximately $606 million remained available to TICR for future projects.

Item 30F of the 2010 Appropriation Act directs the Joint Legislative Audit and Review Commission (JLARC) to "evaluate and report on the performance of the Tobacco Indemnification and Community Revitalization Commission (TICR)." The mandate, reprinted as Appendix A, directs the report to include

- a review of the effectiveness of TICR's economic revitalization grants,
- an evaluation of TICR's economic revitalization strategy, and
- recommendations about TICR's outcome metrics and accountability measures.

Section 3.2-3101 of the *Code of Virginia* states that TICR's mission is to (1) provide payments to tobacco farmers to compensate for the economic effects of the decline in tobacco production and (2) revitalize tobacco-dependent communities. TICR's revitalization mission is the focus of this study.

In conducting this study, JLARC staff interviewed TICR staff as well as TICR commission members who wished to comment on its mission and operations. JLARC staff also conducted a telephone survey of economic developers from the 41 localities in the tobacco region. JLARC staff reviewed TICR files for 131 projects that have received funding from the commission, including many of the projects that have received the largest cumulative funding from TICR to date. Individual projects reviewed by JLARC staff included industrial parks, workforce development and higher education initiatives, research and development projects, and tourism attractions. Finally, JLARC staff conducted site visits to 34 TICR-funded projects throughout the Southside and Southwest tobacco regions. A more complete discussion of research methods is included in Appendix B.

TICR WAS FORMED TO PROMOTE ECONOMIC REVITALIZATION IN TOBACCO-DEPENDENT LOCALITIES

TICR is a 31-member commission created by the General Assembly in 1999 to revitalize Virginia's tobacco region. Chapter 880 of the 1999 *Acts of Assembly* gave TICR responsibility for compensating tobacco farmers for the decline in tobacco production and revitalizing tobacco-dependent economies. Funding for these activities comes from the State's share of the 1998 Master Settlement Agreement (MSA) between 46 state attorneys general and large tobacco manufacturers. Virginia's share of the MSA was estimated at $4.1 billion, half of which was dedicated to TICR and subsequently securitized to create an endowment.

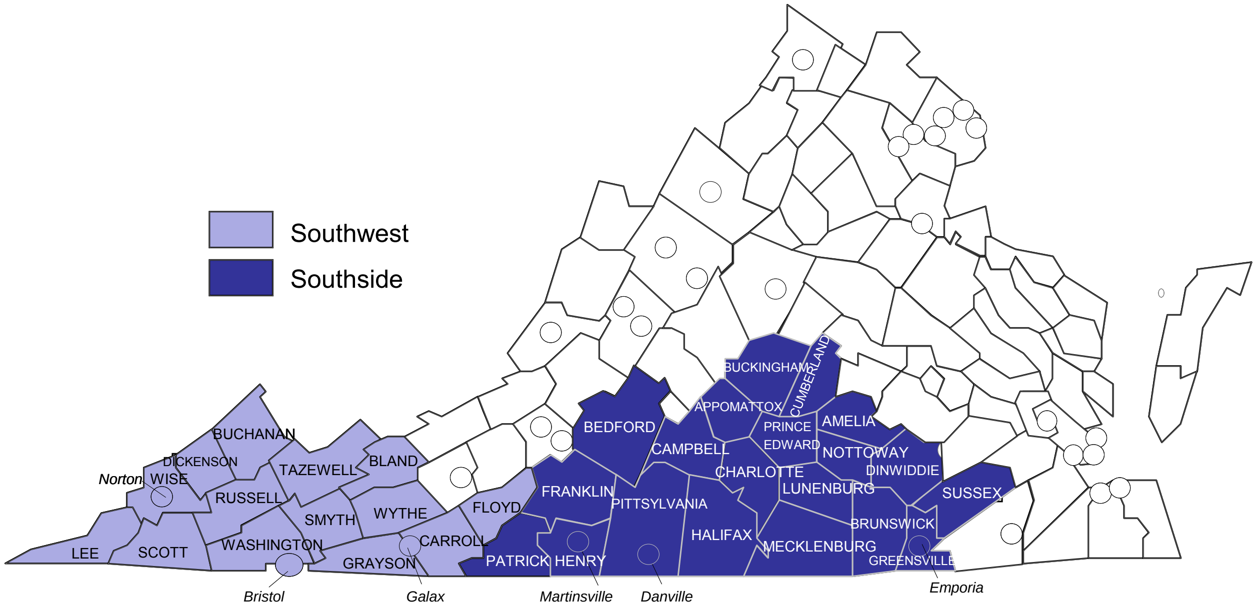
TICR has defined its economic revitalization mission to mean creating a "more stable, diversified, and growing economy that leads to higher living standards" for the 41 localities that comprise Virginia's tobacco region. It seeks to achieve these objectives by making grants for economic revitalization projects such as physical infrastructure, including industrial parks and broadband networks; higher education and workforce development initiatives; research and development activities; incentives for new and expanding businesses; and tourism projects. Economic revitalization grants from TICR are commonly made to local governments and other government entities such as planning district commissions and economic development authorities. TICR also routinely awards grants to private non-profit organizations registered as tax-exempt under IRS guidelines.

Tobacco Region Consists of 41 Localities in Southside and Southwest Virginia

The legislation creating TICR authorized it to determine which "tobacco dependent communities" should receive economic revitalization grants from the commission. To follow its statutory direction that it revitalize tobacco-dependent communities, TICR defined Virginia's tobacco region based on tobacco production levels in 1998.

The resulting 41 localities were divided by TICR into the Southside and Southwest regions (Figure 1). The Southside region

Figure 1: Virginia's Tobacco Region Consists of 41 Southside and Southwest Localities



Source: TICR.

includes 24 localities with a population in 2010 of 643,164 (61 percent of the tobacco region's total population). The Southwest region consists of 17 localities and a 2010 population of 417,024. At 1,060,188, the overall tobacco region accounts for 13.3 percent of Virginia's total population.

Because the statutory mission of TICR is to revitalize tobacco-dependent communities, the tobacco region defined by the commission does not align perfectly with the economic needs of Southside and Southwest Virginia. The tobacco region does not include some nearby localities that face similar economic challenges, and some localities with relatively strong economic conditions are included in the tobacco region. In addition, because the localities in the tobacco region were identified using 1998 tobacco production levels, the region does not include some nearby localities whose historic role in tobacco production and warehousing had disappeared by 1998.

Virginia Dedicated Half of MSA Payments to Revitalizing the Tobacco Region and Created an Endowment

Under Section 3.2-3106 of the *Code of Virginia*, the State dedicates half of its share of funds from the MSA to TICR. By statute, the Virginia Health Care Fund receives 40 percent of the funds for the State's Medicaid program (§32.1-366), and the remaining ten percent is dedicated to the Virginia Foundation for Healthy Youth to combat underage tobacco use and childhood obesity (§32.1-354 et seq.). As a result, while funding for TICR comes from the major to-

While funding for TICR comes from the major tobacco companies rather than Virginia taxpayers, the commission's funds are considered public funds.

bacco companies rather than Virginia taxpayers, the commission's funds are considered public funds.

As a condition of settling lawsuits by state attorneys general, the tobacco companies agreed to make annual payments to the states "in perpetuity." Over 25 years, Virginia's share was estimated at $4.1 billion. Under legislation passed by the General Assembly in 2002, Virginia securitized the tobacco settlement payments dedicated to TICR for the next 25 years. Proceeds from bond sales in 2005 and 2007 totaled $1 billion and are managed in an endowment by the Virginia Department of the Treasury. As of May 2011, this endowment was valued at $536 million.

Securitizing TICR's annual MSA payment had two important effects. TICR received its share of MSA funds in 2005 and 2007, instead of receiving annual payments over the succeeding 25 or so years. Virginia was thus shielded from the risk of a decline in annual MSA payments that could occur if tobacco consumption decreases. (When the securitization bonds are paid off, expected in 2032, TICR will once again receive annual payments under the terms of the MSA.) The securitization also means TICR is statutorily responsible for managing spending from an endowment.

TICR HAS AWARDED $756 MILLION FOR ECONOMIC REVITALIZATION; ABOUT $606 MILLION REMAINS AVAILABLE

Since it began grant-making activities in 2000, TICR has approved 1,368 economic development grants totaling $756 million to the tobacco region. Funds for these awards have come from annual MSA payments and, after 2005, the commission's endowment. Of TICR's total awards made to date, approximately $526 million has been paid to grant recipients. The remaining $229 million in grant awards, or 30 percent of total awards to date, will be disbursed to grant recipients in the future as economic development projects are implemented.

TICR has approximately $606 million in assets available for new economic revitalization grants in the future. These assets include the commission's endowment, valued at $536 million, as well as $70 million in funds that have been budgeted by the commission but not yet awarded. These assets comprise the sole funding available to TICR until MSA payments resume in 2032.

TICR Funds Have Supported a Wide Variety of Economic Revitalization Initiatives in the Tobacco Region

TICR has funded a wide variety of projects aimed at revitalizing the tobacco region's economy. These projects include

- industrial parks, including site development, supporting infrastructure, and construction of on-site buildings;
- public infrastructure projects, such as water, sewer, and broadband installation;
- education and workforce training initiatives, including scholarship programs and centers for workforce training and higher education;
- tourism infrastructure, including facilities deemed to have cultural or historical value to the tobacco region;
- agricultural/agribusiness diversification and expansion;
- research and development projects; and
- incentive packages to private firms considering relocating to or expanding in the tobacco region.

Since its creation, TICR has awarded grants for economic revitalization through nine funding programs (Table 1). A JLARC staff analysis of TICR awards by program indicates that $261 million in grants, or over one-third of the total awards made by TICR since

Table 1: TICR Has Awarded Economic Revitalization Grants Through Nine Funding Programs (2000–March 1, 2011)

Funding Program	Total Awards (millions)	Percent of Total	Purpose
Southside/Southwest Economic Development	$261	35%	Fund public infrastructure, business and technology parks, and tourism projects.
Special Projects	133	18	Fund projects that can benefit multiple localities or significantly impact the regional economy.
Technology [a]	102	14	Develop regional networks that provide open access to high-speed, redundant, affordable broadband.
Education	82	11	Increase education in the region through loan forgiveness, 4-year scholarships, and other programs.
Tobacco Region Opportunity Fund (TROF)	58	8	Provide funding to private entities in exchange for job and capital investment promises.
Reserve Account	45	6	Provide matching funds for non-TICR grants.
Research and Development	32	4	Encourage technology-based economic development and support energy research.
Megasite Development	25	3	Develop large-acreage industrial parks with the capacity for 2,000 or more new jobs.
Agribusiness	17	2	Assist the agriculture community with diversifying into new production opportunities.
Total	**$756**	**100%**	

[a] The technology funding program was discontinued by TICR in 2009. Awards for broadband are currently made through other funding programs.

Source: JLARC staff analysis of grant awards data provided by TICR.

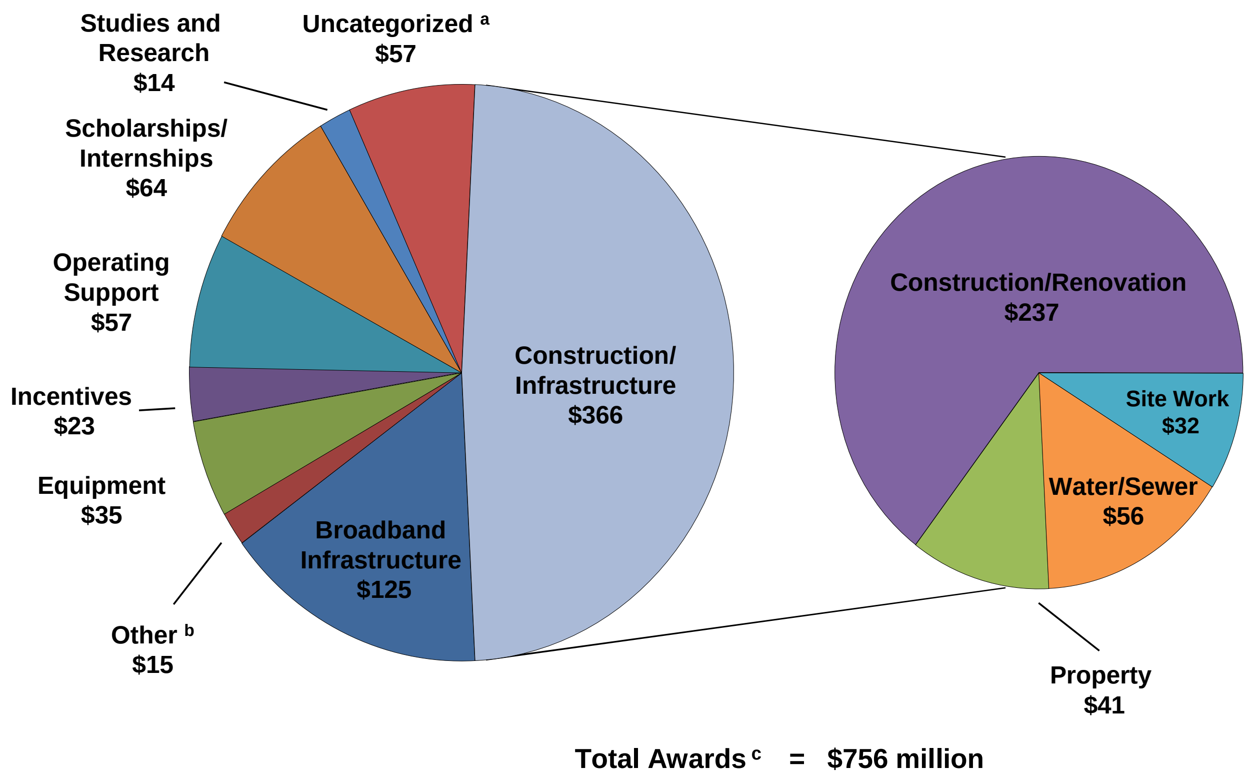
2000, have been through the Southside and Southwest economic development programs. Localities in the Southside region have received approximately 67 percent of this $261 million, with the remaining $86 million going to localities in the Southwest tobacco region. Approximately 18 percent of TICR's total awards to date have been from the special projects program to support regional initiatives such as large-acreage industrial parks that can potentially impact multiple localities. Smaller amounts of funding have been awarded through the education, tobacco region opportunity fund (TROF), and other programs. With the exception of the technology funding program, which was discontinued in 2009, TICR continues to fund these programs.

Total grants awarded by TICR have fluctuated from year to year but have generally increased since 2000. In the four years since bond sales for the endowment were completed in 2007, TICR has awarded an average of $93 million each fiscal year. The commission awarded its largest annual amount to date in FY 2010, approving 158 grants for a total of $124 million. TICR has budgeted $95 million in FY 2011 for economic development initiatives in the tobacco region.

Nearly two-thirds of TICR awards to date, totaling $491 million, have been for construction and infrastructure projects, including broadband infrastructure (Figure 2). According to a JLARC staff analysis of TICR data, $366 million has been awarded for construction and renovation work, property acquisition, water and sewer infrastructure, and other site work. These activities have been for the development of industrial parks, workforce and higher education centers, research and development facilities, and tourism attractions. An additional $125 million in TICR awards has gone to developing a regional broadband network in the tobacco region and expanding access to it.

TICR's cumulative spending on individual projects varies widely, from approximately $27 million for a single project to less than $25,000. More than 800 economic development projects have received one or more awards from the commission, with average cumulative TICR spending of $927,000. A total of 140 projects have received $1 million or more in cumulative funding from TICR, often through multiple grants awarded over several years. By contrast, a total of 56 economic revitalization projects have received $25,000 or less in cumulative funding from TICR. While many of these projects have received significant funding from other grant-making entities, others have had relatively small total budgets.

Figure 2: Nearly Two-Thirds of TICR Awards Have Funded the Construction of Infrastructure and Broadband (2000–March 1, 2011; $ in millions)



[a] "Uncategorized" awards were not categorized in grant awards TICR data.
[b] "Other" includes cost share, debt service, marketing, and loan awards.
[c] In addition to $756 million in economic development awards, through FY 2011 TICR has made available $298.6 million in indemnification payments to tobacco growers.

Source: JLARC staff analysis of grant awards data provided by TICR.

King College Medical School

The largest single TICR award to date was through a Southwest economic development grant of $25 million to create the King College Medical School. The school will be located in Washington County. According to King College, the medical school is estimated to add 20,000 new jobs and $2 billion to the region's economy by 2035.

Another way to characterize TICR spending is through its major economic development initiatives. The seven largest initiatives funded by TICR account for 67 percent of total spending by the commission to date, or $506 million (Table 2). TICR's largest spending initiative has been the development of industrial parks in the tobacco region, with $155 million awarded to localities and industrial development authorities for this purpose. TICR has provided smaller but significant funding for research and development initiatives, including $53 million to develop regional centers for energy-related research and $27 million to the Institute for Advanced Learning and Research (IALR) in Danville. The IALR has become a State agency and receives regular appropriations. The largest single award by TICR was $25 million in 2010 for King College Medical School in Southwest Virginia.

Table 2: Seven Largest TICR Initiatives Have Received a Total of $506 Million in Funding (2000–March 1, 2011)

Initiative	Total Awards ($ in millions)	Description
Industrial parks	$155.0	Development of industrial parks through land acquisition, site preparation, infrastructure, and onsite construction
Broadband access	124.5	Regional broadband networks and expanded access for tobacco localities
Scholarships and student loans	64.1	Scholarships, loans, and internships for two- and four-year degree students
Tobacco Region Opportunity Fund grants	57.6	Incentive grants to private entities in exchange for new jobs and capital investment
Energy research and development centers	52.7	Five regional centers to support renewable energy and other energy-related research
Institute for Advanced Learning and Research	27.3	Research and development in polymers, renewable energy, and other energy fields; post-secondary education programs
King College Medical School	25.0	Development of a medical school in Southwest Virginia
Total	**$506.2**	

Note: The $64.1 million in total awards for scholarships and student loans includes $5 million awarded to the Literary Foundation in 2001 and 2002. Of this $5 million, $4 million was found to have been spent improperly by the grantee. A discussion of this award is located in Chapter 6.

Source: JLARC staff analysis of grant awards data provided by TICR.

Approximately $606 Million Remains Available to TICR for Future Economic Revitalization Projects

As of June 2011, approximately $606 million remained available to TICR for use in future economic development projects. This amount includes $536 million remaining in TICR's endowment with the Virginia Department of the Treasury, and $70 million that has been transferred from the endowment to TICR but not yet awarded. Funds in the endowment are managed by Treasury in a mix of investment vehicles designed to maximize returns while ensuring adequate funds are available for transfer to TICR.

At the maximum "burn rate" of 15 percent, TICR's endowment will decline to less than half its current value by 2015 and less than ten percent of its current value by 2025.

TICR's endowment is a finite resource that will diminish over time depending on the rate of transfers from the fund. TICR can transfer funds from the endowment to pay for budgeted spending, but Section 3.2-3104 of the *Code of Virginia* limits these transfers to ten percent of the endowment annually, or 15 percent if two-thirds of the full TICR commission approves. TICR has approved the maximum 15 percent transfer from the endowment in five of the eight fiscal years since the endowment was established. At the maximum "burn rate" of 15 percent, the endowment will decline to less than half its current value by 2015 and will be down to less than ten percent of its current value by 2025. Annual MSA payments to TICR will not resume until 2032 when the bonds mature.

FULL COMMISSION APPROVES REVITALIZATION GRANTS WITH INPUT FROM COMMITTEES AND STAFF

TICR is governed by a 31-member commission made up of legislators, cabinet secretaries, tobacco producers, and citizen residents of the tobacco region. Section 3.2-3102 of the *Code of Virginia* requires the membership to be

- six members of the House of Delegates;
- four members of the Senate;
- 11 citizen residents of the tobacco region;
- six active tobacco producers (three burley tobacco producers and three flue-cured producers);
- three cabinet-level officials: the Secretaries of Commerce and Trade, Agriculture and Forestry, and Finance; and
- one representative of the Virginia Farm Bureau Federation.

Citizen residents and tobacco producers are appointed by the Governor. With the exception of the cabinet secretaries, the *Code of Virginia* requires that all members reside in tobacco region localities and be confirmed by the General Assembly. The *Code* further requires that, to the extent feasible, the Southside and Southwest regions be represented in proportion to their historic tobacco production levels. Citizen members are appointed to four-year terms and limited to two consecutive terms. Legislative members and cabinet secretaries are required under the *Code* to serve their appointments coincident with their terms in office.

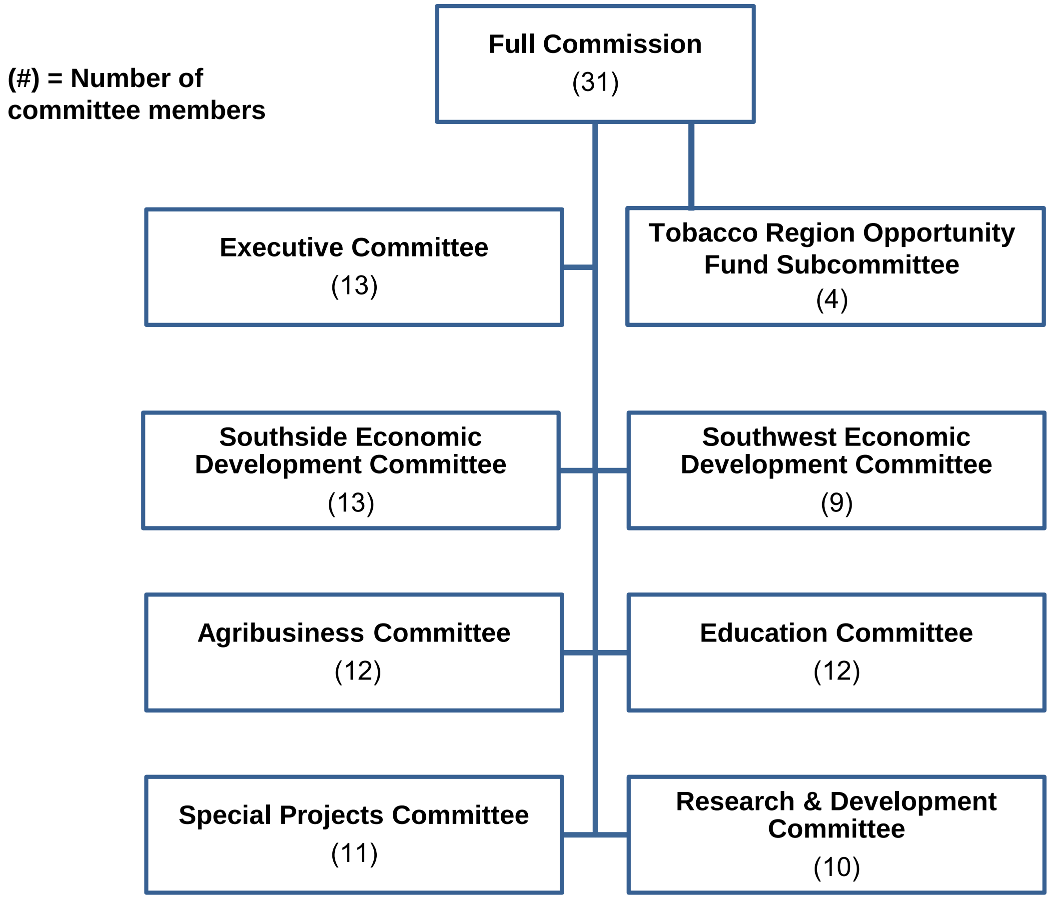
The full TICR commission met quarterly through 2010, when it reduced its meeting frequency to three times annually beginning in 2011. The commission is supported by a full-time staff of nine, and an executive director appointed by the Governor. One grants coordinator is assigned to each of the two tobacco regions, while all remaining staff are located in Richmond.

TICR Allocates its Annual Budget to Grant Programs Managed by Committees

TICR is organized into seven committees that roughly align with the eight grant programs currently operated by the commission (Figure 3). Committees range in size from nine to 13 members and, with the exception of the Southside economic development committee, each is currently chaired by a legislator, although this is not required by statute or commission bylaws.

With the exception of the executive committee, each TICR committee manages one or more funding programs by reviewing grant requests and recommending funding amounts to the full commission.

Figure 3: TICR Is Organized Into Eight Committees



Note: Tobacco Region Opportunity Fund subcommittee includes TICR's executive director.

Source: JLARC staff analysis of information provided by TICR.

The executive committee is responsible for grant-making policies and procedures, a strategic spending plan, development of an annual budget, and other matters affecting TICR. Committees generally meet prior to full commission meetings. A subcommittee comprised of the TICR executive director, the commission chair, and the chairs of the two economic development committees approves grants from the tobacco region opportunity fund program.

TICR receives an annual appropriation; all of the commission's grant programs for economic revitalization are funded through this appropriation. The total amount of funds available for its grant programs in a given year depends on the commission's cash reserves, including funds carried forward from the previous fiscal year and earnings from the TICR endowment, as well as the amount of funds it transfers from the endowment.

The commission approves an annual budget that allocates funds to each of the eight grant programs it currently operates. Allocations to these programs are based on the commission's annual spending priorities and anticipated awards rather than the strategic plan or a predetermined formula. Several other factors influence how funds are distributed among the grant programs, including spending through each program in previous years, any unobligated funds from the prior year, and major economic revitalization initiatives identified by the commission as priorities. The annual budget is approved by the executive committee and the full commission.

Funding for the economic development grant program is divided between the Southside and Southwest regions according to historic tobacco production levels. As a result, the Southside region has received 67 percent of economic development funds to date, and the Southwest region has received 33 percent. Funding for other grant programs is not divided between the two regions.

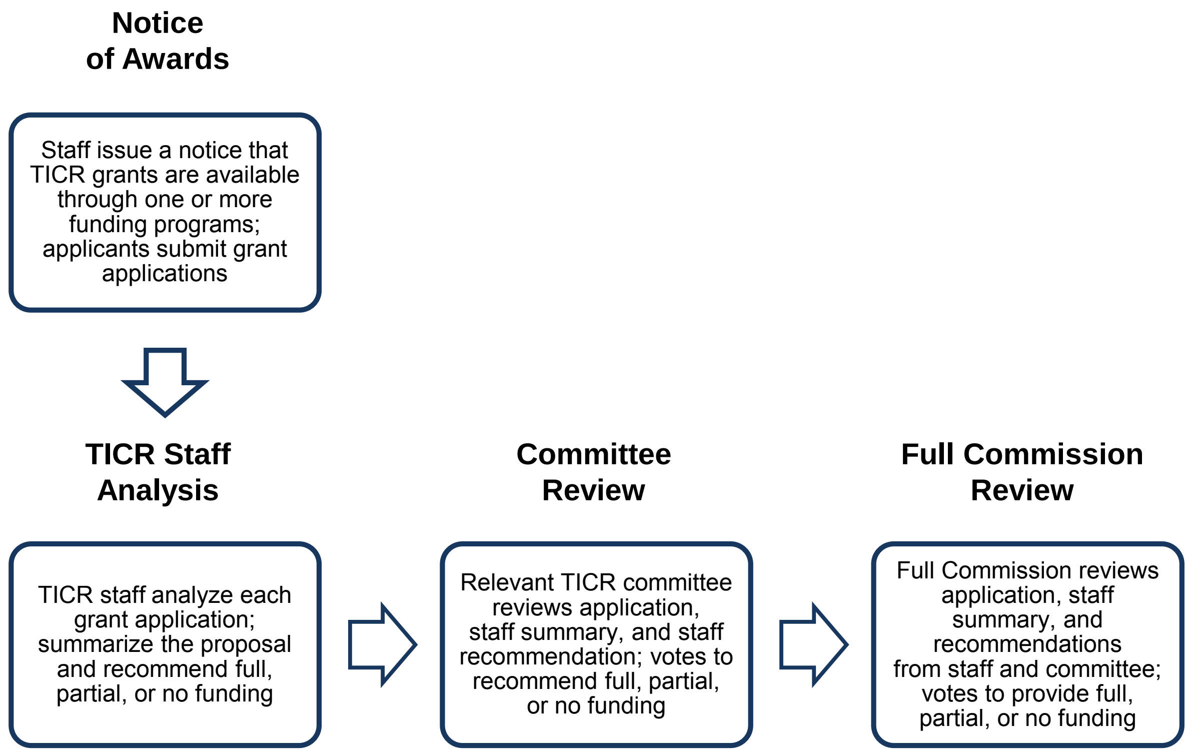
Funds for the Southside economic development program are further divided among Southside localities using a formula that takes into account historic tobacco production and other tobacco-related factors. Localities and entities within them then compete for funds from this annual allotment. Allocations from the Southside formula vary widely, with approximately two-thirds of Southside economic development funds allocated to four localities: Pittsylvania, Halifax, and Mecklenburg Counties, and the City of Danville. Other Southside localities, such as Appomattox, Nottoway, Prince Edward, and Sussex Counties, receive less than two percent of economic development funds each year. By contrast, localities in the Southwest region compete equally for economic development grants from the Southwest economic development fund. (These allocations are discussed more thoroughly in Chapter 4.)

TICR Staff and Committees Review Grant Applications and Make Recommendations, but Full Commission Approves Most Grants

TICR approves grants through a review process that includes formal analysis by staff and recorded votes by a committee and the full commission (Figure 4). Committees award funds through one or more grant cycles each year. Once a notice of awards is issued, entities such as localities, economic development organizations, and non-profit organizations in the tobacco region can propose economic development projects. TICR staff review proposals for consistency with the grant program in question, TICR's overall mission, and funding guidelines developed by the commission.

Staff provide the appropriate committee with the grant application, a written analysis of the application, and a recommendation

Figure 4: TICR's Grant Review Process



Note: Grants from the TROF and reserve account programs are made through a separate process.

Source: JLARC staff analysis of information provided by TICR.

for full, partial, or no funding. The committee then considers and votes on each grant request, making a recommendation to the full commission on a funding amount. In some cases, grant applications are submitted after the submission deadline and bypass the staff's standard review process.

Final authority over the approval of most tobacco grants rests with the full TICR commission. Staff recommendations are non-binding and may be rejected by a committee or the full commission. Similarly, the full commission may reject the funding recommendation from a committee. Staff do not have the authority to reject applications. As a result, with the exception of TROF grants, all grant requests are reviewed and voted on by a committee and the full commission. The full commission votes on most grant applications in block formats, though individual proposals have been removed from a block and voted on separately at the request of members. All commission and committee meetings are open to the public.

Most TICR Awards Are Distributed on a Reimbursement Basis

TICR generally disburses its grant awards as reimbursements for costs incurred during a project. Once grant funding is approved by the full commission, grant recipients must provide invoices or receipts in order to receive award funds. This documentation is reviewed by TICR staff to ensure that funds are issued for eligible expenses. The commission also requires grant recipients to complete an annual grant reporting form describing the status of the project and their use of TICR funds. Grant recipients are required to complete a final reporting form before the last ten percent of funds are distributed. This form requests information on how the project has impacted the tobacco region, such as a description of the population served by the project and the number of individuals served by the project that have been affected by the decline of the tobacco industry. (The economic impact of TICR grants is discussed in Chapter 3, and the commission's process for monitoring projects is discussed in Chapter 6.)

Grants From the Tobacco Region Opportunity Fund Are Made Through a Separate Process

TROF grants are used to help attract companies looking to relocate to or expand in the tobacco region. Because these projects are often time-sensitive, TROF grants are made through a separate process that allows for expedited review and distribution of funds. Localities apply for TROF grants on behalf of private companies. TICR staff review these applications and recommend a funding amount using an economic model that estimates potential benefits. Only the TICR executive director, commission chair, and chairs of the two economic development committees vote on TROF requests. Final approval for TROF grants rests with these four individuals and does not require a vote from the full commission. TROF grants are also the only TICR awards paid up-front rather than on a reimbursement basis. Grants are released to the locality, which then provides the funds to the private firm.

TROF Grant: Microsoft Data Center

In August 2010, TICR awarded a $4.8 million TROF grant to Mecklenburg County as part of an incentive package to Microsoft, Inc. The company agreed to locate its new data center in the county, providing up to $499 million in capital investment and 50 new jobs for the region.

Because TROF grants benefit private entities, awards are issued with performance agreements requiring the entity to deliver promised jobs and capital investment within a specified time period. In addition to what may be specified in the performance agreement, TROF beneficiaries must invest at least $1 million and create at least ten jobs within 36 months. If these terms are not met, funds must be repaid to TICR by the locality. Grants are often made in tandem with incentives from the Governor's Opportunity Fund, the Virginia Jobs Investment Program through the Virginia Department of Business Assistance, and others.

TICR's Grant-Making Process Has Evolved

TICR's grant-making process has evolved since the commission began awarding funds in 2000. Several aspects of the current process for approving and distributing grants were implemented after TICR was created. Over time, TICR has developed a more comprehensive application with a clearer requirement for estimating the impact of a proposed project. In 2003, TICR developed a strategic plan with funding priorities, and staff subsequently began considering these priorities when evaluating grant applications. This plan was most recently revised in 2006.

Conviction of Former Secretary of Finance

In 2001, TICR awarded $5 million to the Literary Foundation of Virginia to promote education in the tobacco region. The foundation was directed by John S. Forbes, who was Virginia's Secretary of Finance and a member of the commission when the grant was approved. Consistent with TICR policy at the time, the $5 million award was distributed to the foundation in advance of the project beginning activities. In 2010, Mr. Forbes acknowledged diverting $4 million in TICR funds for personal use and was convicted of fraud in federal court. The commission now distributes its awards on a reimbursement basis.

Changes have also been made to how TICR distributes grant funds and evaluates their impact on the tobacco region. TICR implemented a reimbursement method for distributing grants in 2002. Prior to this, funds were provided to grant recipients in advance of project spending. In 2002, TICR began requiring grant recipients to complete reporting forms detailing how funds were used. In 2009, TICR contracted with an economist to better define economic revitalization in the tobacco region and develop metrics for measuring progress toward achieving it. More recently, in 2011 the General Assembly passed legislation creating the Office of the State Inspector General to investigate complaints alleging waste, fraud, or abuse by State and non-State agencies. Chapter 798 of the 2011 *Acts of Assembly* gives the Inspector General specific responsibility for reviewing TICR's accounting, financial, and administrative controls as well as investigating complaints involving the commission's endowment or spending.

TICR's funding priorities and committee structure have also evolved over time. In 2009, TICR stopped allocating funds to its technology grant program for developing broadband infrastructure in the tobacco region, though the commission has continued to provide grants for broadband through other funding programs. The technology committee that oversaw these grants was dissolved. That same year, TICR established its reserve account funding program to attract non-TICR funding such as federal stimulus dollars. In 2010, the research and development committee was established and $100 million was set aside to fund applied research with commercial potential in the tobacco region. Also in 2010, TICR created the megasites funding program and allocated $25 million for FY 2011 to develop large-acreage industrial sites in the tobacco region.

OTHER ENTITIES IN VIRGINIA ARE FOCUSED ON ECONOMIC DEVELOPMENT

In addition to TICR, several other public and private entities assist with economic revitalization in the tobacco region. Four State agencies within the Commerce and Trade secretariat have economic development missions that involve them in the region:

- ***Virginia Economic Development Partnership (VEDP).*** VEDP seeks to expand the State's economy by cultivating new business investment, fostering international trade growth, and encouraging the expansion of existing Virginia businesses. VEDP and TICR have cooperated to close deals with businesses, and TICR funds have been used to fund infrastructure and site development activities for sites VEDP intends to market to businesses. VEDP also administers the Governor's Opportunity Fund, which is often paired with TICR grants in incentive packages to prospective companies.
- ***Virginia Department of Housing and Community Development (DHCD).*** DHCD administers a variety of State and federal funding programs targeted at revitalizing distressed communities. In some cases, DHCD grants have complemented TICR funding efforts. For example, DHCD has provided funding to connect several outlying towns in the tobacco region to the broadband infrastructure developed by TICR.
- ***Virginia Department of Business Assistance (DBA).*** DBA provides existing and start-up companies with assistance regarding business formation, access to capital, and workforce development initiatives. DBA has participated in many of the projects supported by TROF grants from TICR, typically by providing or reimbursing companies for training through its jobs investment program.
- ***Virginia Tourism Corporation (VTC).*** VTC seeks to market tourist attractions throughout the State, many of which are located in the tobacco region.

In addition to these State agencies, there are local and regional entities also focused on promoting economic development in the tobacco region:

- local and regional economic development organizations;
- nine planning district commissions;
- 26 "one-stop" workforce centers whose mission is to assist job seekers with finding employment; and
- community colleges providing two-year degree programs, workforce training, and other assistance for adults in the region.

Other public and private grant-making organizations such as the Harvest Foundation, the Appalachian Regional Commission, and the Danville Regional Foundation also fund a variety of economic development projects in the tobacco region.

PRIOR STUDIES HAVE REVIEWED THE OPERATION AND MISSION OF THE TOBACCO COMMISSION

Since its formation, TICR has contracted with four different entities to review certain aspects of its operations. The most comprehensive of these reviews was the Blue Ribbon Review Panel conducted in 2008 and chaired by former Governor Baliles. Key findings from the review included:

- Despite TICR's spending, economic indicators such as wages, unemployment, and educational attainment lagged the rest of the State.
- TICR's investment in the education of the residents of the tobacco region was inadequate.
- TICR's size and structure made it difficult for the commission to make spending decisions based on its strategic plan.
- The governance model used by TICR was inefficient.
- TICR's grants were not sufficiently regional or strategic in scope to achieve real economic revitalization.
- TICR needed to improve the outcomes, goals, and accountability measures required of grant recipients, and develop a formal process for tracking project outcomes.

Prior to the Blue Ribbon review, TICR contracted with two entities to review its education and workforce initiatives. In 2005, the Virginia Tech Center for Regional Strategies reviewed TICR's scholarship program and provided recommendations for expanding outreach efforts, improving high school graduation rates and college attendance, and improving outcome measurement for the program. TICR also contracted with the Corporation for a Skilled Workforce in 2005 to help it develop an evaluation framework for its workforce initiatives. More recently, TICR contracted with an economist to better define its economic revitalization mission and develop outcome metrics for measuring its progress.

Chapter 2

Commission's Principal Goal Is Revitalizing the Tobacco Region

In Summary

The need for economic revitalization in the tobacco region is clear. The 41 localities in the region are mostly well below statewide averages on a number of economic and demographic indicators. Revitalizing the region requires a multipronged approach. The Tobacco Indemnification and Community Revitalization Commission (TICR) can play an important role in improving the income, employment, and workforce skills of people in the region, but it is also important to acknowledge that TICR's resources are limited. To make the best use of its limited funding, TICR needs a clear and focused strategy. It should also recognize that some proposals and grants have more potential than others to revitalize the region. Proposals that bring jobs to the region, for example, contribute more to revitalization than projects and events that serve mainly local interests. While a broad approach to revitalization is needed, there is widespread agreement that improving the population's educational attainment and workforce skills are the most important priorities for long-term revitalization of the region.

The key reason for the existence of the Tobacco Indemnification and Community Revitalization Commission's (TICR) is to focus resources on an area of the State that is most in need of economic development. The localities in the tobacco region lag the State in economic performance. TICR's resources, although sizeable, are modest when compared to the overall size of the task. TICR needs a sharp focus on revitalization if the impact of its resources is to be maximized.

MANY FACTORS CONTRIBUTE TO THE NEED FOR REVITALIZATION

Economic challenges have plagued many tobacco region localities for at least four decades, and recent declines in key industries have exacerbated these challenges. Virginia has historically been a major tobacco-producing state, with most production occurring in the southern and southwestern portions of the State. However, tobacco production in Virginia has declined significantly in recent decades, contributing to economic challenges in the region.

Decline in Virginia Tobacco Production

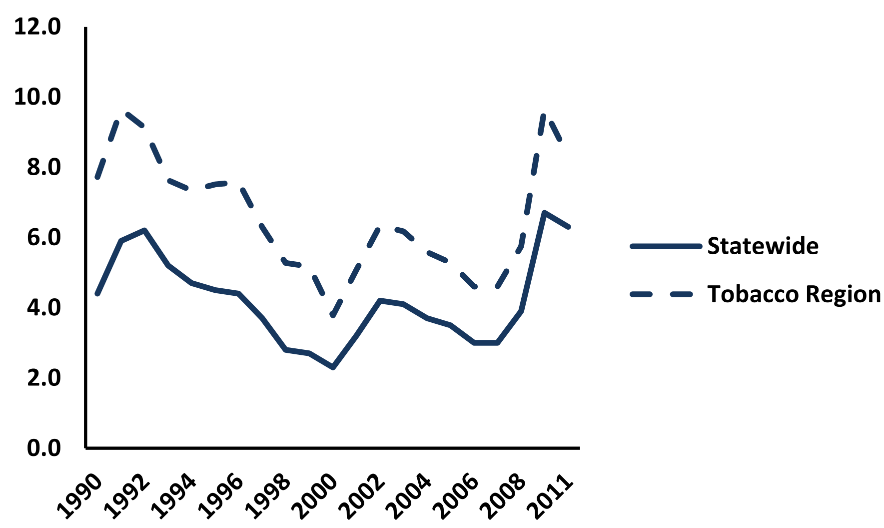
In the late 1990s, Virginia produced 100 to 110 million pounds of tobacco per year, ranking the State among the top five tobacco-producing states. By 2009, total tobacco production in Virginia had dropped to about 47 million pounds.

TICR's ability to revitalize the tobacco region's economy is complicated by several factors. During TICR's 11-year existence, two national recessions (in 2001 and 2007-2009) have slowed economic development. Employment declines in the textile and furniture manufacturing industries, as well as in coal mining in Southwest Virginia, have also contributed to these challenges. The most recent recession has hampered efforts by economic developers to attract new jobs and investment. For example, some economic developers told JLARC staff that the economic slowdown has made it difficult to market vacant industrial parks because fewer companies were considering expansion.

Population declines have been a problem for the region. Of the 41 localities in the tobacco region, 18 lost population between 2000 and 2010, according to the Census Bureau. Three of the localities (Danville, Martinsville, and Buchanan County) lost more than ten percent of their 2000 population.

Unemployment rates in the tobacco region have historically been higher than the statewide average (Figure 5). Since 1990, the region's unemployment has averaged two to three percentage points higher than the statewide unemployment level. Statewide, the unemployment rate increased from 2.3 percent in 2000 to 6.3 percent in March 2011. During the same period, the unemployment rate in the TICR region rose from 3.8 percent to 8.3 percent. All but three (Bedford, Bland, and Tazewell counties) of the 41 localities comprising the tobacco region had higher unemployment than the rest of the State, and in eight tobacco localities more than ten percent of the workforce was unemployed (Table 3). Martinsville had the most job losses in the region, with its unemployment rate moving

Figure 5: Unemployment in the Tobacco Region Has Historically Been Higher Than the Statewide Rate



Note: Data are not seasonally adjusted.

Source: JLARC staff analysis of Virginia Employment Commission data from the U.S. Bureau of Labor Statistics.

Table 3: Nearly All Tobacco Region Localities Have Higher Unemployment Rates Than the Statewide Average (March 2011)

Locality	Employed Persons	Unemployed Persons	Unemployment Rate (%)
Martinsville City	5,100	1,103	17.8%
Emporia City	2,307	340	12.8
Henry County	22,487	2,836	11.2
Danville City	18,090	2,268	11.1
Galax City	3,017	370	10.9
Grayson County	6,730	821	10.9
Brunswick County	6,354	740	10.4
Mecklenburg County	12,922	1,453	10.1
Halifax County	15,678	1,718	9.9
Patrick County	8,516	919	9.7
Sussex County	4,044	434	9.7
Smyth County	13,511	1,414	9.5
Russell County	11,241	1,153	9.3
Carroll County	13,271	1,335	9.1
Greensville County	4,148	407	8.9
Lunenburg County	5,152	505	8.9
Pittsylvania County	29,581	2,862	8.8
Prince Edward County	9,662	921	8.7
Buckingham County	7,028	664	8.6
Tobacco Region	**461,781**	**41,779**	**8.3%**
Charlotte County	5,225	469	8.2
Bedford City	2,520	222	8.1
Dickenson County	6,344	546	7.9
Scott County	9,084	781	7.9
Bristol City	7,450	619	7.7
Wythe County	15,120	1,257	7.7
Cumberland County	4,319	353	7.6
Nottoway County	6,310	519	7.6
Lee County	9,819	773	7.3
Buchanan County	8,928	692	7.2
Appomattox County	6,895	530	7.1
Washington County	25,157	1,911	7.1
Floyd County	7,014	531	7.0
Franklin County	24,772	1,868	7.0
Amelia County	6,217	459	6.9
Campbell County	26,393	1,935	6.8
Dinwiddie County	12,172	887	6.8
Norton City	1,740	124	6.7
Wise County	19,545	1,328	6.4
Virginia	**3,927,566**	**265,428**	**6.3%**
Bedford County	34,318	2,267	6.2
Bland County	3,428	219	6.0
Tazewell County	20,172	1,226	5.7

Note: Data are not seasonally adjusted.

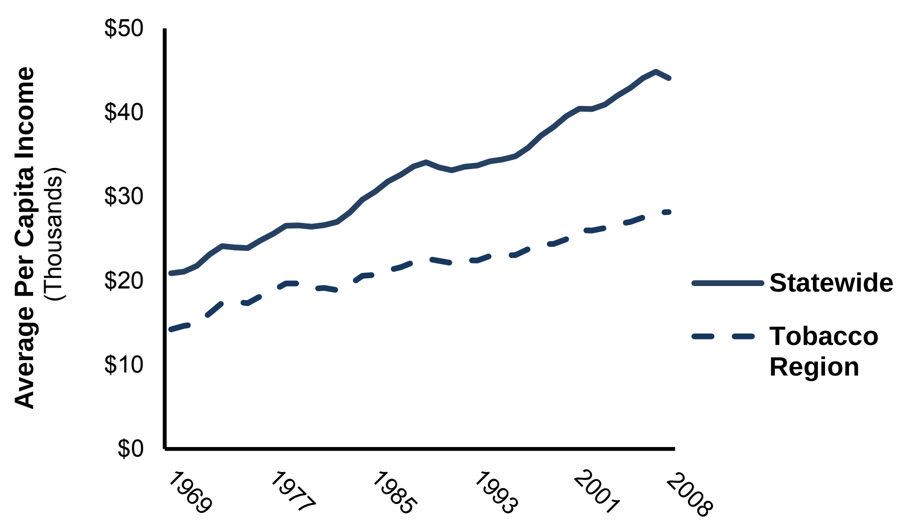
Source: JLARC staff analysis of Virginia Employment Commission data from the U.S. Bureau of Labor Statistics.

from 7.8 percent to 17.8 percent over the period. Tazewell County fared the best in the region, with unemployment rising from 5.1 percent to 5.7 percent, below the statewide average.

Per capita income levels in the tobacco region have also historically lagged the rest of the State; this gap has widened in recent years (Figure 6). Per capita income across the region has averaged 63 to 67 percent of the statewide levels since 2000, and at $29,008 in 2009, the region was two-thirds of the statewide average of $44,057. Individual localities ranged from a low of $22,281 in Prince Edward County to a high of $37,715 in Bedford County. In fact, per capita income grew more slowly than inflation in 31 of the localities. In addition, the proportion of tobacco region residents living below the poverty level (17.9 percent) is higher than the statewide average (9.9 percent), ranging as high as 24.1 percent in Greensville County.

In some tobacco region localities, the proportion of households receiving Social Security income is as high as 48 to 50 percent (Russell and Dickenson counties, respectively), roughly twice the statewide average of 25 percent. Appendix C includes locality-level data for income and other economic and demographic factors.

Figure 6: Per Capita Income in the Tobacco Region Has Lagged the Rest of Virginia for More Than 40 Years



Note: Bureau of Economic Analysis data combined income levels for Campbell and Dinwiddie counties with localities outside the tobacco region. As a result, these counties were excluded from the analysis.

Source: JLARC staff analysis of data from the U.S. Bureau of Economic Analysis, "Regional Economic Profiles."

Educational attainment levels in the region are also low. Overall, 74 percent of the region's over-25 population has at least a high school diploma, well below the statewide average of 86 percent, according to the Census Bureau. In some localities, such as Buckingham, Buchanan, and Greensville counties, this figure is as low as 63 to 65 percent. Bedford County has the highest percentage of adults over 25 with at least a high school diploma, at 85 percent.

Reversing the economic decline may be more challenging in localities that have struggled with such problems for many years. Several localities in the region have had high unemployment levels for more than 20 years. For example, Russell County's unemployment rate was nine percent or more throughout the 1990s, when it was often more than double the statewide average (in 1990, for example, Russell had 9.8 percent unemployment compared to the statewide 4.5 percent). After a period in the early 2000s of employment gains, by March 2011, at 9.3 percent Russell was again well above the statewide average of 6.3 percent. Similarly, Danville ran well above the statewide average, showing 8.7 percent unemployment in 1990 and 11.1 percent in March 2011.

Other tobacco region localities are closer to the statewide economic norms for Virginia, and thus present less of a development challenge. Bedford County, for example, recently had lower unemployment than the statewide average (Table 3), and had per capita income closer to the statewide averages than other localities in the tobacco region. At 85 percent, the percentage of adults over 25 with at least a high school diploma in Bedford County was almost at the statewide average of 86 percent statewide.

One regional stakeholder told JLARC staff that TICR's principal mission is to "move the needles" of income, employment, educational attainment and workforce skills throughout the region. Clearly, this is a significant task.

ECONOMIC REVITALIZATION REQUIRES FOCUS ON JOBS, HUMAN AND PHYSICAL INFRASTRUCTURE

Revitalizing a diverse 41-locality region is an ambitious goal. The need for revitalization throughout the tobacco region is clear, although the nature and extent of the revitalization challenge varies across the region.

TICR's resources for helping to improve the income, employment and workforce skills of people in the tobacco region are limited. The $756 million awarded by TICR over its first 11 years represents about two percent of the region's *annual* economy. (Total non-agricultural economic activity in the region was $34.4 billion in 2007, according to Census Bureau figures.) Lowering the unemployment rate in the 41-locality region to the statewide average (from 8.3 to 6.3 percent) would have required approximately 10,100 additional jobs region-wide in March 2011.

TICR's Strategic Plan Focuses on Key Revitalization Elements

TICR has developed a multi-pronged approach to fulfilling its economic revitalization mission. TICR's strategic plan, last revised in 2006, sets goals to build

- technology infrastructure,
- human infrastructure,
- conditions for innovation, and
- regional development capacity.

Based on interviews with numerous people involved with TICR, the tobacco region, and economic development, revitalizing a large region with long-term economic and demographic problems includes, at minimum,

- an emphasis on creating jobs with average or above-average wages,
- ensuring the availability of a qualified workforce, and
- providing adequate physical infrastructure.

The broad goals set by TICR's strategic plan address these key concerns, although no priorities are set and no distinction is made between localities that have higher levels of economic stress and may be in greater need of revitalization, and localities that are closer to the statewide norms and may have less urgent needs. TICR's implementation of its strategic plan is discussed in greater detail in Chapter 4.

Projects Do Not Contribute Equally to Economic Revitalization

Some projects and activities have more potential to contribute to economic revitalization than others.

Some projects and activities have more potential to contribute to economic revitalization than others. Proposals that create jobs, bringing people and money into an area for example, may contribute more to revitalization than proposals for projects and events of mainly local interest, such as funding a local recreation center (Figure 7). TICR has annually funded projects that fall at various points along this broad spectrum.

TICR's general funding policies, as stated in its funding application, acknowledge this range of potential impact and state that

Figure 7: Conceptual Scale of the Potential for Economic Revitalization, With Examples of Projects

Note: Figure shows examples of broad categories of projects. Not every project within a category may fall precisely where shown.

Source: JLARC staff.

> Commission funds should be invested in projects that generate substantial new economic activity in a region, and should not be used for projects that indirectly affect economic revitalization (e.g., community, childcare and wellness centers, 4H, YMCA, YWCA or recreation initiatives, airports, local arts and cultural activities, historic preservation, and retail development) unless it is demonstrated that the investment will produce economic impacts from outside the commission service area.

This policy statement suggests that TICR is mindful that projects may fall along a scale of economic revitalization, with some contributing significantly and others contributing little.

Economic revitalization of a large area is an inherently long-term effort. Some economic development projects, such as incentives to private companies, have the potential to provide immediate economic benefits. Reducing unemployment and raising personal income levels in the tobacco region may take years or decades. Projects funded by TICR that may take years to impact the region's economy include research and development initiatives, workforce training and higher education centers, and scholarship programs.

Improving Education and Workforce Skills Is Essential

While a broad approach to revitalization may be needed, there appears to be widespread agreement among economic development experts that improving the population's educational attainment and workforce skills is the most important priority for long-term revitalization of the tobacco region.

According to the CEO of the Virginia Economic Development Partnership, creating "human capital" is the most important strategy for achieving economic revitalization, primarily because a company's decision to invest in Virginia is driven in large part by the quality of the area's workforce. A 2010 Area Development survey of 158 corporate executives found that in identifying "very important" site selection factors, the availability of skilled labor was second only to highway accessibility. A member of the commission noted, "Economic opportunities must accompany educational opportunities," so new graduates will be able to stay in the region. According to a Richmond-area economist, "Low education levels are associated with low personal income, low entrepreneurial activities" and diminish the "appeal of the region to relocating and expanding businesses."

There are four primary groups of people TICR could target to improve the quality of the tobacco region's workforce. Two of these groups involve the *current* workforce: working or out-of-work adults, and current or prospective college students. As noted above, localities in the tobacco region have high proportions of adults with less than a high school education. Educational attainment beyond high school is also low. In 2007, for example, the number of associates' degrees per 1,000 people in the two regions was 3.33 compared to 5.9 for the rest of the State; this gap has widened. Tables of this data by locality are in Appendix C.

The two remaining groups involve the region's *future* workforce: high school age youth, and children in early childhood through middle school. TICR has stated that funding projects at the primary and secondary education levels is a regular and recurring State and local responsibility and, therefore, not a commission funding priority, although it has funded some K-12 related projects.

As discussed in the next chapter, TICR has undertaken several strategic initiatives with the potential for positive region-wide impact. TICR's overall role in revitalizing the region has been more reactive than strategic, however.

Chapter 3

TICR Grants Have Provided Significant Benefits but Have Not Yet Revitalized the Tobacco Region

In Summary

While many of the grants made by the Tobacco Indemnification and Community Revitalization Commission (TICR) have provided significant benefits for the tobacco region, the region remains behind the rest of Virginia on key economic indicators such as unemployment and income levels. Local economic developers believe the region would have fallen further behind without support from the commission. However, TICR's precise contribution to economic revitalization in the tobacco region is unclear because the commission has not documented economic impacts for approximately 90 percent of its spending. TICR's grants have had a mixed impact on the tobacco region to date. While Tobacco Region Opportunity Fund incentives, higher education and workforce initiatives, and funding for broadband have yielded important economic benefits, the impact of spending on industrial parks and research and development initiatives has been mixed to date. Many of these grant awards are too recent to have had a measurable impact on the region, or have been hampered by the economic recession. TICR has also made grants to projects with limited potential for significantly impacting the region, either because they do not align with TICR's mission of region-wide economic revitalization or because the grants result in only localized benefits.

The Tobacco Indemnification and Community Revitalization Commission (TICR) was tasked with the challenge of attempting to reverse a decades-long trend toward economic decline in the tobacco region. Since its inception, the commission has awarded $756 million in economic development grants, of which $526 million has been spent by recipients to implement development projects. A focus of this review is how these grants have contributed to economic revitalization in the region.

Due to the lack of documentation on project outcomes, JLARC staff were unable to evaluate every project funded by the commission. Instead, staff reviewed a subset of 131 projects receiving tobacco funds, representing 16 percent of all projects supported by TICR to date. Projects in this subset each received $1 million or more in cumulative awards from the commission, or were identified as noteworthy by economic developers in the tobacco region.

JLARC staff reviewed projects in each of TICR's funding categories, including industrial parks, broadband and other infrastructure projects, research and development initiatives, higher education and workforce development projects, incentive grants to private companies, and tourism projects. To evaluate the economic impact of these projects, JLARC staff conducted a telephone survey of economic developers in the tobacco region, interviewed TICR staff and other stakeholders, reviewed TICR project files and data, and conducted site visits to 34 projects throughout the Southside and Southwest tobacco regions. Further discussion of research methods is in Appendix B.

TICR'S GRANTS HAVE YET TO REVITALIZE THE TOBACCO REGION'S ECONOMY

Although many TICR grants have provided significant benefits for the tobacco region's economy, the commission has not yet fulfilled its statutory mission of revitalizing the region. The aggregate impact of TICR's $756 million in economic revitalization grants does not appear to have substantially improved economic conditions in the tobacco region. As noted in Chapter 2, the region continues to lag the rest of Virginia on key economic indicators such as unemployment, per capita income, and educational attainment rates.

The lack of substantial revitalization may be reasonable, given the broad scope of TICR's revitalization mission, the relatively limited resources it has, and the impact of two national recessions during the last decade. Economic revitalization is also a long-term endeavor, and many of TICR's grant awards are too recent to yield measurable effects. A total of $229 million in TICR grants–or approximately 30 percent of total awards to date–has yet to be spent by recipients. It may be several years before these and other recent awards begin to impact the tobacco region.

TICR's precise contribution to economic revitalization in the tobacco region is unclear. Local economic developers believe TICR has helped the region keep pace with the rest of Virginia on key economic indicators, and that the region would have fallen further behind without support from the commission. During its review, JLARC staff identified many projects funded by TICR that have benefited the tobacco region. However, the aggregate impact of these projects is difficult to quantify because the commission has not documented economic impacts for approximately 89 percent of its awards. This lack of documentation makes it difficult to determine how the commission's grants have impacted unemployment and income levels in the region. JLARC staff were able to measure impacts for many of the projects it reviewed in its subset, but this subset accounts for 16 percent of the more than 800 projects supported by TICR since its creation.

Grants by TICR have had a mixed impact on the tobacco region to date. Some TICR initiatives, such as funding for broadband infrastructure and incentive grants to private companies, have had a significant impact on the region by generating new jobs and capital investment. TICR spending on industrial parks and research and development activities has had a more mixed impact, but also has the potential for significant benefits in the future as projects are completed and the economy improves. In contrast, TICR has made smaller grants to projects such as farmers markets, museums, and community centers that have limited potential for revitalizing the tobacco region, though they often have provided local benefits for individual communities.

LOCAL ECONOMIC DEVELOPERS BELIEVE TICR HAS HAD A POSITIVE IMPACT ON THE TOBACCO REGION

Economic developers surveyed by JLARC staff expressed strong and enthusiastic support for TICR and the funding it has provided for projects in the tobacco region. Ninety percent of the developers surveyed for this study said economic conditions in their areas would be somewhat or much worse had it not been for TICR funding. Many comments were similar to the following:

> Thank God for the Tobacco commission. I don't know of any other group that has flexibility to understand the issues and act appropriately to get us through this transition. State funds are not there, federal funds are not as nimble. Without TICR the region would be devastated.

***

> Without TICR, unemployment in this area would be double.

***

> I don’t know where we’d be in the Southside and Southwest without TICR funding. The recession would have been much worse on our areas without TICR.

***

> TICR money gives us the opportunity to meet the challenges we have. TICR has made a major impact in various areas in the quality of life and the economy.

***

> TICR incentives have allowed us to compete for projects and helped us to be ready for big projects. We are a distressed region. All the localities in our region are double-digit unemployment. TICR has helped us keep our heads above water.

Eighty percent of the economic developers surveyed for this study said that all or nearly all TICR projects made a significant contri-

The most common TICR initiative cited by developers as positively impacting the region was the development of a regional broadband network.

bution to economic revitalization at either the local or regional level. Economic developers also frequently cited specific projects or economic development initiatives supported by TICR that have benefited their region. The most common TICR initiative cited by developers as positively impacting the region was the development of a regional broadband network. Other beneficial projects commonly cited by economic developers included TROF grants to private firms, industrial parks, and higher education and workforce training initiatives.

Economic developers also reported that many economic development projects would not have occurred or would have taken longer to complete without grants from TICR. For example, developers stated that infrastructure projects such as new industrial parks would have taken longer to build if the commission had not provided assistance. Incentives designed to attract new businesses may not have been available. One economic developer in the Southside region said, "This area has a high poverty rate... we don't have a lot of money for economic development. It takes an incredible amount of money to recruit businesses."

SOME TICR GRANTS HAVE PROVIDED SIGNIFICANT ECONOMIC BENEFITS FOR THE TOBACCO REGION

Economic development projects can have the most direct and immediate impact on an economy by creating new jobs and capital investment. Other projects can have a more indirect and long-term impact on a region by helping develop the infrastructure that makes future economic development possible. This includes public infrastructure, such as water and wastewater projects, as well as a well-trained, highly educated workforce. During this review, JLARC staff identified projects that have benefited the tobacco region by generating jobs and capital investment, building new physical infrastructure, and further developing the region's workforce.

TROF Grants Have Helped Secure or Retain More than 7,100 Jobs for the Tobacco Region

TICR uses TROF awards to help attract or retain jobs and private investment for the tobacco region. The initiative for TROF grants generally comes from the Virginia Economic Development Partnership, which requests TICR funding when additional public incentives are needed to attract companies to the tobacco region. TROF awards are often paired with grants from the Governor's Opportunity Fund and other public funds to meet the needs of companies considering investments in the region. As a result, while TICR staff regularly track the impact of TROF awards, it is difficult to determine how critical these awards are in obtaining or retaining jobs or new capital investment.

As of April 2011, TICR had made 220 TROF awards totaling $60.7 million to localities for private organizations that promised to create jobs and capital investment. Most of these TROF grants are too recent to be evaluated on their impact on tobacco region's economy. Because organizations receiving TROF funds have as much as three years to deliver promised jobs and investments, more recent awards cannot be fully evaluated even though they may have begun to provide benefits. TICR has awarded $37.2 million in TROF awards that have yet to pass their deadline for meeting job and capital investment promises. These awards include the ten largest TROF grants approved by the commission to date.

Without the more than 7,100 jobs resulting from projects receiving TROF grants, unemployment in the tobacco region would be 1.4 percentage points higher.

A total of 126 TROF awards representing $23.5 million were awarded more than three years ago and can be evaluated with respect to promised jobs and capital investment (Table 4). Approximately 80 percent of these TROF funds have been awarded to projects that have produced jobs and capital investment in the tobacco region. According to data from TICR, 103 awards totaling $18.8 million have been to projects that fully or partially complied with job and investment terms of the award. These grants have helped localities in the tobacco region secure or retain 7,142 jobs, or 55 percent of the more than 13,000 jobs promised by the grant recipients, and as much as $1 billion in new capital investment. These jobs have had a modest impact on the tobacco region's unemployment rate. Without these jobs, unemployment in the region would be 1.4 percentage points higher than its current rate of 8.3 percent.

Table 4: TROF Awards Made More than Three Years Ago Created 55 Percent of Jobs Promised by Grant Recipients

Compliance With Job and Investment Terms	Number of Awards	Total TROF Awards ($ in millions)	Promised Jobs	Delivered Jobs	Percent of Promised Jobs Delivered
Full compliance	73	$15.6	6,741	6,352	94%
Partial compliance	30	3.3	3,301	773	23
In default	23	4.7	2,998	17	--
Total	**126**	**$23.5**	**13,040**	**7,142**	**55%**

Source: JLARC staff analysis of grant awards data provided by TICR.

The following case studies illustrate three successful TROF awards.

Case Study – Holston Medical Group in Scott County

A 2006 TROF award for $150,000 was made to the Scott County Economic Development Authority for Holston Medical Group to invest $3 million to open an electronic medical records facility and create 65 jobs. TICR staff confirmed in 2009 that the jobs had been filled. An additional $150,000 from the Governor's Opportunity Fund was provided for the *facility, which is located in the E-Corridor Regional Industrial Park, a Duffield industrial park to which TICR had awarded $1.9 million.*

Case Study – Abbott Laboratories in Campbell County
A 2001 TROF award for $200,000 was made to Campbell County for Abbott Laboratories, which was investing $29 million to expand its Ross Division production facility in Alta Vista and add 61 jobs. The jobs were confirmed as filled in 2004. An additional $400,000 in State funds were spent on the project.

Case Study – Martinsville Speedway in Henry County
A 2010 TROF award for $1.5 million was made to Henry County for the International Speedway Corporation (ISC). This award was used to renovate concession stands and restrooms in the main concourse of the speedway. At the time, ISC was considering eliminating a race in either Martinsville or Southern California. According to speedway staff, the TICR grant was the primary reason ISC chose to retain both races at Martinsville and instead eliminate a race in Southern California. According to a 2008 study, total employment attributable to the Speedway is roughly 2,200 direct permanent jobs and $46 million in direct labor income.

TROF awards that are too recent to evaluate may have the potential to provide significant benefits for tobacco localities in the future. According to data from TICR, if the terms of these awards are met in full, more than 9,800 jobs and $2.2 billion in private investment will be provided for the region. These additional jobs would lower unemployment in the tobacco region by nearly two points, to the statewide average of 6.3 percent. For example, one recent TROF award could help to provide significant benefits for a Southside locality with one of the highest unemployment rates in the tobacco region:

Case Study – White Mill, LLC in Danville
In September 2008, TICR awarded a $2.5 million TROF grant to the City of Danville to assist White Mill, LLC with purchasing and renovating the former Dan River textile mill for use as an information technology center. The terms of the performance agreement require White Mill to create 400 new jobs and nearly $400 million in private capital investment by January 2012. According to city officials, the new jobs could have an average annual salary of $40,000, more than $10,000 higher than per capita income in the region. If cre-

ated, 400 new jobs would lower the city's current unemployment rate of 11.1 percent by nearly two points.

Successful Projects Partially Funded by TROF Grants Have Had a Noticeable Impact in Some Tobacco Localities. In some localities, jobs associated with TROF grants have had a noticeable impact on unemployment levels. Some projects funded in part with TROF grants have generated enough new employment to lower local employment rates by several percentage points. In some areas, the labor force is small enough that a modest number of new jobs can have a significant impact on the unemployment rate. For example, TICR has documented 221 jobs resulting from projects supported by TROF grants to Bland County. Without these jobs, the county's current unemployment rate of six percent would be more than double.

There is no guarantee that jobs resulting from TROF grants will be permanent. The following case study illustrates how jobs from a TROF-funded project can substantially reduce a locality's unemployment rate in the short term but then be eliminated.

Case Study – StarTek in Henry County

In 2004, a $250,000 TROF grant was awarded to Henry County for StarTek, a company that provides outsourcing services, to open a customer care center. The company invested $5 million and promised 500 jobs would be created. TICR staff confirmed that the 500 jobs were created and filled by 2006. This equates to a reduction of two points in the county's unemployment rate. However, the company recently announced plans to close its Henry County call center in July 2011, eliminating 631 jobs.

Four localities have received more than half of the $61 million in TROF grants awarded to date: Danville, Mecklenburg County, Henry County, and Bristol.

While TROF grants have helped provide significant economic benefits for the tobacco region, not all localities in the region have benefited equally. TROF funds have been awarded to most of the 41 localities in the tobacco region, but four localities have received more than half of the $61 million in TROF grants awarded to date: Danville, Mecklenburg County, Henry County, and Bristol. By contrast, no TROF grants have been awarded to the counties of Appomattox, Buckingham, and Dickenson or the city of Norton.

One-Third of TROF Funds Have Not Contributed to Promised Jobs or Capital Investment for the Tobacco Region. Although many TROF awards have positively impacted the tobacco region, approximately one-third of funds have been awarded to projects that have not generated the promised jobs and capital investment. Among grants awarded more than three years ago, a total of 23 awards representing $4.7 million in TICR funds went to projects that generated few to no jobs or investment dollars, and were determined by TICR staff to be in default of their performance agreement (Table 4). If successful, these projects would have helped create approximately 3,000 jobs for the tobacco region.

An additional $3.3 million in TROF awards was determined to be in partial compliance with award terms, going to projects that produced some but not all promised jobs and investment. These awards went to projects that generated less than 800 of the more than 3,300 jobs promised by private firms. In many cases where TROF recipients did not satisfy job and investment requirements, TICR has required the locality to return some or all of the award (see Chapter 6 for more detail).

TICR's Grants to Higher Education and Workforce Development Are Benefiting the Region

Estimates of Total TICR Funding for Projects

TICR often makes multiple awards to the same economic development project. The commission's current award classification system does not allow it to reliably track cumulative spending on individual projects or spending initiatives. As a result, estimates of TICR's total project spending on projects and initiatives are based on a JLARC staff analysis of TICR data. These estimates may change as TICR refines its award tracking system.

As discussed in Chapter 2, there is widespread agreement among economic development experts that improving educational attainment and workforce skills is critical to revitalizing the tobacco region. Analysis of TICR data reveals that the commission has awarded at least $101.4 million for higher education and workforce development projects in the tobacco region. Approximately 63 percent of these awards–or $64.1 million–have been for scholarships, student loans, and internships for four- and two-year degree students. The commission has awarded an additional $17 million to Virginia's community colleges for a variety of purposes and $20.3 million to develop workforce and higher education centers throughout the tobacco region (not including $27.3 million to the Institute for Advanced Learning and Research in Danville, as described below).

Although a lack of documented outcomes makes it difficult to assess the overall impact of TICR's higher education and workforce initiatives, grants for these projects have yielded some economic benefits for the tobacco region. These benefits include helping tobacco region residents pursue higher education at community colleges and four-year institutions, and assisting individuals with developing their own small businesses.

TICR Has Awarded $25.2 Million in Four-Year College Scholarships to 6,270 Students in the Tobacco Region. TICR has two four-year scholarship programs, both of which are designed to be a "last dollar" opportunity in that recipients must first exhaust all other financial aid opportunities to qualify. The goal of these programs is to increase the number of degree holders who live and work in the tobacco region. The programs have several features in common (Table 5), but differ in important ways (Table 6). In its Southside loan forgiveness program, TICR requires recipients to repay their scholarships if they do not return to work in the Southside tobacco region after graduating. By contrast, scholarships for residents of the Southwest region are in the form of grants, and there is no requirement that recipients return to work in the tobacco region. Over time, the commission has made adjustments to both scholarship programs, such as increasing the award amounts to account for rising tuition and adjusting repayment terms for Southside awards.

Table 5: TICR Scholarship Rules for Students Attending Four-Year Institutions of Higher Education (School Year 2011-2012)

- Student must be a legal U.S. resident and must have resided in the Southside or Southwest tobacco region for at least 12 months.
- Student must use the scholarship to attend a four-year institution of higher education (in-state or out-of-state, public or private).
- Student must be enrolled and seeking a degree at the institution.
- Student must maintain a GPA of 2.0 or higher.
- Award may be used only for tuition and fees.
- Student must be pursuing a bachelor's or master's degree. Qualifying undergraduate students are funded before graduate students.
- Award is limited to four years or to one degree.
- Every applicant is subject to new rules each year.
- Student may use the award if enrolled in a two-year program, as long as it is at a four-year institution.

Source: JLARC staff analysis of information provided by TICR.

Table 6: Regional Differences in TICR Scholarship Rules for Students Attending Four-Year Institutions of Higher Education (School Year 2011-2012)

Scholarship Rules	Southside	Southwest
Full Scholarship Amount[a]	$4,130	$2,750
Partial Scholarship Amount[b]	$2,060	$1,380
Total Funding Available	$3.9 million	$1.4 million
Potential Students Covered (TICR Estimate)	930-1,870	500-1,000
Qualifying Applicants	Southside residents	Growers and quota holders of burley tobacco or their family members in Southwest region
Repayment Terms	Repayment required unless recipient returns to work in Southside	No repayment required (award is a grant)
Program Administrator	Southwest Higher Education Center and Southern Virginia Higher Education Center	Southwest Higher Education Center

[a] Eligible students must be registered for at least 15 undergraduate credit hours or at least 9 graduate hours.
[b] Eligible students must be registered for less than 15 undergraduate credit hours or less than 9 graduate hours.

Source: Information provided by TICR.

According to TICR data, through FY 2010, $25.2 million in scholarships has been awarded to assist 6,270 residents of Southside and Southwest Virginia with the cost of pursuing a four-year degree (Table 7). Because Southside scholarship recipients must return to work in the region after graduation, the commission has documented outcomes for this initiative. As of June 2010, approximately 2,000 of the more than 3,700 scholarship recipients remain in college or are in a one-year grace period following graduation. Of approximately 1700 remaining recipients, 62 percent have returned to work in the Southside, according to TICR data. The return figures for Southwest scholarship recipients are unknown because the commission does not collect similar data for its Southwest scholarship recipients.

Table 7: TICR Has Awarded $25.2 Million in Scholarships to 6,270 Students Attending Four-Year Institutions of Higher Education (FY 2002-FY 2010)

	Southside	Southwest	Total
Total Amount Awarded ($ in millions)	$18.0	$7.2	**$25.2**
Scholarship Recipients	3,713	2,557	**6,270**

Source: JLARC staff analysis of grant awards data provided by TICR scholarship program staff.

The extent to which these scholarship awards are a deciding factor in the recipient's decision to pursue higher education is unclear. According to a 2005 review of the commission's scholarship programs by the Center for Regional Strategies at Virginia Tech, a survey of more than 500 scholarship recipients suggested that "the scholarship and loan forgiveness program is a welcome program, but is more of a benefit for tobacco-area students already intent on going to college." However, TICR's scholarship program staff said the awards are often a determining factor for undergraduates, and noted that many recipients are "non-traditional students," such as those over the age of 25. On the other hand, staff believe many of the *graduate*-level scholarship recipients would have attended graduate school anyway.

While the repayment requirements for the Southside loan forgiveness program were designed to bring college graduates back to the region, the policy may be adversely affecting some tobacco region residents. Loans through the Southside program are forgiven if the recipient returns to *work* in the Southside region following graduation, regardless of where they *live*. As a result, a recipient who lives in a Southside tobacco locality but commutes to a job outside the tobacco region must repay their loan. A graduate living outside the Southside region but commuting to a job in a tobacco locality is eligible for loan forgiveness.

Because the scholarship programs in the Southside and Southwest tobacco regions are operated differently, some recipients of Southside scholarships who live and work in the tobacco region may still be required to repay their loan. For example, a graduate who lives in the Southside region but commutes to a job in a Southwest tobacco locality must repay the loan because they do not *work* in the Southside region. Current TICR policy therefore treats this student as it would a student that left Virginia after graduation. Scholarship staff indicated there were recipients who were required to repay their loans because they worked in the Southwest rather than the Southside tobacco region. To ensure that Southside scholarship recipients are appropriately rewarded for returning to work in the tobacco region, TICR should adjust the eligibility requirements for loan forgiveness through its Southside scholarship program.

Recommendation (1). The Tobacco Indemnification and Community Revitalization Commission should adjust the repayment requirements for its Southside Virginia Loan Forgiveness Program to provide for forgiveness if the loan recipient works or lives in any of the 41 tobacco localities following graduation.

TICR Has Supported a Range of Workforce Development and Higher Education Projects, With Some Apparent Successes. According to TICR data, the commission has awarded at least $20.3 million for 17 workforce development and higher education centers in the tobacco region. This total does not include funding for the Institute for Advanced Learning and Research, which provides some workforce services but focuses primarily on research and development activities. Many of these centers are providing important benefits for the tobacco region. Two examples of TICR workforce development projects are presented in the case studies below.

Case Study – The Franklin Center for Advanced Learning and Enterprise in Franklin County

Since 2004, TICR has awarded $2.6 million to the Franklin Center for Advanced Learning and Enterprise (Figure 8) to support its construction, expansion, and course offerings. The $6 million facility, located in Rocky Mount and opened in 2007, is a "one stop center" that provides opportunities in employment, training, and education to area citizens and employers. Its services include free computer classes, career counseling, and customizable training programs for local and prospective employers. According to data provided by Franklin Center staff, the center has helped 241 individuals earn their high school diploma or GED since 2007. As a sat-

Figure 8: Franklin Center for Advanced Learning and Enterprise, Franklin County

Source: JLARC staff, March 2011.

ellite campus for five colleges and community colleges, it offered 133 classes to 1,036 students in 2010. As a workforce development center, it offers interviewing assistance, literacy training, and job search and placement assistance, among other programs. Companies that have used the Franklin Center cited it as a "vital source of additional education for [their] employees," and one economic developer described it as a "pivotal part of any discussion with prospective businesses."

Case Study – Crossroads Rural Entrepreneurial Institute in Galax

To date, TICR has awarded $1.6 million to support development of the Crossroads Rural Entrepreneurial Institute in Galax. In 2002, TICR awarded $400,000 to assist in a regional effort to convert a vacant home and garden department store into the institute. Crossroads includes a workforce development center, a satellite campus for Wytheville Community College (WCC), a business incubator, a small business development center, and space for special events and meetings. According to institute staff, the small business development center has helped secure $43 million in outside funding for 161 new and existing small businesses.

At the end of 2010, these businesses employed a total of 822 persons. Enrollment in WCC classes at the institute has increased from 150 FTE students in 2005-2006 to 317 in 2009-2010. A portion of the renovated building also houses a call center business, which created 200 full-time jobs. During a JLARC staff site visit, Crossroads personnel said that TICR funding has been critical to its success.

JLARC staff visited four other workforce and higher education centers that provide educational opportunities similar to those at the Franklin Center and the Crossroads Institute. These centers appear to be providing similar benefits for the tobacco region.

TICR's support has helped VCCS institutions expand course offerings and improve access to education for the region's current and future workforce.

Since 2000, TICR has also supported a variety of community college programs in the tobacco region, including new academic programs and field-specific training centers such as a nursing simulation center. Available TICR data does not clearly distinguish between scholarships and other programmatic support. JLARC staff were able to obtain data from four of the ten community colleges on the scholarships they have provided using TICR funding. These data show that, since 2000, these four community colleges have awarded 12,054 scholarships to students. In addition to scholarships, these community colleges reported using TICR funds to develop or expand a number of programs. Examples include programs in nursing, motorcycle technology, fire science, emergency medical services, dental hygiene, horticulture, and culinary arts. These examples indicate that TICR's support has helped VCCS institutions expand course offerings and improve access to education for the region's current and future workforce.

TICR has also made awards to programs in partnership with Virginia's four-year educational institutions. For example, the commission has awarded at least $47.5 million to Virginia Tech or its faculty for projects such as bio-based energy research and development centers, sheep flock improvement programs, and others. Of this amount, TICR has awarded $22.5 million directly to Virginia Tech for projects located within and outside the tobacco region. The largest of these awards was to the Virginia Bioinformatics Institute (VBI) in Blacksburg to support research with the potential to benefit the tobacco region. According to VBI staff, the institute has generated $176 million in research awards for the Commonwealth.

Formal Collaboration With Education and Workforce Training Experts Is Not Occurring. TICR does not have a formal way to receive input from stakeholders on the education and workforce priorities in the tobacco region. Currently, no education or workforce representative serves on the commission. The Blue Ribbon Review Panel recommended that the *Code of Virginia* be amended to include the Secretary of Education as a TICR member, but this change has not been made.

TICR may also be able to partner more closely with the Department of Business Assistance (DBA), which reimburses newly-recruited companies for their workforce training costs through the Virginia Jobs Investment Program (VJIP). According to the VJIP director, DBA is able to showcase workforce centers that have been supported financially by TICR as a way to attract companies to the State. VJIP also uses these centers as a resource when assisting companies with their workforce readiness tasks. It is possible that TICR could work more closely with VJIP staff to determine where it could increase investments in workforce resources that would be useful to DBA and the State in recruiting and assisting new businesses.

TICR Grants for Broadband Infrastructure Represent an Important Step Forward for Tobacco Region Localities

Broadband

Broadband infrastructure includes fiber optic cable and related equipment to support high-speed Internet connectivity. The TICR-funded initiative generally consists of a high-capacity "backbone" of digital fiber and leaves the "last mile" connections to local providers.

Since 2000, TICR has awarded a total of $124.5 million for projects to expand broadband access in the tobacco region. Much of the commission's broadband awards have gone toward the installation of 1,075 miles of fiber optic cable, providing an infrastructure "backbone" to support high-speed connectivity throughout the Southside and Southwest tobacco regions. There is broad consensus that TICR's spending on broadband has been essential for high-speed Internet connectivity in Southside and Southwest Virginia. Rural areas in the tobacco region have comparatively greater access to broadband than other rural areas in Virginia.

TICR has played a critical role in providing public funding for broadband infrastructure.

TICR has played a critical role in providing public funding for broadband infrastructure. While federal funding has been used for some broadband infrastructure in the tobacco region, TICR is largely credited with its presence. Early in its formation, TICR recognized that the region's lack of high-speed Internet service was a hindrance to economic revitalization, given that many prospective companies depended on high-speed connectivity to run their business. For example, many firms with operations in the region have headquarters in another state or country. In response, TICR created an "eCorridors Task Force" focused on expanding high-speed connectivity along the Route 58 corridor.

In 2002, TICR established a technology committee for the broader purpose of evaluating telecommunications funding opportunities throughout the tobacco region. The commission found that there was little potential for private sector investment in broadband infrastructure in the region due to the questionable return on investment. The region's low population density and difficult terrain would make the installation of fiber optic infrastructure too costly.

Recognizing the boost that high-speed Internet access would provide to economic development prospects in the tobacco region, TICR began to finance the capital costs of installing the necessary infrastructure. The following case study illustrates how TICR has funded broadband infrastructure in the Southside region.

Case Study – Mid-Atlantic Broadband Cooperative in Southside Virginia

In the Southside tobacco region, TICR created the Mid-Atlantic Broadband Cooperative (MBC), which serves as a wholesaler of broadband infrastructure. According to MBC data, the cooperative has installed more than 800 miles of broadband fiber throughout Southside Virginia. MBC has received $53.6 million in TICR awards. According to MBC staff, offering broadband service through the cooperative reduces costs by at least 30 percent, and in some cases up to 98 percent. For example, according to MBC, connectivity to a data center in Mecklenburg County would cost $68,000 per month through a private provider, but only $5,000 per month from MBC. This is possible because TICR funded the capital costs associated with installing broadband infrastructure. Data provided by MBC shows that approximately 120 entities, including schools, workforce centers, businesses, and medical centers are connected through its network.

TICR's grants for broadband represents a significant step forward for the tobacco region. The lack of high-speed Internet connectivity can be a major impediment for communities trying to attract companies in several industries, including advanced manufacturing, data centers, and technology-related research and development. According to the Deputy Secretary of Technology, the tobacco region would be "decades behind" without this infrastructure, which has put it on a more equal footing with other parts of the State in allowing it to compete for major economic development prospects. One technology firm told a Southside region economic developer that the connection speed in the tobacco region was faster than in Northern Virginia. Additionally, TICR's contribution to broadband infrastructure was credited in a 2010 report by the Pew Center on the States on state efforts to expand broadband access. In the report, a North Carolina broadband expert stated, "If you don't have a group that is looking at [broadband]… your state will lose out… [I]t is desperately important that states have this capacity and capability."

Thus far, TICR has been the primary source of broadband funding from a State entity. The General Assembly created a Broadband Infrastructure Loan Fund in 2009 to "make loans to local governments to finance or refinance the cost of any project," but the fund has not been capitalized. Additionally, the Department of Housing and Community Development and the Virginia Resources Authority have funds available to assist localities with broadband deployment, but these funds are far more limited than TICR's assets.

Broadband Infrastructure Likely Contributed to Several Successful Economic Development Projects. According to economic developers and other informed sources in the tobacco region, many economic development successes, such as the attraction of advanced manufacturing companies or data centers, would not have been possible without the broadband infrastructure supported by TICR. Additionally, without broadband connectivity, access to higher education opportunities would be far more limited because long-distance education programs would not be possible.

Access to high-speed Internet connectivity appears to have helped TICR's efforts to attract new companies and jobs to the tobacco region. The availability of broadband service has reportedly been an important element in several companies' decisions to expand into the tobacco region, as illustrated in the following case study.

> ***Case Study – CGI-AMS in Russell County***
>
> *In 2005 CGI-AMS announced it would invest $6 million to locate a software development and systems integration facility in Russell County. According to data provided to TICR by the Virginia Employment Commission, CGI-AMS has created 270 jobs. Anecdotal reports indicate that the availability of broadband service in Southwest Virginia was key to the company's decision to locate in Russell County.*

The new broadband infrastructure also appears to have contributed to improving access to higher education opportunities in the tobacco region. TICR has contributed funding to three higher education centers in the Southside region that allow local residents to enroll in two- and four-year degree programs through higher education institutions and community colleges statewide. The following case study illustrates how broadband connectivity is helping one center improve access to higher education in the region.

> ***Case Study – New College Institute in Martinsville***
>
> *Students who attend classes at the New College Institute (NCI) in Martinsville have access to 15 bachelor of arts programs and eight associates degree programs. To date, 135 students have earned degrees through NCI, and another 100 are projected to graduate in 2011. According to NCI's president, total enrollment for the 2010-2011 school year is approximately 400 students. This is due to the distance learning model used by NCI. Without broadband infrastructure, distance learning would not be possible because of its reliance on two-way videoconferencing.*

Additional Funding May Be Needed to Further Expand Broadband Access in the Tobacco Region. According to TICR staff and commission members, TICR's grants for broadband infrastructure are substantially complete, although the commission has not formally declared an end to its role in this area and has budgeted $10 million for additional broadband grants through FY 2013. However, in July 2009, the technology committee concluded its meetings. While broadband awards have continued, these have been under the purview of the respective economic development committees.

There may still be opportunities for future grants, particularly as the federal government begins to implement its National Broadband Plan, released in March 2010. Some economic developers expressed concerns that, despite the presence of broadband infrastructure in their locality, access to high-speed connectivity remains limited. In the words of the State's Deputy Secretary of Technology, "Having the infrastructure is only half the equation. If [communities] don't use it, but it's in the ground, it's kind of like having an empty shell building." Other observers of the State's overall broadband expansion initiative suggested that more investment is needed to ensure that the existing infrastructure is not underutilized. The 2010 report on broadband by the Pew Center on the States shows that the tobacco region still has some of the "least connected" communities in the country.

TICR may wish to consider conducting a needs assessment of broadband access in the tobacco region to determine how, if at all, it can assist in improving access as it relates to its mission of economic revitalization. Coincident with the federal broadband mapping effort, the State now has data to illustrate areas where coverage is limited or non-existent. An analysis of available information may help inform future broadband strategy. In particular, ensuring that existing industrial parks as well as anchor institutions like schools and hospitals are connected to broadband service would help prioritize its future broadband spending.

According to many stakeholders, one barrier to connectivity is the expense of connecting individual businesses and homes to the broadband infrastructure. Data are not available to indicate the amount of funds TICR has awarded to such projects, but according to MBC staff the commission has sponsored matching funds to encourage private sector investments for expanding access to the infrastructure. Anecdotal reports indicate that there are additional opportunities for TICR assistance in this area. One way TICR could use future grants to expand access to high-speed connectivity in the tobacco region would be to issue a challenge grant to localities to fund such initiatives.

KEY TICR INITIATIVES HAVE HAD A MIXED IMPACT ON THE TOBACCO REGION BUT HAVE SIGNIFICANT POTENTIAL

While many TICR grants already have made significant contributions to economic revitalization in the tobacco region, other grant awards will require more time before a measurable impact on the region is apparent. Some of TICR's spending on industrial parks and research and development activities have provided important benefits for localities in the tobacco region. However, the aggregate impact of these grant awards remains mixed to date. Economic development initiatives such as research and development programs can take years to have an impact, and many of TICR's largest grants in this area have not yet been completed. The pace of economic revitalization is also influenced by the national economy, and the most recent economic recession has complicated efforts to market industrial parks developed by the commission. In addition, many TICR-funded industrial parks, including some of the largest recipients of commission funds, remain under development.

TICR's Support for Industrial Parks Has Made a Mixed Contribution to Revitalizing the Tobacco Region

According to estimates provided by TICR staff, the commission has awarded approximately $155 million to assist localities and economic development authorities with developing industrial parks in the tobacco region. As noted in Chapter 1, this represents TICR's largest category of spending to date. TICR staff estimated that grants have been awarded to help develop as many as 68 industrial parks, most of the 78 publicly-owned industrial parks in the tobacco region.

TICR funding has supported a variety of activities related to industrial park development, including

- planning activities, such as site selection studies and architectural and engineering plans;
- building and land acquisition;
- site development, such as clearing and grading land;
- infrastructure construction, including access roads and utilities such as water, sewer, electric, and telecommunications; and
- construction of "shell" buildings and other onsite facilities.

Funding from TICR for industrial parks has often complemented grants from other economic development entities at the local, State, and federal levels. These entities include localities, local or regional industrial development authorities, the Virginia Department of Housing and Community Development, and the federal Economic Development Administration.

Industrial parks can be a critical part of efforts to attract jobs and private investment to the tobacco region. According to economic developers, one goal is to have industrial sites that companies can occupy with minimal time and expense. This often means a site that is cleared and graded, with basic infrastructure such as water, sewer, roads, and electricity already in place. It may also require construction of a "shell" building that can be quickly completed or adapted by a company to meet its unique needs. Companies usually consider multiple industrial sites during their selection process, and localities often compete with other localities and states to attract companies.

As with other projects funded by TICR, the initiative for developing industrial parks generally comes from localities and economic developers in the region. The commission does not predetermine its annual funding for industrial parks, the optimal number of parks needed in the region, or the pace at which new parks should be developed. Instead, it evaluates requests for industrial park funding on a case-by-case basis. Although some grant applications include formal third-party economic analyses to support a funding request, in many cases TICR relies on economic impact estimates developed by local economic development staff. According to TICR staff, the commission does not give preference to applications with third-party economic analyses. When reviewing applications, TICR staff consult with VEDP if there are questions or concerns about the application.

Outcomes for Most TICR-Funded Industrial Parks Are Not Documented or Are Premature to Expect. JLARC staff were unable to determine the extent to which TICR spending on industrial parks has helped attract new jobs and capital investment to the tobacco region. The commission has not consistently tracked occupancy at the industrial parks it has funded or documented the jobs and capital investment associated with tenants at these parks. TICR is currently completing its first inventory of industrial parks in the tobacco region, and plans to survey localities for occupancy levels at the parks it has funded. TICR staff are also in the process of determining its cumulative awards to each industrial park the commission has supported.

Much of TICR's funding for industrial parks may be too recent to yield economic benefits, making evaluation premature in these cases. Approximately 31 percent of funds awarded for industrial parks, or $48.3 million, has yet to be spent by grant recipients. Many of these awards have been made by TICR since 2009. As Table 8 illustrates, six of the ten industrial parks that have received

Table 8: Six of the Ten Industrial Parks Receiving the Largest TICR Funding Remain Under Development

Industrial Park	County	Total Awards ($ in millions)	Award Dates	Outcome
Riverstone Technology Park	Halifax	$18.4	2001-10	Government and nonprofit entities; one for-profit firm with up to 15 jobs
Berry Hill Mega Park	Pittsylvania	17.9	2008-11	Site is under development
E-Corridor Regional Industrial Park	Scott	8.7[a]	2003-10	At least one for-profit firm and at least 65 jobs; LENOWISCO Planning District Commission
Oak Park Mega Site	Washington	7.8	2002-11	Site is under development [b]
Commonwealth Crossing Business Centre	Henry	6.7	2009-11	Site is under development
Mid-Atlantic Advanced Manufacturing Center	Greensville	6.6	2011	Site is under development
Cane Creek Centre	Pittsylvania	5.6	2005-09	Three for-profit firms representing more than 400 jobs
Virginia Heartland Regional Park	Charlotte	5.4	2001-10	No tenants
Wildwood Commerce Park	Carroll	4.8	2010-11	Site is under development
Bluestone Regional Business & Technology Center	Tazewell	4.0	2007-09	Site is under development
Total		**$85.9**		

[a] Total includes $6.9 million in TICR funds for construction of a technology center in the E-Corridor park. Construction of the center is ongoing.
[b] TICR has awarded $7.3 million since 2008 to expand the existing Oak Park site into a megasite.

Source: JLARC staff analysis of grant awards data from TICR and JLARC staff telephone survey of economic developers in the tobacco region.

the largest total funding from TICR, totaling nearly $48 million, remain under development. Since January 1, 2011, TICR has awarded $25 million through its megasites funding program to develop large-acre industrial parks. These funds have yet to be disbursed to grant recipients.

These parks may provide significant economic benefits when completed and fully occupied. For example, since 2008, TICR has provided a total of $17.9 million to help develop the Berry Hill Mega Park on Route 58 in Pittsylvania County. According to county economic development staff, when it is completed, the park could have more than 3,000 acres and the potential to attract tenants representing $800 million to $1.2 billion in private investment and between 7,000 and 15,000 jobs. However, county staff cautioned that the job and investment potential varies widely and will depend on the type of industry locating there.

Some Industrial Parks Funded by TICR Have Provided Significant Benefits for the Tobacco Region. Some of the industrial parks developed with TICR grants have provided important benefits for the tobacco region. JLARC staff identified industrial parks that have received substantial support from TICR and are now occupied by companies that have generated jobs and capital investment for the region. For example, Cane Creek Centre, located in Pittsylvania County and financed in part with $5.6 million in TICR funds, is now occupied by three companies, including Swedwood, a supplier to the furniture company IKEA. These companies have generated more than 400 jobs to date. According to economic developers in the region, the presence of Swedwood helped attract another IKEA supplier, which located adjacent to Cane Creek in 2008 and has created an additional 400 jobs.

Industrial parks that have received more modest support from TICR have also provided significant benefits for tobacco localities. For example, between 2001 and 2009, TICR provided $1.3 million to the Patrick County Economic Development Authority for developing and expanding its Rich Creek Corporate Park. According to the county's economic developer, the firms located in the park are among the largest employers in the county.

Several economic developers in the region said new parks could not have been developed without TICR support, and the lack of ready industrial acreage can make it difficult for localities to attract new jobs and capital investment. Economic developers in the tobacco region cited instances where major businesses chose not to locate in their locality because suitable industrial sites were not available.

Some TICR-Funded Industrial Parks in Rural Areas Have Been Difficult to Market. JLARC staff identified industrial parks that have received large cumulative funding from TICR but have been difficult to market and remain vacant or only partially occupied. For example, the Virginia Heartland Regional Park has no tenants, and the Riverstone Technology Park is predominantly occupied by government and nonprofit entities (Table 8).

Some of the difficulty filling these and other industrial parks likely reflects the recession, as companies wait for economic conditions to improve before expanding operations. In other cases, it appears that industrial parks supported by TICR have been difficult to market partly due to their location. As the following case study illustrates, industrial parks in remote areas or that lack adequate access to transportation networks can be difficult to market.

Case Study – Constitutional Oaks Industrial Park in Lee County

Constitutional Oaks is a 210-acre industrial park located on U.S. 58 in Lee County. TICR has awarded the county's industrial development authority a total of $2.8 million for *developing the park, including acquiring land, installing water and sewer infrastructure, and constructing a shell building. The park has been available since at least 2007, and has had several prospects, but has never had a tenant. According to economic developers in the region, Constitutional Oaks has been difficult to market due to its remote location in far Southwestern Virginia. The most recent TICR grant for the park was $1.1 million in 2010 to double the site's shell building to its current size of 60,000 square feet. This upgrade was intended to make Constitutional Oaks more attractive to prospective companies.*

Economic developers reported similar challenges to marketing the Virginia Heartland Regional Park, developed jointly by members of the Commonwealth Regional Council in Southside Virginia with $5.4 million in TICR funding.

While some industrial parks funded by TICR have been difficult to market and are currently vacant, they may provide important benefits in the future if tenants are found. Some industrial parks have had a significant economic impact on the tobacco region after being empty for an extended period, as the following case study illustrates.

Case Study – Boydton Industrial Park in Mecklenburg County

In 2001, TICR provided $1.2 million to economic developers in Mecklenburg County to acquire and expand the Boydton Industrial Park near the Town of Boydton. This project was completed in 2003. The park was subsequently linked to the broadband infrastructure funded in part with TICR grants, making the park one of more than 100 "gigaparks" in Virginia with high-speed broadband connections. In August 2010, the governor announced that Microsoft would invest $499 million to place a data center in the park, creating 50 jobs. The announcement noted the importance of "advanced telecom infrastructure" in the company's decision.

Research and Development Projects Are Too New to Yield Economic Benefits

TICR has created funding initiatives in recent years that are too new for their impact on the tobacco region to have been realized. The largest of these new initiatives is funding for energy-related research and development projects. In 2010, the commission created the Research and Development (R&D) fund program with $100 million to support applied research that has commercial potential in the tobacco region. The initiative is focused primarily on energy-related research, but funding is also available for research in the biomedical, environmental, information technology, and chemical fields. In addition to TICR's standard review process, applications for grants from the R&D fund are screened by a panel of technical and academic experts convened by VEDP.

According to TICR staff, the R&D initiative reflects a determination by the commission that regions with a large research and education presence tend to have successful economies. Since 2010, TICR has made 18 awards totaling $32.4 million through its R&D fund program. Of this amount, only $4.3 million has been distributed to grant recipients, with the remaining $28 million yet to be disbursed. Many of these awards have provided funding for research into renewable and alternative energy sources such as nuclear, solar, and biofuel sources.

Other energy-related research projects funded by TICR prior to the R&D fund program are also too recent to have yet had a measurable impact on the tobacco region's economy. One goal of TICR's funding for research and development activities–through grants from the R&D fund program and other fund programs–has been the development of regional centers to support energy-related research. In 2008, the commission awarded more than $36 million to build five energy centers in the tobacco region, including three in the Southside region and two in the Southwest region (Table 9). Three of the five centers had received TICR grants for research and development projects prior to receiving funds in 2008 for the construction of dedicated research facilities. All of the centers have

Table 9: TICR Has Provided $53 Million to Develop Five Regional Centers for Energy-Related Research

Research Center	Location	Total TICR Funds ($ in millions)[a]	Status	Type of Research
Center for Advanced Engineering and Research	Bedford County	$17.7	Open Summer 2011	Nuclear reactor design and control room simulation
Center for Advanced Manufacturing and Energy Efficiency / Riverstone Energy Centre	Halifax County	10.9	Under construction	Energy-efficient manufacturing processes, including coatings and housing; energy storage
Sustainable Energy Technology Center	Danville City	9.2	Under construction	Development of biofuels from renewable sources (e.g. grass)
Southwest VA Clean Energy R&D Center	Washington County	9.2	Under development	Development of biofuels; clean coal technologies
Appalachia America Energy Research Center	Wise County	5.8	Complete	Production of biopolymers; new uses for coal bioproducts
Total		**$52.7**		

[a] Award totals do not include TROF incentive grants to private organizations locating at an energy center. Individual awards do not total $52.7 million due to rounding.

Source: JLARC staff analysis of grant awards data from TICR and information provided by research center staff.

received additional financial support from the commission since 2008. To date, TICR has awarded a total of $53 million for infrastructure and research projects at these five energy centers.

Nearly all TICR awards associated with the energy centers have been made since 2007, and almost half of the funds have yet to be spent by grant recipients. Three of the centers remain under construction, including the Sustainable Energy Technology Center at the Institute for Advanced Learning and Research (IALR) in Danville (Figure 9), and one has not yet started construction. The Appalachia America Energy Research Center in Wise County was recently completed.

The focus of some energy centers has evolved and appears only tangentially related to the research proposed during the application process. For example, prior to being designated as an energy center, the Riverstone Energy Centre was operated by Virginia Tech and focused on providing advanced modeling and simulation services for manufacturing entities. The Centre is now operated by the Halifax County Industrial Development Authority (IDA) and focuses on energy-efficient coatings technology and other energy-efficient manufacturing processes, while continuing to market its modeling and simulation capabilities.

Figure 9: Sustainable Energy Technology Center, Danville

Source: JLARC staff, March 2011.

Institute for Advanced Learning and Research Has Generated Modest Returns

IALR was a major early initiative of TICR (Figure 10). Created in 2001 in a 330-acre Danville technology park by Danville and Pittsylvania County with significant financial assistance from TICR, the institute was expected to play a key role in economic and community transformation. The initial vision for IALR included post-secondary education programs from Virginia Tech, Averett University, and Danville Community College, and the development of job opportunities in polymer research, biotechnology, and information-based businesses.

IALR Has Been Described as a Highly Visible Symbol. The 90,000-square foot IALR building, opened in 2004, was intended to be a highly visible symbol of the area's commitment and willingness to move in a new direction. IALR staff have suggested that several of its projects have economic potential, but tangible returns to date appear quite modest compared with the substantial public investment.

IALR and its related activities represent a total State investment of more than $85 million. TICR contributed at least $27.3 million to the institute by paying $16.2 million in debt service on the facility and awarding an additional $11.1 million to construct and

Figure 10: Institute for Advanced Learning and Research in Danville Was Created With Significant Financial Assistance From TICR

Source: JLARC staff, March 2011.

equip the institute and cover various start-up costs. TICR also contributed to infrastructure projects that benefited IALR and other projects along the US 58 corridor, as did DHCD.

TICR has also awarded $13.3 million to IALR-related projects, including

- the Virginia Institute for Performance Engineering and Research (VIPER, discussed in Chapter 5) and other motor sports and vehicle performance labs; and
- the Sustainable Energy Technology Center (SENTEC), which will operate out of a nearby building that will open late in 2011, will conduct research on biomass crops and the development of bio-refinery products (SENTEC is one of the five regional centers for energy-related research discussed earlier).

Regular State appropriations to IALR began in FY 2004, totaling $44.8 million through FY 2011 (the FY 2011 appropriation is $5.25 million). Additional funding has been contributed by the private sector. The institute has 43 full-time employees.

IALR Has Generated Modest Returns for the Tobacco Region. After six years of operation IALR and its related projects are generating quite modest returns. State funds comprised about 50 percent of the institute's revenues in FYs 2008-2010. IALR's main non-State revenues, federal grants and non-governmental revenues, in FY 2010 dropped below FY 2008 levels. Another concern is the declining number of students enrolled in IALR-supported academic programs who earned a certificate or degree. This peaked at 50 in 2009 and dropped to just three in 2010. While students may be shifting to more online degree programs, higher education was initially intended to be a core function for IALR.

Despite IALR's declining non-State revenue and shifting mission, a local economic developer in the region commented, "Essentially the institute has been very successful. Has it been perfect? No." He went on to say it had been an effective tool for recruiting businesses to the area; it stands as a symbol of the area's commitment to change and as a resource for existing industries and for businesses interested in moving to the area.

TICR HAS MADE GRANTS WITH LIMITED POTENTIAL FOR SIGNIFICANT ECONOMIC IMPACT

During its 11 years, TICR has funded a wide variety of projects aimed at revitalizing the tobacco region. In addition to the major spending categories and initiatives discussed in this chapter, the commission has awarded grants for projects that include community centers, farmers markets, local cultural and historical museums, and recreational projects. Many of these projects may provide localized benefits for individual communities, but have limited potential to revitalize the region and minimal applicability to TICR's statutory mission. Rather than attracting new jobs or capital investment to the tobacco region, such projects may only recirculate existing dollars on a local level.

JLARC staff identified examples of projects with limited potential for revitalizing the tobacco region through surveys of local economic developers, interviews with TICR staff and other stakeholders, and reviews of TICR's awards database and project files. JLARC staff were unable to quantify TICR's total fudning for these types of projects, either in terms of number of awards or total dollars committed. TICR staff indicated that a certain percentage of the commission's grant funds have been for projects with limited potential, and cited examples of such projects. JLARC staff were also unable to determine precisely the outcomes or impact of these seemingly limited-potential projects.

Projects With Limited Potential May Benefit a Local Community but Are Unlikely to Impact the Regional Economy

Economic developers and other observers identified projects that appeared only marginally relevant to TICR's statutory mission of economic revitalization. While many of these projects provided local benefits for individual communities, they had limited potential for creating new jobs or capital investment and impacting the tobacco region on a regional level. Table 10 lists selected projects whose economic impact is likely to be minimal and localized.

The following case study describes a farmers market project in Patrick County that TICR has funded. This illustrates the minimal economic impact of a project that, while beneficial to the surrounding community, is unlikely to have the return on TICR's investment needed for measurable progress toward economic revitalization.

> ***Case Study – Town of Stuart Farmers Market***
>
> *In 2007 TICR awarded the Town of Stuart $228,000 to construct a 12-stall farmers market. This award represented 80 percent of the total project cost. The economic impact of the grant as presented by TICR staff to the Southside economic development committee was to retain two to three jobs over three years and indirectly create 20 to 25 new jobs. Additionally, the goal of the market was to increase the income*

Table 10: Examples of TICR-Funded Projects With Likely Marginal Economic Impact

Locality	Year Funded	Award Amount	Description
		Farmers Markets	
Wise County	2011	$100,000	Construction of a covered 1,800 square foot structure to accommodate up to 12 vendors
Halifax County	2010	78,825	Expansion to accommodate up to 24 vendors and provide covered structure and restrooms
Smyth County	2008-2010	100,000	Construction and later expansion of a covered market to accommodate up to 22 vendors
Patrick County	2007	228,000	Construction of a covered market to accommodate up to 12 vendors
Mecklenburg County	2002	175,000	Renovation of a 11,000 square foot building to provide a new farmers market
		Community Centers	
Lunenburg County	2007-2010	$927,000	Renovation of a school for community events, community college classes, small business space, and offices for Town and Police department
Washington County	2009	15,000	Construction of a walking trail to provide recreational opportunities at a community center
Scott County	2007	25,000	Former school building provides resources to needy families and hosts civic/social events
Smyth County	2002-2006	108,201	Renovation of high school for education/technology training and civic group meetings
Nottoway County	2001-2002	384,166	Farmers market, computer lab, child care center, commodity/labor/machinery clearinghouse
		Local Tourist Attractions / Museums	
Franklin County	2010	$25,000	Production of a tourism film about Smith Mountain Lake
Lee County	2007	300,000	Design and construction of an RV park and campground
Smyth County	2007	25,000	Roof repairs to establish a museum celebrating a town's connection to Mountain Dew and motorsports
Dickenson County	2005	200,000	Development of a museum on the Crooked Road Heritage Music Trail
Patrick County	2005	60,000	Engineering and stabilization of two covered bridges featured in an annual festival
Washington County	2003-2005	55,000	Renovation and relocation of a historic house; creation of a history museum
Russell County	2004	21,000	Renovation of a former bank to establish a coal mining and railroad museum
Scott County	2003	20,000	Construction of a roadside interpretive exhibit overlooking an historic railroad viaduct
Total		**$2.9 million**	

Source: JLARC staff analysis of grant awards data provided by TICR.

of the 12 vendors by 20 percent, from $12,000 per year to $14,400. TICR staff recommended that the full amount be awarded, which was approved by the committee and the full commission.

Although popular, such upgrades to existing farmers markets are likely to have a limited economic impact on the tobacco region's economy. Permanent facilities may be improvements over tents or other structures previously used by vendors, but the overall economic activity attributable to the market is likely to change only marginally, as in the case above.

TICR has also funded a number of community centers throughout the tobacco region. While community centers generally do not provide regional economic benefits, they may have more or less potential for economic development depending on their focus. Centers may have greater potential to impact the regional economy if they include a higher education or workforce development component, such as adult GED and worker retraining classes from a nearby community college, or programs to support small business development. Community centers that lack these components, or that are used to house public administrative offices, have much more limited potential to revitalize the region and are likely to provide little return on the commission's investments. As shown in Table 10, TICR has funded both types of community centers.

The following case study describes one community center funded by TICR with some components intended to provide economic impacts.

Case Study – Kenbridge Community Center in Lunenburg County

TICR has awarded two grants totaling $927,000 to the Town of Kenbridge in Lunenburg County to transform a former school building into a community center (Figure 11). According to the town's application, the activities to be held in the community center would include "future community events, public forums, plays, performing arts, classrooms for workforce training, senior citizens activities, small business incubator, and other community services." JLARC staff visited the community center and found that the center is currently being used for the town's administrative offices and its police department. JLARC staff were told that two community events are held each month. One small business with one employee has an office in the center, and the center has space for ten more businesses, but there has reportedly been little interest. TICR justified its funding for this project, in part, because of the town's intent to use part of the center for

Figure 11: Kenbridge Community Center, Lunenburg County

Source: JLARC staff, March 2011.

workforce development activities. However, no workforce development activities have occurred. JLARC staff found that most of the center's space remains unused.

TICR has also funded community centers for the sole purpose of providing a recreational amenity for the local community. These projects have little to no potential for creating new jobs or investment in the tobacco region. TICR staff have recommended against funding some of these projects due to their limited potential for economic impacts. The following case study illustrates one such project.

Case Study – Walking Track at Hayters Gap Community Center in Washington County

In 2009, the Hayters Gap Community Center in Washington County requested $24,000 from the commission to construct a paved walking track. The project description states that "the walking trail will provide a recreational opportunity for the community." The staff stated that "the project is a recreational improvement at a community center, both aspects of which have no discernible and direct effect on economic development and thereby place this among the commission's low priorities." Staff recommended no award, but the commission funded $15,000 of the request

TICR has also funded local cultural facilities, including museums and other tourist attractions, with varying potential for providing economic benefits. In general, the potential economic impact of local attractions is limited to increased tourist spending in a locality resulting from attendance at the attraction. Local community facilities, such as museums focused on local history or local centers for performing arts, may have less potential to generate significant economic impacts compared to tourist attractions with the potential for drawing visitors from outside the region.

As noted in Chapter 2, the commission's funding policy is to not make awards for tourist attractions and other cultural amenities unless they will "produce economic impacts from outside [the tobacco region]." The commission has nonetheless funded such projects with limited potential for attracting outside visitors, as the following case study illustrates.

Case Study – Cumberland Bowl RV Park and Campground in Lee County

In 2007, TICR made two awards totaling $300,000 to the Town of Jonesville in Lee County for the design and construction of an RV park and campground in a town-owned park. Funds were intended for grading the area and providing water, sewer, and electrical service access. At the commission meeting the project representative claimed that the park had the potential to create jobs due to increased tourism, but the precise number of jobs that could be created was unclear. Job creation claims were also contradicted by the town's grant application, which stated that "local residents will use the RV sites in lieu of tourists." JLARC staff found the park still under development during a March 2011 visit, and TICR data indicates that $120,000 in TICR funds for the project remain unspent. The commission rejected two additional grant requests for the project in 2009 and 2010.

Other tourist attractions supported by TICR appear to have greater potential for positively impacting the tobacco region's economy. For example, the commission has provided $1.2 million to support attractions along the Crooked Road, Virginia's Heritage Music Trail, which spans ten counties throughout Southside and Southwest Virginia. The Crooked Road is promoted by the Virginia Tourism Corporation and is a well-known tourist destination in the region. However, even cultural attractions with more regional appeal may struggle to produce an economic impact, as in the following example.

Case Study – Ralph Stanley Museum in Dickenson County

In 2004, TICR granted two awards totaling $200,000 to the Town of Clintwood in Dickenson County for the construction of a museum dedicated to the life of Ralph Stanley, a traditional country music artist and native of the county. In January 2011, according to a news article, the museum was "closed temporarily after running short of money." Accord-

ing to the article, the museum attracted 2,000 to 2,500 visitors annually over the prior three years. Part of the reason for the unsustainability of the museum is the lack of a hotel or other amenities in the county. The museum is a feature on the Crooked Road, Virginia's Heritage Music Trail.

Because of the lack of outcome data, JLARC staff were unable to determine the economic impact of TICR's spending on museums and other tourist attractions. The impact of these projects could be measured by increased visits to the sites.

There are other examples of TICR awards that are not as easily categorized as farmers markets, community centers, or tourist attractions, but whose potential for economic impact appears extremely limited. The following case study illustrates one example.

Case Study – Emory and Henry College Radio Station in Washington County

In 2009, TICR awarded $93,522 to Emory and Henry College in Washington County for expanding the campus radio station from 500 watts to 10,000 watts. According to TICR staff's description, "the new radio station will provide college and community programming to a five-county region, supporting projects related to local sustainable agriculture, local music tourism endeavors, and a newly established local museum." TICR funding was intended to be used for equipment, software, and compensation of a station supervisor. Staff recommended no award because the primary focus of the project was "community enrichment and entertainment content." However, the education committee recommended full funding of the application, with one member stating, "If there was ever a worthwhile project, I think we have one here that meets all the criteria." This same commissioner advocated for the project partially on the basis that Emory and Henry College "has been the center of the burley tobacco region" and had not received any TICR funding since the commission's formation.

Small Economic Development Projects May Provide Local Benefits but Are Not Large Enough to Help Revitalize the Region

While small grant awards may provide localized benefits for individual communities, they do not contribute in a significant way to economic revitalization at the regional level. One economist consulted by JLARC staff suggested that finding a region-wide impact from many relatively small grants would be surprising. The 2008 review of TICR by the Blue Ribbon Review Panel criticized the size of TICR's grants. The report stated that 43 percent of the 300 awards made from the commission's two economic development committees between 2005 and 2008 were for $100,000 or less and that "it is unlikely that most of these small grant awards will have a transformative economic impact on the regions."

The number of small awards made by TICR has decreased since the Blue Ribbon Review Panel issued its report. According to a JLARC staff analysis of TICR data, the commission has made fewer small individual awards since 2008. Between January 1, 2008 and March 1, 2011, 29 percent of the 140 awards issued by the Southside and Southwest economic development committees were $100,000 or less.

35 projects have received $20,000 or less in TICR funds. A Richmond-area economist suggested that finding a region-wide impact from many relatively small grants would be surprising.

Because TICR often funds a single project over time through multiple awards, smaller awards can result in a large cumulative investment in an individual project. However, there are single projects that, even after multiple awards, have received a relatively small awards of $100,000 or less. Since the commission began making awards in 2000, JLARC staff estimate that, across all TICR committees, 274 projects have received cumulative awards totaling $100,000 or less, including 35 for $20,000 or less. These 274 projects received a total of $15 million in TICR funds.

Small grants may have significant economic development potential if they are paired with larger funds from other sources. Several economic development professionals stated that small grants may be important as "deal closers" for larger projects, and TICR has often used small grants in this way. According to one economist, "In most cases… commission grants are only a fraction of the amount needed to take the project to fruition." An analysis by Chmura Economics and Analytics indicates that since 2003, commission grants have been paired with other funding sources totaling more than six times the original TICR grants. Further, depending on the type of investment, small grants could yield larger results, such as in the area of education.

This chapter has described examples from the diverse array of economic revitalization projects funded by TICR. While many projects have provided significant benefits for the tobacco region, or have the potential for benefits in the future, other projects have little potential to revitalize the region. The next chapter discusses the need for a sharper strategy to better focus the commission on its statutory mission of economic revitalization.

Chapter 4

Commission's Mandate Requires a Well-Defined Revitalization Strategy

In Summary

After TICR concludes its indemnification responsibilities in 2012, its sole mission will be the revitalization of the tobacco region's economy. This is an ambitious goal, challenged by the economy's fluctuations as well as by the region's size and complexity. TICR has demonstrated an ability to make strategic, region-wide grant awards that have promise for economic revitalization, but it has also awarded funds to numerous small projects that have limited potential to revitalize the region. By not sufficiently prioritizing its spending, by being more reactive than strategic in its grant-making, and by basing some spending on historical tobacco production, TICR has diluted its potential impact. While flexibility is important to ensure that TICR does not miss important opportunities, a more effective strategy and greater initiative are required to be an effective catalyst for change in a challenging economic environment.

The mandate for this study directs JLARC staff to evaluate the revitalization strategy of the Tobacco Indemnification and Community Revitalization Commission (TICR). The *Code of Virginia* does not set out specific guidelines for TICR's spending, stating only that its mission is to "revitalize tobacco dependent communities" and that the commission's stimulation of economic growth and development be carried out "in an equitable manner throughout the Southside and Southwest regions of the Commonwealth, to assist such communities in reducing their dependency on, or finding alternative uses for, tobacco and tobacco-related business." TICR is also charged by the *Code of Virginia* with indemnifying tobacco farmers who were negatively impacted by the industry's decline. In 2012, TICR will conclude this part of its original mission, and revitalizing the region's economy will be its sole mission going forward.

As discussed in previous chapters, revitalizing the region's economy is an ambitious, long-term goal. The challenges include the size and diversity of the region and its economy, the decline of multiple core industries in addition to tobacco, and the economic realities of the most recent global recession that will continue to reverberate throughout the State for some time. These challenges, coupled with the scale of the commission's mandate, obligate the commission to articulate, adhere to, and regularly refine a clear revitalization strategy that promotes active grant-making and informed decision-making. With several important exceptions, TICR's spending decisions have not been consistently guided by a deliberate and focused revitalization strategy.

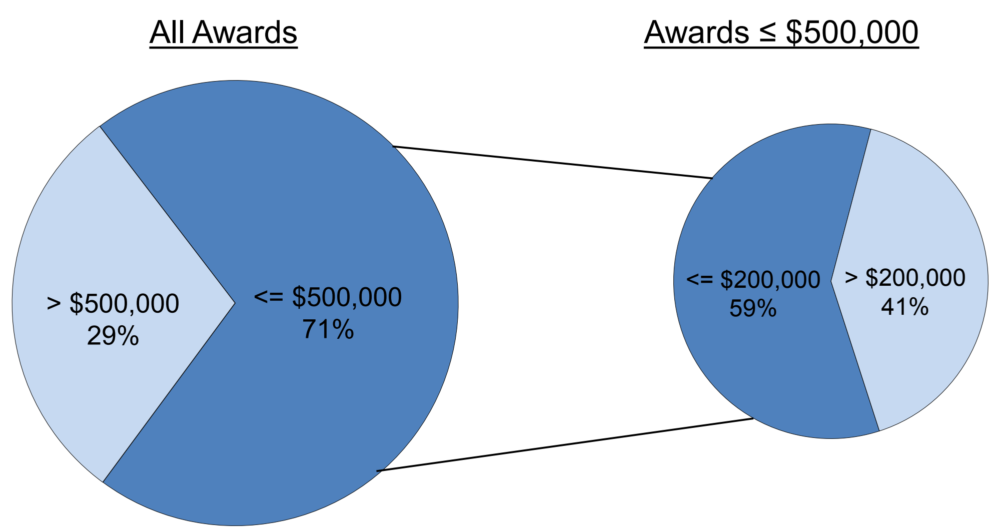
AWARDS PROCESS IS NOT ALWAYS STRATEGIC

More than half (59 percent) of the 2010 awards below $500,000 were $200,000 or less.

As described in Chapter 3, TICR's spending practices have resulted in an extremely varied portfolio of grant awards. This variability is seen in the size of its monetary awards as well as the projects' intended activities and outcomes. Figure 12 shows the distribution of the size of TICR's awards in calendar year 2010. While the awards ranged from $17,500 to $5.7 million, the bulk of these awards were for $500,000 or less with more than half (59 percent) of the smaller awards for $200,000 or less. Figure 2 (Chapter 1) illustrates the range of projects TICR has funded. Notably, there is further variability within each broad category.

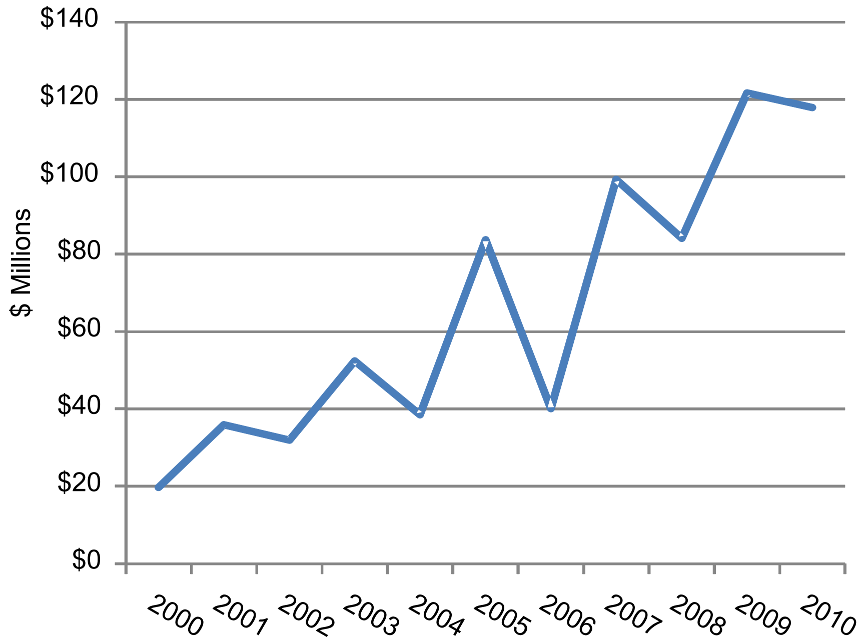
TICR's spending practices are also characterized by fluctuations in its total annual awards (Figure 13). The sum of total awards made per year has fluctuated by, on average, 56 percent between calendar years. This fluctuation appears to be due to the manner in which TICR sets its annual budget. The budgeting process is largely driven by achieving a consensus between staff and the committee chairs about the amount needed to cover previous commitments and to address upcoming probable funding requests or opportunities of which staff or members are aware.

Figure 12: In 2010, TICR Award Amounts Were Concentrated Below $500,000



Source: JLARC staff analysis of grant awards data provided by TICR.

Figure 13: TICR's Annual Award Commitments Have Fluctuated, but Are Increasing Overall



Source: JLARC staff analysis of grant awards data provided by TICR.

Some Commission Spending Has Been Strategic

Despite its shortcomings, TICR's grant-making process has improved over time. According to staff at the office of the Auditor of Public Accounts (APA), TICR has shifted from a tendency to spend as quickly as possible to establishing more control over its spending. According to this APA staff member, "For a long time, they were throwing money at whatever came down the pike."

The commission has made several intentionally strategic grant awards. First, as described in Chapter 3, the nearly $125 million spent on broadband infrastructure throughout the tobacco region was a commission-generated initiative. According to individuals familiar with TICR's role in funding broadband infrastructure, TICR decided to invest in broadband after there was clear evidence of a need and after determining its potential to be a successful economic development venture. The broadband initiative is an example of the commission acting as an intentional catalyst for a specific change, rather than responding to a wide spectrum of needs. As discussed in Chapter 3, broadband is TICR's most widely acclaimed success.

TICR has awarded approximately $424 million, or 56 percent of its total awards, in its most strategic programs.

Additional strategic initiatives have most recently included TICR's creation of the research and development program, for which it depends on third-party expertise, and the reserve program, which was created so that TICR could leverage one-time federal matching funds made available to localities through the American Recovery and Reinvestment Act of 2009. Finally, by making grants to improve the education and workforce skills of tobacco region residents, TICR has implemented a strategy aimed at addressing the shortcomings of the region's workforce. Across these strategic categories, and including the Tobacco Region Opportunity Fund (TROF), TICR has awarded approximately $424 million, or 56 percent of its total awards.

While these programs have been TICR's most strategic, their impact has been mixed, as in the case of the TROF program and the grants to the Institute for Advanced Learning and Research as an education and workforce center. Further, some of these programs have been implemented too recently to have yielded measureable impact, including the research and development and reserve programs.

Overall Award Process Lacks Prioritization

While spending on a diverse array of projects is a conventional method of managing investment risk, TICR appears to make awards without a clear rule or policy for prioritizing the many different types of projects that seek its assistance.

This approach appears to stem primarily from two aspects of TICR's grant-making process. First, TICR has created eight funding streams through its committees (Table 11). Because of the numerous funding categories and their general breadth, it is difficult to conceive of a project that would not fit one of TICR's funding categories.

Second, the process by which TICR receives proposals does not appear to be driven by TICR's own priorities or strategic vision. Typically, the commission announces how much money will be available through each committee and then waits for applicants to come forward with promising projects. Using this approach, the commission's ability to revitalize the economy of the tobacco region is dependent on the proposals it receives rather than on its own criteria and priorities. A more strategic and proactive approach would be for TICR to develop and communicate priorities that are tied to a well-articulated strategy and objectives.

Table 11: TICR Funds Proposals Through a Diverse Array of Committees

Committee/Program	Description	FY 2010 Awards ($ in millions) [b]
Agribusiness	Diversify production opportunities, develop value-added enterprises	$4.1
Education	Scholarships, community college programs, workforce training and adult education	8.6
Research and Development	R&D related to commercialization of applied research	12.0
Reserve Fund [a]	Source of commitment of funds needed to match non-commission project funds	34.8
Southside Economic Development	Industrial sites, infrastructure, tourism – formula based	14.9
Southwest Economic Development	Industrial sites, infrastructure, tourism – not formula-based	33.6
Special Projects	Regional economic development projects	5.8
Tobacco Region Opportunity Fund (TROF) [a]	Performance-based grants to assist in business expansion or attraction	10.6
Total		**$124.5**

[a] TROF and reserve fund awards are approved by four individuals: the TICR chair, the chairs of the two economic development committees, and the TICR executive director.
[b] FY 2010 totals are based on grant awards data provided by TICR staff. TICR's FY 2010 Annual Report indicates a total of $131 million was awarded in FY 2010. This total includes awards not yet made public in FY 2010.

Source: JLARC staff analysis of grant awards data provided by TICR staff.

Other grant-making organizations follow a more strategic process, establishing clear funding priorities, tied directly to the organization's goals, and issuing a call for proposals that fit within those priorities and guidelines. For example, the Harvest Foundation in Martinsville and the Danville Foundation set well-defined priority objectives, research proven or promising initiatives that could be funded to meet these priority objectives, and then issue guidelines on what they will fund. Similarly, at the national level, the Ford Foundation has established an overarching goal and identified the strategic approaches it would like to see reflected in proposals that seek to achieve that goal.

Harvest Foundation

The Harvest Foundation has established a priority area for improving the education of area residents. It developed three "goal areas" related to this vision: academic, career readiness, and youth projects. Within each, the foundation established specific objectives. In the next step, the foundation identified actions that it would take, through its funding, to *achieve those objectives. For example, in the academic goal area, one objective was that "residents have opportunities to succeed academically beyond high school." The foundation identified six separate actions that could be taken to achieve this objective. One was "support initiatives and programs that encourage college residents to return to Martinsville/Henry County during breaks for internships."*

TICR has already adopted a similar approach through its strategic plan. For example, for its goal of "Building Human Infrastructure," TICR has established more detailed objectives and strategies such as "enhancing workforce readiness through support for proven and/or innovative GED programs." However, the commission does not consistently consider the strategic plan when evaluating projects' merits, and the commission does not take stock of its spending to determine whether the projects it has funded are in fact fulfilling that goal.

Continuing to operate in a reactive manner, driven in many cases by grassroots or localized projects, undercuts the commission's ability to have a revitalizing impact on the economy of this large region of the State. One commissioner interviewed by JLARC staff indicated that while smaller, more locally focused projects have been necessary to set the stage for larger grant awards, "Now that we have had 10 years to put in place small infrastructure projects, the focus of the commission going forward can be revitalization projects."

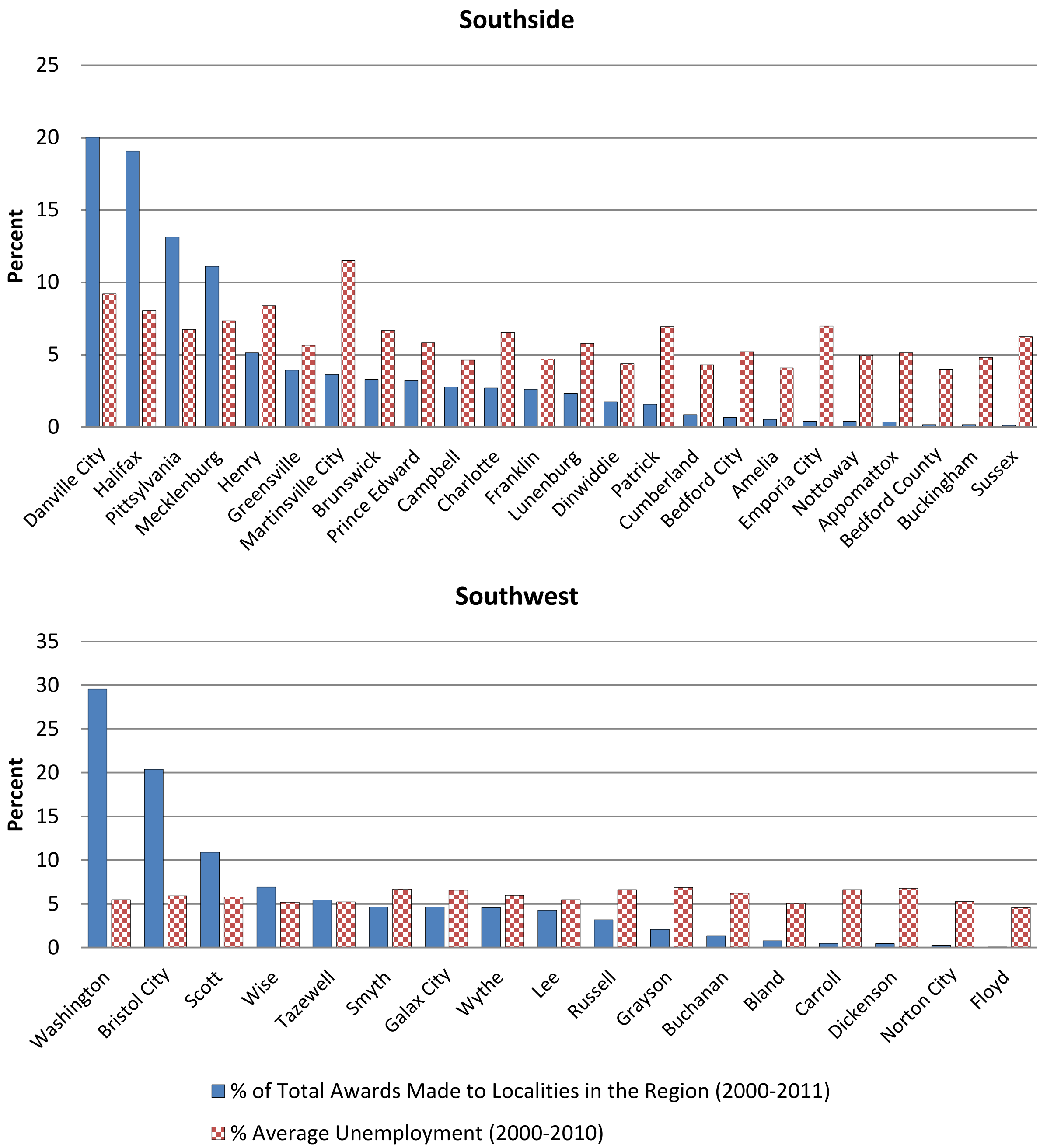
TICR's Awards Are Not Linked to Indicators of Economic Need

TICR's awards process dilutes the impact of its assets and results in spending that is not tied to indicators of economic need. Figure 14 shows that, in some cases, there is a mismatch between indicators of economic need like unemployment rates and total TICR funding in a locality. For example, of all grantees in the Southwest, organizations in Washington County have been awarded almost 30 percent of all awards to Southwest localities, yet the county's average unemployment rate from 2000 to 2010 was below the region's average. By contrast, while Martinsville experienced the highest average unemployment rate in the region between 2000 and 2010, grantees located there were only awarded 3.6 percent of all awards made to Southside localities. (Both of these figures exclude broadband and scholarship awards to localities.)

While Danville received nearly 12 percent of the awards, its unemployment rate has increased by more than ten percent since TICR's formation.

It is not clear how receiving a larger percentage of TICR funds impacts a locality's economy, however. For example, while Danville received nearly 12 percent of all TICR awards, its unemployment rate has increased by more than ten percent since TICR's

Figure 14: Distribution of Awards to Localities Does Not Match Unemployment Rates



Notes: The locality reflects the locality in which the recipient organization resides. In many cases, benefits accrue to multiple localities, especially in the case of regional grants. This represents a JLARC staff estimate, as TICR does not track spending by locality. Totals do not include grants for broadband or scholarships, which would overestimate TICR awards to some localities. These awards are made to organizations based in a handful of specific localities that disburse the funds throughout the tobacco region.

Source: JLARC staff analysis of grant awards data provided by TICR and Virginia Employment Commission labor force data.

formation. This is higher than the region's average unemployment increase of 6.9 percent over that timeframe. According to Danville staff, however, Danville's economy would be "much worse" if it were not for TICR's grants. One member of the city's economic development staff stated, "If you took the Tobacco Commission out of Southern Virginia, we'd be in a world of hurt." In the case of Halifax County, despite receiving nearly 11 percent of TICR's awards, that county's unemployment rate increased by almost eight percent. According to the county's economic development staff, however, without TICR's involvement "the region would be devastated."

Commission Does Not Consistently Adhere to Its Own Criteria for Awarding Funds

TICR has in fact developed spending priorities. TICR's one-page list of "General Funding Policies" summarizes these priorities as well as ineligible projects. According to this document, TICR funds may not be used

- to supplant other state or federal funds,
- to finance endowments,
- for operations costs,
- for regularly recurring local responsibilities,
- for project administration or indirect project costs, or
- for projects that indirectly affect economic revitalization, such as community, child care, and wellness centers, recreation initiatives, airports, local arts and cultural activities, historic preservation, and retail development.

The last category of projects could be eligible for TICR funding if they will "produce economic impacts from outside the commission service area." While not included in this list, TICR has been explicit about its preference for not funding projects related to primary and secondary education, stating that this is a State and local responsibility and that these projects would siphon funds from other, more important, economic development projects.

TICR publishes its spending guidelines on its website, so it would appear to have a clear basis for making awards. However, economic developers surveyed by JLARC staff do not uniformly understand how TICR arrives at its funding decisions. One economic developer in the region stated, "It's anyone's guess how the commission members make their decisions."

Several Awards Are Not Consistent With TICR's Stated Spending Priorities. Although the commission has published a list of funding priorities, its actions are sometimes inconsistent with its policies. There are several areas in which TICR has diverged from its own guidelines when making its awards. For example, despite its declaration that primary and secondary education projects are the responsibility of State and local governments, TICR has funded several of these projects. When asked about these inconsistencies, one staff member stated that TICR may not follow staff recommendations on whether to fund a project because "it is a good project for the region" even if "it is not a good fit with the strategic plan." The following case studies are school-related projects funded by TICR.

> ***Case Studies - Primary and Secondary Education***
> *In 2006, TICR awarded $80,000 to the Lee County Public Service Authority for the purpose of improving the water and sewer infrastructure available to an elementary school in Lee County. The school was using bottled water and Lee County indicated it could not afford to make needed water line improvements. This project was presented to TICR as urgent, although the project was delayed by the locality until 2011.*
>
> *TICR awarded $190,526 to the Virginia Council on Economic Education in 2008 to "enhance K-12 educator understanding of basic economic principles and personal finance in order to improve their ability to teach these concepts." The staff recommended no award, in part because "support for non-degree K-12 programs such as financial literacy have merit but are not a priority for the commission."*

Additionally, TICR's funding guidelines specify that "hospital/wellness centers" are a low priority, and will receive a staff recommendation of "no award." Still, in one example the commission granted $250,000 to establish a medical facility in the Town of Nickelsville in Scott County. The staff summary for this project indicated

> The project's focus on healthcare to serve a single small locality is not without merit and need, but is not a good fit with TICR Strategic Plan or Economic Development program priorities and could set precedent for similar facilities in dozens of similar-sized communities across the tobacco region.

Staff recommended that the applicant seek funding from the U.S. Department of Agriculture, and recommended that TICR provide no award.

There are also examples of TICR funding local arts and cultural activities, despite its policy that such projects are not eligible for funding.

> ***Case Study - Southwest Performing Arts Centers***
> *In 2007, the commission awarded $50,000 to install equipment at a performing arts center in a Southwest locality's school auditorium. The staff summary indicates that the program would serve local students and the general public. The staff recommended no award based on the general funding policies.*
>
> *Since 2007, TICR has awarded a total of $700,000 to the Southwest Virginia Community Foundation to construct a 500-seat performing arts center in Gate City. In January 2011, due to projected fundraising difficulties identified by the foundation, the commission agreed to allow the foundation to repurpose the remaining balance of $564,000 to instead purchase and restore an existing historic theatre in Gate City.*

TICR has also funded projects that would appear to be inconsistent with its policy not to fund requests that "supplant other local, state, or federal funding." In addition to the elementary school example above, other examples include three projects that received $4.2 million in TICR funding, part of which was used to bring water and sewer infrastructure up to State or federal regulatory standards. The staff's description of one of the awards stated that "both the water and sewer systems are a financial and maintenance burden to the Town at this time due to repairs that are required of a system of this age."

TICR staff said that they use compliance with the strategic plan's general funding policies as one set of criteria for developing their funding recommendations for the commission. However, TICR staff also noted, "The staff recommends, but the commission votes."

The Blue Ribbon Review Panel found that between 2005 and 2007, about 17 percent of staff recommendations were not followed by the commission, the greatest divergence being for grants for which the staff recommended no award. Several examples of projects that were funded by TICR despite staff recommendations for no award have already been discussed, including the Emory and Henry radio station, the RV park in Jonesville, the Nickelsville medical center, and the Gate City performing arts center.

Some Committees' Actions Appear Counter to Intent of Strategic Plan. The manner in which some TICR committees make award determinations also raises concern about the strategic nature of their actions. One economic developer stated that although he thought he understood the commission's mission statement, some projects receiving TICR funds clearly fall outside of the mission. Several economic developers echoed this sentiment.

Interviews with applicants and other stakeholders suggest that few applicants leave a TICR meeting without at least some of what they asked for. Nearly all of the economic developers surveyed reported that 75 percent or more of their proposals had received at least some funding. In fact, very few individuals interviewed by JLARC staff could provide an example of a project that TICR had not funded. According to TICR staff, some committee chairmen have stated that they want some "crumbs" left over so that they can have "dribs and drabs" to distribute among all applicants.

This notion that all proposals receive some funding is not supported by TICR's analysis of its approval rate. This analysis conducted for JLARC staff shows that in 2008, 2009, and 2010, a more modest 60 to 65 percent of proposals that were reviewed by a TICR committee received some amount of funding.

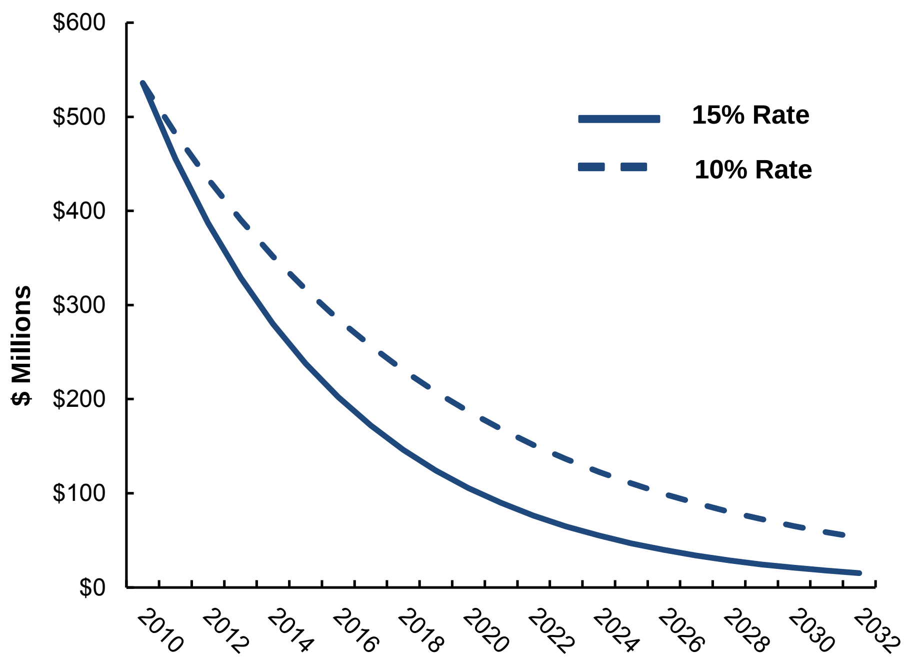
ASSETS SHOULD BE WITHDRAWN MORE SLOWLY TO PRESERVE A LARGER FUTURE ENDOWMENT BALANCE

As discussed in Chapter 1, TICR's assets should be viewed as finite and diminishing. Because of the rate at which TICR is spending its endowment, its assets are projected to decrease substantially before Master Settlement Agreement (MSA) payments to the State are resumed, estimated to occur in 2032. The *Code of Virginia* stipulates that TICR can invade the corpus or body of the endowment at ten percent of the endowment's value, and can withdraw up to 15 percent of the endowment upon the consent of two-thirds of its members.

At the current rate of spending, TICR's endowment will be half its current value by 2015, and reduced to ten percent of its current value by 2025.

Since 2005, TICR has invaded its endowment at the maximum amount of 15 percent five times. According to TICR staff, at an annual "burn rate" of 15 percent of the endowment, TICR's endowment will be less than half by 2015, and reduced to below ten percent of its current value by 2025 (Figure 15). By 2032, when MSA payments are expected to resume, the endowment balance is projected to total approximately $15 million. Since the endowment was created from the bond sales in 2005 and 2007, TICR has awarded an average of $93 million each fiscal year. At some point, the endowment balance will decrease to a level that will constrain the commission's ability to make significant grants.

Figure 15: Projected Endowment Values With a 15 Percent Annual Invasion Rate



Note: Endowment values do not include unobligated cash reserves, which totaled $70 million as of June 2011.

Source: JLARC staff analysis of data provided by TICR.

This fact is not consistently brought to bear by commission members on award determinations or their approval of the annual budget. For example, at the May 2011 meetings at which the annual budget was approved, the commission disregarded TICR staff's recommendation to invade the corpus at ten percent of the endowment, approving instead a 15 percent invasion. Neither the executive committee nor the full commission discussed the impact or implications of this action for TICR's ability to make future meaningful grants. Fifteen percent invasions have become almost routine for TICR, despite the statutory process that appears to contemplate ten percent being the norm, with a "super majority" required for a 15 percent invasion.

Preserving a larger balance for future use may be important for the future revitalization of the region. To accomplish this, the General Assembly may wish to amend the *Code of Virginia* to establish the maximum corpus invasion at ten percent rather than 15 percent. At a ten percent per year "burn rate," by 2032 the endowment could have approximately $32 million more than it would under a 15 percent burn rate. Should TICR develop or become aware of a costly strategic initiative that might require a larger corpus invasion than permitted by the *Code,* TICR could always seek an exception through the annual appropriation process.

Assuming that interest on the endowment accrues at a conservative annual rate of three percent, the lower "burn rate" of ten percent would also generate a total of $28 million in additional interest earnings between now and 2032. (Under Section 3.2-3104 of the *Code of Virginia*, earnings from the endowment are automatically available to the commission for spending.) Reducing the maximum invasion to 7.5 percent (half of the current maximum) would result in approximately $66 million more in the endowment by 2032, and generate $48 million more in interest over this period.

Recommendation (2). The General Assembly may wish to amend the *Code of Virginia* to permit the Virginia Tobacco Indemnification and Community Revitalization Commission to withdraw no more than ten percent of its endowment each year.

SOUTHSIDE ECONOMIC DEVELOPMENT AWARDS PROCESS DOES NOT ENCOURAGE REGIONAL REVITALIZATION

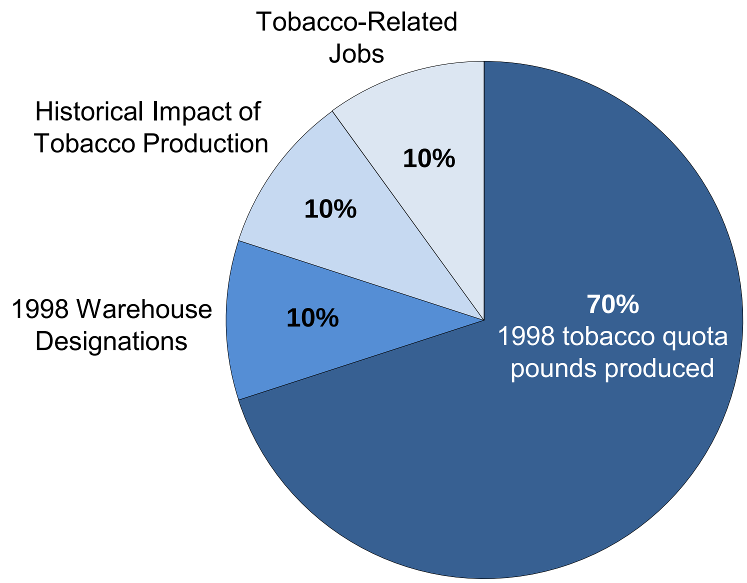
There does not appear to be a shared vision among TICR members for how to revitalize the economy of the tobacco region. In fact, it has been observed by some individuals interviewed for this study that the different approaches taken to revitalizing the Southside versus the Southwest have, in practice, created two different commissions. This is true for some of TICR's most significant spending, such as broadband funds and higher education scholarships, which have been used differently depending on the region. Most prominently, this is evidenced by how economic development funds are distributed in the two regions.

As described in Chapter 1, the 41 localities in the tobacco region were divided into the two sub-regions of Southside and Southwest when the commission was formed and is based on tobacco production in each region in 1998. As a result, 73 percent of the economic development funds are reserved for Southside and 27 percent for Southwest. These funds are the purview of the two economic development committees. Funds awarded by the remaining committees are not bound by this formula.

Since TICR's formation, the allocation of economic development funds to localities within the Southside region has been based on the factors shown in Figure 16. There is no allocation formula for Southwest localities.

Recently, some observers of the commission as well as commission members have questioned the utility of the formula as it relates to achieving regional economic revitalization. The Blue Ribbon

Figure 16: Southside Economic Development Funds Allocated Based on Four Factors



Source: JLARC staff analysis of information provided by TICR.

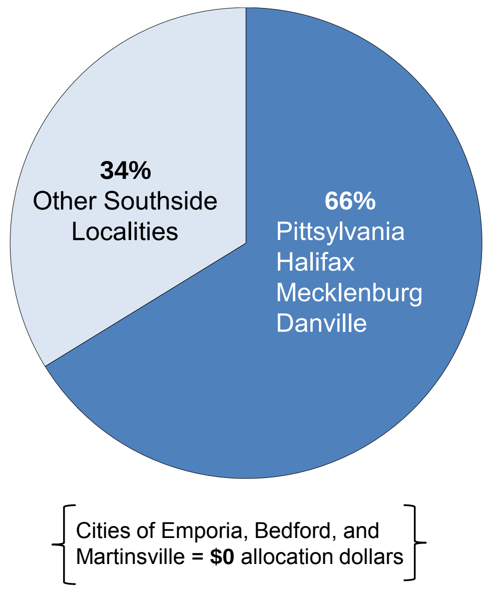
Review Panel, for example, found that the Southside allocation formula creates anti-regional incentives. The authors state, "By design, the Southside economic development formulary focuses on local redevelopment, and not the revitalization of the region" and "is responsible for generating local project proposals, as opposed to strategic or regional proposals."

Allocation Funds Are Spread Thinly Across Most Southside Localities

While the Southside allocation formula ensures that all localities in that region potentially can access TICR economic development funds, it actually results in an uneven distribution of TICR funds whereby a minority of the Southside localities receive a majority of the funds (Figure 17), a much greater share of funds than suggested by their population levels or economic stress factors.

The special projects committee was created in part to address this issue, according to TICR staff and commission members. Localities like Martinsville that are unable to qualify for economic development funds through the allocation formula can apply for funding through the special projects committee. However, this committee appears to hold applicants to higher standards, requiring that projects be "innovative in nature and regional in their impacts" whereas the economic development committee does not have these standards. Localities with significant economic development

Figure 17: Only Four Localities Receive Bulk of Southside Allocation Funds



Source: JLARC staff analysis of data provided by TICR.

allocations can also apply for funding through special projects, increasing their access to funds.

Organizations in several localities outside of the tobacco region have received substantially more in special projects funding than the small-allocation localities in Southside.

An analysis of TICR award data shows that small-allocation localities are not able to leverage special projects funding sufficiently to compensate for their lack of economic development funds. Organizations in the City of Danville and Halifax County—among the top recipients of allocation funds—have received 23 percent of all special projects funding. Small-allocation localities like Buckingham County, Amelia County, and the cities of Bedford and Emporia have received less than one percent of this committee's grant awards. In fact, organizations in several localities outside of the tobacco region have received substantially more in special projects funding than the small-allocation Southside localities.

Allocation Formula Has Driven Up Costs for Some Projects. One unintended consequence of the allocation formula is that it has resulted in some unnecessary spending. Economic developers in some localities with smaller allocations reported to JLARC staff that they have had to implement projects in multiple phases and over several years because, under the formulary, they do not qualify for a sufficient amount of TICR funding to finance a project all at once. This reportedly results in increasing the total cost of the project because such operational costs as contractor services or mobilizing equipment must be paid for repeatedly in each project phase, rather than just once.

One economic developer estimated that implementing a project in three phases added between $300,000 and $400,000 to the overall cost of a project. Another locality estimated that phasing due to the formulary adds 20 percent to the cost of the project. According to another, complications experienced in implementing a workforce center project could have been avoided if it were not for the need to break it into multiple phases. This individual stated:

> [The project] could have been done with less hassle and expense if we knew upfront how much money we would have available. We ended up with multiple [architecture and engineering] expenses, multiple advertising expenses, and multiple contracts to administer. We also ended up with a less cohesive plumbing and electrical system since this was a renovation not a new construction, and certain assumptions had to be made at the start of Phase One, namely that we would never have money to do Phase Two. We did some electrical work in Phase One that was reversed/abandoned in Phase Two because there was not enough power capacity in that part of the building to sustain both Phase 1 and 2. We had to bring in power from another part of the building. All of this could have been prevented with adequate funding to do the job right from the start.

Small Allocations Can Mean Missed Economic Development Opportunities. Localities with small allocations could miss economic development opportunities. Some localities with smaller allocations reported to JLARC staff that they must allow their allocations to accumulate over a period of several years to reach an amount sufficient to spend on meaningful projects. As a result, economic development opportunities have been missed. One Southside economic developer stated that the locality began the development of an industrial park using allocation funds. However, a prospective company was lost because the small allocation did not allow the park to be finished in a timely manner. This economic developer stated, "We're losing out on the opportunity to have significant projects or the opportunity to build out a park [because we are] only getting little chunks of dollars at a time."

Another Southside economic developer stated that the locality cannot access economic development funds due to the formulary, which undermined its ability to develop an industrial park site. This site, which he described as "the future of this community," is planned as a supplier to a "megasite" industrial park funded by TICR in a neighboring locality. The purpose of TICR's megasite initiative is regional redevelopment, yet this locality's inability to access TICR funds to create a collaborative project undercuts this goal.

Southside Funds Are Allocated Based on Factors Not Relevant to Economic Revitalization. The allocation formula is based on tobacco production factors from 1998, not on measures of economic need. The Blue Ribbon Review Panel affirmed this when it juxtaposed the formula's results with the economic indicators for Southside localities.

Table 12 compares each Southside locality's allocation to its share of the region's employment and population. For example, although the City of Martinsville has had one of the highest unemployment rates in the Commonwealth, and in 2010 had the highest rate in Southside, it cannot access TICR economic development funds because the extent to which the city participated in the region's tobacco economy in 1998 was not sufficient to qualify it for these funds.

Table 12: Local Share of Southside Economic Development Funds Mismatched with Population and Employment

Locality	Formulary	Percent of 2010 Southside Population	2010 Unemployment Rate
Amelia	1.08%	2.0%	8.4%
Appomattox	0.22	2.3	10.3
Bedford County	0.22	10.7	9.5
Bedford City	0.00	1.0	7.3
Brunswick	6.33	2.7	13.5
Buckingham	0.12	2.7	9.8
Campbell	1.95	8.5	8.4
Charlotte	3.72	2.0	10.0
Cumberland	0.29	1.6	8.0
Danville	10.78	6.7	14.9
Dinwiddie	4.72	4.4	9.3
Emporia	0.00	0.9	14.2
Franklin	3.01	8.7	9.5
Greensville	0.86	1.9	10.5
Halifax	17.47	5.6	12.9
Henry	1.03	8.4	15.5
Lunenburg	5.15	2.0	11.3
Martinsville	0.00	2.1	21.6
Mecklenburg	13.28	5.1	12.8
Nottoway	1.28	2.5	9.3
Patrick	2.30	2.9	12.8
Pittsylvania	24.71	9.9	11.0
Prince Edward	0.97	3.6	10.2
Sussex	0.53	1.9	11.6
Region Totals	**100%**	**100%**	**11.4%**

Source: JLARC staff analysis of data provided by TICR and the VA Employment Commission.

Allocation Entitlements Lead to Projects With Minimal Potential for Economic Revitalization

Use of an allocation formula creates an entitlement for the Southside localities. A review of TICR meeting transcripts indicates that commission members have themselves used language suggesting that the Southside localities are entitled to these funds.

An entitlement causes two problems that prevent these funds from being used in a strategic manner. First, it has resulted in some localities "pre-spending" their allocations on future projects. In fact, according to TICR staff and an economic developer in Southside, some localities have issued bonds or taken out loans dependent on recurring future TICR payments. Another economic developer in Southside stated that "some communities are banking on having these payments forever." The following example illustrates how the commission created this perception among localities.

> ***Debt Service for Institute for Advanced Learning and Research***
> *In 2001, TICR adopted a resolution in support of the proposed Institute for Advanced Learning and Research in Danville. The City of Danville and Pittsylvania County formed a joint Industrial Development Authority to issue $15 million in bonds to finance the institute's construction. The resolution states that the city and county will pay $1 million per year to the principal of the bond, using "the allocation Danville and Pittsylvania County receive from the commission."*

This allocation entitlement has also resulted in TICR funds being requested and awarded for projects with little potential for economic revitalization. For example, a TICR member observed at one meeting that "Appomattox has such a small allocation that the only way they could spend their money was to put up a welcome sign, because they had no other money."

A commissioner also told JLARC staff that the commission could consider consolidating the Southside and Southwest economic development committees, eliminating the allocation formula. This would allow the commission to better "focus on good projects for the region" and also would compel the commission to "look more at the merit of a project than its location."

Distribution of Commission Funds Should Be Based More on Indicators of Economic Stress Than Historical Tobacco Production

The Blue Ribbon Review Panel, TICR staff, and some individual commissioners have recommended eliminating the Southside formula. According to one observer, "The root of [the commission's opposition to changing it] is that the counties who are allocated the largest sum of their money have members on the commission with the most influence and votes." This is supported by the following statement from the TICR chair:

> The thing that's troubling to all of us trying to avoid this subject, it requires two-thirds vote to change it. We made an agreement that Southwest would take care of Southwest and Southside for Southside. To change this formulary is going to require a vote of Southwest Virginia, and it's going to put a lot of people in a bind unless there is unanimity or at least some sort of majority feeling from Southside Virginia.

Following the Blue Ribbon Review Panel's report, TICR discussed eliminating the Southside formulary, but it was kept in place. At a commission retreat in 2008, TICR's then-chair stated that the formulary leaves some Southside localities without access to economic development funds. Moreover, localities that have very large allocations "are not spending up what they're entitled to by the formulary, and it ties up money that we could use for other projects." The chair suggested modifying the formulary on a pilot basis, but this was not accepted by the full commission.

Many Southside economic developers expressed concern to JLARC staff about eliminating the formula. Localities with relatively small allocations claimed that they could be eliminated from consideration for TICR funding if the award process were more competitive. Localities with larger allocations were concerned that they would no longer have these funds to depend on. One economic developer stated, "The biggest fear is that if the allocation were to go away, even though it is small, we get something…how would we compete against other communities? At least this, I can rely on."

Planning District Commissions (PDCs)

Nine of the 21 PDCs in Virginia serve the tobacco region. PDCs were established by the *Code of Virginia* to facilitate cooperation between localities and the State on regional issues, such as economic development. One important duty of the PDCs is to create an economic development strategy for their region.

Another locality advocated for the formula, stating that "A project that is going against another large project just may not be competitive. Using the allocation gives us the flexibility to do what we need to do."

However, there are resources available to assist smaller localities with staffing or other resource needs in crafting competitive economic development proposals. These resources include the planning district commissions (PDCs) and the regional economic development marketing organizations. According to staff of one PDC, PDCs have the capacity to help localities find additional funding sources and would be able to help their members with marketing and grant applications. Staff from a locality served by a different PDC reported that this is a good resource for them.

While TICR is charged with revitalizing the once tobacco-dependent economies of the State, dividing these resources based on tobacco production in 1998 is not related to economic needs. It also appears to be counter to TICR's mission of regional economic revitalization since four localities receive two-thirds of the funding and 14 localities each receive less than two percent.

Eliminating the Southside allocation formula would accomplish at least three objectives that are consistent with a more strategic approach: It would (1) allow localities to compete on a more even basis for TICR funds, (2) end the practice of encouraging localized and duplicative projects, and (3) help ensure that the commission makes awards based on the merits of projects rather than other factors, such as what a locality might view as its entitlement. The current Southside allocation formula should be eliminated.

Recommendation (3). The Virginia Tobacco Indemnification and Community Revitalization Commission should eliminate the current practice of allocating economic development funds to Southside localities based on historic tobacco production.

TICR should incorporate measures of a locality's economic stress in its award determinations. This would accomplish three objectives. First, funds could be targeted to where there is need. Second, this approach could help ensure that localities with fewer economic development resources still have a reasonable opportunity to qualify for TICR funding. Third, distributing funds based on some data-driven factors could also aid TICR's performance measurement efforts. These measures could mirror the macro-economic factors that are associated with economic revitalization so that TICR's funds are awarded more purposefully to bring about economic revitalization. However, the quality of individual projects should receive greater weight than these other factors. This approach could be applied throughout the tobacco region.

Recommendation (4). The Virginia Tobacco Indemnification and Community Revitalization Commission should consider including factors of economic stress in determining awards to tobacco region localities and prioritize awards to the most economically challenged localities. Indicators could include locality-specific data on unemployment rates, per capita income, and indicators of educational attainment.

TICR SHOULD IMPLEMENT A FORMAL AND ROUTINE STRATEGIC PLANNING PROCESS TO BETTER FOCUS ITS AWARDS

In 2008, the Blue Ribbon Review Panel described TICR's strategic plan as "very broad, and not necessarily focused or adhered to in ways that can achieve regional transformation." TICR has not altered its strategic plan since that report. In fact, TICR's strategic plan has not been revised since 2006, following a staff initiative.

According to TICR staff, applicants do not consistently justify their projects according to the strategic plan, although applications require that this link be made. One TICR staff member observed that not many applicants read the strategic plan and only some justify their projects by it.

TICR's scoring system for grant applications grants only five points out of 100 to conformity with the strategic plan.

It is unclear, in practice, how consistently and to what degree staff assess an application in relation to the strategic plan. One staff member remarked that while the staff are aware of the strategic plan, they do not reference it for each application they review. This may be a byproduct of the breadth of the plan itself; one staff member indicated that it is so broad that "almost anything can be justified by [it]." It does appear that an application's consistency with the strategic plan receives less weight than other factors – staff's scoring system for grant applications grants only five points out of 100 to conformity with the strategic plan.

Because the fluctuations in the tobacco region's economy and the challenges it faces are always in flux, TICR should institute a formal process for re-evaluating its economic revitalization strategy. Such a process would include two primary components: (1) evaluating the success over time of past spending, and (2) identifying what opportunities that have arisen and ways to take advantage of them.

The commission does not have a process–formal or informal–for continuing to refine its strategy. In fact, in 2009, TICR eliminated the long-range strategic planning committee, bestowing the executive committee with strategic planning responsibilities. According to the then-chair, the reason for eliminating this committee was that the large number of committees was reducing commissioner participation. The chair stated "Things like long range planning meet once a year, and we need to get people engaged with the real meat and bones of what this commission is doing."

Despite the fact that the executive committee has been charged since 2009 with strategic planning, no strategic planning activities have occurred. The Blue Ribbon Review Panel recommended that the strategic plan be reviewed every two years by the full commission, and a review of TICR meeting transcripts does not show that such a review has taken place. According to TICR staff as well as commission members interviewed for this study, neither the staff nor the commission has planned to review or revise the strategic plan in the future.

Currently, the *Code of Virginia* provides no guidance on what constitutes economic revitalization. This lack of statutory specificity regarding TICR's mission may be contributing to the breadth of TICR's spending. To help TICR develop and adhere to a strategic plan that will serve as a useful and reliable tool for achieving its goals, the General Assembly may wish to amend the *Code* to include greater specificity regarding TICR's mission of revitalizing the tobacco region's economy. TICR awards should be restricted to projects that can demonstrate how they will directly address needs based on specific macro-economic indicators.

Recommendation (5). The General Assembly may wish to amend the *Code of Virginia* to restrict the Virginia Tobacco Indemnification and Community Revitalization Commission's (TICR) grants to projects that (a) demonstrate in their application how they will address low employment levels, per capita income, educational attainment or other key workforce indicators (including access to health care), and (b) are consistent with TICR's strategic plan.

The pending conclusion of indemnification responsibilities offers TICR the opportunity to revisit its strategy in order to better focus its remaining resources on its sole mission of economic revitalization. Not having to focus time, attention, or resources on indemnification should provide the commission with additional time and resources to develop a stronger economic revitalization strategy.

The strategic plan should be actionable and focused on a limited number of high priorities. These priorities should be informed by external State and local stakeholders as well as by available data. For example, TICR has produced two performance measures reports that summarize changes in macroeconomic indicators in the tobacco region since 2000. These reports (discussed further in Chapter 6) could be used by TICR as a tool for refining its revitalization strategy and prioritizing its grants according to indicators of economic stress.

Recommendation (6). The General Assembly may wish to amend the *Code of Virginia* to require the Virginia Tobacco Indemnification and Community Revitalization Commission (TICR) to reassess and revise its strategic plan at least biennially. The plan should report how TICR's awards have impacted key economic indicators of employment, income, and educational attainment. As part of the revision process, the commission should be required to solicit input from external stakeholders, including planning district commission staff, regional economic development marketing organizations, the Virginia Economic Development Partnership, the Department of Housing and Community Development, the Virginia Tourism Corporation, and the Virginia Community College System as well as the individual community colleges in the region.

TICR SHOULD TAKE STEPS TO ENSURE THAT REMAINING FUNDS ARE SPENT WITH APPROPRIATE LEVEL OF RISK

In adopting a more strategic and proactive approach to issuing awards, TICR should examine how it could better manage the risk associated with its grant making. Some inherently risky spending may be necessary given TICR's goal of changing the economy of such a large region. A commission member stated,

> You need to get the money out there, and you need to take some risks to do so. You want to do something to make a difference in the way people view us and how we view ourselves. The King College medical school project is an example. Sure, it's a lot of money ($25 million) but the rewards will be big, too. Quality medical care is important to the further development of the area. What better way to get better health care and develop the economy at the same time?

Balanced against a need for risk-taking, however, is the reality that TICR's resources are public, finite, and diminishing. This reality suggests a need for TICR to exercise due diligence and care in spending its resources.

Major Economic Incentive Commission

This is a legislative commission, established by *Code of Virginia* section 30-310, that reviews proposed State incentive packages based on the area's need for enhanced employment opportunities, proposed return on the State's investment, the average wages of jobs to be created by the project, amount of capital investments, and other factors.

TICR is not statutorily constrained by a "prudent person" rule, like that applied to the Board of Trustees of the Virginia Retirement System by *Code of Virginia* section 51.1-124.30:

> The Board shall discharge its duties with respect to the Retirement System solely in the interest of the beneficiaries thereof and shall invest the assets of the Retirement System with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board shall also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.

A purpose of "prudent person" rules is to ensure that decisions are made based on complete, accurate, and relevant information. For example, a prudent individual investor may want to know a stock's history and current value, and seek advice from experts before making a purchase. Even with this degree of diligence, an investment may still fail to generate returns, but the investor would have acted prudently. The General Assembly may wish to consider amending the *Code of Virginia* to require that TICR apply a "prudent person" rule in its award determinations.

TICR should also take steps to improve the amount and quality of the information used as the basis for its funding decisions. TICR has sometimes made awards without information on a project's merit from anyone other than the project's advocates. This decision process exposes TICR's grants to a degree of risk that may be unnecessary. Therefore, to ensure that its grants have a reasonable chance of being successful, TICR should require that projects seeking significant funding of, for example, $1 million or more be accompanied by a third-party analysis that demonstrates the demand or need for the project as well as its added value. This analysis should estimate the impact of the project on economic indicators such as employment rates, per capita income, and educational attainment.

Recommendation (7). The General Assembly may wish to consider amending the *Code of Virginia* to apply a "prudent person" rule to the grant award practices of the Virginia Tobacco Indemnification and Community Revitalization Commission. This rule could be modeled after the "prudent investor" statute that applies to the Virginia Retirement System Board of Trustees.

Recommendation (8). The Virginia Tobacco Indemnification and Community Revitalization Commission should require that projects seeking funding above some threshold (such as $1 million) be accompanied by a third-party economic impact analysis which estimates the impact of the project on relevant economic indicators, such as employment, income, or educational attainment.

RECENT ATTORNEY GENERAL'S OPINION COULD AFFECT TICR AWARDS

In January 2011, the Attorney General issued an opinion that may impact how and to whom TICR makes awards. In the opinion, the Attorney General indicated that appropriations to charitable institutions not owned or controlled by the Commonwealth, including non-profit organizations generally, conflict with language in the *Constitution of Virginia* prohibiting "the appropriation of public funds … for charitable purposes." The opinion stated that the constitutional language does not prohibit all payments from the State to charities, noting that

> The General Assembly can establish a program to provide services to residents and make appropriations to state agencies that, in turn result in payments to charitable entities for goods purchased or services provided.

TICR does provide funding directly to numerous non-profit organizations through its awards process, and thus may be affected by the opinion and the constitutional language. Although TICR's funding decisions are not appropriations (only the General Assembly makes appropriations), TICR uses public funds and thus could be covered by this constitutional language.

TICR should seek clarification from the Attorney General about the applicability of this constitutional provision to its funding policies and practices. Should TICR be impacted by this provision, significant changes could be needed in how and to whom the commission makes grants.

Recommendation (9). The Virginia Tobacco Indemnification and Community Revitalization Commission should request clarification from the Attorney General about whether its grant programs and practices comply with language in the *Constitution of Virginia* prohibiting the provision of public funds to charitable organizations.

TICR SHOULD CONSIDER BALANCING SPENDING ON ECONOMIC INFRASTRUCTURE WITH GREATER STRATEGIC SPENDING ON THE WORKFORCE

The quality of the region's current workforce may be as important as the quality of the economic development infrastructure. As the governor recently noted, "Our economic success is dependent on good jobs, a well-educated workforce, and a strong business climate." According to staff of the Virginia Economic Development Partnership, workforce quality is a major factor influencing a company's decision to locate in Virginia. TICR has made grants to two of the most important aspects of the workforce: education and training, and health care.

TICR Should Consider an Initiative in Education

A key concern about the region's workforce is the level of education of the working-age population. It has been widely noted that the education levels of the tobacco region's workforce are generally behind the rest of the State. One economic developer in the region observed,

> The drop-out culture keeps us awake at night. It's the culture of 'you don't have to get a high school diploma to get a good job.' Many parents still apparently believe this.

Overall, 74 percent of the region's over-25 population has at least a high school diploma, well below the statewide average of 86 percent, according to the U.S. Census Bureau. In some localities, such as Buckingham, Buchanan, and Greensville counties, this figure is as low as 63 to 65 percent, as noted in Chapter 2. The highest percentage in the region, 85 percent in Bedford County, is still below the statewide average.

Southside Virginia needs assessments conducted by the Danville Regional Foundation and the Martinsville Foundation provide detailed analyses of shortcomings in that region's workforce. Their findings suggest that additional resources should be invested in improving the skills of the current working-age population.

The authors of the Danville Regional Foundation study stated: "If the local low-skilled workers are unable to meet the needs… higher skilled workers will have to be imported...[and] the biggest losers are the region's indigenous, low-skilled workers who will become trapped in dead-end, minimum wage jobs."

An economic developer told JLARC staff that these areas are attempting to "build a new economy with an old workforce," suggesting that the skills of the workers in that region are not aligned with the demands of the employers that are being recruited to invest there. This individual viewed the region's primary challenge as training the existing workforce to participate in the new industries that are forming those economies. For example, JLARC staff were told that one company could not fill 38 electrician positions because it could not find workers with this skill.

The Danville Regional Foundation report stated that new job opportunities created in the region will typically require a minimum of a high school diploma or GED, and stated that this may be out of reach for many of the region's former manufacturing workers who are of middle-age and older. The authors feared that this generation could become a "permanent casualty of the region's economic transformation" unless there are significant interventions in workforce development programs and culture. The authors concluded that changing the norms that created and continue to repopulate this mindset was the region's most critical economic development imperative.

The skills of a region's workforce are one of the primary factors companies use in deciding where to relocate or expand. As noted in Chapter 2, a 2010 Area Development corporate survey of 158 corporate executives found that the availability of skilled labor was the second most frequently-cited factor considered very important in site selection. According to the Southern Growth Policies Board 2009 Area Development survey, 87 percent of "site selectors" rated the availability of a skilled workforce as "very important" in their decision-making. Of the CEOs surveyed, 97 percent said having the right workforce is the most critical factor for their business growth.

As documented in a recent report by Chmura Analytics, there is a mismatch in the current supply of skills in rural Virginia (including the tobacco region) and the demand for these skills. As a result, while there are numerous large companies that have invested in the region, there is also evidence that some companies have disregarded the region because of the workforce quality. For example, Colt Industries reportedly did not expand into Martinsville because executives were not convinced that they could find 500 employees with the requisite math and science skills. Some call centers reportedly passed over Southside because of uncertainty about the skills of the workforce.

According to an economic developer in the area, it is challenging to recruit a company to the area that needs more than 250 people because of the difficulty producing the needed workforce. The tobacco region has high unemployment levels, so the question is not one of worker supply, but worker qualifications.

These examples suggest that the region's workforce challenges have been, and could continue to be, a liability for the region's economic revitalization. TICR has made important grant awards for improving the workforce by providing $64.1 million in funding for scholarships, student loans, and internships, and has supported 17 workforce and higher education centers in the region (as discussed in Chapter 3). TICR has also funded initiatives through the community colleges and other initiatives at the higher education centers as discussed in Chapter 3. Other adult education initiatives are also important, such as the "Race to GED" program, which is available statewide and heavily promoted in parts of the tobacco region. TICR has contributed nearly $800,000 in operational support to this program.

However, TICR's total spending on workforce initiatives has been less than its spending on physical assets like buildings, optical fiber, and industrial parks. TICR should consider a strategic initiative to address the quality of the region's workforce as a key to future economic vitality.

A variety of techniques to encourage high school students to stay in school and to encourage members of the workforce to seek more education and job training are used in school divisions and community colleges throughout the tobacco region. For example, several mentoring and college coaching programs were cited to JLARC staff as possible "best practices," resulting in higher graduation rates. Further, more workforce training centers may be needed to ensure reasonable access throughout the region.

TICR may wish to sponsor a strategic initiative to address specific, high-priority needs in the areas of workforce training and educational attainment. Such an initiative should be informed by three elements: (1) evidence of need based on current data and the input of State, local, and regional experts; (2) promising or best practice programs in Virginia and other states; and (3) TICR grants for workforce and education that have already shown positive impacts.

As a first step to prioritizing its grants in this area, TICR should analyze available locality-level data on relevant workforce indicators for the tobacco region, such as educational attainment, high school graduate rates, college readiness, and higher education access. Second, TICR should invite State, local and regional experts to be involved in the development of this initiative. These experts could be most useful in identifying promising practices that could be replicated throughout the region and in suggesting ways in which TICR could make a significant impact with limited funding. Third, from its numerous grants for workforce and education to date, TICR should identify successful programs that, if replicated in other parts of the region, could meet existing needs. A similar approach could be undertaken for developing an initiative in healthcare access.

TICR Should Supplement Its Investment in a Medical School With an Initiative to Improve Access to Health Care

Another aspect of ensuring an adequate workforce is the provision of health care. Availability and access to health care are significant problems in the tobacco region. Of the 41 tobacco region localities, 27 have been identified as "medically underserved" areas by the Virginia Department of Health. These areas have been found to have fewer primary care physicians and higher levels of infant mortality and poverty.

Free clinics operating on a limited basis regularly draw crowds in Southwest Virginia. The Remote Area Medical Organization has for several years used volunteer health care professionals to operate a free clinic in Wise County, providing medical, dental, and eye care. The July 2009 clinic served approximately 1,500 patients, 450 of whom were from Wise county, according to press reports.

TICR's award of $25 million in King College Medical School could indicate a shift in the commission's thinking, away from limited spending on local medical programs. TICR has funded medical education and training programs at community colleges, and made limited grants for medical facilities (for example, the Nickelsville Community Multi-Use Medical Facility and the Holston Medical Group facility in Duffield).

TICR may want to augment its grant to King College with others to improve access to health care in the region. For example, at such time as King College students begin considering residencies and job placement, TICR may want to consider financial incentives or loan forgiveness programs to retain medical school graduates in the tobacco region.

Under the current scenario, King College-trained physicians will not be available until 2017 or later. TICR may be interested in shorter-term solutions focused on providing financial incentives for medical providers to locate in and remain in the tobacco region. Many strategies have been used by rural areas of the United States to address health care availability and access; TICR could sponsor an initiative to identify the best practices along with ways to implement them in the region.

A strategic initiative in improving access to health care should be considered by TICR. In developing this initiative TICR should consult with the Virginia Health Care Foundation, which works with health care facilities and providers in the region (and throughout the State) to expand the availability of medical care.

Recommendation (10). The Virginia Tobacco Indemnification and Community Revitalization Commission should consider implementing strategic initiatives to increase the education and training of the tobacco region's workforce, and to improve access to health care services in the region. The initiatives should focus on identifying best practices and fostering their adoption throughout the tobacco region and be based on an analysis of existing data and input from stakeholders.

Chapter 5

More Effective Governance Model Would Maximize Potential Benefit of Remaining Funds

In Summary

The General Assembly created the Tobacco Indemnification and Community Revitalization Commission (TICR), in part, to use a portion of the State's Master Settlement Agreement funds to revitalize the economy of the tobacco region. Because TICR has been given broad latitude in determining how to spend those funds, its organization and operational structure are key to optimizing the use and impact of these public assets. TICR's size and make-up may have contributed to awards being made to projects that have limited revitalization potential and that are not well aligned with TICR's mission. TICR's review process does not effectively screen out weak proposals. The commission considers every application for funding, although this policy generates a significant workload that tends to discourage detailed review by the commission. Changes to the grant-making process, composition, and size of the commission can strengthen its strategic role. An important change would be to reduce its size and require some members to have expertise in economic development, investment banking and finance, and education.

Master Settlement Agreement funding provides the State with a unique opportunity to improve economic conditions in Southside and Southwest Virginia. One stakeholder expressed that "these funds are a blessing and ought not to be squandered." Because of the rate at which TICR is spending its endowment, before Master Settlement Agreement payments return to the State the endowment balance will likely decrease to a level that constrains TICR's ability to make significant grants.

As discussed in Chapters 3 and 4, however, JLARC staff found that TICR continues to fund projects with minimal potential for revitalizing the region's economy. TICR should consider changes to its structure and awards process. These changes could help optimize the potential impact of TICR's remaining assets. Such changes could also reposition TICR to better account for and measure the impact of its spending.

LACK OF ECONOMIC DEVELOPMENT EXPERTISE AND LARGE SIZE MAY INHIBIT TICR'S EFFECTIVENESS

Making decisions to award millions of dollars to projects that are often very complex would seem to require commission members to have the requisite expertise. However, the statutory requirements for TICR members generally do not ensure that this expertise is present.

Section 3.2-3102 of the *Code of Virginia* sets out the size and composition of TICR. The 31 members meet the following qualifications, as noted in Chapter 1:

- six members of the House of Delegates, appointed by the Speaker of the House
- four members of the Senate, appointed by the Senate Committee on Rules
- 11 citizen residents of the tobacco region, appointed by the Governor
- six active tobacco producers (three burley tobacco producers and three flue-cured producers), appointed by the Governor from a list provided by the legislative members of the commission
- three Cabinet-level officials: the Secretaries of Commerce and Trade, Agriculture and Forestry, and Finance, and
- one representative of the Virginia Farm Bureau Federation, appointed by the Governor.

Except for the Cabinet members, all members must be from the tobacco region. Eight members (26 percent) qualify based on their affiliation with or expertise in agriculture. Of the 31 members, only one—the Secretary of Commerce and Trade—has direct involvement in economic development, although the *Code of Virginia* does not require that secretary to possess economic development expertise. One other member—the Secretary of Finance—has direct involvement in finance and investment issues, although again, the *Code* does not require finance expertise for this appointed position.

The minimal presence of economic development expertise on the commission was noted by the Blue Ribbon Review Panel, which recommended that TICR's members have expertise in subject matters relevant to economic revitalization. The panel recommended that the commission be composed of members with expertise in areas such as economic development, education, workforce development, and corporate business practices.

For 29 of the 31 members, the *Code of Virginia* does not specify qualifications such as economic development, finance and investment banking, education, or other relevant disciplines. Backgrounds and expertise in these disciplines are important to making informed decisions, and are relevant to the role of an investor with approximately $606 million available to achieve the economic revitalization of a 41-locality region. Having the background and expertise to make better-informed decisions will be especially important after indemnification is completed in 2012, and revitalization becomes TICR's sole mission.

The commission's large size may hinder full participation by members. Having so many members included in TICR's decision-making makes it difficult for all members to have a meaningful opportunity to fully participate.

The commission's 31-member size is due to the number of individuals and groups who wanted to participate during its formation.

According to numerous stakeholders interviewed for this review, there is no strategic reason for the commission's large size (31 members). Instead, according to these observers, it is due to the number of individuals and groups who wanted to participate during its formation.

Individual commission members have themselves expressed concern about uneven participation. Prior to the July 2010 vote on eliminating an annual meeting, one commission member stated:

> Things have happened over the last couple of years that some members of the commission have felt left out of the decision-making process and that they're not part of the commission. If we eliminate one meeting, it will probably isolate more of the decision-making process, if we're not careful about that.
>
> If you look at the structure of the committee system that we have in place, this is a 31-member commission, and you have to have some structure. Unless we have a flow of information from the committees to the general membership, there may be [a tendency] to lose track of what's going on in the overall commission, and that troubles me… We want to make sure that no one is left out of the discussion, because it's very important to maintain dialogue with all members.

Some structural changes have been made with the intent of increasing participation. For example, in 2009, the chairman informed the commission that three committees—technology, long range planning, and bio-energy oversight—would be eliminated. He stated:

> The reason I want to restructure the committees is that we have too many committees and we have people on the committees who don't do anything. People need to be engaged. Things like Long Range Planning meet once a year, and we need to get people engaged with the real meat and bones of what this commission is doing…things that we do that really make a difference, things like Agriculture.

FLAWED EVALUATION PROCESS CONTRIBUTES TO APPROVAL OF PROJECTS WITH LIMITED POTENTIAL

Most proposals for TICR funding follow the process described in Figure 4 (Chapter 1). While this process depends heavily on the staff to review, evaluate, and provide recommendations on each proposal, the full commission makes the final funding decisions. (The full commission makes all award determinations with the exception of Tobacco Region Opportunity Fund and Reserve Program awards.) This is the case regardless of a project's nature, cost, relationship to the mission, or the staff's determinations of its merits. Additionally, the commission has instituted only very limited procedures for controlling the number of applications it receives and must review. This leads to a large number of proposals and constrains commissioners' capacity to review or set policies, review the effectiveness of their awards, or to better focus grant-making and manage risk.

TICR Lacks Effective Process to Screen Project Proposals

Weaknesses in TICR's process to screen proposals appear to hinder TICR's ability to manage the risk inherent in grant making. The commission has instituted only very limited procedures for controlling the number of applications it receives and must review. These include funding guidelines and a pre-application process that is partially intended to keep the least promising proposals from proceeding to the committee level. However, the pre-application process has been characterized by staff more as a way to assist applicants with their proposals rather than to dissuade potential applicants.

In 2010 the commission reviewed and decided upon 196 proposals, an average of 49 per meeting. This could increase in 2011.

As a result, commission members must review a large number of proposals at each commission meeting. In calendar year 2010, the commission received 219 proposals, 23 of which were withdrawn voluntarily by the applicant. In total, the commission reviewed and decided upon 196 proposals, an average of 49 per meeting. Had the applicants not voluntarily removed their applications, the meeting average would have been 55. Should the commission receive an equal number of applications in calendar year 2011, during which the commission will only meet three times, the average number of awards to be reviewed per meeting would increase to 73 if no applicants voluntarily withdraw their proposals.

Commission Reviews Every Application. The commission has made clear its preference for reviewing each proposal. According to one stakeholder, the staff would be "keel hauled by the commission" if they turned an applicant away because their proposal was not appropriate for TICR funding. Another stakeholder asserted that the staff had been admonished multiple times for attempts to dissuade applicants or to have greater decision-making authority over applications. In fact, one TICR member stated in a July 2010 meeting that

> There are discussions at times that people feel that this gets to be a staff-driven commission instead of a member-driven commission and we need to avoid that and make sure that people understand that the commission is still driving this commission.

In the majority of cases, the commission has followed the staff recommendation. Based on available data, it appears that the commission follows staff recommendations about 80 percent of the time.

Ultimately, the commission relies on the applicants, particularly the localities, to submit good proposals. This reliance on applicants to submit quality proposals was confirmed by TICR staff as well as locality staff. Relying on project advocates to submit sound proposals may facilitate the consideration and ultimately the approval of weak projects or projects not aligned with TICR's strategic plan.

Reviewing every proposal consumes time that the commission could use instead on planning and strategy. The problem was summarized by the staff in a 2004 planning session as follows: "Voluminous requests consume staff, committee, and commission time, and create administrative burdens. Too many applications receive full consideration, making in-depth analysis difficult." TICR staff have characterized the decision-making process as "clogged up and bureaucratically delayed … [which] prevents the commission from being a policy-making body, since it is usually busy approving transactions."

Comprehensive Information Is Not Required From Applicants. TICR requires an application for each request for funding. The current application requires insufficient information for most projects, although many applicants submit additional material. This results in a widely varying quantity and quality of information available for the staff and commission to review.

The application form asks for a summary of the project, the expected economic outcomes, identification of all funding sources, a project budget and timeline, names of responsible persons, and related information. The same information is required regardless of the size of the funding request. A requirement printed on the form is that "all requests must be consistent with the commission's mission of revitalizing the economy of Virginia's tobacco-dependent region." The form refers applicants to TICR's strategic plan and website for additional information.

The information requested in the application (Appendix D) is fairly minimal, although many applicants provide supplemental material. In many cases, the application does not require enough information to evaluate the potential impact or cost effectiveness of the project. For example, the form does not require an explanation of the methods used to estimate economic impact or the data upon which the estimate is based, nor does it require an analysis of the feasibility of the project. While an economic analysis conducted by a third party sometimes accompanies an application, it is not required, even for large projects. TICR also does not require a third party marketability analysis, which would demonstrate demand or sustainability of the project in question. These and other concerns with the application process are discussed more fully in Chapter 6.

Staff Resources Are Limited for Conducting Comprehensive Screenings. Commission members interviewed for this study indicated they rely heavily on their staff to thoroughly review the merits of each proposal and to provide sound recommendations to the committees. JLARC staff heard laudatory remarks about the TICR staff by virtually every individual and group interviewed or surveyed for this study. However, the commission's limited staffing coupled with the demands placed on the staff make this reliance an insufficient approach to making effective grants in the tobacco region's economy. While the staff have relevant economic development, finance, and grant-making expertise, their ability to compensate for the commission's collective lack of expertise is challenged by the expectation that staff serve simultaneously as economic developers, accountants, auditors, and applicant aides.

Three staff members in the grants program have the primary responsibility for reviewing proposals and developing funding recommendations for the committees. This is in addition to their other duties of assisting applicants with their proposals, providing feedback to potential applicants, processing reimbursement requests for open projects, and following up with ongoing or closed projects.

According to the grants program staff, most of their time is devoted to processing payment vouchers for current TICR grantees (discussion in Chapter 6). This leaves little time for focusing attention on incoming proposals. According to one of the field staff, "Reviewing the vouchers should be a full-time job" because "not much else gets done." Field staff reported having 150 open projects that could potentially request reimbursement at any given time and working more than 40 hours per week to balance various responsibilities.

In addition to reviewing reimbursement requests for these projects, these staffers are responsible for reviewing incoming proposals. There are no limits placed on the number of proposals per grant cycle. Table 13 shows the number of proposals that were received per grant cycle in 2010. On average, the staff has six weeks to review and provide recommendations for these proposals, in addition to their responsibilities with active projects.

Table 13: 2010 Applications Received for TICR Funding

Meeting Month	Total
January	30
April	21
July	58
October	57
Total	**166**

Note: Totals do not include applications for Reserve funds (53) or the Tobacco Region Opportunity Fund (37), which can be submitted any time and are not approved by the full commission.

Source: TICR staff.

TICR has recently eliminated one of its annual meetings, in part to reduce the burden on staff for reviewing proposals and developing recommendations prior to the respective committee meetings. According to TICR's executive director, this change would afford "the staff additional time to review applications and work with applicants so we can get better applications before the committees." Reducing the meetings from four to three per year will essentially grant the staff an additional 30 days between each committee and commission meeting. However, this increases the number of projects that will be considered at each meeting and does not increase the commission's internal resources.

State and Local Expertise Could Be Used to a Greater Extent in Screening Proposals. There may be untapped sources of relevant, project-related information. Seventy-one percent of respondents to JLARC's survey of economic developers reported that TICR had not asked for their input into projects proposed in their localities/regions. Staff acknowledged that they do not typically call upon local or regional economic development experts to provide insight into proposals for economic development projects. These resources appear plentiful, as each locality has at least one staff person dedicated to economic development, although they sometimes serve on a part-time basis. Additionally, each tobacco region locality is served by a planning district commission.

There are other sources from which TICR could seek external input into the proposals it receives. For example, TICR could more routinely tap the expertise of other State agencies, such as the Department of Housing and Community Development, the Virginia Tourism Corporation, or the Virginia Community College System. While these agencies are consulted on some projects by TICR staff, there is no requirement that applicants show that these agencies have been consulted. TICR has demonstrated that such collaboration is beneficial through its reliance on the Virginia Economic Development Partnership to assist with vetting proposals for the research and development program.

Process Discourages Detailed Consideration of Projects by Full Commission

According to both the staff and individual commissioners interviewed for this study, most of the discussion about projects occurs at the committee level. Based on JLARC staff's review of TICR meeting transcripts and attendance at commission meetings, committee chairs typically report the projects they would like to see funded to the full commission, which then generally passes these recommendations all at once in a block. While individual commission members do sometimes request the removal of certain projects from the block vote, this is unusual.

In most committee and full commission meetings, commissioners ask few questions about the potential economic impact of the proposals under consideration, based on a review of meeting transcripts dating to 2000 and on meetings attended by JLARC staff. Some stakeholders have expressed surprise at the lack of commissioner questions about the economic impact of proposals.

While replicating the work of the committees would be inefficient for the full commission because of the number of members and committees, relying on most of the discussion to occur at the committee level leaves most of the deliberation about the spending to a minority of members. The variability in committee discussions on the merits of projects and the tendency for block voting by the full commission are indications that projects may be given unequal scrutiny. According to TICR staff, more detailed discussion about projects occurs outside of committee or commission meetings. The nature or actual frequency of these discussions is unknown, however, as they do not occur in a public forum.

In reviewing proposals, it does not appear that commissioners request additional information from staff. Applicants often submit supplemental information along with their funding application, such as a budget analysis or business plan. According to TICR staff, it is "extraordinarily rare" for commission members to ask for this supplemental information.

Given the sizeable awards TICR makes during some grant cycles, it would seem that a discussion by commissioners of the economic effects of at least the higher-dollar proposals is warranted. At a January 2011 meeting of the commission, $29 million was awarded by the commission to 24 projects following a 21-minute recap of the projects. During this time, no substantive debate or inquiry occurred about any of these projects, apart from brief descriptions by committee chairs. While more discussion may have occurred within the four committees that presented their recommendations to the full commission, or even outside of the committees, it would seem that more time and scrutiny should be invested by a majority of the commissioners in such a large aggregate spending decision.

Some Award Decisions Appear to Be Based on Factors Other Than Project Merits

Many stakeholders interviewed across the tobacco region raised concerns that TICR's grant-making process has led to some decisions that were based more on political considerations rather than merit. One economic developer stated that the commission's size leads to "questionable horse-trading" among members. This individual acknowledged taking advantage of this practice, noting that one key to securing funding is exploring how to "get an unfair advantage" for the project's consideration.

There was a general consensus among individuals interviewed for this study that applicants are able to gain approval for their projects by lobbying commission members. Such a practice may keep under-qualified projects under consideration. While TICR staff reported that an unfavorable recommendation by the staff results in some applicants withdrawing proposals from full consideration by the commission, it also could encourage lobbying by some applicants. Staff stated that "denied applicants know very well how to orchestrate decision reversals between committee and commission. This makes committee denials essentially ineffective."

The following exchange from a Southside Economic Development Committee meeting illustrates that lobbying can bring results:

> *Commissioner A*: "I think the question we have to ask ourselves, have we, or how are we transforming the economy in Southside Virginia?...For example, I don't think the money I got for a covered bridge festival did much for our economy."
>
> *Commissioner B*: "Why did you ask for it?"
>
> *Commissioner A*: "Because it was there, and the people back home were pounding on me to do it."
>
> *Commissioner C*: "I think, as long as we recognize that we're trying to create an environment for a positive future, that's good."

TICR had approved $60,000 for the covered bridge festival.

Most of the local and regional economic developers from the tobacco region acknowledged, sometimes critically, that the commission's funding decisions are at times based on criteria other than the merits of the proposal. For example, one economic developer in the Southside stated that "I feel like there are projects that are funded that are more about who you know than what you know." Another stated that "the process can get very political and more closely resembles earmarking in Congress." Yet another stated that the commission should "let us know up front how the game is going to be played. Then the rest of us will know that it's not our time to play."

Many stakeholders interviewed or surveyed by JLARC staff echoed these sentiments. Concern about the basis for TICR's decisions does not appear to stem from dissatisfaction about award determinations because almost all of the 31 economic developers surveyed by JLARC staff reported that at least 75 percent of their TICR proposals had received some funding.

Many economic developers surveyed by JLARC staff reported that they are proactive in contacting individual commission members to inform them about their proposals. These economic developers reported that their objective is to make individual members aware of their proposal and to garner members' support.

When JLARC staff asked commission members about their interactions with applicants, these members indicated being contacted frequently by applicants. Some volunteered that they actively discourage potential applicants from submitting a proposal that does not fit within TICR's priorities.

A JLARC staff review of a 2010 TICR committee meeting transcript indicated one committee chair's preference for ensuring that the committee's budget was fully expended, even if awards were made contrary to staff recommendations. In this instance, the committee chair observed toward the end of the meeting that the committee had a remaining uncommitted balance of $68,352. He suggested that this balance could be distributed among the proposals under consideration, by inviting committee members to "take out of the block any requests that you want to make a change to." The committee chair then called on representatives from proposals that had received a staff recommendation of "no award" to come forward to make the case for some of this unspent balance. This process resulted in one of these proposals receiving funds and another receiving more funds than had been recommended by the staff.

OPTIONS FOR IMPROVING TICR'S STRATEGIC ROLE

The legislature created TICR to allocate part of the State's Master Settlement Agreement payments to the tasks of revitalizing the tobacco region's economy and compensating tobacco growers who were hurt financially by the industry's decline. Because this latter function will be completed in 2012, now is an opportune time to consider ways to strengthen TICR, and the manner in which it is organized and operates is key to this effort.

The *Code of Virginia* grants the commission maximum discretion for determining the best use of these funds. TICR has taken positive steps toward improving the strategic nature of its grants. Additional changes are needed to ensure that it executes its responsibilities in a manner consistent with its role as the primary spender of these limited public assets.

Several recommendations from the 2008 Blue Ribbon Review Panel regarding the commission's size, governance model, and grant funding process remain relevant. Additionally, TICR could benefit from examining the organization and operations of some well-established Virginia and national grant-making organizations.

General Assembly Should Consider Strengthening the Expertise of Commission Members and Reducing the Size of the Commission

TICR's organization could be improved by reducing the commission's size and bolstering the required background and experience of its members, particularly with respect to economic development and finance. The objectives of these changes are three-fold. First, by improving the level of expertise required to serve on the Commission, its ability to make better informed decisions and to manage the risk of future grants would be enhanced. Second, these changes could reduce the likelihood that funds are directed toward projects that have little potential for economic revitalization. Third, a commission with fewer members would encourage more interaction and discussion of decisions that need to be made by the commission.

At least two commission seats should be filled by individuals qualified to inform its future grants for educating and training the current and future workforce in the tobacco region. Two individuals who would be well qualified in this regard would be the Secretary of Education and the Chancellor of the Virginia Community College System. Most (65 percent) respondents to JLARC staff's survey of economic developers identified these as among the top three economic development priorities for the region, and many stakeholders, as well as the Blue Ribbon Review Panel, emphasized that focusing on the region's workforce would be among the most important of the commission's grants.

At least two members in addition to those listed above should have a minimum of five years of State, regional, or local economic development experience. At least two other members should have a minimum of five years of public school or community college administrative experience in the tobacco region.

Enhancing the commission members' expertise in economic development matters, including education and workforce, will better enable TICR to track the performance of its grants. As discussed in Chapter 6, tracking grant performance is essential to TICR's ability to continually adjust and refine its strategy for employing its remaining funds.

A smaller commission would enhance the level of participation across TICR's full membership and better ensure that TICR's decisions are made following the input of each of its members. Reducing the commission's size would make it more comparable to other foundations with similar missions, such as Martinsville's Harvest Foundation which has 13 members or the Danville Regional Foundation, which has 11 members. In the General Assembly, the House Appropriations and House Finance Committees have 22 members each, while the Senate Finance Committee has 15 members. A smaller commission would also lower TICR's administrative costs by eliminating some per diem payments.

One potential structure that would implement these recommended changes and decrease the commission's size from 31 to 19 members would be to

- remove the six tobacco producers, given the 2012 end of indemnification payments;
- remove the Virginia Farm Bureau representative;
- reduce the number of senators from four to two;
- reduce the number of delegates from six to four;
- reduce the number of citizen members from 11 to three;
- add five experts (for example, two economic developers, two educators, and one investment banking or finance expert); and
- add the chancellor of the Virginia Community College System and the Secretary of Education, to serve along with the currently specified Secretaries of Finance, Commerce and Trade, and Agriculture and Forestry.

Currently the *Code of Virginia* does not specify any qualifications for the commission's staff, including the executive director. Individuals interviewed for this study observed that improvements in the caliber of commission's grant awards coincided with the hiring of the current executive director, who possesses extensive economic development and grant-making experience. Requiring that the director possess some minimum amount of experience in economic development and grant administration would ensure that staff decisions and TICR's operations are overseen by a well-qualified administrator.

Recommendation (11). The General Assembly may wish to consider amending the *Code of Virginia* to specify that a minimum of five members of the Virginia Tobacco Indemnification and Community Revitalization Commission, not including members of the Governor's cabinet, have experience in State, regional, or local economic development, investment banking and finance, and education.

Recommendation (12). The General Assembly may wish to consider amending the *Code of Virginia* to require that the Secretary of Education and the chancellor of the Virginia Community College System serve on the Virginia Tobacco Indemnification and Community Revitalization Commission.

Recommendation (13). The General Assembly may wish to consider amending the *Code of Virginia* to reduce the number of members on the Virginia Tobacco Indemnification and Community Revitalization Commission.

Recommendation (14). The General Assembly may wish to consider amending the *Code of Virginia* to specify that the executive director of the Virginia Tobacco Indemnification and Community Revitalization Commission possess a minimum of five years of economic development and grant administration experience.

Additional Changes Are Needed for a More Strategic Economic Development Process

Three additional changes to TICR's structure and operations would further improve its ability to act strategically with its remaining funds. These changes would result in funding decisions that are more informed by the economic challenges and opportunities that exist throughout the region. They would also re-orient the commission to acting more like a Board of Directors that is focused more on TICR's broader mission and strategy than on the specific details of each award.

TICR Should Solicit Input From Regional Stakeholders. Because of geographic and regional nature of its mission, in setting its future funding priorities, the commission and its staff should consider actively and regularly soliciting input from local and regional tobacco region stakeholders. This would help ensure that the commission sets priorities consistent with the needs of the region. It could also help the commission develop region-wide strategies focused on commonly identified economic development needs. This effort could be conducted biennially and coincide with TICR's regular strategic planning activities. Finally, an assessment of how local and regional priorities have changed over time would be useful for future evaluations of TICR's impact on the region.

There should be a formal and regular process for soliciting feedback from these local and regional stakeholders, which could be achieved through scheduled roundtable discussions, surveys, or public input sessions. Additionally, TICR staff could request from all planning district commissions in the tobacco region a copy of their annual Comprehensive Economic Development Strategy which identifies priorities for their respective localities. Finally, while JLARC staff encountered examples of localities that have conducted economic development or workforce development needs assessments, TICR staff were not aware of these potentially valuable studies. TICR staff could routinely request copies for use in reviewing project requests and refining the commission's revitalization strategy.

Recommendation (15). The Virginia Tobacco Indemnification and Revitalization Commission (TICR) should develop and implement a formal process for biennially collecting input on the economic development priorities of the tobacco region. Input should be solicited from planning district commissions in the tobacco region, regional economic development marketing organizations, and local economic developers. TICR should also consider including representatives from community colleges and higher education centers. TICR should use this information to set its priorities, revise its strategic plan, and to develop region-wide economic development strategies.

TICR Should Authorize Staff to Reject Proposals and Make Some Awards. To fully transition to a more strategic and active grant-making process TICR staff should be granted greater latitude to act on projects seeking TICR funds. This improvement to the grant-making process would reduce the likelihood that projects with limited potential for economic revitalization will receive TICR funds.

As the Blue Ribbon Review Panel suggested, the typical model for a foundation or endowment fund's decision-making process is one where the "foundation or corporate board of directors will set policy such as the strategic plan and charge a chief executive officer and staff with executing the adopted policy. The board concentrates on accountability to executing its plan."

TICR's structure does not reflect this board of directors model. Instead, TICR members decide on each application received. While this may ensure that TICR's members are aware of projects, this practice limits the time and resources the commission can devote to executing and overseeing a strategy. It also appears to contribute to TICR's tendency to deviate from its stated funding policies and fund projects that have limited potential for economic impact.

TICR staff could be granted greater discretion, while preserving the ability of the commission to have input into many, if not most, of the proposals, by allowing staff to

- reject proposals whose total cost does not meet some minimum threshold,
- reject proposals that are not aligned with the strategic plan and funding guidelines set by the commission,
- determine awards for proposals that are requesting up to some pre-determined amount of commission funding, and
- determine awards for proposals that are requesting additional funding for a project that has previously been funded by TICR.

The commission could consider allowing applicants to appeal the staff's decision to the commission and/or require that the commission approve of the staff's decisions prior to the first disbursement of the awards.

This change would afford the commission more time to focus on establishing and executing its priorities. It would also better ensure that projects are funded primarily on the basis of their potential for economic revitalization.

Recommendation (16). The Virginia Tobacco Indemnification and Revitalization Commission (TICR) should establish criteria to use for award determinations to be made by its staff. The full commission should continue to make award determinations for proposals seeking more than a pre-determined amount in TICR funding as well as proposals for research and development funding.

TICR Should Modify the Committee Structure. Several aspects of the current committee structure hinder TICR's strategic grant-making ability and ability to track grants. According to staff, "many pots of money make alignment with the [strategic] plan difficult." Moreover, because projects that fit into a common category—such as education or workforce—can be funded through most of the current committees, it is very difficult for TICR to calculate its total awards or spending in that category. The Blue Ribbon Review Panel found, for example, that education-related awards were granted by five different TICR committees between 2005 and 2008. Additionally, budgeting specific amounts for each committee creates an incentive to spend up to this amount each year, regardless of the caliber of the proposals committees receive.

TICR should create new committees organized around the purposes of conducting strategic planning, overseeing audit and compliance, and overseeing outcome measurement. These new committees should meet at least annually.

TICR should also consider consolidating some of its existing committees, such as the two economic development committees and the special projects committee, so that fewer committees are organized around project funding. Final funding determinations would be made by the full commission for the larger and most significant or complex projects, such as research and development proposals, with staff determining funding for other smaller awards consistent with criteria specified by the commission. This shift would better position TICR to act more strategically. It would also facilitate TICR's ability to monitor the performance and outcomes of its grants, as discussed in Chapter 6.

Recommendation (17). The Virginia Tobacco Indemnification and Community Revitalization Commission (TICR) should consolidate its two economic development committees and its special projects committee into one single economic development committee. TICR should also create three committees that are separately responsible for conducting regular strategic planning activities, developing and overseeing award audit and compliance procedures, and developing outcome measures and tracking the impact of grants. These new committees should meet at least annually.

Chapter 6

TICR's Methods of Monitoring Its Projects Vary by Program

In Summary

The Tobacco Indemnification and Community Revitalization Commission's (TICR) project monitoring systems have evolved and vary across programs. In its Tobacco Region Opportunity Fund program, the commission has developed a performance measurement system that both tracks outcomes and holds companies and localities accountable for underperformance. In most of its other programs, the commission has devoted most of its staffing resources to reviewing applications and monitoring the spending of grantees, and has given relatively little attention to monitoring outcomes or performance. TICR should devote more resources and attention to improving its performance monitoring systems. After collecting sufficient data on the outcomes of all projects it has funded, TICR will be able to make justifiable claims about its overall contributions to the revitalization of Virginia's tobacco region. Staffing limitations will be a challenge to these efforts, however, and should be addressed.

The mandate for this study directs JLARC to evaluate and make recommendations on the outcome metrics and accountability measures established by the Tobacco Indemnification and Community Revitalization Commission (TICR). Ideally, strong outcome metrics would provide data on how each project performs relative to its outcome expectations and how it contributes to TICR's overall mission of revitalizing tobacco region localities. Without strong outcome metrics, TICR may overly rely on anecdotes and case studies to support its claims about its overall economic impact on the region. Stronger accountability measures would enable TICR to effectively monitor its grantee spending and, with strong outcome metrics, hold grantees to their original outcome expectations. Both outcome metrics and accountability measures should assist TICR in mitigating the risks inherent in making any grant.

MOST AWARDS HAVE NOT BEEN PAIRED WITH RELEVANT OUTCOME METRICS

While TICR has developed outcome metrics for its Tobacco Region Opportunity Fund (TROF) program and its Southside four-year scholarship program, these programs constitute only approximately eleven percent of the total amount TICR has awarded as of March 2011. As a result, the commission cannot effectively track the performance of most of its grant awards. This is a key reason why JLARC staff were unable to generate conclusions about the aggregate impacts of TICR's grants.

A strong performance monitoring system would capture, at a minimum, three elements critical to program evaluation. First, it would capture the baseline, from which TICR can track progress or regress. Second, it would require explicit, measurable, and project-specific outcome expectations, which would then be used to define the "success" of a project. Last, a strong performance monitoring system would capture relevant outcome data on a regular and timely basis to offer insight into the project's progress towards meeting its outcome expectations.

TROF Program Includes Relatively Strong Outcome Monitoring

The TROF program offers an example of a relatively strong performance monitoring system. In this program, the outcome expectations for the grantees (the locality) and beneficiaries (the company) are made explicit at the outset through the TROF Performance Agreement. Specifically, the grantees and the beneficiaries promise that the company will meet certain job creation (or retention) and capital investment targets within an agreed-upon timeframe, in return for a TROF award. If the company does not meet these outcome expectations, either the company or the locality must repay the commission the TROF award, prorated based on the company's actual performance levels.

In the TROF program, TICR staff contact the Virginia Employment Commission to obtain the most recent employment data available and contact the local commissioners of revenue to verify that the company has met its capital investment performance targets. As a result, TICR is able to collect and monitor the jobs and capital investment outcome data for each of its TROF awards, and seek repayments when necessary. (These "claw backs" are discussed below.)

Design of Southside Four-Year Scholarship Program Allows TICR to Monitor Graduate Return Rates

The commission also collects relevant outcome data for its Southside four-year scholarship program. As mentioned in Chapter 3, unlike its Southwest scholarship program, where TICR awards its scholarships in the form of grants, Southside scholarships are awarded as forgivable loans. Under the Southside program, recipients are only eligible for loan forgiveness if they can prove, through an affidavit from their employer, they have returned to work in the Southside after graduation. Consequently, staff can track the number of people returning to the region as a percent of all Southside loan recipients, a figure that is relevant to measuring the success of the program in accomplishing its goals of both educating and retaining Southside residents. TICR is unable to track the return rate for its Southwest scholarship program because it does not require similar proof of employment from these scholarship recipients.

TICR Has Applied Generic and Ambiguous Outcome Metrics to 89 Percent of Its Awards

Although the commission has funded a diverse range of projects, the metrics used for collecting outcome data from most grantees do not account for these differences. Because generic and ambiguous outcome metrics have been applied to approximately 89 percent of its awards, TICR has little or no relevant outcome data for these grants. Consequently, it cannot effectively monitor the performance of these projects, nor can it make a verifiable claim about TICR's overall contribution towards achieving regional economic revitalization.

TICR Does Not Collect Reliable Performance Data on Most Projects. For most of its programs, the commission uses a single grant reporting form to collect outcome data. Grant recipients are required to submit this form annually, but are only required to complete a "project outcomes" section in the final grant reporting form, before the final ten percent of funds are disbursed to the grantee.

All current project outcome metrics are

- the total number of individuals served by the project,
- a description of the population served by the project,
- the number of individuals served who are directly affected by the tobacco-related industry, and
- a description of the estimated future costs and sources of funds for the project.

While it appears these metrics were designed to reflect the commission's overall mission of revitalizing tobacco-dependent communities, the metrics are not relevant to measuring the economic development impact and outcomes of most projects, such as a research and development or construction project. No guidance is provided as to what "served" means or who is an individual "directly affected by the tobacco-related industry." TICR staff were unable to clarify these terms and acknowledged that this is a "one-size-fits-all" approach to measuring project outcomes.

File Reviews

JLARC staff reviewed the files for 131 TICR awards. Most of the files reviewed were for projects that had received over $1 million from TICR or those that were frequently cited by interviewees. More information on the research methods for the study is in Appendix B.

Perhaps because these outcome metrics are too generic, the commission has not been consistent in requiring grantees to complete the "project outcomes" section. JLARC staff file reviews revealed that grantees have commonly either left the outcome-related fields blank in their final reports, or used vague responses, such as defining the "population served" as the entire population of the county in which the project was taking place. Likewise, although the form asks for "project activities and milestones that have occurred," the responses were generally inadequate for judging the performance of a project relative to its expectations. There was no evidence that TICR staff had requested additional information or supporting documents to clarify a grantee's responses on a grant reporting form, even when grantees left the entire "project outcomes" and "project activities and milestones" sections blank.

During JLARC staff site visits and interviews, some grantees were able to provide relevant and detailed outcomes information on their respective projects. According to these grantees, the commission has never asked for data on the outcomes of their projects, but they have provided it to TICR anyway. This suggests some historical outcome data may be available to TICR. However, collecting and analyzing it will require additional staff resources.

TICR HAS NOT CONSISTENTLY REQUIRED GRANTEES TO PROVIDE CLEAR OUTCOME EXPECTATIONS

To measure the effectiveness of a project, a clear understanding of both the project's baseline and its outcome expectations is necessary. Along with strong outcome metrics, this would permit the commission to understand whether a project has or has not met expectations and whether it is worthy of future grants. Since its creation, TICR has approved grants to non-TROF projects whose baselines and, more importantly, whose economic development outcome expectations were ambiguous or not clearly measurable. As a result, the commission has no means by which it can clearly and systematically evaluate the effectiveness of these awards.

During its review of TICR project files, JLARC staff encountered applications that contained ambiguous projections, such as the following:

- "The results of this [workforce development project] will be more jobs created and saved." The applicant provides no quantified estimates of how many more jobs the project will create or save.
- "[The County] expects to create many job opportunities at salaries comparable to those in surrounding jurisdictions." The applicant for this industrial park project provides no quantified estimates of how many job opportunities the project will create or their anticipated salary ranges.
- "As a result of this project, the Town would retain its current workforce at the town hall and possibly add several positions to manage [the project]. Indirectly, support core jobs would be added in the surrounding community to support the influx of tourists and visitors which would occur with the completion of this project." The applicant for this tour-

ism project also claims the project will retain ten private sector jobs and create ten to 15 private sector jobs, but provides no accompanying explanation of how these estimates were calculated.

For those applications that did provide quantified estimates, it was often unclear as to whether the projections and other information used to award funds were reasonable. In the following example, a project's application estimates were unreasonable, according to the project's current staff:

Case Study – Virginia Institute for Performance Engineering in Halifax County

Since 2003, the commission has made at least five awards, totaling $4.2 million, to support the establishment and marketing of the Virginia Institute for Performance Engineering (VIPER), located in Halifax County. VIPER's original application to TICR estimated that the project would attract 53 new companies and "create 933 new jobs and over $100 million in salaries" over a five-year period. It also claimed that VIPER would "employ 29 at capacity and have total salaries over five years of $6 million." During a visit to the center, JLARC staff asked a VIPER staff member to comment on these projections. The individual said, "I'm glad you brought that up. Some of these outcomes, I have no idea how they came up with these numbers… I couldn't have in good conscience signed off on that."

An application for a grant to preserve a historic house and convert it into a museum provides an example of an application with quantified but questionable economic impact projections:

Case Study – The Robert Preston Living History Museum in Bristol

The commission awarded $25,000 in 2003 and $30,000 in 2005 towards the preservation and renovation of the Robert Preston House at Walnut Grove (Figure 18), in Bristol City. Although the 2005 application estimates the Robert Preston Living History Museum will attract 17,500 visitors per year and have a total annual economic impact of more than $1.24 million, these estimates are based on unreliable assumptions. For example, according to the application, the 17,500 "mid-range" estimate of visitors was obtained using "visitation data provided by other museums in the region." However, aside from a few support letters, the application provides no evidence of existing demand for a Robert Preston Living History Museum. The application also anticipates that half of the 17,500 anticipated annual visitors will be "in-town"

Figure 18: Proposed Robert Preston Living History Museum

Source: JLARC staff, March 2011.

visitors who will spend $25 per person on gas and travel expenditures (excluding meals). Thus, according to these projections, an "in-town" family of four would spend, on average, $100 on gas or travel during their crosstown visit the museum—a high amount given the short distance.

By approving grants with ambiguous outcome projections, TICR staff cannot evaluate a project's performance because the goals and objectives of the project were never made explicit. Approving grants for projects with ambiguous objectives also undermines TICR's attempts to act as a prudent investor, who would otherwise know exactly what it is buying.

The commission's policy of deciding on each proposal appears to have kept poorly conceived applications in consideration and, consequently, open to commission grants.

Inflated and unchecked claims also pose a risk to prudent investing, as the applicant may be overselling the project's potential. Investing in projects whose actual potential for economic revitalization is limited also diverts current and future resources away from projects with proven success or strong potential for success.

File reviews, interviews with stakeholders, and observations of the application review process, reveal that staff have improved efforts to clarify ambiguous or inflated projections. However, the commission's policy of deciding on each proposal (as described in Chapter

5) appears to have kept poorly conceived applications in consideration and, consequently, open to commission grants.

TICR HAS RECENTLY DEVOTED MORE ATTENTION AND RESOURCES TO OUTCOME MEASUREMENT

Since 2009, the commission has devoted increased resources to improving outcome measurement for tracking both its overall performance and, more recently, project outcomes. TICR staff said these changes were commission driven and were derived from the 2008 Blue Ribbon Review Panel's report. However, the new agency-level performance metrics are inadequate for understanding its contribution to revitalization, primarily because they focus only on the broad economic performance of the region and offer no details on the commission's contributions towards these changes. For its projects, TICR appears to be moving closer to requiring specific outcome projections and to pairing its outcome reporting with these projections.

TICR Has Adopted New Macro-Level Outcome Metrics to Evaluate Its Own Performance

One improvement made to TICR's strategic plan has been the inclusion of four outcome metrics. Under each impact area (building technology infrastructure, building human infrastructure, building conditions for innovation, and building regional development capacity) are the underlying rationales for the TICR's grants in this area, as well as the commission's objectives, strategies, outcome measures, and goals for each respective impact area. Table 14 shows the goals and outcome metrics for each impact area as they are currently presented in the commission's strategic plan.

While they could be used for some projects, TICR's strategic plan outcome metrics do not offer a comprehensive account of the overall performance of the commission's grants. For example, the performance of its tourism grants, such as new visitors to the region

Table 14: 2006 Strategic Plan Objectives and Outcome Metrics

Impact Area	Goal	Outcome Metric
Building Technology Infrastructure	Increase access to affordable broadband services by five percent annually	Percentage increase year-over-year
Building Human Infrastructure	100 percent completion of those entering [human infrastructure] programs	Percentage successfully completing GED and certified programs
Building Conditions for Innovation	$100 million of private sector capital investment committed annually	Percentage of the goal realized during the current funding cycle
Building Regional Development Capacity	3,000 new or retained private sector jobs within three years after the current funding cycle	Percentage of goal attained

Source: TICR's strategic plan, November 2006.

and increased museum attendance and revenues, would not be captured under the current strategic plan's impact areas and outcome metrics. A more comprehensive set of outcome metrics would include outcome metrics for all grant-making activities.

Following the Blue Ribbon Review Panel's recommendation that the commission "adopt a process for gathering data to track measurable outcomes," the commission adopted a new set of macro-level outcome metrics. Specifically, its 2009 Performance Measures Report (PMR) states,

> In taking steps to define measures of impact, it was recognized that the performance management system would need to be built upon a solid foundation of data pulled from working transactional systems. As such, performance measures would need to be tangible, specific and numerically measurable with support data derived from quality, reliable, and accessible sources.

In May 2011, the commission published its second of two PMRs. The commission's 2011 PMR outcome metrics are presented in Table 15.

The PMR outcome metrics measure the economic performance of the tobacco region relative to a control, labeled the "non-tobacco region." Performance is measured relative to the control group through a ratio, where the tobacco region's measure represents a certain percent of the non-tobacco region. According to the PMR, the target of this ratio is 1.00, where, if reached, the tobacco region will have performed as well as the non-tobacco region in the outcome measure, such as having equal workforce participation rates or annual average wages. Trends in these measures are also presented by comparing these ratios against those of prior years.

For strategic planning purposes, these metrics could be useful, as they highlight the areas of economic development in which the commission may wish to focus its efforts. However, these metrics

Table 15: TICR's Performance Measures Report Outcome Metrics

Outcome Focus	Outcome Measure
Diversity	Ratio of employment percentage in the top three industries
Job Creation	Ratio of percentage change in employment since 1999
Taxable Assets	Ratio of total capital investment per person
Wealth	Ratio of annual average wages per person
Workforce Participation	Ratio of workforce participation rates

Source: TICR Performance Measures Report, May 2011.

do not offer any short- or long-term outcomes that result directly from projects, and therefore do not measure TICR's actual performance or its contribution to the economic changes the PMR is designed to measure.

While it is important to understand economic changes in the tobacco region, accumulating and presenting cumulative outcomes from individual projects would offer a more informative account of TICR's actual contribution to the region's economic performance and, consequently, be a better approach to measuring its overall performance. Collecting meaningful outcomes from its grantees would be a necessary first step before the commission could reliably conduct such an evaluation.

TICR Has Recently Improved Its Project-Specific Outcome Monitoring System

In 2010, TICR staff reported they were making new efforts to collect more project-specific outcomes from grantees. Since then, progress has been made on improving project-specific outcome metrics, focusing first on improving the application process. In March 2011, TICR released its first online project application form, which requires the applicant to provide more specific outcome projections than past applications. For example, for tourism applications, the applicant must provide the total number of individuals currently visiting the site (if it is an existing tourism destination) and the projected increase in visitors if it receives funding. This adjustment to the application process should assist in judging an application's merits and in holding a project to its performance claims. Additional opportunities for improving its project-specific outcome metrics are discussed later in this chapter.

TICR staff has also devoted increased attention to understanding outcomes of its scholarship programs. Specifically, staff are currently working with the Virginia Community College System to begin to identify TICR scholarship recipients, so that these individuals can be distinguished from the overall population of community college students. With this distinction, TICR can begin to track the outcomes (such as the graduation rates) of those individuals who have received support.

Commission staff has said that a new online grant reporting system will complement its new application process beginning in April 2012. According to staff, the new online system will require grantees to report annually on the progress they have made towards meeting their original outcome projections.

TICR'S ACCOUNTABILITY MEASURES HAVE IMPROVED, BUT THEIR FOCUS VARIES BY PROGRAM

The commission has made improvements to its financial accountability and performance-monitoring measures since it awarded its first grants in April 2000. The most significant of these improvements addressed the way funds were disbursed to its grantees. Overall, the accountability measures have varied between TROF and non-TROF awards, with the primary difference being the lack of attention to monitoring the outcomes of non-TROF recipients, which prevents holding or hinders efforts to hold these projects accountable for underperformance.

TICR's Financial Accountability Measures Have Improved Since Its Formation

Between 2000 and 2002, the commission disbursed its awards without requiring evidence as to how grantees spent TICR funds. This process ultimately left the commission vulnerable to improper awardee spending. A clear example of such improper use of TICR funds is a case in which Virginia's former Secretary of Finance spent $4 million of commission funds for personal expenses between 2001 and 2006, while claiming that these funds were being used by the Literary Foundation of Virginia to promote educational attainment among citizens in the Southside and the Southwest. TICR made two separate payments to the Literary Foundation of $2.5 million: one in 2001 and the second in February 2002.

According to TICR staff, $52.9 million of award funds was disbursed prior to the adoption of grant reimbursement guidelines. Of this amount, the largest payments were made to community colleges ($12 million total), to Virginia Tech for the Virginia Bioinformatics Institute ($11.6 million), to the Literary Foundation ($5 million), and to the City of Danville and Pittsylvania County for the Institute for Advanced Learning ($3.2 million total).

From April 2002 to the present, the commission has used a reimbursement system to disburse grant awards to non-TROF recipients. Currently, to receive funds, non-TROF grantees must first submit a grant payment request and attach relevant receipts or invoices "that clearly indicate the reimbursement is for eligible activities." After three staff members review and approve the reimbursement requests, the grantee will be reimbursed for expenses deemed eligible.

There are two exceptions to the reimbursement procedure rules. First, a grantee may request reimbursement on a monthly basis (instead of quarterly) in extenuating circumstances, such as "periods of intense construction." Second, a grantee may receive up to 25 percent of the entire grant award in advance, if certain conditions are met, as in the case of a grantee who lacks sufficient funds to begin construction of the project. In such a case, the grantee must provide written evidence that it does not have sufficient funds as well as information on the expected timing and use of the advanced funds.

According to TICR staff, these reimbursement procedures are very effective accountability measures. Each invoice is reviewed to make sure awardees are spending the money appropriately. Through this process of "invoice screening," staff refuse reimbursement for expenditures unrelated to the project.

A JLARC staff review of 131 project files, ranging in dates from 2000 to 2010, confirmed that commission staff dedicates significant effort to invoice screening. JLARC staff found instances in which grantees had requested reimbursement for expenses ranging from lunch buffets to 17 tickets for local officials and their family members to attend an event at a local speedway. TICR staff declared these expenses ineligible for reimbursement and excluded them from the overall reimbursement. The files also contained documents that show that TICR staff contacted grantees about questionable expenses.

It is unclear, however, that TICR staff can determine whether all expenses submitted for reimbursement are reasonable and not inflated. TICR staff said they use "rough rules of thumb" for deciding whether a reimbursement request is reasonable. In general, however, the staff member said, they are looking to see if the amounts pass the "sniff test." TICR staff said that they would consult outside experts for their opinion on reimbursement requests on occasion, although only one example could be identified.

Given the range of funded projects—from wastewater treatment plants to aquaculture centers to bio-based energy conversion devices—it would be desirable for all applicants to consult with outside experts to develop or verify cost estimates prior to applying for a grant. In some cases, this is already occurring. Establishing the cost estimates up-front would reduce TICR staff's need to rely on a "sniff test" or a need to consult experts each time an applicant submits a reimbursement request. In addition, TICR could reduce the number of questionable reimbursement requests it receives by providing a list of ineligible expenses to its grantees.

Finally, as it has occasionally purchased assets under the condition that a public or nonprofit entity retains ownership, the commission should develop a system or method for clearly documenting the assets it has purchased. The commission should ensure that it is receiving enough information from its grantees to identify, specifically, what assets were purchased using TICR funds and where these assets are located. If the asset was purchased through multiple sources, the documentation should clearly identify the proportion of the asset TICR funded. Without such a system, the commission will find it challenging to assert its right to reclaim ownership of the asset if the grant agreement terms are found to have been breached.

Recommendation (18). The Virginia Tobacco Indemnification and Community Revitalization Commission should require all applicants to consult with outside experts to develop or verify cost estimates prior to applying for a grant. It should also develop and publicize a list of expenses that are ineligible for reimbursement.

Recommendation (19). The Virginia Tobacco Indemnification and Community Revitalization Commission should develop an asset-tracking method or system that clearly documents all assets it has purchased, regardless of whether the ownership rights for these assets have been transferred to another entity.

TICR's Performance Accountability Measures Vary Among Programs and Rely on the Strength of Each Program's Outcome Metrics

As mentioned earlier in this chapter, TICR's strongest outcome metrics are found in its TROF program, as they present relevant and reliable outcome data from these projects. For its other project-based grant programs, the commission appears to be less interested in holding grantees accountable for their performance. According to TICR staff, this is because TROF awards are public funds that are transferred to "private pockets." Without clear project expectations, relevant and timely outcome reports, more frequent and formal site visits, and additional staff, efforts to hold non-TROF grantees accountable to their performance expectations may remain elusive.

TICR Has "Clawed Back" Funds From Underperforming TROF Recipients. If a TROF project fails to meet its job creation or capital investment promises, TICR requires a prorated repayment based on the company's actual performance. In this program, TICR sends the TROF award first to the locality, which then disburses the award to the companies.

According to the TROF performance agreement, if the company does not meet its performance targets, the company agrees to repay the locality a prorated amount of the original TROF award. The locality, in turn, agrees to remit this repayment to the commission. Unlike the Governor's Opportunity Fund, if a company cannot meet its TROF repayment obligations, TICR will still hold the locality liable. If a locality is unable to repay its TROF obligations, it may not receive any additional awards until it fulfills its outstanding TROF obligations.

Although contracts have always contained "clawback" language, enforcement was uncommon in the commission's early years. When TICR began enforcing the clawback policy, staff found it challenging because of vague language used in the older TROF contracts. According to staff, the contract language and clawback enforcement have continuously improved over the past several years, and the clawbacks have become both enforceable and routinely enforced.

As Table 16 illustrates, based on a review of TROF data, 73 of 126 "mature" or completed awards (58 percent) had met their performance expectations as of April 2011. Of 30 TROF recipients that had only partially performed, TICR had recovered $1.8 million (55 percent) of the initial award total of $3.26 million. The remaining 23 TROF recipients, whose original TROF awards totaled $4.7 million, had defaulted on their performance agreements. From these projects, $111,000 (two percent) of the total amount awarded had been recovered.

The repayment figures in Table 16 represent only that which had been collected as of April 2011, not the total that will be collected from the 53 underperforming recipients. In some instances, the recipients have agreed to multi-year repayment plans or repayment requests were pending.

A Clear and Consistently Applied Policy Is Needed for Exceptions to TICR's Clawback Provisions. While the clawback policy is an example of a relatively strong accountability measure, it has not been applied consistently. According to staff, in some cases the commission has made exceptions to the locality's obligation in their TROF performance agreements. Examples of when the county's financial obligations (repayments) were waived or reduced have

Table 16: The Commission "Claws Back" Funds From Underperforming TROF Recipients (as of April 2011)

Performance of "Mature" TROF Awards	Number of Awards	Awards ($ in millions)	Refunds ($ in millions)
Full Performance	73	$15.6	--
Partial Performance	30	3.3	$1.8
In Default	23	4.7	0.1
Total	**126**	**23.5**	**1.9**

Source: JLARC staff analysis of data provided by TICR.

included situations where the beneficiary declared bankruptcy, the contract language was too vague to support any claim by TICR when the performance was deemed "close enough," and where there was over-delivery in one contract deliverable and under in another. The commission has also granted time extensions to beneficiaries or adjusted their performance requirements.

Due to the financial strains tobacco region localities already face, the commission may find it appropriate to retain the right to make exceptions for localities in their repayment obligations. However, the commission should avoid an ad hoc approach to these exceptions, which could set unwanted precedent. Specifically, TICR should develop a clear policy stating what situations qualify for exceptions, how these exceptions will be applied, how much the localities will still be required to repay under these situations, and apply this policy consistently. It could, for example, consider requiring all localities to repay a minimum of ten to 15 percent of the original TROF award if the locality qualifies for an exception.

Developing a clear and consistently applied policy for exceptions will make the risks associated with seeking a TROF award clear to localities. It will also make it more likely that the locality will do due diligence in its research on the company.

Recommendation (20). The Virginia Tobacco Indemnification and Community Revitalization Commission should develop a clear policy stating what situations qualify for Tobacco Region Opportunity Fund repayment exceptions, how these exceptions will be applied, and how much the localities will still be required to repay if they qualify for an exception, and should apply this policy consistently.

For Non-TROF Projects, TICR Primarily Relies on Invoices and Informal Site Visits to Monitor Project Performance. Given limited staff resources and a primary focus on reviewing vouchers and incoming applications, TICR has devoted less attention to monitoring the performance of its non-TROF projects. As a result, staff cannot hold non-TROF recipients accountable for underperformance as they can in TICR's TROF program. Without reliable outcome reports, staff relies on voucher reviews and informal site visits to monitor the performance of these projects.

Voucher reviews, which TICR staff said was the primary way they monitor a project's performance, is, according to the Auditor of Public Accounts (APA), only one element of a comprehensive approach to ensuring compliance with TICR's expectations. According to the APA, site visits are key to ensuring compliance.

When asked about the frequency of site visits, commission staff estimated they spend less than five percent of their time on them.

Site visits staff do conduct often coincide with official TICR events, such as a meeting or a ribbon cutting, and are informal.

Site visits would help TICR identify underperforming projects and, consequently, help determine whether funding should continue. During one JLARC staff site visit to a four-year old TICR-funded project, the project leader told JLARC staff that he did not think the project "made sense" for the locality anymore. Because the grantee still held an award balance of $120,000, JLARC staff asked the project leader if he had requested a cancellation of the project, to which he replied, "You can cancel a project?"

Recommendation (21). The Virginia Tobacco Indemnification and Community Revitalization Commission staff should conduct more formal site visits each year to evaluate the performance of commission-funded projects. Site visits should include projects that are not used to host commission events.

TICR HAS ADDITIONAL OPPORTUNITIES FOR IMPROVING ITS MONITORING SYSTEMS

Requiring its applicants to explicitly state outcome expectations would improve TICR's ability to measure its grantees performance and identify underperforming projects. TICR also needs to address the increasing demands on its staff. Without additional staff, TICR will find it challenging to implement any improvements to its monitoring systems, including pending improvements to its performance measurement system.

TICR Should Require Explicit Project Outcome Expectations in Applications

While the commission's new online application is helpful to measuring project outcomes, some required information remains vague. For example, for its agribusiness projects, the application asks for "the number of farms [to be] served," and "the number of new jobs [to be] created as a result of your project." Loose interpretations of "served" and "as a result of your project" could result in ambiguous outcome projections, such as the inclusion of indirect and temporary jobs in the projections for the number of jobs to be created. Similarly, for community development projects, the only outcome projection field asks the applicant to "describe your community development project outcomes," with no other guidance.

To improve the quality of its project-specific outcome metrics, whether developed by the commission or the applicant, each application should ask for an explicit statement of

- the project's baseline (zero if it is a new project);

- the project's quantified, measurable, and directly attributable economic development expectations (such as 12 new jobs located at the facility, $15,000 in new museum ticket sales, five new companies in the business park);
- when the project's outcome expectations will be met; and
- the source of the application's outcome projections.

If each applicant can address these four concerns in specific terms, TICR will have established clear project expectations. With annual reports from grantees on the metrics identified in the application, the commission could then begin to measure the performance of projects relative to their original outcome projections. Exhibit 1 offers an example of an outcome report (with example outcome objectives) that could be developed using this technique and would yield basic, relevant performance data on its projects.

As the economic development objectives of projects cannot always be met within TICR's funding period, which is normally three years, the commission should also require its grantees to report on outcomes beyond their funding period. For example, it could require outcome reports at one, two, three, five, and ten years following the initial award disbursement.

Finally, many grantees may lack the administrative resources to report on many project outcomes and conduct outside research. To reduce the administrative burdens on its grantees, TICR should

Exhibit 1: Example of a Grantee Outcomes Report Using Defined Outcome Objectives

	Outcome Objective One: Five new businesses located in the commerce park within ten years		Outcome Objective Two: 600 new permanent jobs located in the commerce park within ten years	
Grantee Reporting Year	**Total # of Businesses at the Park**	**% of Objective One Met**	**Total # of Permanent Jobs at the Park**	**% of Objective Two Met**
Year of Application (baseline)	0 (New Project)	0%	0 (New Project)	0%
Year One	0	0	0	0
Year Two	1	20	60	10
Year Three	2	40	150	25
Year Five	4	80	450	75
Year Ten	4	80	660	110
Overall Performance	**Within ten years, four new businesses located in the commerce park. (did not meet expectations)**		**Within ten years, 660 new permanent jobs were located in the commerce park. (exceeded expectations)**	

Source: JLARC staff.

focus on developing, or having its applicants develop, the most relevant economic development outcome metrics for each project (or project type), rather than requiring grantees to report on many less-relevant outcomes.

Recommendation (22). Given the diversity of projects it funds, the Virginia Tobacco Indemnification and Community Revitalization Commission should require all applicants to (1) develop their own measurable milestones and (2) measure the progress of their projects against these milestones.

Recommendation (23). To enhance the quality of the outcome projections it receives, the Virginia Tobacco Indemnification and Community Revitalization Commission (TICR) should require all applicants to provide (1) baseline figures, (2) explicit and quantified outcome expectations, (3) the methodology used to calculate outcome expectations, (4) details on the timing of the expected outcomes, and (5) a specific link to economic revitalization and TICR's strategic plan.

Additional Staff Needed in TICR's Efforts to Monitor and Evaluate Individual Projects

At any given time between 2007 and 2010, the commission has had an average portfolio of 281 open projects, with an average of $206 million in awards to be processed, assuming a grant is open for an average of three years, and excluding TROF and scholarship projects. Thus, the two grants program administrators, located in the Southside and Southwest, have been expected to balance both monitoring and processing responsibilities for an average of 154 ($114 million) and 127 ($92 million) open grants, respectively, during this period.

Because the regional grant administrators review each reimbursement request from grantees in their regions, these two individuals spend most of their time with this effort, leaving little time for other forms of project monitoring. As TICR policy allows each grantee to submit a request for reimbursement quarterly, each regional grant program administrator could be responsible for reviewing, line-by-line, about 560 reimbursement requests per year. As a result, TICR's current staffing levels could constrain any new efforts to improve project-monitoring systems. To implement stronger outcome metrics and accountability measures, the commission may need additional staff.

In May 2011, the commission's executive director announced that TICR will be adding one additional staff position in FY 2012. This additional staff member, according to the executive director, will be tasked with retroactively collecting outcome expectations from project files and inputting them into the commission's grants database.

While understanding what was expected from a project will be important to evaluating project outcomes, additional staff will be needed to assist applicants in their outcome metrics, to monitor current projects, and to conduct site visits. Additional staff members, whose responsibilities are to evaluate project performance proactively and conduct site visits, are needed. New staff should have experience with project performance evaluation and grant monitoring.

TICR should also separate financial oversight (voucher reviews and processing) and performance monitoring responsibilities (outcome metrics development, site visits, and performance evaluation) among its staff to ensure each aspect of project monitoring is receiving adequate resources and attention. Currently, staff responsibilities are not well defined, which ultimately contributes to a prioritization of voucher reviews over the development and implementation of stronger outcome metrics and performance monitoring systems for most of its projects.

Recommendation (24). The Virginia Tobacco Indemnification and Community Revitalization Commission should hire additional full-time project management and monitoring staff and separate the responsibility for financial oversight and performance measurement between its staff members to increase the administrative resources available for monitoring projects outside of voucher reviews.

TICR Should Develop a Method to Track Total Awards and Spending by Project and by Locality

Currently, TICR has no means by which it can reliably track its total awards to or spending on each overall project or in each locality. Although individual projects are often a part of a larger TICR project, awards are not labeled as such. For example, JLARC staff file reviews revealed that grants for the same overall project (Brosville Industrial Park) are labeled

- "E-58 West Utility Service Engineering" ($31,449),
- "Route 58 West Industrial Park Improvements" ($2 million),
- "Route 58 West Commercial & Industrial Parks" ($500,000), and
- "Brosville Industrial Park - Phase IV Industrial Access Road and Improvements" ($1.23 million).

There is no common identifier among the four awards in the commission's database. Thus, if TICR receives another application for Brosville Industrial Park, it could appear that Brosville Industrial Park has only received one prior award of $1.23 million when it has actually received at least four prior awards totaling $3.76 million.

In their review of project applications, staff have shown diligence in attempting to understand previous TICR funding in overall projects. However, to do this they must either recall the commission's prior grants to the overall project from memory, search by the grantee name, or conduct a physical file search to determine TICR's total past grants, which staff said would still "not be 100 percent reliable." A common identifier would assist TICR and its staff in tracking not only its grants to and spending on each overall project, but also in understanding how much it has awarded to a particular type of project, such as industrial parks or research and development centers. Such data could then be used to inform TICR's strategy, as it would have the means to monitor its total funding activity for each type of economic development project.

Likewise, the commission has no mechanism by which it can track the total amount of funding it has awarded to each locality to date. Commission members have expressed concern with inequities between the localities in TICR's overall awards, but current data does not allow for an accurate analysis of such claims.

Recommendation (25). The Virginia Tobacco Indemnification and Community Revitalization Commission should develop and implement a means to track, systematically and reliably, its overall awards to and spending on each project and locality.

Posting More Detailed Information About All Awards Online Would Increase Transparency

Throughout the research process, JLARC staff encountered concern among stakeholders that the commission had funded projects that did not seem to contribute to revitalization. To some extent, this is a problem of perception, because TICR provides little public information about expected project outcomes.

To address these concerns, the commission should provide more information on its website about each award. While *The Roanoke Times* maintains a database (derived from data maintained by TICR staff) of TICR-funded projects, neither TICR's website nor *The Roanoke Times* database includes information about project purpose, contact information for the grantee organization, the total amount TICR has awarded to the project (if applicable), and expected project outcomes. TICR could also provide a link to other resources for additional information on the project, such the project's respective county or planning district commission's website.

Other grant-making organizations, such as North Carolina's Golden LEAF Foundation, the Harvest Foundation, and the Ford Foundation, post detailed information online about each grant they have made. The Golden LEAF's online database of grants identifies the organization, the grant cycle (program), the amount awarded, a description of the project, contact information, and the geographical areas served by the project. In its database, the Harvest Foundation offers the public a "partner profile" for each grantee. Each partner profile details the mission of the organization, its goals, contact information, and a list of all Harvest Foundation grants the organization has received.

The Ford Foundation offers another example of information TICR could include on its website. This foundation's website includes a clear presentation of the rationale for each grant by organizing all grants by the foundation's overall goal, then by its strategic approach to meeting the overall goal. This organizational method clarifies how each grant aligns with the foundation's overall strategies and mission.

Making detailed information about each award readily available could help answer questions about the intentions of specific TICR-funded projects. This information could also support the staff's project monitoring efforts by using reports from the general public about underperforming projects or questionable activity occurring at projects in their area.

Recommendation (26). The Virginia Tobacco Indemnification and Community Revitalization Commission (TICR) should develop a publicly available online database of all of its awards that sets forth project goals, how the project fits into the commission's strategic plan, the expected outcomes, achieved outcomes, and how much, in total, TICR has awarded to the project through prior grants, if applicable.

JLARC Recommendations:

Review of the Virginia Tobacco Indemnification and Community Revitalization Commission

1. The Tobacco Indemnification and Community Revitalization Commission should adjust the repayment requirements for its Southside Virginia Loan Forgiveness Program to provide for forgiveness if the loan recipient works or lives in any of the 41 tobacco localities following graduation. (p. 35)
2. The General Assembly may wish to amend the *Code of Virginia* to permit the Virginia Tobacco Indemnification and Community Revitalization Commission to withdraw no more than ten percent of its endowment each year. (p. 71)
3. The Virginia Tobacco Indemnification and Community Revitalization Commission should eliminate the current practice of allocating economic development funds to Southside localities based on historic tobacco production. (p. 78)
4. The Virginia Tobacco Indemnification and Community Revitalization Commission should consider including factors of economic stress in determining awards to tobacco region localities and prioritize awards to the most economically challenged localities. Indicators could include locality-specific data on unemployment rates, per capita income, and indicators of educational attainment. (p.78)
5. The General Assembly may wish to amend the *Code of Virginia* to restrict the Virginia Tobacco Indemnification and Community Revitalization Commission's (TICR) grants to projects that (a) demonstrate in their application how they will address low employment levels, per capita income, educational attainment or other key workforce indicators (including access to health care), and (b) are consistent with TICR's strategic plan. (p. 80)
6. The General Assembly may wish to amend the *Code of Virginia* to require the Virginia Tobacco Indemnification and Community Revitalization Commission (TICR) to reassess and revise its strategic plan at least biennially. The plan should report how TICR's awards have impacted key economic indicators of employment, income, and educational attainment. As part of the revision process, the commission should be required to solicit input from external stakeholders, including planning district commission staff, regional economic development marketing organizations, the Virginia Economic Development Partnership, the Department of Housing and Community Development, the Virginia Tourism Corporation, and the Virginia

Community College System as well as the individual community colleges in the region. (p. 80)

7. The General Assembly may wish to consider amending the *Code of Virginia* to apply a "prudent person" rule to the grant award practices of the Virginia Tobacco Indemnification and Community Revitalization Commission. This rule could be modeled after the "prudent investor" statute that applies to the Virginia Retirement System Board of Trustees. (p. 82)

8. The Virginia Tobacco Indemnification and Community Revitalization Commission should require that projects seeking funding above some threshold (such as $1 million) be accompanied by a third-party economic impact analysis which estimates the impact of the project on relevant economic indicators, such as employment, income, or educational attainment. (p. 82)

9. The Virginia Tobacco Indemnification and Community Revitalization Commission should request clarification from the Attorney General about whether its grant programs and practices comply with language in the *Constitution of Virginia* prohibiting the provision of public funds to charitable organizations. (p. 83)

10. The Virginia Tobacco Indemnification and Community Revitalization Commission should consider implementing strategic initiatives to increase the education and training of the tobacco region's workforce, and to improve access to health care services in the region. The initiatives should focus on identifying best practices and fostering their adoption throughout the region and be based on an analysis of existing data and input from stakeholders. (p. 87)

11. The General Assembly may wish to consider amending the *Code of Virginia* to specify that a minimum of five members of the Virginia Tobacco Indemnification and Community Revitalization Commission, not including members of the Governor's cabinet, have experience in State, regional, or local economic development, investment banking and finance, and education. (p. 101)

12. The General Assembly may wish to consider amending the *Code of Virginia* to require that the Secretary of Education and the chancellor of the Virginia Community College System serve on the Virginia Tobacco Indemnification and Community Revitalization Commission. (p. 101)

13. The General Assembly may wish to consider amending the *Code of Virginia* to reduce the number of members on the Virginia Tobacco Indemnification and Community Revitalization Commission. (p. 101)

14. The General Assembly may wish to consider amending the *Code of Virginia* to specify that the executive director of the Virginia Tobacco Indemnification and Community Revitalization Commission possess a minimum of five years of economic development and grant administration experience. (p. 101)
15. The Virginia Tobacco Indemnification and Revitalization Commission (TICR) should develop and implement a formal process for biennially collecting input on the economic development priorities of the tobacco region. Input should be solicited from planning district commissions in the tobacco region, regional economic development marketing organizations, and local economic developers. TICR should also consider including representatives from community colleges and higher education centers. TICR should use this information to set its priorities, revise its strategic plan, and to develop region-wide economic development strategies. (p. 102)
16. The Virginia Tobacco Indemnification and Revitalization Commission (TICR) should establish criteria to use for award determinations to be made by its staff. The full commission should continue to make award determinations for proposals seeking more than a pre-determined amount in TICR funding as well as proposals for research and development funding. (p. 103)
17. The Virginia Tobacco Indemnification and Community Revitalization Commission (TICR) should consolidate its two economic development committees and its special projects committee into one single economic development committee. TICR should also create three committees that are separately responsible for conducting regular strategic planning activities, developing and overseeing award audit and compliance procedures, and developing outcome measures and tracking the impact of grants. These new committees should meet at least annually. (p. 104)
18. The Virginia Tobacco Indemnification and Community Revitalization Commission should require all applicants to consult with outside experts to develop or verify cost estimates prior to applying for a grant. It should also develop and publicize a list of expenses that are ineligible for reimbursement. (p. 116)
19. The Virginia Tobacco Indemnification and Community Revitalization Commission should develop an asset-tracking method or system that clearly documents all assets it has purchased, regardless of whether the ownership rights for these assets have been transferred to another entity. (p. 116)
20. The Virginia Tobacco Indemnification and Community Revitalization Commission should develop a clear policy stating what situations qualify for Tobacco Region Opportunity Fund re-

payment exceptions, how these exceptions will be applied, and how much the localities will still be required to repay if they qualify for an exception, and should apply this policy consistently. (p. 118)

21. The Virginia Tobacco Indemnification and Community Revitalization Commission staff should conduct more formal site visits each year to evaluate the performance of commission-funded projects. Site visits should include projects that are not used to host commission events. (p. 119)
22. Given the diversity of projects it funds, the Virginia Tobacco Indemnification and Community Revitalization Commission should require all applicants to (1) develop their own measurable milestones and (2) measure the progress of their projects against these milestones. (p. 121)
23. To enhance the quality of the outcome projections it receives, the Virginia Tobacco Indemnification and Community Revitalization Commission (TICR) should require all applicants to provide (1) baseline figures, (2) explicit and quantified outcome expectations, (3) the methodology used to calculate outcome expectations, (4) details on the timing of the expected outcomes, and (5) a specific link to economic revitalization and TICR's strategic plan. (p. 121)
24. The Virginia Tobacco Indemnification and Community Revitalization Commission should hire additional full-time project management and monitoring staff and separate the responsibility for financial oversight and performance measurement between its staff members to increase the administrative resources available for monitoring projects outside of voucher reviews. (p. 122)
25. The Virginia Tobacco Indemnification and Community Revitalization Commission should develop and implement a means to track, systematically and reliably, its overall awards to and spending on each project and locality. (p. 123)
26. The Virginia Tobacco Indemnification and Community Revitalization Commission (TICR) should develop a publicly available online database of all of its awards that sets forth project goals, how the project fits into the Commission's strategic plan, the expected outcomes, achieved outcomes, and how much, in total, TICR has awarded to the project through prior grants, if applicable. (p. 124)

Appendix A Study Mandate

Appropriation Act -- Chapter 874, 2010 Acts of Assembly

Item 30F.

The Joint Legislative Audit and Review Commission (JLARC) shall evaluate and report on the performance of the Tobacco Indemnification and Community Revitalization Commission (TICR). The report shall include, but not be limited to, a review of the effectiveness of the economic revitalization grants of the TICR, and evaluation of the TICR economic revitalization strategy, and recommendations as to the TICR's outcome metrics and accountability measures. JLARC shall submit a final report by June 30, 2011.

Appendix

B Research Activities and Methods

Key research activities and methods for this study included

- structured interviews with TICR members and staff; staff at tobacco region community development organizations; and federal, State, regional, and local government staff;
- telephone survey of tobacco region economic developers;
- data collection and analysis;
- review of TICR project files;
- site visits;
- attendance at TICR full commission and committee meetings, TICR staff's application review session, and the 2010 Virginia Rural Summit;
- review of TICR commission and committee meeting transcripts; and
- review of best practices in economic and community development grantmaking.

Table B-1 summarizes some of JLARC staff's research activities for this report.

Table B-1: Highlight of Research Activities and Methods

Research Activity	Count
Structured Interviews	60
Economic Developer Survey	31
Data Analysis	1,368 TICR awards classified into their larger projects, where applicable
TICR File Reviews	131
Site Visits	34
TICR Meeting Attendance	26

Source: JLARC staff.

STRUCTURED INTERVIEWS

During the review, JLARC staff conducted interviews with TICR members and staff, regional community development foundation staff, staff at federal, State, regional, and local agencies, and individuals involved in prior studies of TICR. In total, JLARC staff conducted 60 structured interviews.

Generally, the purpose of the structured interviews was to collect information on the commission's policies and operations, the impact of its grants, its interactions with organizations with other economic development responsibilities, the economic development challenges facing tobacco region localities, best practices in grantmaking and program development, and other issues relevant to the study mandate.

TICR Members and Staff

JLARC staff interviewed TICR's staff 14 times over the course of the study. In total, eight out of ten current commission staff (including the executive director), plus three contract staff who administer the commission's four-year scholarships program, were interviewed. As highlighted throughout the report, the topics of these interviews ranged from commission policies, procedures, and strategy to understanding the staff's methods of tracking grant awards and grantee spending.

JLARC staff also sent a letter to each current commission member, inviting them to participate in an interview about the commission's activities and its progress toward achieving economic revitalization in the tobacco region. JLARC staff also sought commissioners' feedback on any potential improvements to the TICR's strategy or operations. Of the current 31 members, ten responded to JLARC's invitation and were subsequently interviewed.

Tobacco Region Community Development Foundations

To understand their application review processes, governance structures, outcome metrics, and accountability measures, JLARC staff interviewed staff at two tobacco region community development foundations, the Danville Regional Foundation and the Harvest Foundation. These interviews were also used to understand their foundation's relationship with TICR, the economic development challenges facing their respective localities, and the strategies they have developed to address these challenges. Best practices in grantmaking were also discussed with staff at these organizations.

Federal, State, Regional, and Local Agency Staff

At the federal level, JLARC staff interviewed staff at the Appalachian Regional Commission. Topics discussed included its application review processes, its outcome metrics, and its accountability measures.

JLARC staff also interviewed representatives from State agencies with ties to the commission and its operations. Interviewees included staff at the

- Virginia Economic Development Partnership;
- Department of Housing and Community Development;
- Department of Business Assistance;
- Department of the Treasury;
- Auditor of Public Accounts;
- Virginia Community College System;
- Office of the Secretary of Commerce and Trade;
- Office of the Secretary of Technology;
- Center for Rural Virginia;
- Department of Planning and Budget;
- Virginia Community College System;
- Southern Virginia Higher Education Center; and
- Southwest Virginia Higher Education Center.

These interviews addressed a number of key topics ranging from TICR's relationship with other state economic development agencies to TICR's budgeting and endowment management processes.

Interviews with regional economic development organizations addressed a variety of topics, including the economic development challenges facing Virginia's tobacco region, their organization's experiences with TICR, and their perspectives on TICR's economic revitalization strategy. For these interviews, JLARC staff interviewed staff at the Virginia Regional Coalfield Economic Development Authority and the Mount Rogers Development Partnership, Inc. (Virginia's a-Corridor).

SURVEY OF TOBACCO REGION ECONOMIC DEVELOPERS

JLARC staff conducted a telephone survey of 31 economic developers located in 17 Southside localities and 11 Southwest localities, representing 28 out of the 41 tobacco region localities. Economic developers were identified through the Virginia Economic Development Partnership website.

Generally, the intent of the survey was to obtain feedback about TICR's priorities and the impact of its grant-making. These individuals were asked about their organization's past interactions with TICR, their knowledge of the commission's strategy, their locality's economic development priorities, and any other feedback they had about the commission.

Additionally, the economic developers were asked about the impact of various TICR projects in their localities and for any outcomes they could identify from these projects. The projects for which JLARC staff sought outcome information were selected based on those projects for which JLARC reviewed project files or that were commonly cited by interviewees as noteworthy. For localities without projects in either of these categories, the economic developers were asked about the outcomes of other projects in their localities, which JLARC staff identified through TICR's grants database.

Two challenges were encountered in collecting reliable impact data from through the survey. First, because TICR has not required its grantees to report or collect outcomes, some economic developers had not maintained any outcome data for TICR funded projects. Instead, most of the responses JLARC staff received were reported in qualitative form, such as a description of the status of the project or the challenges the project has encountered. Few economic developers could provide JLARC staff with quantified economic development outcomes for projects in their localities.

A second challenge JLARC staff encountered was that some interviewees were unfamiliar with TICR projects. JLARC staff found that this was the case for a variety of reasons. For example, some individuals had only recently started serving as their locality's economic developer. Similarly, some economic developers were unable to provide outcome information on projects in their locality because their organization was not the project grantee and they had never interacted with the grantee.

Because information on project outcomes was not consistently available, analysis of the survey results were used primarily to understand the economic developers' perspectives on the TICR's operations, strategy, and outreach, as well as its application process. Survey results also informed JLARC's staff selection of site visits and case studies.

DATA COLLECTION AND ANALYSIS

JLARC staff analyzed commission data to understand its award and spending history, estimate total grants and spending on projects and localities, identify projects for project file reviews, and analyze the overall performance of TICR's Tobacco Region Opportunity Fund (TROF) program.

Data from other sources, such as the Census Bureau and Bureau of Labor Statistics, was used to analyze past and current economic performance and demographic characteristics of tobacco region localities and the region as a whole. To offer perspective on the region's performance, JLARC staff also compared certain tobacco region economic indicators to statewide averages.

TICR's Grants Database

Commission staff captures most information about its grant awards data in its grants database, which has recently been moved online. From this database, JLARC staff identified the fields needed to analyze TICR's history of awards, including the

- project ID number;
- project title;
- recipient organization;
- original grant amount;
- award date;
- last payment date;
- balance on the award;
- staff evaluation text, if available;
- staff-recommended amount;
- committee-recommended amount;
- total project budget (total project cost);
- project description;
- type of support (such as scholarships, incentives, cost shares); and
- contingencies set on the award, if any.

JLAC staff found that some of these fields have been completed inconsistently, particularly the last seven fields mentioned above (beginning at staff evaluation text).

To develop a better understanding of TICR's overall spending and awards for each project, such as its total financial commitment to a particular industrial park, JLARC staff first reviewed all 1,368 awards to identify any projects that were a part of a larger project. JLARC staff then created a field named "project rename," and, if the award (for something such as a waterline to or a building at an industrial park) appeared to be a part of an overall project (the industrial park), labeled it accordingly. Because of the limited information captured in the database about the details of each award, JLARC staff could only provide estimates as to TICR's total support for overall projects.

Because TICR's grants database has not captured the location of each project, JLARC staff provided Virginia Geographic Information Network (VGIN) staff with the address of the recipient organization for each award. Using the addresses, VGIN staff were able to pair each project with a five-digit FIPS code. JLARC staff then used this field to calculate total awards made to each locality, including those made outside of the tobacco region.

In some cases, the award for the project was only processed at the grantee's address. The project itself (or the benefits of the project) could have accrued elsewhere or to multiple localities. For example, the commission's four-year scholarship awards are processed at the Southwest Virginia Higher Education Center, located in Washington County, Virginia. Therefore, whereas it would appear that Washington County had received approximately $25 million for scholarships in the county, the actual awards were processed in the county but disbursed to the student's college or university. Similarly, Southside broadband awards are centrally processed in Halifax, Virginia. For this reason, JLARC staff decided to remove all scholarship and broadband awards in its calculations of total awards per locality.

Finally, the commission's award database was also used to analyze the commission's award and disbursement trends, identifying projects that received funding where TICR staff recommended no funding, and identifying the meetings at which a particular project's merits were discussed.

Tobacco Regional Opportunity Fund Data

JLARC staff analyzed data contained in a separate TICR staff database for its Tobacco Region Opportunity Fund (TROF) awards. This database includes fields detailing the

- size of the original TROF award;
- date of the award;
- number of new jobs promised;
- amount of capital investment promised;
- number of new jobs created (verified by the Virginia Employment Commission); and
- amount repaid (if applicable).

The database also includes documentation on repayment request dates and other aspects of the companies' performance.

The purpose of this analysis was to determine the extent to which TROF awards have resulted in new jobs and capital investment in the tobacco region. It was also used to understand the extent to which grant beneficiaries had met the terms of their performance agreements and how much TICR had reclaimed from underperforming recipients.

Analysis of Other Publicly Available Economic and Demographic Data

To analyze the historical and current economic conditions of tobacco region localities, JLAC staff used a variety of publicly available sources. These sources included, but were not limited to, the

- Virginia Employment Commission;
- Virginia Economic Development Partnership;
- Virginia Department of Education;
- Virginia Department of the Treasury;
- State Council for Higher Education for Virginia;
- U.S. Census Bureau;
- U.S. Bureau of Economic Analysis; and
- U.S. Bureau of Labor Statistics.

From these sources, JLARC staff used key economic and demographic data to measure the tobacco region's performance relative to the rest of the state. Data collected and analyzed included high school graduation rates, education attainment levels, unemployment rates, population changes, and per capita personal income, among others.

FILE REVIEWS

JLARC staff also dedicated a significant portion of staff time to reviewing a subset of the more than 1,300 awards TICR had made as of March 2011. JLARC staff reviewed project files for 131 commission awards (just under ten percent of all TICR awards) for more than 60 separate projects. The files chosen for review included those awards that were part of a project that had been awarded $1 million or more prior to 2008, or that were cited by interviewees as noteworthy. Files were reviewed for projects in all areas of TICR funding, such as broadband, agribusiness, TROF, and tourism projects.

Most project files included the original application and all receipts submitted for reimbursement (for those awards processed after the commission's reimbursement policy was first implemented), as well as at least one grant reporting form. Some files also included attachments that were included in the original application and correspondence between the staff and the grantee at various phases of the project.

File reviews were intended to identify the original expectations for projects—the number of new jobs promised, for example, or the amount of new tourism revenues expected—to the extent these were documented. The file reviews were also used to collect any outcome information the applicant had provided to TICR.

Other information collected from project files included the total cost of the project (as stated in the application), the description of the expected wages of new jobs (where available), and whether there was a presence of a third-party economic analysis. The file reviews were used to inform site visits and case studies for selected projects.

JLARC staff also reviewed files for awards made after 2008 to understand the quality of more recent applications and the outcome projections therein.

SITE VISITS

JLARC staff also conducted site visits to 34 projects throughout the tobacco region, 17 in the Southwest and 17 in the Southside. Projects were selected for site visits based on several factors, including overall TICR funding for the project, comments of local economic developers, and findings in project files. JLARC staff interviewed project leaders for 18 of the 34 projects visited. JLARC staff visited at least one project in each of TICR's funding areas, such as agribusiness, tourism, and workforce development projects.

The purpose of the site visits was to understand, generally, what outcomes the projects had produced and collect data on project outcomes where possible. Some data collected through site visits was used to develop case studies.

Site visits also enabled JLARC staff to obtain additional feedback on TICR's application review process, the economic challenges facing the tobacco region, and other relevant topics.

ATTENDANCE AT COMMISSION MEETINGS AND RELATED EVENTS

JLARC staff attended 26 of the 34 commission meetings held between July 28, 2010 and May 26, 2011. In addition to four full commission meetings, JLARC staff attended

- six executive committee meetings;
- three education committee meetings;
- four research and development committee meetings;
- three Southside economic development committee meetings;
- one agribusiness committee meeting;
- two Southwest economic development committee meetings;

- one special projects committee meeting;
- one Conflict of Interest Act training for commissioners; and
- one orientation for new commissioners.

The primary purpose for attending these meetings was to better understand the application review process used by the full commission and the committees, to complement file reviews, and to understand any changes being made to the TICR's policies or procedures during the study period.

JLARC staff also observed the process TICR staff use to formally evaluate applications for economic revitalization grants and attended the two-day 2010 Virginia Rural Summit, where keynote speakers and attendees discussed key economic challenges facing Virginia's rural communities and opportunities for addressing these challenges.

REVIEW OF COMMISSION TRANSCRIPTS

The commission has a court reporter present at all meetings and publishes verbatim transcripts of full commission and committee meetings on its website. JLARC staff obtained copies of all past transcripts and used these to inform its understanding of the commission's policies and procedures (their origins and their implementation), to evaluate claims about the commission's application review process, and to complement file reviews and site visits.

The transcript review was also used to better understand the application review process used by the full commission and its committees, as well as the rationale behind some of TICR's key awards.

REVIEW OF BEST PRACTICES IN ECONOMIC DEVELOPMENT GRANTMAKING

During the course of the study, JLARC staff also researched best practices in various aspects of economic development grantmaking. Staff focused its research on those organizations that were found to be or were commonly cited by economic development experts as good models for focused and informed strategic plans, efficient and effective governance structures, strong and reliable application review procedures, and/or effective and informative project monitoring systems.

These best practices were used to identify opportunities where TICR could improve its operations and strategic planning efforts. Notable practices were found at the Danville Regional Foundation, the Harvest Foundation, the Appalachian Regional Foundation, the Kellogg Foundation, and the Ford Foundation.

Appendix C Additional Data on Localities in the Tobacco Region

The following tables supplement material in Chapter 2.

Table C-1: Income Levels in the Tobacco Region

Locality	Per Capita Income (2008)	Percent of Statewide Income	Per Capita Income Change 2000-2008 (%)
Virginia	**$44,075**	**--**	**11.4%**
Bedford County / Bedford City	39,114	88.7%	10.9
Dinwiddie County [a]	34,187	77.6	10.1
Amelia County	33,903	76.9	16.9
Franklin County	33,420	75.8	13.4
Washington County / Bristol City	32,454	73.6	12.4
Campbell County [a]	31,996	72.6	7.2
Tazewell County	30,865	70.0	20.7
Buchanan County	30,204	68.5	23.5
Southampton County [a]	30,123	68.3	2.8
Henry County / Martinsville City	30,018	68.1	10.3
Appomattox County	29,799	67.6	0.5
Pittsylvania County / Danville City	29,789	67.6	9.3
Mecklenburg County	29,781	67.6	15.6
Cumberland County	29,562	67.1	16.6
Nottoway County	29,350	66.6	12.4
Wythe County	28,687	65.1	12.3
Halifax County	28,651	65.0	14.9
Sussex County	28,525	64.7	20.1
Tobacco Region	**28,443**	**64.5**	**12.5**
Carroll County / Galax City	28,415	64.5	11.9
Bland County	28,008	63.5	26.6
Smyth County	27,818	63.1	11.9
Wise County / Norton City	27,707	62.9	18.4
Charlotte County	27,120	61.5	10.6
Scott County	26,560	60.3	18.1
Floyd County	26,509	60.1	4.2
Russell County	26,260	59.6	13.1
Dickenson County	25,708	58.3	20.9
Brunswick County	25,420	57.7	15.9
Patrick County	25,225	57.2	10.8
Lee County	25,208	57.2	13.6
Lunenburg County	24,852	56.4	12.5
Buckingham County	24,190	54.9	16.5
Grayson County	23,528	53.4	0.7
Greensville County / Emporia City	23,026	52.2	4.5
Prince Edward County	21,523	48.8	2.2

[a] The U.S. Bureau of Economic Analysis (BEA) combines some localities for its Regional Economic Profiles. Three localities in the tobacco region were combined with localities outside the region: Campbell County with Lynchburg City; Dinwiddie County with Colonial Heights and Petersburg; and Southampton County with Franklin City. These BEA regions are not included in averages for the tobacco region.

Source: JLARC staff analysis of data from the U.S. Bureau of Economic Analysis, Regional Economic Profiles.

Table C-2: Educational Attainment in the Tobacco Region

Locality	Persons with a High School Degree or Higher (%) [a]	Persons with a Bachelor's Degree or Higher (%)	Persons with a Master's Degree or Higher (%)
Amelia County	74.6%	9.6%	2.9%
Appomattox County	77.9	12.7	4.0
Bedford City	84.1	20.5	5.2
Bedford County	85.0	23.4	8.3
Bland County	83.5	13.7	4.9
Bristol City	78.6	18.9	5.1
Brunswick County	67.9	12.3	5.0
Buchanan County	65.1	8.9	3.6
Buckingham County	63.2	12.6	2.6
Campbell County	82.5	16.2	4.2
Carroll County	71.3	13.0	4.5
Charlotte County	70.7	13.1	4.1
Cumberland County	71.7	10.5	3.3
Danville City	74.5	15.7	5.9
Dickenson County	67.6	9.9	3.8
Dinwiddie County	77.1	13.8	3.4
Emporia City	71.6	15.9	7.4
Floyd County	77.3	18.4	4.5
Franklin County	79.1	14.3	5.2
Galax City	66.3	13.2	3.6
Grayson County	72.5	9.1	2.5
Greensville County	65.1	4.8	1.4
Halifax County	71.8	12.3	5.5
Henry County	71.0	10.9	3.9
Lee County	71.3	12.0	3.6
Lunenburg County	70.6	9.0	2.5
Martinsville City	73.1	17.8	5.4
Mecklenburg County	74.7	12.8	4.4
Norton City	77.4	19.1	10.4
Nottoway County	72.2	12.1	5.3
Patrick County	73.4	10.5	2.8
Pittsylvania County	75.8	13.0	4.1
Prince Edward County	81.9	19.0	7.6
Russell County	70.2	9.5	3.2
Scott County	71.4	9.5	3.8
Smyth County	76.2	13.3	4.6
Sussex County	69.9	9.8	4.0
Tazewell County	75.1	14.4	4.8
Washington County	79.9	19.6	6.8
Wise County	69.7	11.9	3.7
Wythe County	76.7	14.4	4.6
Tobacco Region	**73.9**	**13.4**	**4.5**
Virginia	**85.8**	**33.4**	**13.6**
United States	**84.6**	**27.5**	**10.1**

[a] Includes high school equivalency.

Source: JLARC staff analysis of data from the 2005-2009 American Community Survey.

Table C-3: Population in Tobacco Region Localities, 2000-2010

Locality	2000 Census	2010 Census	Population Change 2000-2010 (%)
Franklin County	47,286	56,159	18.8%
Prince Edward County	19,720	23,368	18.5
Dinwiddie County	24,533	28,001	14.1
Bedford County	60,371	68,676	13.8
Virginia	**7,078,515**	**8,001,024**	**13.0**
Cumberland County	9,017	10,052	11.5
Amelia County	11,400	12,690	11.3
Floyd County	13,874	15,279	10.1
Buckingham County	15,623	17,146	9.7
Appomattox County	13,705	14,973	9.3
Lee County	23,589	25,587	8.5
Washington County	51,103	54,876	7.4
Campbell County	51,078	54,842	7.4
Wythe County	27,599	29,235	5.9
Greensville County	11,560	12,243	5.9
Emporia City	5,665	5,927	4.6
Galax City	6,837	7,042	3.0
Pittsylvania County	61,745	63,506	2.9
Carroll County	29,245	30,042	2.7
Bristol City	17,367	17,835	2.7
Tobacco Region	**1,030,353**	**1,060,188**	**2.5**
Norton City	3,904	3,958	1.4
Tazewell County	44,598	45,078	1.1
Mecklenburg County	32,380	32,727	1.1
Charlotte County	12,471	12,586	0.9
Nottoway County	15,725	15,853	0.8
Bland County	6,871	6,824	-0.7
Scott County	23,403	23,177	-1.0
Bedford City	6,299	6,222	-1.2
Russell County	29,258	28,897	-1.2
Lunenburg County	13,146	12,914	-1.8
Wise County	42,209	41,452	-1.8
Smyth County	33,081	32,208	-2.6
Halifax County	37,350	36,241	-3.0
Dickenson County	16,395	15,903	-3.0
Sussex County	12,504	12,087	-3.3
Patrick County	19,407	18,490	-4.7
Brunswick County	18,419	17,434	-5.3
Henry County	57,930	54,151	-6.5
Grayson County	16,881	15,533	-8.0
Martinsville City	15,416	13,821	-10.3
Buchanan County	26,978	24,098	-10.7
Danville City	48,411	43,055	-11.1

Source: JLARC staff analysis of data from the U.S. Census Bureau, Census 2000 and Census 2010.

The following table supplements material in Chapters 3-5.

Table C-4: Distribution of TICR Awards by Locality (2000-2011)

Locality	Number of Awards	Total Funds Awarded	Percent of Total Funds Awarded to TICR Localities	Average Unemployment Rate (2000-2010)
Amelia County	11	$1,744,998	0.35%	4.1%
Appomattox County	11	1,213,032	0.25	5.1
Bedford City	13	2,226,214	0.45	5.2
Bedford County	3	566,600	0.11	4.0
Bland County	5	1,275,000	0.26	5.1
Bristol City	20	33,472,906	6.79	5.9
Brunswick County	36	10,849,720	2.20	6.7
Buchanan County	5	2,187,500	0.44	6.2
Buckingham County	6	530,628	0.11	4.8
Campbell County	42	9,108,189	1.85	4.6
Carroll County	6	824,947	0.17	6.6
Charlotte County	18	8,869,135	1.80	6.5
Cumberland County	13	2,860,148	0.58	4.3
Danville City	78	65,814,659	13.36	9.2
Dickenson County	9	774,195	0.16	6.8
Dinwiddie County	10	5,681,757	1.15	4.4
Emporia City	7	1,319,700	0.27	7.0
Floyd County	3	100,000	0.02	4.6
Franklin County	29	8,589,900	1.74	4.7
Galax City	19	7,597,190	1.54	6.6
Grayson County	11	3,409,870	0.69	6.9
Greensville County	28	12,915,646	2.62	5.6
Halifax County	73	62,672,117	12.72	8.1
Henry County	25	16,864,143	3.42	8.4
Lee County	37	7,020,488	1.42	5.5
Lunenburg County	22	7,639,675	1.55	5.8
Martinsville City	24	11,956,768	2.43	11.5
Mecklenburg County	66	36,540,120	7.41	7.3
Norton City	7	449,911	0.09	5.3
Nottoway County	12	1,300,053	0.26	5.0
Patrick County	32	5,214,623	1.06	6.9
Pittsylvania County	57	43,105,125	8.75	6.7
Prince Edward County	27	10,596,574	2.15	5.8
Russell County	19	5,224,082	1.06	6.6
Scott County	71	17,876,536	3.63	5.8
Smyth County	55	7,615,519	1.55	6.7
Sussex County	5	455,000	0.09	6.2
Tazewell County	29	8,948,374	1.82	5.2
Washington County	104	48,545,110	9.85	5.5
Wise County	34	11,335,610	2.30	5.2
Wythe County	17	7,516,882	1.53	6.0
Total	**1,099**	**$492,808,645**	**--**	**--**

Notes: The locality is based on the locality in which the recipient organization resides. In many cases, such as awards for regional projects, benefits accrue to multiple localities. TICR historically has not tracked commission awards by locality. As a result, total funds awarded for each locality represents a JLARC staff estimate based on analysis of TICR data. Awards for broadband infrastructure and higher education scholarships are made to organizations in a small number of localities for disbursal throughout the tobacco region and cannot be easily apportioned to individual localities. These awards have been excluded from award totals. Totals also do not include awards made to grantees outside the tobacco region.

Source: JLARC staff analysis of grant awards data provided by TICR and VEC data.

Appendix

D Example Grant Application

The following is an example of an economic development grant application. TICR staff is moving its applications online, but a majority of awards were made using an application similar to this example. Also, certain sections of TICR's grant application have varied according to the program for which it is designed (such as agribusiness, education, and economic development), particularly in sections two and three. Lastly, the application also includes guidelines and instructions for completing the application. These sections were not included in this appendix.

1. FY11 Economic Development (SS Rd 2) – Title Page

Program Type (check all that apply)	☐ **Building/Utility Infrastructure/Land Acquisition/Development** ☐ **Traditional Industries/Opportunities for Diversification** ☐ **Workforce Training Programs or Facilities** ☐ **Regional Tourism**	**TICRC PROPOSAL NUMBER** TICRC Use Only

Project Title	
Name of Organization	**Address of Organization**
Employer Identification Number	

Is Organization: (check all that apply)
☐ **Locality or Governmental Unit**
☐ **Economic Development Organization**
☐ **Regional Partnership**
☐ **Non-Profit Entity (attach proof of non-profit status, such as IRS determination letter)**

PROPOSAL INFORMATION

Requested Start Date:	**Anticipated Project End Date:**	
Requested Amount:	**Total Project Cost:**	

	PROJECT LEADER	CHIEF EXECUTIVE
Full Name		
Title		
Organization		
Telephone Number		
Fax Number		
E-Mail Address		
Mailing Address		
Web Site Address		
Signature		
Date		

2: Project Summary

Describe on this page the project for which you are requesting funds from the Commission, and **clearly describe how Commission funds will be used**. Up to three additional pages of description may be included as an Attachment.

3. Economic Development Outcomes

Quantify and describe the anticipated economic development outcomes that will directly result from this project - including **the number of private jobs created or retained and the amount of new private capital investment expected within three years** - and specific methods and measures by which your project's effectiveness will be evaluated.

How many private sector jobs will this project create or retain within three years? (use space below to explain your methodology for estimating this number and tracking actual results) ______ Retained _____ Created

4. Financial Information: Sources of Funds

The applicant or other non-Commission funders must now provide at least 10% of the total project costs.

a. Other Funding: Sources, Amounts, Status and Purpose:

If necessary, use an additional page to list other sources

State

Agency Name: ______________________

Amount Received: $ ______________________

Status ______________________

Purpose ______________________

State ______________________

Agency Name: ______________________

Amount Received: $ ______________________

Status ______________________

Purpose ______________________

Federal

Agency Name: ______________________

Amount Received: $ ______________________

Status ______________________

Purpose ______________________

Local

Name of Locality: ______________________

Amount Received: $ ______________________

Status ______________________

Purpose ______________________

Private

Source(s): ______________________

Amount of Investment: $ ______________________

Status ______________________

Purpose ______________________

Other ______________________

Source(s): ______________________

Amount of Investment: $ ______________________

Status ______________________

Purpose ______________________

b. Explain how, when, and by whom the sources of funds will be obtained and managed:

c. For Multi-Regional Projects: Name all of the localities participating financially in this project. Specify the financial commitment from each locality and provide letters of agreement documenting their financial support as outlined in the Filing Instructions.

Locality	Amount	Status
	$	
	$	
	$	
	$	

d. Will any portion of the requested grant be used, directly or indirectly, to finance a grant or loan to a Related Party* of the Commonwealth of Virginia?

(* Entities whose board of governance and funding are controlled by the Commonwealth, such as state higher education institutions and agencies.)

☐ **Yes** ☐ **No**

e. Describe the entities and/or individuals who will benefit directly and indirectly from the proposed grant and the nature of such benefit:

5: Financial Information: Budgeted Expenditures

Use this page to show the amount of each project activity that will be accomplished using Commission funds, as opposed to funds received from other sources.

Proposed Project Budget

______________________________	______________________________
Beginning Date of Project Period (no earlier than Commission approval date)	**Ending Date of Project Period** (no later than three years from Commission approval date)

	TICRC Funds	State	Federal	Local	Private	Other [1] (in-kind, etc.)	Total
Personal Services (salaries, wages, benefits)	$	$	$	$	$	$	$
Contractual Services (A&E, legal, telecom, printing, media, travel, training)							
Supplies & Materials							
Continuous Charges (insurance, lease payments, utilities)							
Property & Improvements (land acquisition, site development, etc.)							
Equipment (computers, phones, furniture, fixtures, manufacturing equipment)							
Plant & Improvements (building acquisition construction/renovation)							
Bond or Loan Obligations							
TOTAL COSTS:	$	$	$	$	$	$	$

[1] **Other/in-kind contributions must be described in the Budget Narrative and/or Attachments.**

Budget Narrative: Describe how Commission funds will be used, provide additional budget detail for distinct elements or phases of the project (e.g. construction versus operation), clarify future sources of operating funds, and explain how the estimated expenditures were determined.

6. Authorization

By signing this Application, the Authorizing Agent is guaranteeing that the information contained in this Application is correct and verifiable. The Authorizing Agent is also affirming that the funds requested herein will be used for the specific purpose outlined in this Application and for no other purpose.

Attach a signed <u>resolution of the governing body of the applicant organization</u>, authorizing this person to submit the application in the name of the organization and execute all grant-related documents.

Name of Requesting Entity: ______________________________

Name of Authorizing Agent: ______________________________

Title of Authorizing Agent: ______________________________

Address of Authorizing Agent: ______________________________

Telephone Number: ______________________________

Signature of Authorizing Agent: ______________________________

Date: ______________________________

7. Attachments

a. Additional Project Description

b. Project Location Map and Other Relevant Graphics

c. Biographical Sketches

c. Letters of Support and Commitment of Matching Fund

Appendix E Agency Response

As a part of an extensive validation process, State agencies and other entities involved in a JLARC assessment are given the opportunity to comment on an exposure draft of the report. JLARC staff provided an exposure draft of this report to the Tobacco Indemnification and Community Revitalization Commission. Appropriate technical corrections resulting from comments provided by the agency have been made in this version of the report. This appendix includes the written response letter that was submitted.

The Honorable Terry G. Kilgore
Chairman

The Honorable Frank M. Ruff
Vice Chairman

Neal E. Noyes
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THE VIRGINIA TOBACCO INDEMNIFICATION & COMMUNITY REVITALIZATION COMMISSION

June 7, 2011

Mr. Glen S. Tittermary
Director
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building
Capitol Square
Richmond, VA 23219

JUN - 7 2011

Re: Review of the Tobacco Indemnification and Community Revitalization Commission - Exposure Draft dated 5/27/11

Dear Mr. Tittermary:

The exposure draft of the subject report was received on May 27, 2011. I provided your office with certain "fact check" information on June 2, 2011 with follow-up discussion and attachments on June 3, 2011. This letter constitutes my formal written response acknowledging that the exposure draft has been reviewed by me and senior members of the Virginia Tobacco Commission staff. As I indicated in my June 2, 2011 e-mail, I believe the report is comprehensive and temperate.

With the exception of statutory directives, there are few, if any, findings in the report that the Commission has not previously considered. Debates within the Tobacco Commission have been characterized by strong differences of opinion among members as to the efficacy of certain practices or strategies, and it is not unexpected that JLARC should discover those same issues and likewise express an opinion.

While the report addresses many aspects of Commission work that certainly merit further discussion, perhaps the two most poignant findings are on page 26, which states:

"The lack of substantial revitalization may be reasonable, given the broad scope of TICR's revitalization mission, the relatively limited resources it has, and the impact of two national recessions during the last decade. Economic revitalization is also a long-term endeavor, and many of TICR's investments are too recent to yield measurable effects."

and on page 27, which states:

> *"Eighty percent of the economic developers surveyed for this study said that all or nearly all TICR projects made a significant contribution to economic revitalization at either the local or regional level."*

The Virginia Tobacco Commission continuously seeks to improve its policies and processes, and I view JLARC's report as a catalyst for change. The recommendations made by JLARC are welcome suggestions, a majority of which the Commission staff has indicated that it will support, if asked to implement. I look forward to the next Tobacco Commission meeting in September when we can consider these recommendations.

Sincerely,

Neal E Noyes

Neal E. Noyes
Executive Director

C: Honorable Terry Kilgore, Chairman
Honorable Frank Ruff, Vice Chairman

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