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Report to the Governor and the General Assembly of Virginia

Management and Accountability of the Virginia Economic Development Partnership

2016

JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

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JLARC Report 488

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COMMONWEALTH of VIRGINIA

Joint Legislative Audit and Review Commission
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Hal E. Greer
Director

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January 20, 2017

The Honorable Robert D. Orrock Sr., Chair
Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia 23219

Dear Delegate Orrock:

In 2016, the General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to conduct a study of the Virginia Economic Development Partnership (HJR 7, 2016). At the conclusion of the study, JLARC staff released a report, *Management and Accountability of the Virginia Economic Development Partnership.* The report was briefed to the Commission and authorized for printing on November 14, 2016.

On behalf of Commission staff, I would like to express appreciation for the cooperation and assistance of the staff of the Virginia Economic Development Partnership, the Secretary of Commerce and Trade, and the Virginia Department of Human Resources Management. I would also like to thank the staff of state, regional, and local economic development organizations for their assistance.

Sincerely,

Hal E Greer

Hal E. Greer
Director

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Summary: Management and Accountability of the Virginia Economic Development Partnership

WHAT WE FOUND

VEDP is not an efficiently or effectively managed organization

VEDP lacks many of the fundamental components of organizational management needed to operate efficiently and effectively and to coordinate well with external entities. Key elements missing from VEDP's operations include a deliberate strategy to meet its statutory responsibilities, adequate operational guidance for staff to carry out their job responsibilities, effective accountability mechanisms, useful performance measures, reliable data upon which to evaluate performance, and effective coordination with external partners. Without these elements, VEDP risks wasting limited resources and failing to meet its statutory requirements.

WHY WE DID THIS STUDY

In 2016 the General Assembly passed House Joint Resolution 7, which directed JLARC staff to review various aspects of the Virginia Economic Development Partnership Authority (VEDP), including its operational efficiency, performance, and accountability structure. JLARC staff were also directed to review the level of coordination of economic development programs in Virginia.

ABOUT THE VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

The General Assembly established VEDP in 1995 to "encourage, stimulate and support the development and expansion of the economy of the Commonwealth through economic development." VEDP has sought to accomplish this statutory objective primarily through marketing Virginia as a good place to do business, promoting international exports, and administering economic development incentive grants. VEDP is almost entirely funded by state general funds and is governed by a board of directors.

VEDP's approach to marketing Virginia compromises its effectiveness

VEDP has not taken basic steps to ensure it is effectively and efficiently marketing Virginia to new and existing businesses. Despite having the statutory responsibility to "see that there are prepared and carried out effective economic development marketing and promotional programs," VEDP has done little in the way of systematically planning, controlling, or evaluating its marketing activities, and it has not followed fundamental practices for effective economic development marketing. As a result, VEDP's marketing services have been largely reactive and have generated substantially fewer location and expansion decisions ("announcements") than suggested by the agency's performance measures.

VEDP has demonstrated success in promoting international exports

VEDP's export promotion (international trade) programs have demonstrated success in assisting Virginia companies with selling their products in international markets. VEDP's programs aimed at promoting growth in international exports largely follow fundamental industry practices, are held in high regard by stakeholders and staff at VEDP-equivalent organizations in other states, and have demonstrated positive results. Still, VEDP could improve its practices by collecting additional information to evaluate its performance and by ensuring international marketing and export promotion efforts are well coordinated.

VEDP's marketing efforts do not fully adhere to any fundamental industry practices for effective marketing

Fundamental industry practice	VEDP practices	Additional details
Develop and implement a well-informed marketing plan with clearly defined goals	○	VEDP lacks well-informed marketing plan
Target marketing efforts to businesses and industries that are the best fit for the state	⊙	VEDP developed lists of businesses to contact but staff not required to use it
Communicate a clear and effective message	⊙	VEDP has protocols for developing marketing materials, but staff not required to follow them
Coordinate marketing efforts with relevant economic development organizations	⊙	VEDP does not systematically coordinate marketing efforts with other organizations; only publishes calendar of events that others may attend
Regularly evaluate the effectiveness of marketing activities	○	VEDP does not regularly or systematically evaluate effectiveness of its marketing activities
Develop and maintain relationships with site selection consultants	◉	VEDP directs staff to develop relationships with consultants but does not provide guidance or hold staff accountable for doing so
Maintain an inventory of community assets	⊙	VEDP maintains site database, but it lacks many details necessary for businesses to evaluate sites

KEY ○ ⊙ ◉ ◉ ●
Not implemented — Fully implemented

SOURCE: Economic Development Marketing and Attraction, International Economic Development Council (2011); Business Retention and Expansion, International Economic Development Council (2011); review of VEDP documents and data; interviews with VEDP staff; survey of VEDP staff.

VEDP's unstructured approach to administering incentive grants leaves the state vulnerable to fraud and poor use of limited resources

VEDP's approach to administering incentive grants has exposed the state to avoidable risk of fraud and financial loss, and has increased the potential that state grant funding is not efficiently allocated. VEDP administers 10 incentive grant programs and awarded $384 million to companies over the past decade. During this time period, many of the projects supported through VEDP-administered incentive programs did not meet their performance requirements—highlighting the importance of having an effective incentives administration function. VEDP's lack of comprehensive written policies and procedures for critical aspects of incentives administration calls for a more structured, formalized, and transparent approach to awarding incentives, monitoring and verifying grant recipient performance, and ensuring compliance with contract provisions. VEDP needs new policies and procedures to ensure that it prioritizes projects that create quality jobs and have the greatest economic benefit for Virginia's regions.

VEDP had no documented policies and procedures for critical aspects of administering grant awards prior to January 2016

Aspect of grant administration	Policies & procedures prior to Jan. 2016
Conduct due diligence before paying grant	✘
Decide when to award grants and the size of grants	✘
Collect performance information from companies during and after performance period	✘
Verify jobs created, capital invested, and wages paid	✘
Grant a performance extension to a project	✘
Enforce clawback provisions	✘

SOURCE: JLARC staff review of VEDP policies and procedures and interviews with VEDP staff.

Lack of systematic coordination of statewide economic development activities undermines impact of state's total investment

State, regional, and local economic development entities in Virginia operate mostly independently of one another and do not systematically coordinate their activities and spending—limiting their ability to share best practices, align activities, and leverage the resources of others. Coordination that does occur is generally unstructured, reactive, and limited to specific projects or one-time events. This lack of coordination appears to be noticed by site selection consultants, professionals who are hired by businesses for their expertise in finding desirable locations to relocate or expand business operations. Several barriers have limited the state's ability to coordinate economic development efforts. Barriers include the lack of an agreed-upon definition of what constitutes an economic development program or activity, mistrust between state, regional, and local entities, a lack of common goals around which to coordinate, and no accountability mechanisms to ensure coordination.

Systemic deficiencies at VEDP necessitate more accountability through an effective, engaged, and informed board of directors

The systemic deficiencies at VEDP present significant challenges to the organization's ability to operate efficiently and effectively, and to be held accountable for doing so. Although the board of directors has recently begun to address issues of inadequate engagement and a misunderstanding about its governing responsibilities, the board will still find it difficult to hold VEDP accountable without adequate expertise and sufficient and reliable information about the agency's operations and performance.

WHAT WE RECOMMEND

Legislative action

- Require the VEDP board of directors to develop and regularly update a strategic plan for VEDP.
- Direct the VEDP board of directors to ensure that VEDP executes its statutory responsibilities efficiently and effectively.
- Make additional VEDP appropriations contingent on implementation of report recommendations.
- Establish a statewide entity to improve systematic coordination across state's economic development programs.

Executive action

- Establish and enforce penalties for staff when they do not comply with agency policies or statutory provisions.
- Develop and adhere to a written annual marketing plan.
- Develop and adhere to comprehensive policies and procedures for incentive administration to reduce state's exposure to risk of fraud, financial loss, and poor use of limited resources.
- Hire full-time and fully qualified staff solely responsible for incentive administration.
- Establish an internal audit division that reports directly to the VEDP board of directors.

The complete list of recommendations is available on page v.

Recommendations: Management and Accountability of the Virginia Economic Development Partnership

RECOMMENDATION 1

The General Assembly may wish to consider amending the Code of Virginia to require the Virginia Economic Development Partnership (VEDP) board of directors to develop and regularly update a strategic plan for VEDP. At a minimum, the process to develop and revise VEDP's strategic plan should occur every three years and should include a systematic assessment of how VEDP can best add value through each of its statutory responsibilities. The strategic planning process should include VEDP's key economic development partners, including state, regional, and local organizations with economic development programs. The strategic plan should include specific goals, objectives, and strategies, and quantifiable metrics for each goal and objective. VEDP should report on its progress toward meeting its goals and objectives annually through its operating plan, as required by Item 125 B of the Appropriation Act. (Chapter 2)

RECOMMENDATION 2

The Virginia Economic Development Partnership (VEDP) should ensure that all staff receive formal onboarding training within 30 days of their start date. VEDP should collect feedback through annual staff evaluations on the types of skills training that staff need, and provide such skills training annually. (Chapter 2)

RECOMMENDATION 3

The Virginia Economic Development Partnership (VEDP) should develop and implement formal, written policies and procedures that outline (i) what services staff are expected to provide, (ii) the steps staff should take to provide them, and (iii) under what circumstances staff should coordinate with other VEDP staff or external entities. (Chapter 2)

RECOMMENDATION 4

The Virginia Economic Development Partnership (VEDP) should incorporate an expectation into supervisors' annual evaluations that they (i) provide new staff with their job expectations within 30 days of their start date and (ii) provide existing staff with their job expectations by October 1st of each fiscal year. VEDP should report annually to its board the percentage of staff that receive their job expectations within the established deadlines. (Chapter 2)

RECOMMENDATION 5

The Virginia Economic Development Partnership (VEDP), in collaboration with its board, should establish new, more accurate agency-wide performance metrics that better reflect VEDP's economic development activities, service quality, and impact. (Chapter 2)

RECOMMENDATION 6
The Virginia Economic Development Partnership (VEDP) should develop standard definitions for all data fields in its system and implement mechanisms to restrict incorrect data entry. VEDP should ensure that staff receive data entry training at onboarding and at least once every two years. (Chapter 2)

RECOMMENDATION 7
The Virginia Economic Development Partnership should track when staff arrive and depart every day and establish a warning system and penalties for staff who do not report to work on time or do not work the hours prescribed in agency policy. (Chapter 2)

RECOMMENDATION 8
The Virginia Economic Development Partnership should (i) use the time allocation system that is managed by the Department of Human Resource Management; (ii) require staff to use the system to report their time worked and activities performed each day; and (iii) use the data collected to assess the allocation of staff resources and redirect as appropriate to efficiently and effectively meet agency objectives. (Chapter 2)

RECOMMENDATION 9
The Virginia Economic Development Partnership (VEDP) should request a review by the International Economic Development Council of staff performance metrics to ensure they are measurable and appropriate to hold staff accountable. VEDP staff should report the results of the review, and any changes made, to the VEDP board of directors for their review. (Chapter 2)

RECOMMENDATION 10
The Virginia Economic Development Partnership (VEDP) should revise its performance evaluation process to include an assessment of staff adherence to agency policies and statutory requirements. VEDP should establish and enforce penalties for staff who do not follow agency policies or statutory requirements. (Chapter 2)

RECOMMENDATION 11
The Virginia Economic Development Partnership (VEDP) board of directors should require staff to systematically collect and assess the perspectives of VEDP's economic development partners on how VEDP could more effectively coordinate its services with other organizations and encourage coordination within the broader economic development system. The survey should be conducted at least once every two years. VEDP should report the results of all surveys to its board and use the results to tailor its future services and program offerings. (Chapter 2)

RECOMMENDATION 12
The Virginia Economic Development Partnership (VEDP) should develop and adhere to a written annual marketing plan that includes, at a minimum, (i) an identification of VEDP's specific and measurable marketing goals; (ii) specific activities and timetables to achieve the goals; (iii) the resources and staff allocated to the marketing activities; and (iv) how VEDP will evaluate the effectiveness of its marketing activities. The plan should concentrate goals and activities on marketing to industries that align with the statewide economic development strategy, the state's available economic development assets, and the priorities of other state, regional, and local economic development entities. The plan should include strategies for how VEDP will accomplish its goals in coordination with state, regional, and local marketing organizations. (Chapter 3)

RECOMMENDATION 13
The Virginia Economic Development Partnership (VEDP) should establish and require marketing staff to attend an annual training that provides instruction on VEDP's marketing message, how staff should communicate this message to customers, and the process for getting marketing materials approved. VEDP should include a measure of whether staff have complied with training requirements and the approval process in their performance evaluations. (Chapter 3)

RECOMMENDATION 14
The Virginia Economic Development Partnership (VEDP) should develop and implement a formal process to regularly and systematically evaluate the effectiveness of its marketing initiatives, and use this information to redirect resources away from ineffective activities as appropriate. VEDP should provide its board of directors with a report on the effectiveness of its marketing initiatives at least once per quarter. (Chapter 3)

RECOMMENDATION 15
The Virginia Economic Development Partnership should update its site and buildings database to ensure that it meets the site selection data standards established by the International Economic Development Council and include details on the percentage of the data standards met in its annual reports to its board of directors. (Chapter 3)

RECOMMENDATION 16
The Virginia Economic Development Partnership (VEDP) should improve the transparency of its marketing performance measures that are reported to its board of directors by showing, at a minimum, (i) the percentage of announced projects that were initially identified by VEDP through its own marketing efforts versus those that were brought to VEDP by another entity, and (ii) the nature and degree of VEDP's involvement in projects reported having received VEDP assistance. (Chapter 3)

RECOMMENDATION 17
The Virginia Economic Development Partnership (VEDP) should develop formal mechanisms to support ongoing coordination and communication between its marketing and export promotion services and measure the success of these mechanisms. VEDP should report these measures of success at least annually to its board of directors. (Chapter 3)

RECOMMENDATION 18
The Virginia Economic Development Partnership (VEDP) should collect and use more detailed information about the characteristics of companies accessing export promotion services and use this information to ensure that the types of business receiving export-promotion services reflect the diversity of Virginia's export-capable industries. At minimum, this information should include company-level information on industry sector, number of employees, product types, and average export sales. VEDP should also maintain comparable export growth data for each of its export promotion programs, including both projected and actual export growth. VEDP should report this information to its board at least once per year. (Chapter 3)

RECOMMENDATION 19
The Virginia Economic Development Partnership (VEDP) board of directors should work with VEDP staff to develop written policies and procedures to standardize VEDP's process for evaluating projects that are considered for incentives. The new policies and procedures should ensure that VEDP is appropriately and consistently prioritizing the use of incentives toward projects that create quality jobs and have the greatest economic benefit for Virginia's regions. The policies and procedures should clearly describe the criteria and methods to be used to assess projects for incentives funding. Criteria should include an assessment of each project's expected level of increased exports from the state, employment multiplier, and wages compared to regional industry averages. (Chapter 4)

RECOMMENDATION 20
The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to report to them annually on the percentage of companies that fulfilled their contractual requirement to report their progress towards meeting performance requirements. (Chapter 4)

RECOMMENDATION 21
The Virginia Economic Development Partnership (VEDP), with the assistance of staff at the Virginia Department of Taxation and Virginia Employment Commission, should develop and consistently follow policies and procedures to verify job creation and wage claims of companies receiving incentive grants administered by VEDP. These policies and procedures should require VEDP staff to conduct periodic audits of company performance to verify project performance data and be sufficiently detailed to enable staff to verify company claims consistently and effectively while limiting staff discretion where appropriate. (Chapter 4)

RECOMMENDATION 22

The Virginia Economic Development Partnership (VEDP) board of directors should ensure that VEDP develops and implements formally documented performance verification procedures for staff to follow to ensure that grant recipients are meeting their expected performance requirements in accordance with established performance agreements. (Chapter 4)

RECOMMENDATION 23

The General Assembly may wish to amend the Code of Virginia to require Commissioners of the Revenue to provide the Virginia Economic Development Partnership (VEDP) with the real estate tax, business personal property tax, and machinery and tools tax information for companies that have received incentive awards, in accordance with performance agreements. Such information shall be marked and considered confidential and proprietary and shall be used by VEDP solely for purposes of verifying capital investment claims. (Chapter 4)

RECOMMENDATION 24

The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to develop and use standard policies and procedures that clearly explain when and how staff should enforce clawback provisions. Enforcement should be consistent and effective for all companies that do not meet their contractual obligations, including wage requirements. The board should require VEDP staff to report regularly to the full board on each project that is subject to a clawback and the repayment status for each project that is subject to a clawback. (Chapter 4)

RECOMMENDATION 25

The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to develop and implement policies and procedures to ensure that all performance extensions, whether granted by VEDP or localities, are consistent with statute (§ 2.2-115 of the Code of Virginia) and that justifications for the performance extensions are documented. The board should require VEDP staff to report all extensions granted to the full board for review. (Chapter 4)

RECOMMENDATION 26

The Virginia Economic Development Partnership (VEDP) should create a separate division in VEDP that is solely responsible for incentives administration and assign at least three staff to administer incentives. VEDP should ensure all staff employed in this function have the qualifications and training necessary to perform the work assigned to them. (Chapter 4)

RECOMMENDATION 27

The Virginia Economic Development Partnership (VEDP) should increase the transparency of its incentive grant programs by developing a user-friendly website to more transparently report the status and performance of grant programs and of each project that has received an incentive grant through VEDP. The website should include, at a minimum, information on expected versus actual performance, the performance period, all extensions granted, and all repayments required of and made by grant recipients. Information should be provided for each project and also be aggregated and reported for each program administered by VEDP. (Chapter 4)

RECOMMENDATION 28

The General Assembly may wish to consider amending the Code of Virginia to establish a Board of Economic Development, whose purpose is to provide ongoing and systematic planning, advice, and direction for the state's economic development system to improve coordination of activities and its efficiency and effectiveness. Membership of the Board of Economic Development should include a representative from each of the secretariats responsible for agencies with economic development programs, at least one member of the House of Delegates, at least one member of the Senate, one director of a local economic development organization, and one director of a regional economic development organization. The Board of Economic Development should be a policy board, as defined in § 2.2-2100, and have full-time, independent staff for the purposes of executing its responsibilities. (Chapter 5)

RECOMMENDATION 29

The General Assembly may wish to consider including language in the Appropriation Act to fund a full-time, independent staff for the purposes of supporting the Board of Economic Development in fulfilling its responsibilities. The Department of Planning and Budget should assist in determining the number of staff necessary to provide this support. (Chapter 5)

RECOMMENDATION 30

The General Assembly may wish to consider including language in the Appropriation Act to direct state agencies to collaborate with the Board of Economic Development to develop and define standard categories of economic development program activities to use when tracking economic development program expenditures and reporting these expenditures to the Board of Economic Development. The General Assembly may wish to consider amending the Code of Virginia to require state agencies and encourage regional and local entities to adopt these categories. (Chapter 5)

RECOMMENDATION 31

The General Assembly may wish to consider amending the Code of Virginia to establish a State, Regional, and Local Advisory Team tasked with advising the Board of Economic Development on opportunities to improve the coordination, efficiency, and effectiveness of the state's economic development system. The State, Regional, and Local Advisory Team should provide advice to the Board of Economic Development on how to adapt economic development strategies to reflect changes in Virginia's regions and industries. The Advisory Team should be appointed by the Board of Economic Development and include the directors of state agencies engaged in economic development (minimum of 6), directors of regional economic development organizations (minimum of 4), directors of local economic development organizations (minimum of 4), and representatives of the business community (minimum of 4). One regional and one local director should also be appointed to the Board of Economic Development. (Chapter 5)

RECOMMENDATION 32

The General Assembly may wish to consider amending the Code of Virginia to explicitly state that the Virginia Economic Development Partnership (VEDP) board of directors is a supervisory board and is responsible for ensuring that VEDP executes all of its statutory responsibilities efficiently and effectively. (Chapter 6)

RECOMMENDATION 33

The General Assembly may wish to consider amending the Code of Virginia to include minimum qualifications and competencies for the Virginia Economic Development Partnership (VEDP) board of directors. The VEDP statute could be amended to require that at least 15 of the 18 appointees to the board possess experience in the areas of marketing (four members), international commerce (four members), finance or grant administration (two members), and state, regional or local economic development (five members). The remaining three appointees should possess experience in the fields of law, higher education, information technology, transportation, or workforce development. (Chapter 6)

RECOMMENDATION 34

The Virginia Economic Development Partnership (VEDP) board should create an internal audit division that reports directly to the board. The board should control the staffing, funding, and activities of the new internal audit division. Responsibilities for the division should include, at a minimum, (i) verifying information presented to the board is valid and comprehensive, (ii) identifying opportunities to improve the efficiency and effectiveness of agency operations, (iii) ensuring policies and procedures are being followed by staff, (iv) monitoring and reporting on the status of the implementation of recommendations in this report, and (v) carrying out other periodic and routine board-directed audit activities. Funding and spending related to the internal audit division should be included as a separate line item in VEDP's budget and expense reports. (Chapter 6)

RECOMMENDATION 35

The General Assembly may wish to consider including language in the Appropriation Act to (i) withhold the additional $1.5 million appropriated to the Virginia Economic Development Partnership (VEDP) in FY18 to support VEDP's domestic and international marketing activities, to expand and rebrand the Virginia Jobs Investment Program, and to implement the Sustained Growth Program; (ii) make any increase in future VEDP appropriations (with the exception of funds necessary to implement recommendations) contingent on the VEDP board's execution of necessary improvements, as indicated by the implementation of this report's recommendations; and (iii) require the VEDP Chief Executive Officer and the Chair of the VEDP board to report, separately, to the Chairs of the House Appropriations and Senate Finance Committees on improvements made and progress towards implementing report recommendations directed at VEDP staff and its board no later than November 1, 2017. (Chapter 6)

1 The Virginia Economic Development Partnership

SUMMARY The Virginia Economic Development Partnership Authority (VEDP) provides a variety of services intended to support the growth of Virginia's economy, including marketing Virginia to new and existing businesses, promoting exports for Virginia businesses, and administering 10 incentive grant programs. By statute, VEDP is governed by a board of directors and has certain exemptions from the state's executive and legislative branches. VEDP is funded primarily by general fund appropriations, the majority of which are spent on compensation for employees in marketing and international exports. Economic development programs are highly decentralized in Virginia, and VEDP is only one of many entities that provide economic development services.

The 2016 General Assembly directed JLARC to review the Virginia Economic Development Partnership (VEDP). The mandate outlined five specific items for review, including VEDP's operations, performance, accountability structure, and coordination of economic development statewide. The mandate also directed a review of the structures and approaches used by other states to carry out economic development functions.

To address the mandate, interviews were conducted with VEDP staff and board members, regional and local economic developers, economic development consultants, and various other economic development stakeholders and experts in Virginia and in other states. In addition, two surveys were conducted of VEDP staff and site selection consultants representing businesses located in Virginia, in other parts of the U.S., and around the world. Data on VEDP performance, spending, staff compensation, and incentive grants was also collected and analyzed. (See Appendix B for research methods used for this study.)

Economic development incentive grants are cash grants paid by state or local governments that are intended to encourage businesses to locate or expand within a state rather than elsewhere.

VEDP was created to promote and support economic development in Virginia

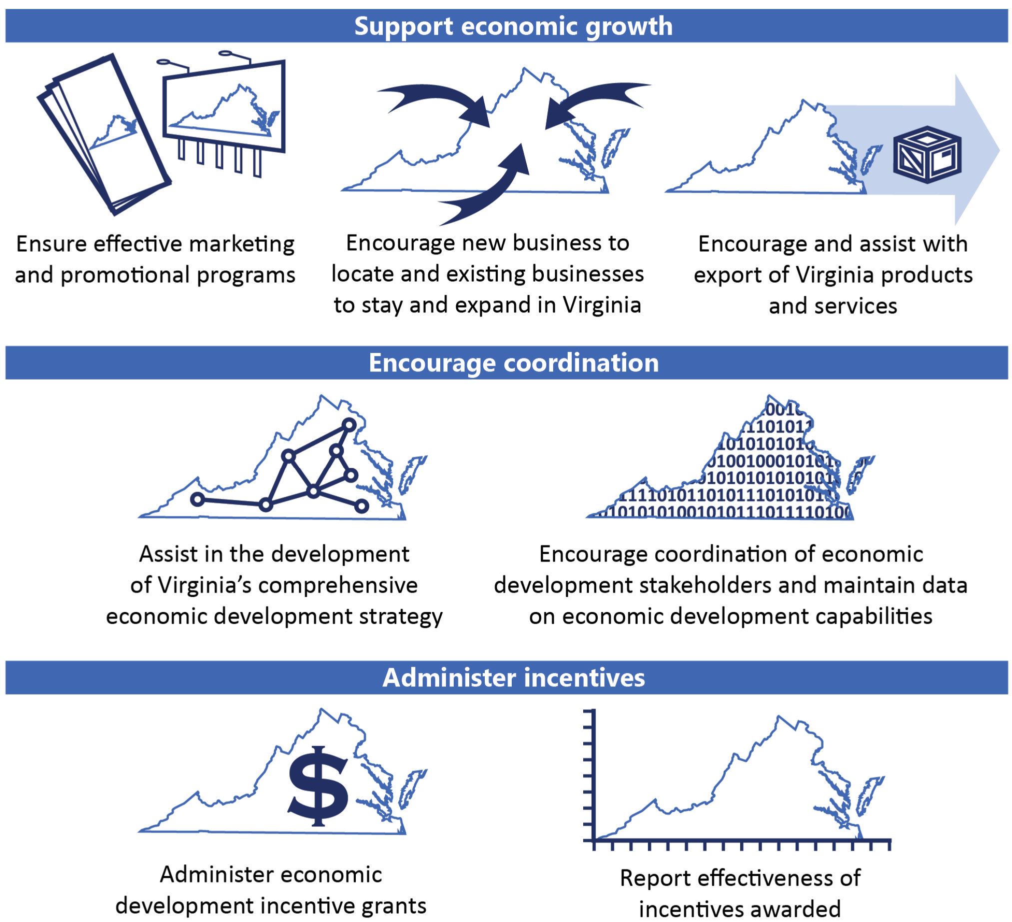
The General Assembly established VEDP in 1995 as a state authority to "encourage, stimulate and support the development and expansion of the economy of the Commonwealth through economic development" (§ 2.2-2234). Prior to 1995, the state promoted and supported economic development through the Department of Economic Development. The shift from an agency to an authority was intended to be a shift toward greater administrative flexibility and political stability for the state's economic development activities.

JLARC's 2012 **review of economic development incentive grant programs** assessed the effectiveness of these grants in Virginia.

Review of State Economic Development Incentive Grants (JLARC, 2012)

VEDP has several specific statutory responsibilities that are centered around supporting economic growth, encouraging the coordination of economic development services statewide, and administering economic development incentive grants. To support economic growth, VEDP is responsible for ensuring that Virginia is marketed effectively, supporting the location and expansion of businesses in Virginia, and encouraging the export of Virginia products and services to international markets (Figure 1-1). To encourage the coordination of economic development services statewide, VEDP is responsible for assisting in the development of Virginia's comprehensive economic development strategy and for encouraging the coordination of efforts between public institutions, regions, communities, and private industry. VEDP is also responsible for administering 10 economic development incentive grant programs and reporting on the effectiveness of the grants that are awarded.

FIGURE 1-1
VEDP is statutorily required to provide three types of economic development services



SOURCE: Code of Virginia (§ 2.2-2238).
NOTE: Does not include all of VEDP's statutory responsibilities.

VEDP is organized into several divisions and employs over 100 staff

VEDP is organized into several core service divisions, support divisions, and administrative offices. VEDP's marketing and international trade divisions ("core service divisions"), as well as its process for administering incentive grants were the primary focus of this study because they receive the largest portion of staffing and/or funding resources and are most visible to VEDP's customers and partners, compared to support divisions and other administrative offices.

VEDP customers include businesses and site selection consultants.

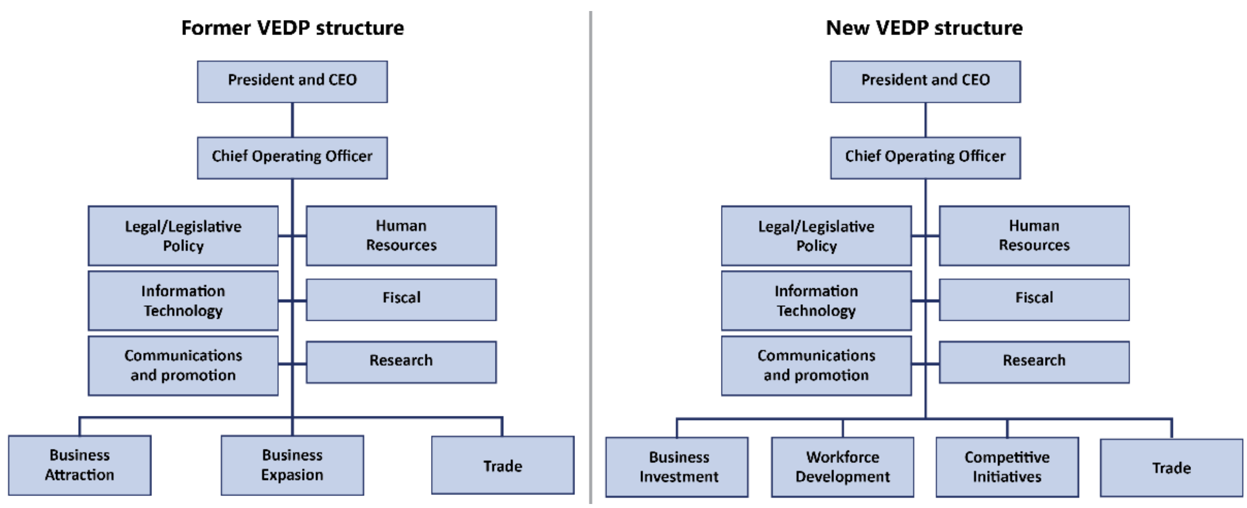
VEDP partners include state, regional, and local economic development organizations.

VEDP underwent a significant structural reorganization in August 2016, after most of the research was completed for this study. In this restructuring, VEDP combined its two marketing divisions into a single Business Investment division and created two new, smaller core service divisions—a Workforce Development division that administers the Virginia Jobs Investment Program and a Competitive Initiatives division (Figure 1-2). Key aspects of how VEDP will operationalize its new organizational structure had not been determined or formalized as of October 1, 2016, including new roles and responsibilities for staff members. This review, therefore, focuses on VEDP's performance and operations prior to the restructuring. Nevertheless, findings and recommendations in this review remain applicable to VEDP, even in its new organizational structure.

Marketing is "the selling of a service or product through pricing, distribution, and promotion" (definition, International Economic Development Council).

Marketing is used to attract, retain, and expand businesses.

FIGURE 1-2
VEDP altered its organizational structure in August 2016



SOURCE: JLARC staff analysis of VEDP organizational structure presentations.

Until recently, VEDP marketed Virginia and promoted international exports through three core service divisions

Prior to VEDP's reorganization in August 2016, VEDP's marketing and export promotion services were provided through three core divisions: Business Attraction, Business Expansion, and International Trade. Staff in VEDP's two marketing divisions were responsible for proactively reaching out to businesses outside of Virginia (Business Attraction) and within Virginia (Business Expansion) to identify potential projects that would lead to increased business investment in the state.

Marketing staff were, and still are, responsible for various aspects of marketing—including promoting Virginia, responding to information requests, and supporting economic development projects (Figure 1-3). Staff interact directly with business clients and site selection consultants through marketing activities such as attending trade shows and conferences, visiting business representatives in person, and hosting events. Staff identify potential projects (sidebar) through internal efforts, referrals provided by VEDP partners, or directly from businesses and site selection consultants. Staff manage projects and provide services to customers and partners, such as identifying suitable business sites within Virginia and applying for state incentive grants. Staff in VEDP's Research division and Communications and Promotions division support VEDP marketing staff by assisting with logistics, media, and research efforts.

Economic development projects involve individual business relocation or expansion, such as the relocation of a company's headquarters. Desirable project outcomes include job creation, higher wages, capital investment, and an increased tax base.

VEDP's International Trade division was created to increase export awareness and promote exports from Virginia-based companies. Staff of the International Trade division organize company travel to foreign markets, conduct international market research on behalf of Virginia businesses, administer grants to offset the costs of international travel, and connect businesses to translation and other country-specific resources. The International Trade division also administers several programs, including Virginia Leaders in Export Trade (Table 1-1). The 2016 General Assembly passed legislation that would move all current VEDP export promotion services into a new executive-branch agency called the Virginia International Trade Corporation. (See Chapter 3 for more information about this legislation.)

FIGURE 1-3
VEDP marketing staff promote Virginia, respond to inquiries, and support projects

Promote Virginia
Proactively promote Virginia through marketing activities including trade shows, conferences, meetings with business representatives, and VEDP-hosted events

Respond to inquiries
Reactively respond to information requests from business representatives and site selection consultants

Support projects
Work with businesses and state, regional, and local partners to finalize project details, including site selection, incentive grants, and permitting

SOURCE: JLARC staff synthesis of interviews with VEDP staff.

TABLE 1-1
VEDP administers four export promotion programs

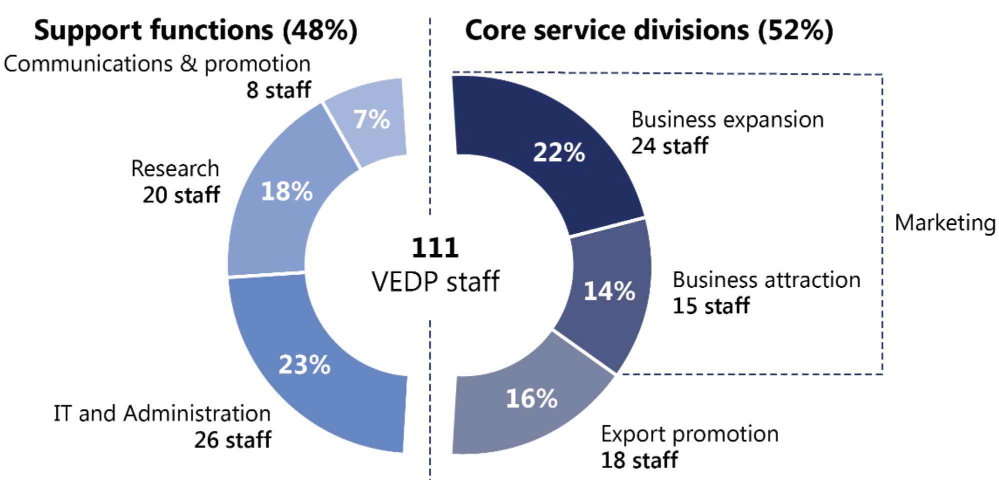
Program	Description
Virginia Leaders in Export Trade (VALET)	Two-year international sales training program to help export-ready companies sell their products internationally.
Going Global Defense Initiative	Program to support defense-related companies with international market research, translation services, export compliance, and training.
State Trade and Export Promotion (STEP)	Program to assist small businesses with entering or expanding into foreign markets.
Virginia International Trade Alliance (VITAL)	Program to formalize partnerships with public universities, chambers of commerce, and industry associations to support Virginia companies with international trade efforts.

SOURCE: JLARC staff review of VEDP documents and interviews with VEDP staff.

VEDP employs over 100 staff domestically and uses contractors abroad for marketing and export promotion services

VEDP employed 111 staff across its core service divisions, support divisions, and administrative offices as of July 2016. Approximately half of VEDP's staff (52 percent) were in core service divisions, the largest portion in the former Business Expansion division (Figure 1-4). After the reorganization in August 2016, the new Business Investment division represents the largest of all VEDP divisions (21 percent), and a majority of staff still work in core service divisions (52 percent).

FIGURE 1-4
Until August 2016, majority of VEDP staff worked in one of three core service divisions



SOURCE: VEDP's FY17 operating plan; VEDP organizational charts as of August 2016.
NOTE: Figure reflects staffing in place until August 2016. Business attraction and business expansion staff have been consolidated into a single "Business Investment" division. Some business expansion staff responsible for administering the Virginia Jobs Investment Program were also moved to a new Workforce Development division.

The vast majority of VEDP staff are located in VEDP's central office in Richmond, but several are stationed in field offices around the state and abroad. VEDP's Trade and Business Investment divisions have offices in different regions of Virginia and several outside the U.S. The Business Investment division has full-time contractors in Germany, India, Japan, China, and the United Kingdom, and the International Trade division hires contractors, as needed, to assist with international market research and trade missions.

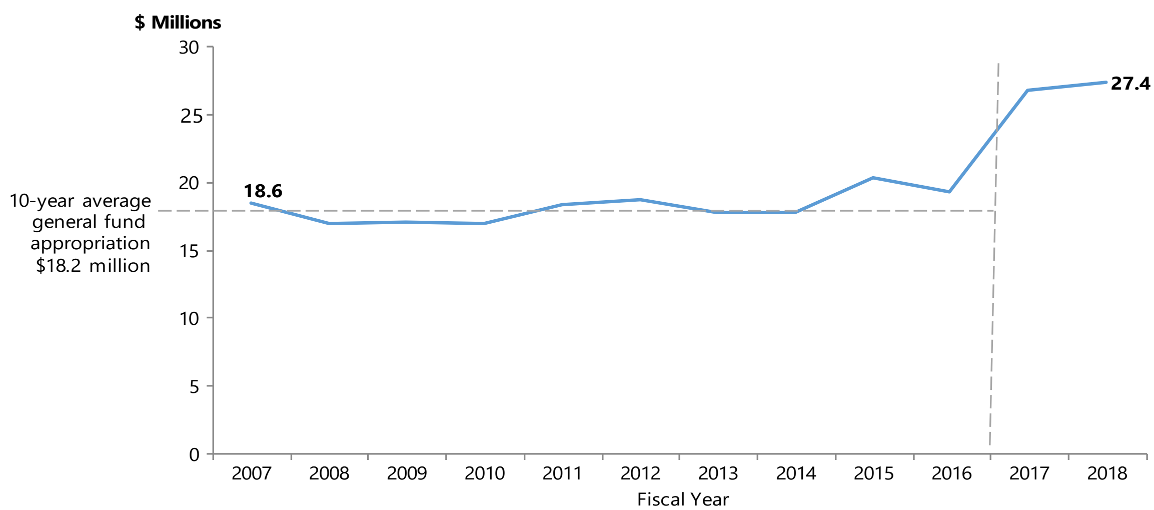
VEDP is largely state-funded and spends most of its budget on personnel and marketing

VEDP's budget comes primarily from the state's general fund. The agency's general fund budget of $27 million represents approximately 0.1 percent of all state general funds in FY17, and the appropriation amount has fluctuated slightly over time. The majority of VEDP's budget is spent on employee compensation, although this varies across divisions within the agency.

Most of VEDP's budget comes from state general funds

The vast majority (98 percent) of VEDP's FY17 budget is from state general fund appropriations. The remaining two percent is from fees paid by local and regional economic development staff to attend VEDP marketing or trade related events. In some years, VEDP also received federal grant funding to support certain initiatives, such as a federal grant award of $2.5 million in FY16 to support international trade programs. VEDP's general fund appropriation levels have fluctuated slightly over the past 10 years and have averaged approximately $18.2 million over this time period (Figure 1-5).

FIGURE 1-5
VEDP's general fund appropriation has fluctuated slightly over past 10 years with a large increase this biennium



SOURCE: Appropriation Acts.
NOTE: Not adjusted for inflation. Figures include pass-through payments.

In FY17, VEDP received a significantly higher general fund appropriation of approximately $27 million. This increase was tied to language specifying how VEDP is to use its additional funding:

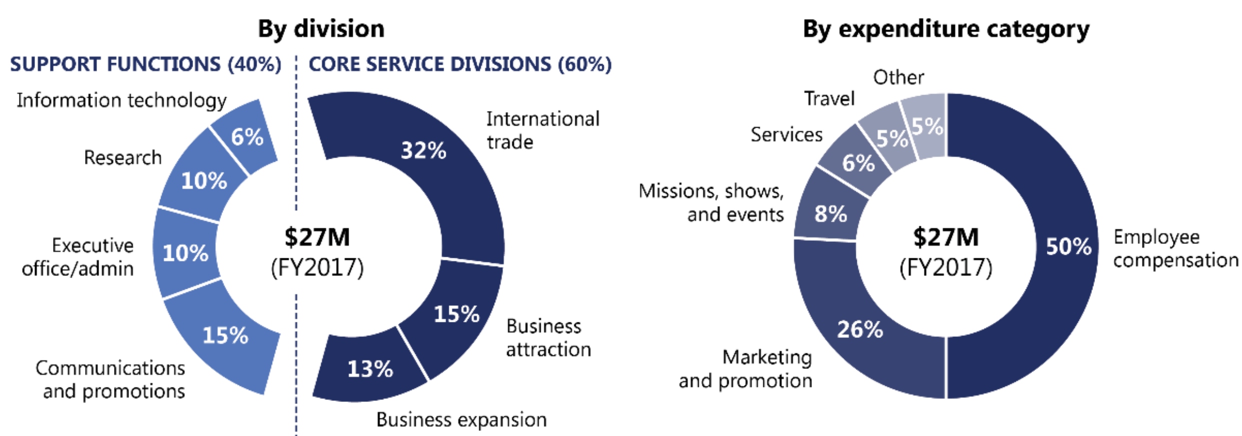
- $3.7 million to support Virginia exporters through the Going Global Defense Initiative, the Virginia International Trade Alliance, and the State Trade and Export Promotion grant programs;
- $1.5 million to promote Virginia to domestic and international businesses, expand and rebrand the Virginia Jobs Investment Program, and implement the recommendations of the Virginia Sustained Growth Study; and
- $2.5 million for pass-through payments to programs outside of VEDP.

Majority of VEDP's budget is spent on core services, personnel, and marketing

Over half of VEDP's budget for FY17 is used to fund its core service divisions. Nearly one-third ($8 million) of the budget is reserved for international trade activities (Figure 1-6). Over one-fourth ($7 million) is reserved for business attraction and expansion efforts. Support divisions and administrative functions comprise the remaining 40 percent of VEDP's budget.

Across all divisions, half of VEDP's total FY17 budget is dedicated to employee compensation (Figure 1-6). Employee compensation accounts for the largest percentage of expenditures in most divisions, with the exception of International Trade and Communications and Promotions.

FIGURE 1-6
Majority of VEDP's budget is for core service divisions, with most funding going toward employee compensation and marketing (FY17)



SOURCE: JLARC analysis of VEDP's FY17 operating plan.
NOTE: Division categories are subject to change as VEDP updates its FY17 operating plan.

VEDP has awarded $384 million in incentive grants over the past decade

Some incentive grants can be paid in advance, on an **up-front basis**.

Commonwealth's Development Opportunity Fund (COF) grants are generally awarded to qualifying companies on an up-front basis.

VEDP approved more than 400 awards valued at $384 million between FY06 and FY15 through eight of the 10 incentive grant programs it administers (Table 1-2). Grant awards through the Commonwealth's Development Opportunity Fund (COF), which are paid on an up-front basis, accounted for the largest amount and the highest number of awards during the 10-year period. Other programs were awarded on a reimbursement basis. Over the past 10 years, the total amount of grant awards approved by VEDP annually has ranged from $15 million in 2010 to $115 million in 2008 and was less than $30 million in most years (Figure 1-7).

Some incentive grants are paid on a **reimbursement basis**.

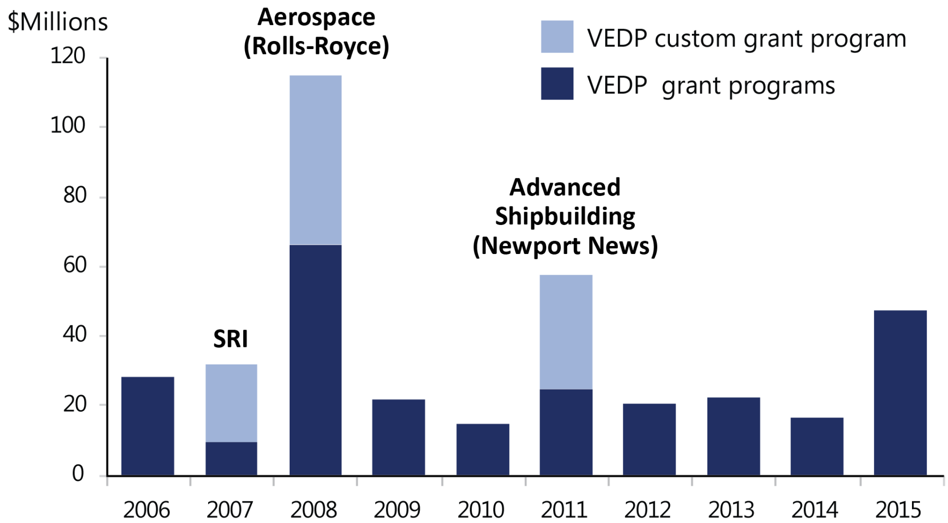
Nine of the incentive grant programs administered by VEDP are reimbursed to companies after they demonstrate job creation and capital investment in Virginia.

TABLE 1-2
VEDP approved more than 400 grant awards totaling $384 million (FY06–FY15)

	Amount approved ($M)	Number of grant awards
Commonwealth's Development Opportunity Fund	$116.7	230
Virginia Investment Partnership Grant	61.8	66
Virginia Economic Development Incentive Grant	60.5	14
Aerospace Engine Manufacturing Grant[a b]	50.7	5
Advanced Shipbuilding Training Facility Grant[a]	32.8	1
Major Eligible Employer Grant	32.0	2
SRI-Shenandoah Valley Grant[a]	22.0	1
Virginia Jobs Investment Program[c]	7.1	86
Semiconductor Memory or Logic Wafer Manufacturing Grant [a d]	--	--
Pulp, Paper, and Fertilizer Advanced Manufacturing Grant[a e]	--	--
TOTAL (FY06–FY15)	**$383.6**	**403**

SOURCE: JLARC staff analysis of data reported by VEDP.
NOTE: See Appendix C for information on incentive grant purposes, funding, and final approval authority.
[a] Custom grant program. [b] Excludes a $40 million grant that was paid to higher education institutions. [c] Includes only grants awarded by VEDP in FY15. [d] No grant funds were awarded FY06–FY15. Two semiconductor grants were awarded to Qimonda (Henrico) and Micron (Manassas) in FY05. [e] No grant funds were awarded FY06–FY15. A $20 million grant was awarded to Shandong Tranlin Paper Company (Chesterfield) in FY16.

FIGURE 1-7
Annual totals for grant awards are typically under $30 million (FY06–FY15)



SOURCE: JLARC staff analysis of data reported by VEDP.
NOTE: Virginia Jobs Investment Program grants are included only for FY15, when VEDP began administering the program.

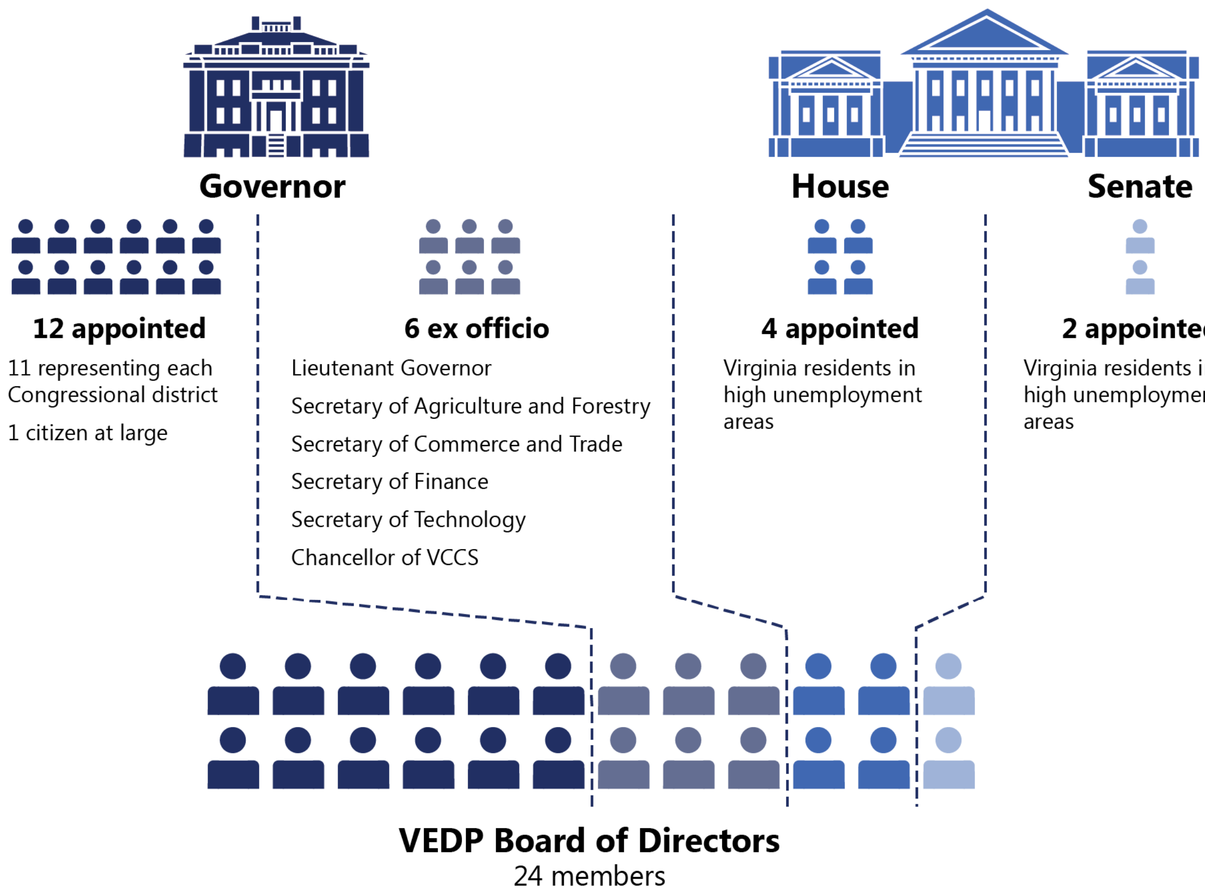
VEDP administers five **custom grant programs.** Conditions for eligibility for custom grants are specified in statute, and incentives are reimbursed after companies have created jobs and invested capital in Virginia. (See Table 1-2.)

VEDP is a state authority governed by a board of directors

Statute establishes VEDP as an "authority" and "political subdivision" of the state. This status affords VEDP certain powers and exemptions, allowing it to maintain a higher degree of independence than executive branch state agencies. For example, because VEDP is exempt from the Virginia Personnel Act, it has greater authority than most state agencies over personnel-related decisions; because it is exempt from the Virginia Public Procurement Act, it has greater authority over procurement-related decisions. Although VEDP is an authority, it is located within the Secretariat of Commerce and Trade (§ 2.2-204).

Through statute, the General Assembly established that VEDP should be governed by a board of directors (§ 2.2-2235). The VEDP Chief Executive Officer reports to the board. VEDP's board comprises 24 voting members, six of whom serve ex officio and 18 of whom are appointed by the governor and the General Assembly (Figure 1-8). Statute directs VEDP's board to "appoint the chief executive officer of the Authority … who shall serve at the pleasure of the Board and carry out such of the powers and duties conferred upon him by the Board," making it a supervisory board. Although the VEDP statute does not provide explicit guidance on the VEDP board's supervisory responsibilities, elsewhere in statute, the relationship between supervisory board and agency director is clearly established. A supervisory board "ensures that the agency director complies with all board and statutory directives. The agency director is subordinate to the board" (§ 2.2-2100). Currently, there are no statutory requirements specifying any qualifications VEDP board members need to fulfill their supervisory responsibilities.

FIGURE 1-8
VEDP's board of directors comprises 24 appointed and ex officio members



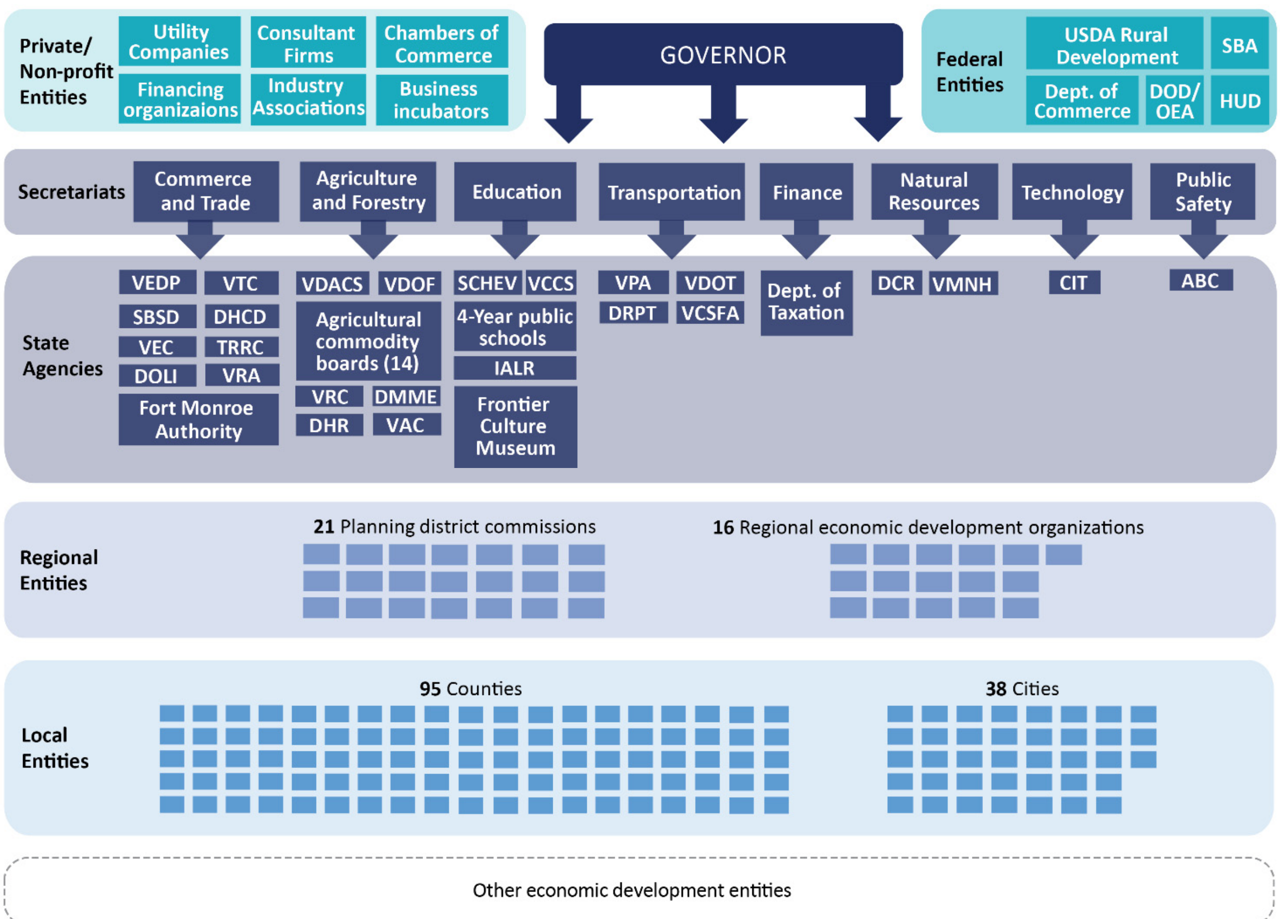
SOURCE: Code of Virginia (§ 2.2-2235)

VEDP is one of many economic development entities in Virginia

VEDP is one of many entities that operate economic development programs in Virginia. Currently, at least 80 state agencies, 133 local entities, and 37 regional organizations provide economic development services in both the public and private sectors (Figure 1-9). This decentralized approach to economic development is not new (sidebar). As in 1991, economic development efforts today are highly decentralized and spread across multiple secretariats. Further, Virginia still lacks a lead coordinating body to organize activities and spending. VEDP is tasked with "encouraging" coordination, but no entity has been statutorily assigned to ensure that coordination occurs.

JLARC's 1991 review of economic development in Virginia assessed economic development policies and structures in effect at the time. JLARC staff found that the state's economic development efforts were decentralized and poorly coordinated (*Review of Economic Development in Virginia*, 1991).

FIGURE 1-9
Economic development programs are highly decentralized in Virginia



SOURCE: JLARC staff analysis of state agency websites, strategic plans, budgets, and other documents, review of the Code of Virginia and JLARC's 1991 Catalog of Virginia's Economic Development Organizations.
NOTE: Not exhaustive of all entities involved in economic development in Virginia. Excludes workforce development entities, such as workforce investment boards that do not have dedicated economic development programs.

2 Organizational Management

SUMMARY VEDP lacks many of the fundamental components of organizational management needed to operate efficiently and effectively and to coordinate well with external entities. A fundamental challenge for VEDP is that it is operating without a strategy to ensure that its operations are efficient, add value, and fully address the agency's statutory responsibilities. Partly as a result of the lack of strategy, VEDP leadership has not provided staff with sufficient guidance to ensure that services are administered consistently and effectively. Additionally, VEDP leadership has not accurately monitored and reported the agency's performance due to poor data reporting practices and data integrity issues. Contributing to these challenges, VEDP leadership has not held staff sufficiently accountable for productivity or achieving set performance objectives and has not effectively coordinated its economic development services and activities with key stakeholders. VEDP's organizational management challenges are not new, as multiple reviews conducted by external consultants since 2012 identified significant organizational management issues at VEDP. Without addressing these issues, VEDP will continue to find it challenging to operate efficiently or effectively.

Effective and efficient organizational management requires several fundamental components, including establishing a clear strategy, providing operational guidance to staff, holding staff accountable for performance, and coordinating services internally and externally. Without these components, organizations risk wasting limited resources and failing to meet their objectives and statutory requirements.

During the course of this review, JLARC staff identified substantial shortcomings in the management practices of VEDP's leadership (Table 2-1). These shortcomings have resulted in an organization that is neither efficiently nor effectively managed. The presence and extent of the management shortcomings vary throughout VEDP, with fewer deficiencies in its export promotion services than in its marketing services. This chapter reflects the challenges identified by JLARC in one or more core service areas at VEDP, and its contents help to explain some of the reasons behind many of the other problems identified in Chapters 3, 4, and 5.

These organizational management problems are not new to VEDP. Since 2012, VEDP has hired external consultants to conduct four reviews of its organizational structure, operations, and leadership. Although all of the reviews yielded significant findings, the results of three of the reviews were not made available to VEDP staff, to some members of VEDP's board of directors, or to the public. As a result, most problems remain unaddressed.

VEDP leadership includes the CEO, COO, division vice presidents, and staff supervisors.

VEDP hired two external consultant firms to review its organizational management practices in 2012, 2014, 2015, and 2016.

All reviews identified problems with VEDP's practices, and only one, in 2012, was made available to all VEDP board members.

TABLE 2-1
VEDP lacks fundamental elements of effective and efficient organizational management

Element of organizational management	VEDP's performance
Agency strategy	✘
Operational guidance	✘
Internal coordination	✘
Staff accountability	✘
Agency performance management	✘
Data integrity	✘
External coordination	✘

Key ✓ = Satisfactory ✘ = Unsatisfactory

SOURCE: JLARC staff analysis of VEDP policies and practices, review of prior VEDP consultant reports, synthesis of VEDP staff interviews, and synthesis of elements of effective management outlined in the Baldridge Excellence Framework (2015-2016) and International Economic Development Council's "Managing Economic Development Organizations" (2011).
NOTE: VEDP was assessed on an agency-wide basis. Elements for which VEDP was marked "unsatisfactory" present significant deficiencies identified across the agency or in one or more core service divisions.

VEDP lacks a strategy to ensure its programs are efficient, effective, and accountable

A fundamental challenge for VEDP is that it operates without a strategy to ensure that its operations are efficient, add value, and fully address the agency's statutory responsibilities. Many important agency activities, including marketing and incentive grants administration, are highly unstructured and, in some cases, have not clearly provided value above and beyond the services offered by other entities in Virginia. Additionally, many of VEDP's statutory responsibilities remain mostly or entirely unaddressed, including the responsibilities to

- encourage coordination of economic development activities (Chapter 2);
- develop an annual marketing plan for high unemployment areas (Chapter 3);
- support the retention of businesses (Chapter 3); and
- report on the status of the state's economic development strategy (Chapter 5).

VEDP's lack of strategic direction has been noticed by members of VEDP's board of directors and by external management consultants hired by VEDP since 2012. Only five of the 16 board members who completed a board self-evaluation survey in June 2016 agreed that the board possesses "a clear understanding of the strategic direction of VEDP." When asked to describe the vision for and mission of VEDP during interviews with JLARC staff, board members offered varying answers. One member summarized the lack of an agreed-upon strategy for VEDP by saying, "I dare say that if you went around the board room … you'd get 10 different opinions about what VEDP should do." Similarly, in a June 2016 review of VEDP operations, consultants hired by VEDP found "a serious need to have a mission and vision statement that is very clear and accompanying strategy that streamlines VEDP's offerings." This review further explained that "[VEDP staff] have lacked a clear strategy for some time," and that "[staff] feel that VEDP has been distracted by its own dysfunction and has lacked any consistent organizational strategy."

The single document that VEDP leadership has identified as their strategy—their annual operating plan—is not useful, or used, in practice. Instead, it is updated in isolation by each division vice president and not referred to by staff or leadership. It also includes vague language that makes it difficult for external stakeholders to hold VEDP accountable. When asked about how the plan was developed, one vice president told JLARC staff, "We are given last year's copy and asked to update it.… There is not a true strategic process to develop that plan."

Additionally, the operating plan does not reflect what is actually occurring at VEDP. JLARC staff identified many examples of inconsistencies between activities described in operating plans and those occurring in practice. For example, the FY16 plan claimed that "the Business Expansion Division takes a proactive approach using professional consultative sales strategies and services." However, in practice, VEDP does not use or train its employees on anything that could be considered "professional consultative sales strategies and services." The FY16 plan claimed that the Business Attraction division uses "a return on investment justification for preferred events and related costs." In practice, VEDP does not use return on investment justifications for its marketing activities or consistently track and analyze measures of their effectiveness.

> *"[VEDP's] lack of coordinated strategy puts us in a position where we are much more reactive than proactive."*
>
> – **Staff**
> VEDP

The absence of a clear strategy for VEDP has been a contributing factor to many of the efficiency and effectiveness challenges identified in JLARC's review. These challenges include:

- marketing without a marketing plan;
- not having adequate performance metrics against which the agency can be held accountable;
- operating under three different organizational structures in four years;
- not providing staff with clear and timely guidance about their job responsibilities;
- duplicating certain services already provided by local and regional economic development organizations; and
- not fulfilling some of its statutory responsibilities.

To begin to address these challenges and others, the board of directors should conduct a regular and systematic strategic planning process that informs and structures agency activities. The result of this strategic planning process should be a strategic plan that is well-informed and actionable, and reflects a deliberate assessment of where VEDP can add the most value in the broader economic development system. To ensure that the plan is well informed, VEDP's board of directors should systematically collect the perspectives (through a survey or structured focus groups) of state, regional, and local partners regarding how VEDP can best fulfill its statutory responsibilities. To ensure that the plan is actionable, it should include specific goals, objectives, and quantifiable metrics for each goal and objective. VEDP should report the progress toward meeting its goals and objectives each year through its annual operating plan (as required by the Appropriation Act, Item 125 B). The plan should be systematically reviewed and revised every three years by the board of directors to evaluate the extent to which VEDP is accomplishing its intended goals and objectives and using resources as efficiently and effectively as possible.

RECOMMENDATION 1

The General Assembly may wish to consider amending the Code of Virginia to require the Virginia Economic Development Partnership (VEDP) board of directors to develop and regularly update a strategic plan for VEDP. At a minimum, the process to develop and revise VEDP's strategic plan should occur every three years and should include a systematic assessment of how VEDP can best add value through each of its statutory responsibilities. The strategic planning process should include VEDP's key economic development partners, including state, regional, and local organizations with economic development programs. The strategic plan should include specific goals, objectives, and strategies, and quantifiable metrics for each goal and objective. VEDP should report on its progress toward meeting its goals and objectives annually through its operating plan, as required by Item 125 B of the Appropriation Act. (Chapter 2)

VEDP has provided minimal guidance to staff to ensure effective and efficient services

> *"Here at VEDP you just get a 'This is where this is and this is where this is' and you're off and running.*
>
> *They say 'go forth and do.'"*
>
> – **Staff**
> VEDP

VEDP does not provide staff with the guidance necessary to perform their jobs effectively and lacks a strategy that can be translated into consistent and effective practices. Specifically, VEDP has not sufficiently oriented new staff to their roles through formal onboarding training or provided existing staff with routine skills training. VEDP also does not have written policies and procedures that tell marketing staff how to perform their roles, and the guidance that staff receive in their job expectations is provided too late during each evaluation cycle to be actionable. In the absence of adequate guidance on *what* staff should be doing and *how* they should be doing it, VEDP currently deploys its staff inefficiently and ineffectively.

VEDP has not provided staff adequate training to guide their work

VEDP has not provided sufficient formal onboarding and ongoing training to staff in core service divisions. This has negatively affected the consistency and effectiveness of its services. VEDP marketing staff have received no onboarding training and have learned their jobs on their own, according to staff interviews and survey responses (sidebar). Staff working in VEDP's marketing and international trade divisions have not received routine skills training unless they elect to pursue it, because VEDP leadership does not routinely organize skills training or set requirements for staff. According to stakeholders, VEDP's approach to training has resulted in many staff lacking the skills and knowledge required to perform their roles. For example, multiple stakeholders report that VEDP staff have provided businesses with inaccurate information on VEDP services, as illustrated by the following example involving state incentive grants.

JLARC survey of VEDP staff included questions about VEDP staff roles, their divisions, their agency, and overall satisfaction levels with VEDP. A total of 93 VEDP staff (87 percent) responded to the survey.

International Economic Development Council (IEDC) is the primary professional association for economic development staff. IEDC has developed fundamental practices that are used by many state, regional, and local economic development organizations.

CASE STUDY
VEDP staff member promoted incentive grant to ineligible business

Problem: A VEDP project manager promoted the Commonwealth's Development Opportunity Fund incentive grant to a prospective business, although the project manager should have known that the business was not eligible for that particular incentive.

Cause: The project manager did not know the eligibility requirements for the Commonwealth's Development Opportunity Fund incentive grant.

Consequence: Business staff were confused and frustrated by the misinformation. The locality reported that the incident damaged its trust and partnership with VEDP.

VEDP's unstructured approach to training has not adhered to fundamental organizational management practices, and it has existed for several years. According to the International Economic Development Council (IEDC), onboarding training "is crucial to establishing a new worker in the economic development organization," because "all employees should understand their job's place within the organization [and] the responsibilities associated with their position." As early as 2012, consultants hired by VEDP recommended establishing an "organization-wide new hire orientation process that clearly outlines the expectations of the individual." In 2016, consultants reported that the problem persisted: "Many [staff] feel a lack of clear direction about what they are supposed to be doing," and this "lack of training and orientation is an obstacle to effectiveness."

Staff onboarding at South Carolina's Department of Commerce

All staff responsible for marketing to businesses are required to shadow senior staff for at least six months before executing their responsibilities independently.

To ensure that staff are effective, all new core service staff should receive sufficient onboarding training and all existing core service staff should attend routine skills training. Onboarding training should help staff to understand their individual roles and VEDP's policies and functions. Skills training should equip staff with VEDP-specific and job-specific skills (for example, data entry, sales tactics, project management, and division collaboration) and knowledge of VEDP's services and of Virginia's localities and industry sectors. Some skills training opportunities may be available through external entities, including the IEDC.

New VEDP onboarding procedures were received by JLARC staff in November 2016.

JLARC staff asked to review specific orientation materials for new staff, but VEDP did not provide them; therefore, the quality of the orientation materials could not be validated.

The new procedures do not address ongoing training for existing staff.

RECOMMENDATION 2

The Virginia Economic Development Partnership (VEDP) should ensure that all staff receive formal onboarding training within 30 days of their start date. VEDP should collect feedback through annual staff evaluations on the types of skills training that staff need, and provide such skills training annually.

VEDP lacks operational policies and procedures to guide its marketing activities

VEDP does not have written policies to guide its marketing staff on how to fulfill their job roles and market Virginia to potential business clients. Specifically, VEDP leadership has not developed any formal, written guidance for staff on (1) what services they are expected to provide for each of their customers (namely, businesses, site selection consultants, and economic development partners); (2) how to use their time effectively and efficiently during interactions with customers; and (3) what marketing message they should convey to customers. Absent such operational guidance, and without any meaningful training, staff are left to develop their own approach to interacting with customers. Staff have done so with poor results, according to several regional and local economic development organizations.

> *"There have been way too many instances of VEDP staff calling existing businesses without letting us know. Nine times out of 10 the business ends up calling us after VEDP visits anyway with questions. They are getting different messages. It is confusing to businesses."*
>
> **– Staff**
> Local economic development organization

Consultants have confirmed VEDP's lack of written policies and procedures to guide most staff activities. Most recently, a 2016 consultant review concluded that "VEDP lacks defined, documented processes to ensure smooth handoffs and to include the right people at the right time."

Creating formal, written policies and procedures for VEDP staff could improve the effectiveness and consistency of VEDP's marketing efforts. VEDP's International Trade division has developed formal, written policies and procedures that provide guidance for staff on how to conduct research, interact with customers, and enter program data into VEDP's database. These types of guidance could be developed for marketing staff.

RECOMMENDATION 3

The Virginia Economic Development Partnership (VEDP) should develop and implement formal, written policies and procedures that outline (i) what services staff are expected to provide, (ii) the steps staff should take to provide them, and (iii) under what circumstances staff should coordinate with other VEDP staff or external entities.

Job expectations are communicated too late to be actionable

VEDP leadership does not provide job expectations to staff in a timely manner. This undermines the ability of staff to do their jobs and VEDP's ability to deploy staff efficiently and effectively (sidebar). VEDP's human resources office confirmed that job expectations had not been communicated to any staff as of October 1, 2016 (three months after VEDP's structural reorganization), despite the fact that many staff are in newly created divisions or serving in new roles. Regarding the new job expectations, one staff member said, "I still haven't received my new position description. What am I going to do? I'm going to go back, sit at my desk, and eat popcorn."

Position descriptions are the primary tool that VEDP uses to convey staffs' job responsibilities and expectations. Each staff member's job expectations are relatively unique and can change annually.

VEDP's failure to provide staff with job expectations in a timely manner is not a new problem. VEDP's human resources office reported that all staff working in VEDP's former business attraction division received their job expectations *nine months* after the start of FY15. The delay undermined staff members' ability to understand and achieve their responsibilities for the year. In June 2016, consultants reported that VEDP staff members had not been given their FY16 job expectations. Performance evaluations, which would be based on the goals to be documented with those job expectations, were due a month later.

> "*I did not have a position description for the first 6 months of working here.... I found it difficult to prioritize expectations and strive for advancement without a concrete list of job requirements.*"
>
> **– Staff**
> VEDP

VEDP's human resources office confirmed that all existing staff are supposed to receive their job expectations within three months of the beginning of the fiscal year, and new staff within 30 days of their start date. According to human resources staff, the primary reason for delay is that division leadership have not approved position descriptions in a timely manner.

To ensure that VEDP leadership conveys staff responsibilities and job expectations in a timely manner, VEDP should hold supervisors accountable for communicating job expectations within VEDP's established deadlines.

VEDP leadership reported finalizing **FY17 job expectations** for all staff on October 31, 2016. Although JLARC staff requested copies of all FY17 job expectations, VEDP did not provide them for multiple staff, including all staff in the new Competitive Initiatives division.

RECOMMENDATION 4

The Virginia Economic Development Partnership (VEDP) should incorporate an expectation into supervisors' annual evaluations that they (i) provide new staff with their job expectations within 30 days of their start date and (ii) provide existing staff with their job expectations by October 1st of each fiscal year. VEDP should report annually to its board the percentage of staff that receive their job expectations within the established deadlines.

Core divisions do not coordinate, causing inefficiencies and confusion

VEDP's core divisions do not coordinate effectively. The lack of coordination undermines VEDP's ability to maximize the use of existing resources and staff expertise. According to staff, divisions at VEDP operate in silos, do not communicate often, and

VEDP staff perspectives on interdepartmental collaboration were collected through a JLARC survey. Results of the survey were compared to responses to a similar question used in the 2015 Federal Employee Viewpoint Survey.

track projects differently, despite having an overlapping customer base. Only 35 percent of VEDP staff, compared to 54 percent of federal employees, indicated that staff collaborate across division lines to accomplish shared work objectives (sidebar). Some staff reported coordinating across divisions on an ad hoc basis, but they perceived VEDP's structure and division leadership to discourage systematic coordination. The lack of structured coordination across divisions prevents VEDP from leveraging staff expertise across divisions. VEDP's lack of cross-divisional collaboration has been noted in all of its external consultant reviews since 2012. In 2016 a consultant documented the staff perception that "the current structure … holds VEDP back, while fostering territorial infighting, and silo-thinking."

Establishing cross-divisional coordination requirements and expectations would enable VEDP's core service divisions to leverage limited resources and ensure that VEDP presents a consistent message to customers and serves them efficiently. Coordination requirements exist in some staff members' job expectations but could be clarified through the creation of a comprehensive onboarding training for new staff and formal, written division policies and procedures. (Recommendations 2 and 3 would address this.)

VEDP leadership has not adequately monitored agency performance

VEDP has not assessed the performance of the organization and its staff using valid measures, which has enabled poor performance to go undetected. Existing agency-wide metrics do not accurately reflect the extent of VEDP's assistance with economic development projects or its true impact on job creation and capital investment, and they provide no measure of VEDP's service quality. In addition, the data that VEDP maintains on agency performance has limited integrity due to the way it has been collected over time. Shortcomings with VEDP's performance metrics and data have prevented VEDP from effectively monitoring agency-wide performance and making improvements where necessary.

Metrics do not convey agency performance

The primary metrics that VEDP uses to measure its performance agency-wide do not provide an accurate or comprehensive picture of VEDP's performance or its effectiveness at executing its statutory responsibilities. Currently, VEDP uses three principal metrics for marketing services: (1) number of announcements, (2) job creation, and (3) capital investment. These metrics reveal little about the extent of VEDP's involvement in a project, the quality of its assistance, and whether the project ever materialized. According to VEDP leadership, projects are labeled as "VEDP-assisted" whether VEDP's involvement accounted for five percent or 100 percent of the effort put forth by Virginia economic development entities. Such measures do not convey the actual value provided by VEDP. Additionally, VEDP's reliance on *expected* jobs and capital investment instead of *actual* jobs and capital investment prematurely attributes success to the organization even though some of the new jobs and capital investment never actually materialize.

The **service quality of VEDP's export promotion services** is measured but not reported to or reviewed by VEDP's CEO or board of directors.

VEDP should create additional metrics that provide a more comprehensive assessment of its project involvement, service quality, and impact. This approach is consistent with guidance from IEDC that "a few metrics should not be used to measure all elements of economic development, nor should they replace the possibility of more nuanced or qualitative metrics." It is also consistent with the measures used by other states, including Wisconsin, Michigan, and Connecticut. For example, Michigan's Economic Development Corporation reported customer satisfaction and regional wage increase as two of its key agency-wide metrics in FY15. Michigan reported the current value of these key measures, their target value, and their performance over time to provide a comprehensive picture of its service quality.

RECOMMENDATION 5

The Virginia Economic Development Partnership (VEDP), in collaboration with its board, should establish new, more accurate agency-wide performance metrics that better reflect VEDP's economic development activities, service quality, and impact.

Data integrity issues prevent VEDP from monitoring and improving marketing performance

VEDP's **customer relationship management database** is the primary means through which the agency tracks staff marketing activities and projects.

Compounding VEDP's inability to monitor and report on the effectiveness of its programs are the significant data integrity issues present at the agency. The data maintained in VEDP's customer relationship management database has not been entered correctly or consistently over time by staff. Consequently, VEDP cannot conduct a systematic analysis of the cost-effectiveness of its marketing activities or assess its overall performance. For example, important measures to evaluate the effectiveness of VEDP and its marketing activities, such as the number of prospects (or "leads") identified at a trade show, are largely unreliable because staff do not track them consistently. The primary reason for this inconsistency is that staff are not trained on how to enter data appropriately. Additionally, staff have not been held accountable for reporting the costs of each marketing event they attend. As a result, information that is necessary to evaluate the effectiveness and efficiency of VEDP activities is unavailable.

> *If you try to run a report, you can't really trust what you get. . . . [The Data Integrity Group] found that the definitions were not being used consistently across divisions and even within a division.*
>
> **– Staff**
> VEDP

Past consultant reviews have found VEDP's data integrity issues to be a problem. In 2016, the review found "the fact that leaders do not consistently hold people accountable is part of the reason for the data integrity issues. Having no set training is another reason."

To improve the integrity and reliability of its data, VEDP should clarify for staff the definitions of all data fields, train staff on proper data entry, and identify data fields that can be modified to prevent incorrect data entry.

RECOMMENDATION 6

The Virginia Economic Development Partnership (VEDP) should develop standard definitions for all data fields in its system and implement mechanisms to restrict incorrect data entry. VEDP should ensure that staff receive data entry training at onboarding and at least once every two years.

VEDP leadership has not held staff accountable for basic obligations

To date, VEDP leadership has not held staff accountable for their productivity, performance, or compliance with statutory requirements and agency policies. The fact that many VEDP staff have relatively high salaries compared to relevant benchmarks makes the lack of accountability especially problematic. VEDP's insufficient accountability structures render the agency unable to deploy its resources efficiently and effectively.

Staff are aware of the lack of accountability at VEDP, and many are apathetic about their productivity and performance. For example, when a staff member was asked whether their most recent performance evaluation was a fair reflection of their performance, the staff member said, "You know what? I don't care." Another staff member responded, "Positive results at VEDP do not matter." A management consultant that reviewed VEDP in 2016 also found that "most [staff] agree that there is little accountability."

Staff are not held accountable for productivity

VEDP leadership does not systematically track when staff arrive at work, the number of hours that staff work, or how staff allocate their time. Consequently, supervisors cannot hold staff accountable for their productivity and leaders have to trust their staff to be productive. VEDP's failure to track staff members' work hours and time allocation compromises its ability to use its resources efficiently and divert resources away from unproductive activities when appropriate.

> *"For the most part, [our manager] doesn't care how we spend our time."*
>
> **– Staff**
> VEDP

According to multiple staff, including staff in VEDP's administrative offices, an unknown but significant number of staff have routinely shown up for work late, left early, and have not reported their leave. These actions are in violation of VEDP's employee handbook, which outlines when staff should start work and how long they should work, and the extent of the problem is unknown.

A formal time allocation system, such as the one offered at no cost to state agencies by the Department of Human Resource Management (DHRM), would enable VEDP to more systematically track the number of hours that staff work and how staff spend their time during the day. A time allocation system would also help VEDP supervisors to ensure that staffing resources are allocated efficiently and allow for adjustments as appropriate.

RECOMMENDATION 7
The Virginia Economic Development Partnership should track when staff arrive and depart every day and establish a warning system and penalties for staff who do not report to work on time or do not work the hours prescribed in agency policy.

RECOMMENDATION 8
The Virginia Economic Development Partnership should (i) use the time allocation system that is managed by the Department of Human Resource Management; (ii) require staff to use the system to report their time worked and activities performed each day; and (iii) use the data collected to assess the allocation of staff resources and redirect as appropriate to efficiently and effectively meet agency objectives.

DHRM's time allocation system was used by 59 state agencies as of August 2016.

Staff are not held accountable for performance and compliance

VEDP does not hold staff accountable for fulfilling their job expectations, greatly reducing VEDP's ability to deploy its resources efficiently or effectively. Multiple staff have reported that they have not been penalized for failing to achieve the quantitative or qualitative metrics in their written job expectations. This is partly because many staff receive their expectations too late in the fiscal year to be actionable. It is also because some metrics used in staff job expectations have not been within staff members' direct control (as with jobs and capital investment outcomes) and have been difficult for supervisors to measure and enforce (as with cross divisional collaboration). According to DHRM staff, VEDP staff members' written job expectations "rely heavily on words like collaborate and coordinate rather than action verbs… [which] can make it hard to pin down accountabilities and exactly who's ultimately responsible for certain tasks."

Improvements to individual metrics are necessary to hold staff accountable for their performance. In November 2016, VEDP provided JLARC staff with new measures against which staff will be evaluated. VEDP should consult with IEDC to assess the appropriateness of these new metrics and revise staff members' job expectations accordingly.

VEDP's **new FY17 job expectations** no longer measure marketing staff based on each staff member's job creation and capital investment outcomes.

RECOMMENDATION 9
The Virginia Economic Development Partnership should request a review by the International Economic Development Council of staff performance metrics to ensure they are measurable and appropriate to hold staff accountable. VEDP staff should report the results of the review, and any changes made, to the VEDP board of directors for their review.

VEDP also does not hold staff accountable for adhering to existing agency policies or statutory requirements, reducing the ability of VEDP to deploy its resources efficiently or effectively. For example, VEDP staff do not adhere to existing agency policies that require marketing materials to be approved by VEDP's communications and promotions division, according to staff interviews. Instead, marketing staff develop their materials independently, without consequence. This has compromised VEDP's ability to convey clear and effective messages to potential business clients and other stakeholders. Additionally, VEDP staff responsible for administering incentive grants have not recouped grant money from businesses that should have repaid at least a portion of their grant award according to Virginia statute.

To increase staff accountability, VEDP leadership should penalize staff for failing to adhere to their job expectations, agency policies, and statute. Such penalties could be implemented through VEDP's performance evaluation process.

RECOMMENDATION 10

The Virginia Economic Development Partnership (VEDP) should revise its performance evaluation process to include an assessment of staff adherence to agency policies and statutory requirements. VEDP should establish and enforce penalties for staff who do not follow agency policies or statutory requirements.

Salary levels are relatively high despite concerns about productivity and compliance

Despite not being held accountable for their productivity, performance, or compliance with statutory requirements and agency policies, many VEDP staff have higher salaries than relevant benchmarks. The majority (65 percent) of VEDP's marketing and export promotion staff had higher salaries than similar economic developers in 2014 (sidebar). In addition, 89 percent of VEDP staff across all divisions had higher salaries than similar Virginia state employees in 2016.

JLARC analysis of VEDP salaries included comparisons of VEDP staffs' base salaries to economic developers in the South who completed the International Economic Development Council 2014 Salary Survey and Virginia state employees in similar positions in 2016.

(See Appendix B for more about the methodology for this analysis and Appendix D for detailed findings.)

Still, staff do not believe that VEDP sufficiently incentivizes positive performance, and this has accelerated staff turnover. Forty-four percent of VEDP staff reported dissatisfaction with their current pay, and many staff who left VEDP in recent years indicated in exit interviews that dissatisfaction with salary levels contributed to their decision to leave. Given that staff actually appear to be paid more than relevant benchmarks, staff members' negative perceptions of VEDP salaries likely stem from their unfamiliarity with VEDP's salary ranges and policies for salary increases. Allowing staff to continue believing that their compensation is low would be detrimental to VEDP.

To give staff members assurance that VEDP rewards positive performance, VEDP should clarify for staff the process for determining salary levels and awarding salary increases. VEDP should explain these policies to new staff during onboarding training (Recommendation 2) and to existing staff through an agency-wide presentation.

VEDP leadership has not prioritized coordination with external entities

Despite being highly reliant on external actors to accomplish its mission efficiently and effectively, VEDP has not prioritized coordination with other economic development entities, causing frustration among key partners and duplication of certain services. Currently, VEDP does not have meaningful policies or procedures in place to coordinate economic development activities with state, regional, local, and other economic development stakeholders. Throughout JLARC's review, stakeholders reported frustration and confusion with VEDP services, particularly with VEDP's services to existing businesses.

Interviews with state, regional, and local economic development staff

JLARC staff conducted in-person and phone interviews with staff at seven state agencies and secretariats and 15 local and regional economic development organizations from different areas of the state. Interviews focused on entities' experiences with VEDP services and the level of coordination of economic development initiatives across the state.

VEDP leadership has known since at least 2012 that VEDP has not adequately coordinated its efforts with its economic development partners in the state. In 2012, a consultant found that VEDP was "not as closely connected as it could be to its statewide allies and partners" and recommended that VEDP build stronger partnerships. A 2016 consultant report noted that "[VEDP staff] feel a need for more focus on supporting local and regional economic developers."

For example, VEDP's services to existing businesses are poorly coordinated. Many of Virginia's regional and local economic development organizations questioned the effectiveness and need for VEDP's efforts to market to and interact with existing businesses in the state during interviews with JLARC staff. Most regional and local economic development organizations indicated that they currently provide business expansion services and are well positioned to do so, and that VEDP's role in this area has been largely duplicative of their own efforts. However, some smaller localities with fewer resources to support existing businesses place a higher value on the support that VEDP has historically provided to existing businesses. In the future, VEDP should systematically evaluate and tailor its services for existing businesses to fit the needs of Virginia's regional and local economic development organizations. (Recommendation 1, if implemented, would address this issue.) (See Chapters 3 and 5 for other examples of inadequate coordination.)

"*One size doesn't fit all. VEDP needs to tailor their services depending on what is needed locally. . . . It is redundant for VEDP to make calls in those areas already engaged in business expansion.*"

– Staff
Regional economic development organization

VEDP has not systematically encouraged the coordination of the state's economic development efforts, despite statutory requirements to do so. VEDP is required to "encourage the coordination of the economic development efforts of public institutions, regions, communities, and private industry" (§ 2.2-2238). However, VEDP does not currently have a plan or process to meet this statutory requirement, and only five of the 12 regional and local entities that were asked about coordination agreed that VEDP has effectively performed this responsibility. Staff at regional and local economic development organizations indicated that VEDP used to be more effective at supporting the coordination of economic development activities. For example, VEDP used to hold quarterly meetings for regions and localities to discuss important changes in economic development. In addition, VEDP used to require new marketing staff to take a tour of the state's regions to acquaint them with local and regional economic development staff.

To improve and prioritize VEDP's coordination with other entities, VEDP should regularly and systematically collect and assess the perspectives of the agency's state, regional, and local economic development partners through a biennial survey. This survey could serve as the mechanism for implementing the board's recently adopted policy of soliciting stakeholder feedback every two years. The survey should be designed to help VEDP identify opportunities to more effectively coordinate with other entities and to fulfill its statutory responsibility to encourage coordination. VEDP should report the results of all surveys to the board of directors and use the results to tailor its future services and program offerings.

RECOMMENDATION 11

The Virginia Economic Development Partnership (VEDP) board of directors should require staff to systematically collect and assess the perspectives of VEDP's economic development partners on how VEDP could more effectively coordinate its services with other organizations and encourage coordination within the broader economic development system. The survey should be conducted at least once every two years. VEDP should report the results of all surveys to its board and use the results to tailor its future services and program offerings.

3 Effectiveness at Marketing Virginia and Promoting International Exports

SUMMARY VEDP has not effectively marketed Virginia to new and existing businesses, but it has demonstrated success at promoting international exports from Virginia. VEDP's marketing services have not been guided by a marketing plan, effectively targeted, or systematically evaluated. Consequently, VEDP's efforts to market Virginia have been reactive and limited in their effectiveness, and the value added by VEDP has been overstated. In contrast, VEDP's export promotion services largely adhere to fundamental industry practices, are well regarded by customers, partners, and staff of VEDP-equivalent entities in other states, and have demonstrated positive results. Still, VEDP could improve its international export services by ensuring they are well coordinated with VEDP's international marketing efforts and by collecting more information about customers to better evaluate its coverage and effect on exporting activities from Virginia. Virginia may wish to reconsider its current plan to split international trade from VEDP and create a separate agency, which may not be necessary to achieve the desired objectives and could further weaken the already inadequate coordination between marketing and export activities.

VEDP's approach to supporting the growth of Virginia's economy has focused chiefly on marketing to businesses inside and outside of Virginia and promoting the growth of exports from Virginia businesses. These two "core" services use the majority of VEDP's funding (60 percent) and staffing resources (52 percent). In August 2016, VEDP's marketing divisions—business attraction and business expansion—were combined into a single business investment division. The practices and processes related to these core services remain relevant despite these recent organizational changes.

Although it is difficult to objectively assess the effectiveness of economic development marketing services, certain fundamental practices enable economic development organizations like VEDP to efficiently and effectively promote their communities. The fundamental practices for marketing and international trade have been formulated by the International Economic Development Council (IEDC), the leading professional organization for the economic development industry.

International Economic Development Council (IEDC) is the primary professional association for economic development staff. IEDC has developed fundamental practices that are used by many state, regional, and local economic development organizations.

VEDP's unstructured approach to marketing compromises its effectiveness

VEDP has not taken basic steps to ensure it is effectively and efficiently marketing Virginia to new and existing businesses. Despite having the statutory responsibility to "see that there are prepared and carried out effective economic development marketing and promotional programs," VEDP has done little to systematically plan, control, or evaluate its marketing activities, and it has not followed fundamental practices for effective economic development marketing. As a result, VEDP's marketing services have been largely reactive and have generated substantially fewer location and expansion decisions ("announcements") than reported by the agency.

VEDP does not follow fundamental economic development marketing practices

VEDP does not fully adhere to any of the fundamental practices identified as necessary to effectively market a community to new and existing businesses. In particular, VEDP lacks a well-informed marketing plan, does not target its services to strategically important businesses, does not systematically coordinate with state, regional, and local partners, and does not evaluate the effectiveness of its marketing activities (Table 3-1). Instead, VEDP's marketing efforts have been largely unstructured and guided by the preferences of individual marketing staff. This approach compromises VEDP's ability to identify the best opportunities for the state and deploy its resources efficiently and effectively.

TABLE 3-1
VEDP's marketing efforts do not fully adhere to any fundamental industry practices for effective marketing

Fundamental industry practice	VEDP practices	Additional details
Develop and implement a well-informed marketing plan with clearly defined goals	○	VEDP lacks well-informed marketing plan
Target marketing efforts to businesses and industries that are the best fit for the state	⊙	VEDP developed lists of businesses to contact but staff not required to use it
Communicate a clear and effective message	⊙	VEDP has protocols for developing marketing materials, but staff not required to follow them
Coordinate marketing efforts with relevant economic development organizations	⊙	VEDP does not systematically coordinate marketing efforts with other organizations; only publishes calendar of events that others may attend
Regularly evaluate the effectiveness of marketing activities	○	VEDP does not regularly or systematically evaluate effectiveness of its marketing activities
Develop and maintain relationships with site selection consultants	◉	VEDP directs staff to develop relationships with consultants, but does not provide guidance or hold staff accountable for doing so
Maintain an inventory of community assets	⊙	VEDP maintains site database, but it lacks many details necessary for businesses to evaluate sites

Key ○ ⊙ ◉ ◉ ●
Not implemented — Fully implemented

SOURCE: Economic Development Marketing and Attraction, International Economic Development Council (2011); Business Retention and Expansion, International Economic Development Council (2011); review of agency documents and data; interviews with VEDP staff; survey of VEDP staff.

VEDP's marketing efforts are not guided by a well-informed marketing plan

VEDP does not have a structured, well-informed marketing plan to promote the state's competitive advantages. VEDP publishes an annual list of events for staff to attend through its marketing calendar, but staff marketing activities (for example, attending trade shows, visiting companies, hosting sports events) have largely been unstructured and determined by ideas or preferences of individual staff. This approach risks ineffective and inefficient activities that are not strategically aligned with the state's economic development priorities.

> *"VEDP has been operating without a marketing strategy."*
>
> – **Interim CEO**
> VEDP

According to the IEDC, it is "imperative" for economic development organizations to develop a marketing plan with clearly defined goals. Marketing plans should be informed by a sound analysis of a community's competitive advantages, identify industries that would be a good fit with the state's assets, and include input from relevant external stakeholders. A well-informed marketing plan allows economic development organizations to (1) operate proactively rather than reactively; (2) communicate to stakeholders what goals it is trying to achieve and how it will achieve them; (3) coordinate the activities of relevant actors; and (4) guide management actions and resource allocations.

VEDP is also required by statute to "prepare a specific plan annually that shall serve as the basis for marketing high unemployment areas of Virginia," but has not done so in practice. While VEDP's annual reports have acknowledged this statutory responsibility and claimed that "aggressive implementation of [VEDP's] Distressed Area Strategy yields results" since at least FY04, no such strategy or plan actually exists at VEDP.

To ensure that resources are used more efficiently and effectively, and are aligned with the state's economic development priorities, VEDP should develop and adhere to a formalized marketing plan. The plan should include, at a minimum, (1) an identification of marketing goals; (2) specific activities and timetables to achieve the goals; (3) the resources and staff allocated to the marketing activities; and (4) how VEDP will evaluate the effectiveness of its marketing activities.

VEDP does not target its marketing efforts to industries that are a good fit for the state

VEDP does not systematically focus its limited marketing resources on industries that align with Virginia's competitive advantages or regional and local economic development priorities. VEDP's research division has attempted to provide some structure to VEDP's marketing activities by developing lists of companies with growth potential for staff to contact, but these lists were developed without a clear marketing plan or feedback from regions and localities, and staff have not been required to use these lists. Instead, marketing staff determine the companies and industries they would like to pursue based on their own preferences and priorities, and fewer than half (12 out of 25) of VEDP marketing staff who responded to JLARC staff's survey agreed that "VEDP targets its marketing resources to industries that would be a good fit for Virginia and its regions." This approach not only limits the potential reach of VEDP's

JLARC survey of VEDP staff included questions about VEDP staff roles, their divisions, their agency, and overall satisfaction levels with VEDP. A total of 93 VEDP staff (87 percent) responded to the survey.

VEDP's August 2016 reorganization created new "**industry teams,**" to shift marketing activities away from a geographic-based approach, which was used by VEDP since 2012. Details of these changes, including staff roles and responsibilities, had not been finalized as of October 1, 2016.

marketing activities but also risks wasting marketing resources on industries that are not economically viable in Virginia. The IEDC explicitly states, "concentrate on those industries best suited for your community, based on sound market research and analysis. . . . Do not market to industries that cannot operate economically in your area."

To maximize the impact of VEDP's limited marketing resources, VEDP should include a prioritization of industries that align with the available assets and priorities of the state's regional and local economic development entities in its future marketing plan.

VEDP has not ensured staff are delivering consistent and effective marketing messages

VEDP has not adequately controlled the messages being delivered to prospective businesses and site selection consultants, which compromises its ability to effectively convey Virginia's competitive advantages to potential customers. VEDP marketing staff receive no structured guidance or training on what message to deliver to potential customers, and staff independently decide and deliver their own messages and marketing tactics. Describing VEDP's lack of guidance on messaging that should be conveyed to businesses, one marketing staff member told JLARC staff,

"Our marketing efforts are beyond horrible."

– Marketing staff
VEDP

> We were told to proactively call companies without any tools. Companies have no reason to be talking to us. What is our elevator pitch? We don't have one. That's what has really been missing.

Additionally, staff reported regularly generating and delivering their own marketing materials, which runs counter to VEDP's policy requiring staff to receive approval of marketing materials from the Communications and Promotions division before their use.

To enable VEDP to deliver an effective and consistent message to potential prospects, VEDP should enforce its policies regarding the development and use of marketing messages and materials and establish a process whereby staff are regularly provided training on VEDP's intended message and how staff are expected to convey this message.

VEDP does not systematically coordinate its marketing activities with key external entities, causing duplication and eroding trust

Joint marketing activities

VEDP staff occasionally attend events with other state, regional, and local entities. For example, VEDP and the Virginia Port Authority attend an annual familiarization tour together. Joint marketing activities largely occur on an ad hoc and informal basis.

VEDP does not systematically coordinate its marketing efforts with external entities, according to staff at state, regional, and local economic development organizations and a review of agency documents, risking both inefficient and ineffective marketing practices. Although VEDP generates a list of events that organizations can attend through its marketing calendar, the calendar is not developed in concert with regions and localities and does not reflect their marketing priorities and goals. By not adequately coordinating its marketing efforts with external entities, VEDP has not maximized the impact of its marketing resources and has risked sending contradictory messages to prospective businesses. It has also eroded the trust between VEDP and its partners, according to staff of regional and local economic development organizations, most of whom appear to view marketing to existing businesses as their responsibility, not VEDP's. Several regional and local staff interviewed by JLARC staff reported being frustrated when they found out VEDP staff were marketing to existing businesses in their communities without their knowledge and viewed VEDP's role in this area as largely duplicative of their own.

To better coordinate marketing efforts with regional and local economic development organizations, VEDP should ensure that its future marketing plan includes strategies for how it will accomplish its goals in coordination with relevant external entities.

VEDP's services to existing businesses have been limited to marketing activities. VEDP has not designed or implemented strategies to proactively support the retention of businesses that are at-risk of closing or leaving the state, although required to do so in statute (§ 2.2-2238).

VEDP does not regularly or systematically evaluate the effectiveness of its marketing efforts

VEDP does not systematically evaluate the effectiveness of its marketing efforts, challenging its ability to understand its success, adjust its approach, and convey its value to the state. VEDP's data integrity problems and its lack of a formal, systematic evaluation process (Chapter 2) prevent a routine and systematic evaluation of past marketing activities. Ultimately, this challenges VEDP's ability to identify opportunities to focus its efforts on the most cost-effective marketing. Additionally, VEDP cannot produce a reliable assessment of its marketing efforts that demonstrates to the VEDP board of directors, legislators, and taxpayers that it is using its marketing resources as efficiently and effectively as possible.

According to the IEDC, it is important that economic development organizations, like VEDP, regularly (every quarter or six months) evaluate marketing efforts to ensure they are cost-effective and efficient. Regular evaluations make it more likely that organizations will limit ineffective marketing activities in support of more effective activities. VEDP should develop and implement a process to systematically evaluate the effectiveness of its marketing activities in concert with data integrity improvements.

VEDP demonstrates mixed results in developing and maintaining relationships with site selection consultants

VEDP appears to be moderately successful at developing and maintaining relationships with site selection consultants, who help companies identify locations for their relocation and expansion projects. Almost two thirds (14 of 23) of Site Selectors Guild members who responded to JLARC staff's survey agreed that VEDP staff develop and maintain strong relationships with them and keep them updated on important developments in Virginia (sidebar). However, respondents indicated that these relationships could be improved if VEDP executed a more concise marketing campaign, engaged in occasional personal visits, and focused on what sets Virginia apart from its competitors. Effectively building and maintaining relationships with site selection consultants increases the likelihood that they will remember aspects of a community or state that could meet future clients' needs.

The **Site Selectors Guild** is an international professional organization of leading site selection consultants. Members of the Site Selectors Guild must be peer-nominated to be considered for acceptance into the organization. JLARC staff surveyed all 41 members of the Site Selectors Guild and received responses from 25 (61 percent response rate). Of the 25 who responded, two indicated a lack of familiarity with VEDP.

Certain VEDP marketing staff have been required to interact with site selection consultants, but have not received any guidance for how to do this; additionally, staff report not being held accountable for doing so in practice. To improve its relationships

"It is not enough to know that a site has water, for example. I need to know how much water and if they have a source of raw water."

– Consultant
Site Selectors Guild

with site selection consultants, VEDP should provide staff with formal guidance on how they are expected to interact with and maintain relationships with these key customers, as well as hold staff accountable for maintaining such relationships.

VEDP maintains a website of available sites and buildings for businesses and site selection consultants, but the website does not include most of the data elements that IEDC has identified as important for site selectors and businesses to comprehensively evaluate sites for potential relocations or expansions. (Appendix E compares data elements included on VEDP's website to IEDC's data standards.)

Key customers indicate VEDP is responsive but not effective at promoting Virginia

"The research team is phenomenal as a support function. Sometimes they know more about the projects than the [marketing staff]. They also provide support for local and regional groups when needed."

– Staff
Regional economic development organization

VEDP appears to be responsive to the needs of customers when contacted, but key customers indicate VEDP's proactive marketing activities are largely ineffective. According to most members of the Site Selectors Guild that reported having interacted with VEDP, staff respond to information requests in a timely manner with clear and concise answers. Responses to information requests are supported in large part by VEDP's research division, which was also widely cited by staff at VEDP, state agencies, and regional and local economic development organizations as providing quality and timely information and services when requested.

However, VEDP's proactive marketing efforts appear to have a moderate to minimal impact on key customers' awareness of Virginia and its competitive advantages. In JLARC staff's survey of members of the Site Selectors Guild, only three of 23 (13 percent) site selectors familiar with VEDP indicated that VEDP's marketing efforts had a "major effect" on their awareness of the competitive advantages of Virginia. Additionally, none of the 20 site selection consultants considered Virginia to be among the top three states at marketing their competitive advantages. (Three respondents did not respond to this question.) Virginia's absence from this list was further underscored by the fact that two of Virginia's top competitors, South Carolina and Georgia, were listed numerous times.

VEDP overstates the value added by its marketing efforts

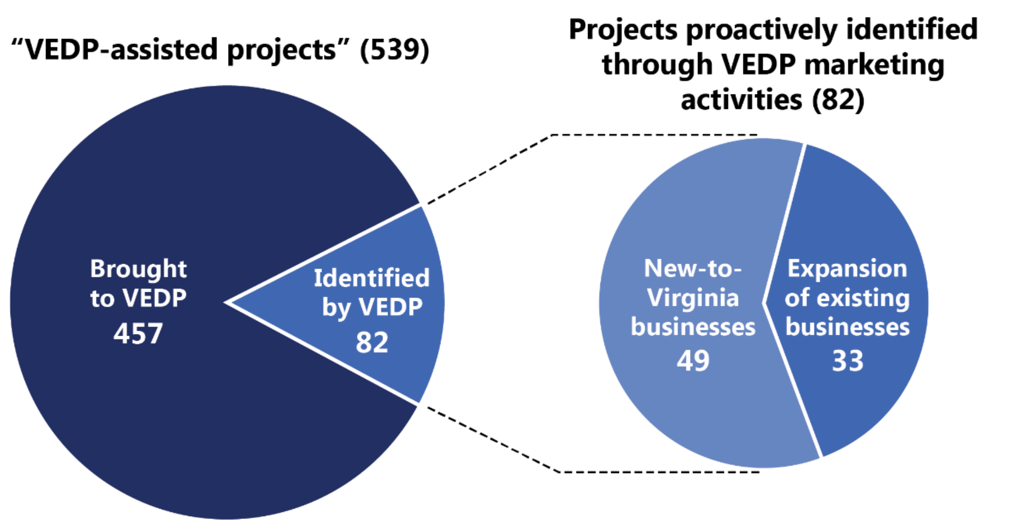
"There is not a situation where VEDP calls us with a prospect that we didn't already know about."

– Staff
Local economic development organization

The extent of VEDP's marketing success is not accurately conveyed through VEDP's current performance measures that are reported to its board of directors and external stakeholders. For example, according to information presented to the board in March 2016, VEDP staff provided "assistance" with 173 projects for new businesses and 366 projects for existing businesses between FY13 and FY15. However, according to JLARC staff analysis of VEDP data, only an estimated 15 percent of these projects were proactively identified by VEDP through its own marketing efforts during this timeframe (Figure 3-1). The majority of these projects were brought to VEDP by regional and local economic development staff, site selection consultants, staff at other state entities, or businesses. Almost all regional and local staff interviewed for this study reported that their primary reason for bringing projects to VEDP is to apply for state incentives for potential relocation and expansion projects.

In the absence of reliable benchmarks, it is difficult to establish appropriate goals regarding the number of projects that VEDP should proactively generate for new and existing businesses each year. However, more transparent reporting of VEDP's actual involvement in the projects it reports would enhance the board of directors' ability to evaluate the actual effect of VEDP's marketing activities and support future internal evaluations.

FIGURE 3-1
VEDP overstates its role in Virginia's economic development success (FY13–FY15)



SOURCE: JLARC staff analysis of data maintained in VEDP's customer relationship management database related to project announcements for new and existing Virginia businesses and review of March 2016 VEDP board of directors meeting materials.
NOTES: "VEDP-assisted projects" include all relocation or expansion projects reported by VEDP staff to the VEDP board of directors. VEDP marketing activities exclude projects initially identified through the Virginia Jobs Investment Program or data center agreements with companies, which are reactive in nature.

RECOMMENDATION 12
The Virginia Economic Development Partnership (VEDP) should develop and adhere to a written annual marketing plan that includes, at a minimum, (i) an identification of VEDP's specific and measurable marketing goals; (ii) specific activities and timetables to achieve the goals; (iii) the resources and staff allocated to the marketing activities; and (iv) how VEDP will evaluate the effectiveness of its marketing activities. The plan should concentrate goals and activities on marketing to industries that align with the statewide economic development strategy, the state's available economic development assets, and the priorities of other state, regional, and local economic development entities. The plan should include strategies for how VEDP will accomplish its goals in coordination with state, regional, and local marketing organizations.

RECOMMENDATION 13
The Virginia Economic Development Partnership (VEDP) should establish and require marketing staff to attend an annual training that provides instruction on VEDP's marketing message, how staff should communicate this message to customers, and the process for getting marketing materials approved. VEDP should include a measure of whether staff have complied with training requirements and the approval process in their performance evaluations.

RECOMMENDATION 14
The Virginia Economic Development Partnership (VEDP) should develop and implement a formal process to regularly and systematically evaluate the effectiveness of its marketing initiatives, and use this information to redirect resources away from ineffective activities as appropriate. VEDP should provide its board of directors with a report on the effectiveness of its marketing initiatives at least once per quarter.

RECOMMENDATION 15
The Virginia Economic Development Partnership should update its site and buildings database to ensure that it meets the site selection data standards established by the International Economic Development Council and include details on the percentage of the data standards met in its annual reports to its board of directors.

RECOMMENDATION 16
The Virginia Economic Development Partnership (VEDP) should improve the transparency of its marketing performance measures that are reported to its board of directors by showing, at a minimum, (i) the percentage of announced projects that were initially identified by VEDP through its own marketing efforts versus those that were brought to VEDP by another entity, and (ii) the nature and degree of VEDP's involvement in projects reported having received VEDP assistance.

VEDP has demonstrated success in promoting international exports

VEDP export promotion services include trade missions, export training, and international market research.

VEDP's export promotion (international trade) programs have demonstrated success in assisting Virginia companies with selling their products in international markets. VEDP's programs aimed at promoting growth in international exports largely follow fundamental industry practices, are held in high regard by stakeholders and staff at VEDP-equivalents in other states, and have demonstrated positive results. Still, VEDP could improve its practices by collecting additional information to evaluate its performance, and by ensuring international marketing and export promotion efforts are well coordinated. The proposed separation of all export promotion services from VEDP does not appear to be necessary to achieve the intended benefits described by proponents. Separating the state's primary international export services from its primary international marketing services could exacerbate the already inadequate coordination between the two functions.

VEDP largely adheres to most fundamental industry practices to ensure export programs are effective

VEDP's export promotion services largely follow most of the industry practices necessary to ensure they are both relevant to customers and effective. In particular, VEDP's export promotion services are intentionally designed to promote awareness among Virginia companies of the benefits and process of exporting, support companies that are ready to export, and reflect the diversity of the state's exporters (Table 3-2). VEDP has also consistently tracked several meaningful performance measures that allow for an understanding of the agency's performance in this area.

TABLE 3-2
VEDP largely adheres to most industry practices for effective export promotion

Fundamental industry practices	VEDP practices	Additional details
Provide services that promote export awareness and international trade	●	VEDP provides variety of services to support increased awareness and exports; services include export training, access to international market research, and trade logistics assistance
Ensure programs reflect state's exporting potential	◉	VEDP provides export services to variety of sectors, but could collect more granular information
Target services to firms best served by export programs	◉	VEDP does not conduct systematic outreach to companies, but screens participants in order to serve only those that have demonstrated export readiness
Develop and use meaningful performance measures	◉	VEDP uses several meaningful performance measures (for example, customer satisfaction and impact of program participation) but could use additional measures
Develop and coordinate an exporting network	●	VEDP has developed exporting network composed of global research contractors, private-sector partners, and federal partners; includes industry associations and public universities
Coordinate marketing and export promotion efforts	○	VEDP does not currently coordinate its export promotion and international marketing efforts, which are carried out by different divisions

Key ○ ⊙ ◉ ◉ ●
Not implemented — Fully implemented

SOURCE: JLARC staff analysis of VEDP documents, policies, and practices using fundamental industry practices indicators derived from the International Economic Development Council, U.S. Department of Commerce International Trade Administration, and National Governors Association.

VEDP's export promotion programs are intentionally designed to provide value to customers

VEDP's export promotion programs follow several fundamental industry practices intended to support effective and efficient services, including supporting both exporter awareness and international exports, providing services that reflect the exporting potential of the state's diverse industries, and focusing its resource-intensive programs on companies that could benefit the most from its services. To accommodate companies at different stages of export readiness, VEDP provides a diverse range of services, including basic educational resources for companies considering exporting to international markets and intensive two-year exporting courses designed for export-ready companies.

VEDP has also intentionally designed its programs to reflect the state's exporting potential. One way it has done this is by tailoring its services to be of value to both manufacturing and service industries. Supporting both types of industries, rather than focusing solely on manufacturing industries, is important because service-based companies represent a very high and increasing share (87 percent) of all companies in Virginia. Additionally, VEDP's Going Global Defense Initiative, which is designed to help defense-related companies, reflects the importance of the defense industry to the state's economy. As of 2014, Virginia's gross state product was more reliant on defense spending than any other state, according to a report from the U.S. Department of Defense.

VEDP has also designed its more resource-intensive programs, such as the two-year Virginia Leaders in Export Trade (VALET) program and the State Trade and Export Promotion (STEP) program, to serve those companies that can benefit the most from VEDP assistance. For example, to participate in the VALET program, companies must demonstrate their export readiness through a variety of indicators including profitability, size, and financial investment in exporting over the previous twelve months. Targeting services to companies best served by export assistance is a key strategy for maximizing limited resources, according to sources such as the International Trade Administration and the IEDC. This approach supports VEDP's ability to target its resources efficiently to those companies whose export activities it can most likely affect.

VEDP regularly and systematically collects meaningful performance data to evaluate and improve the effectiveness of its export promotion programs

Customer feedback is solicited at specific milestones for VEDP's export promotion services. VEDP's international trade staff send an electronic survey called a Client Impact Statement (CIS) to individual companies that have participated in trade programs.

VEDP's export promotion staff have regularly collected information necessary to understand and improve program performance for the past 16 years. To understand the quality of export services, VEDP regularly and systematically collects customer feedback for trade services and adjusts services or relationships with contractors when customer feedback is negative. To understand the effect of export services, VEDP export promotion staff collect pre- and post-program data on growth in export values; projected growth in export sales; and the role VEDP played, if any, in securing an international sale or reaching another international business milestone. These measures enable VEDP export promotion staff to evaluate and adjust programs where appropriate or necessary to improve service quality for customers.

VEDP has developed and coordinates an exporting network to assist Virginia companies

VEDP has developed an exporting network that includes international contractors and federal, state, regional, and local partners to assist Virginia companies with accessing and increasing sales in international markets. Through its network of pay-as-you-go international contractors, VEDP provides companies access to in-country market research and support, including export documentation support and commercial representation overseas. VEDP also collaborates with federal partners through its Going Global Defense Initiative and STEP programs, and has established formalized partnerships with 11 public universities and four industry associations through the Virginia International Trade Alliance initiative. Exporting networks that include federal, state, regional, and private-sector entities can increase the efficiency and effectiveness of export promotion efforts by facilitating relationships and connecting companies to the specific export resources they need. Coordinating efforts can also minimize unnecessary overlap and duplication by ensuring all relevant actors are aware of the services provided by other entities.

As one example of its exporting network, VEDP recently partnered with the Greater Richmond Partnership, Virginia Gateway Region, and Virginia Commonwealth University to grow export sales for small and medium-sized businesses in the Richmond metropolitan area by 40 percent over a five-year period. Technical support and funding for the initiative will be provided by the Brookings Institution and JPMorgan Chase.

VEDP's inattention to coordinating international marketing and export promotion efforts risks limiting VEDP's impact and efficiency

VEDP does not coordinate its international marketing and export promotion services, which can result in missed opportunities to promote awareness of Virginia's competitive advantages abroad and support increased international investment in Virginia. Survey and interview responses from VEDP staff indicate that virtually no coordination presently occurs between export promotion and marketing staff at VEDP. As one trade staff member described it, "We sit in the same building, but that's about as collaborative as it gets."

From 2006 to 2012, international marketing and international trade staff at VEDP were hired, trained, and managed by a single director. After a reorganization in 2012, staff with marketing and trade responsibilities were separated into different divisions.

Coordinating international marketing and export promotion activities is an important component of successful internationally-focused economic development efforts, according to subject-matter experts and the IEDC. In addition to helping businesses sell their products to foreign markets, successful export promotion programs can support increased awareness within these foreign markets of a state's businesses, products, and competitive advantages—a central goal of international marketing efforts. States can also use export promotion programs to build trusted relationships within foreign markets and proactively identify companies in those markets that are considering expanding their presence in the United States.

VEDP should develop formal mechanisms to institutionalize and formalize coordination across VEDP's marketing and export promotion services. Possible approaches to institutionalizing formal coordination mechanisms could include designating staff whose roles and responsibilities include ensuring active communication between the two functions or embedding coordinated activities where appropriate in the business process workflow and planning activities. Another mechanism that could support more coordinated services is to require greater information sharing across divisions about companies that are served by both marketing and export promotion staff. Currently, data on customers served is not shared across divisions, even though JLARC staff identified over 90 companies that interacted with both VEDP marketing staff and export promotion staff between FY13 and FY16.

RECOMMENDATION 17

The Virginia Economic Development Partnership (VEDP) should develop formal mechanisms to support ongoing coordination and communication between its marketing and export promotion services and measure the success of these mechanisms. VEDP should report these measures of success at least annually to its board of directors.

Stakeholders and economic developers in other states have positive perceptions of VEDP's export promotion services

Stakeholders that have utilized VEDP's export promotion services generally view their experiences as positive, and external entities hold VEDP's international trade programs in high regard. Most customers report satisfaction with VEDP's export promotion programs, according to VEDP surveys of its customers. Over 90 percent of customers reported being satisfied with the trade services they received between FY11 and FY15, compared to a goal of 80 percent approved by the VEDP board. Companies attribute increased export opportunities to international trade services in multiple program areas, including VALET, trade missions, and global research, according to a random sample of customer survey comments analyzed by JLARC staff.

State agency staff, regional and local economic developers, industry groups, and subject-matter experts consistently referred to VEDP's export promotion services as high quality during interviews with JLARC staff. Local economic developers in particular reported that VEDP's export promotion staff coordinate effectively and provide quality services to companies in their respective communities.

Personnel in several other states also expressed positive perceptions of VEDP's export promotion services during JLARC staff interviews. For example, the CEO of the Wisconsin Economic Development Corporation described VEDP's export promotion services as "a model for the country," and the director of International Trade and Investment at the Missouri Department of Economic Development detailed strategies Missouri has modeled after Virginia's trade programs, adding, "We all think very highly of the state of Virginia's trade program, and we have for years."

VEDP could collect and use additional information to assess the effectiveness of its export promotion programs

Evidence suggests VEDP's export promotion services have had a positive effect on export sales for companies participating in its VALET program, but VEDP lacks similar information for its other two export promotion programs. The median company participating in VALET between FY11 and FY15 reported an increase in export sales of 34 percent during the two-year participation period, compared to a goal of 25 percent approved by the VEDP board. In comparison, Virginia exports overall grew by an average of 13 percent over any given two-year period during that timeframe, according to data from the Brookings Institution. The possibility of selection bias influencing VALET performance limits drawing definitive conclusions about these results (sidebar).

It is possible that **selection bias** affects VALET program results, because companies are invited to apply to VALET and must meet certain criteria to be accepted. The *characteristics* that make companies likely to be chosen to apply and be accepted for VALET, *rather than the program itself*, could be responsible for outcomes experienced over the two-year VALET participation period.

To improve its ability to assess the effectiveness of its export promotion programs, VEDP should maintain comparable export growth data across all relevant programs. Currently, export growth data for the Going Global Defense Initiative and State Trade and Export Promotion program captures companies' estimates of *projected* export growth, in accordance with federal reporting requirements. Without comparable export growth data across all relevant programs, it is difficult to understand export growth performance overall.

VEDP should also collect and use more detailed information relating to the characteristics of the companies accessing its export promotion services, such as industry sector and number of employees, to facilitate more granular analysis of the extent to which VEDP's customers reflect the diversity of the state's export-capable businesses and industries. Information such as the number of employees, types of products, and average export sales would help to ensure that trade programs fully implement the fundamental industry practice of promoting exports in a way that reflects the state's exporting potential.

RECOMMENDATION 18

The Virginia Economic Development Partnership (VEDP) should collect and use more detailed information about the characteristics of companies accessing export promotion services and use this information to ensure that the types of business receiving export-promotion services reflect the diversity of Virginia's export-capable industries. At minimum, this information should include company-level information on industry sector, number of employees, product types, and average export sales. VEDP should also maintain comparable export growth data for each of its export promotion programs, including both projected and actual export growth. VEDP should report this information to its board at least once per year.

Goals of proposed split of export promotion from VEDP could be met with improved prioritization and support

The 2016 General Assembly passed legislation (House Bill 858) that would move all current VEDP export promotion services into a new executive-branch agency called the Virginia International Trade Corporation. All services are scheduled to be transferred from VEDP to the new entity effective April 1, 2017. The legislation also required the Secretary of Commerce and Trade to provide a business plan for the Virginia International Trade Corporation to the chairs of the House Appropriations and Senate Finance Committees no later than September 1, 2016.

Proponents of the pending split indicate that VEDP leadership and the VEDP board of directors have not sufficiently prioritized VEDP's export promotion services. One proponent, an industry representative, referred to the VEDP leadership's treatment of export promotion programs as "benign neglect" and said these programs have not been a priority at VEDP. Similarly, an economic development consultant who also supports the creation of a standalone entity told JLARC staff that he believes international trade is "not currently getting the attention and resources it needs."

Various evidence supports claims by proponents that VEDP has not adequately prioritized export promotion services. For example,

- almost all export promotion staff at VEDP indicated in interviews with JLARC staff and survey responses that they felt marginalized compared to staff in other core VEDP service areas;
- a former board member with international trade expertise made numerous attempts to form a standing sub-committee to increase the board's focus on export promotion, but was not supported by other board members;
- VEDP's former CEO attended only five of 15 meetings of the Virginia Port Authority Board of Commissioners, a key partner for VEDP's export promotion services, between July 2013 and February 2016, despite being statutorily assigned to the Port Authority Board during this period;
- VEDP leadership downgraded VEDP's international trade "division" to an "office" in August 2016 without a clear reason for doing so.

Opponents of the split, including current VEDP board members, acknowledged that VEDP has not adequately prioritized its export promotion programs. One board member who is opposed to the split said that neither the VEDP board nor the leadership has cared about or valued VEDP's export promotion programs and told JLARC staff, "You don't appreciate something until it's gone."

While concerns about the lack of prioritization appear to be valid, there does not appear to be an immediate need to create a standalone entity for export promotion services currently located at VEDP. The total initial and ongoing costs of the standalone entity were undetermined as of October 2016 and were not comprehensively accounted for in the business plan submitted on September 1, 2016. Additionally, the business plan does not substantiate the expected benefits (that is, increased company participation, export sales, and trade-supported jobs) and does not clearly articulate why a separate entity is required to achieve these benefits.

The creation of a separate entity may worsen already poor coordination between the state's primary marketing services and its primary export promotion services. VEDP is already ineffective at coordinating these services, both of which it controls, so it is unlikely that coordination will be improved when export promotion programs are run by a different entity. Virginia would be the only state with a separate government entity for export promotion.

With the proper support and prioritization by VEDP and its board, Virginia could achieve the intended goals behind the creation of the Virginia International Trade Corporation without creating an entirely new entity with additional administrative costs. Better prioritization and support of export promotion programs could be achieved within VEDP in a variety of ways, including

- requiring a minimum number of members of VEDP's board of directors to have international trade expertise (Chapter 6);
- establishing a standing international trade and marketing subcommittee on VEDP's board of directors to review and support VEDP's export promotion and international marketing programs;
- developing and implementing targeted marketing campaigns specifically to promote VEDP's export promotion programs;
- identifying export promotion programs where demand exceeds supply and the resources required to address any unmet demand;
- elevating the international trade "office" back to a "division."

The General Assembly could consider delaying the effective date of the transfer of export promotion programs from VEDP to allow the VEDP board the chance to demonstrate its commitment to improving the prioritization of its export promotion programs by making changes such as those listed above. If the VEDP board is unable or unwilling to make improvements deemed adequate by General Assembly members, the General Assembly could then move forward with its plans to move VEDP's export promotion services to a standalone entity.

4 Incentives Administration

SUMMARY VEDP's approach to administering incentive grants has exposed the state to avoidable risk of fraud and financial loss, and has increased the potential that state grant funding is not efficiently allocated. VEDP administers 10 incentive grant programs and awarded $384 million to companies over the past decade. During this time period, many projects supported through VEDP-administered incentive programs did not meet their performance requirements—highlighting the importance of having an effective incentives administration function. VEDP's lack of comprehensive policies and procedures for critical aspects of incentives administration calls for a more structured, formalized, and transparent approach to awarding incentives, monitoring and verifying grant recipient performance, and ensuring compliance with contract provisions. Following the lead of other states, VEDP should hire additional full-time staff solely responsible for administering VEDP's incentive programs, and develop and maintain an accessible website to allow external stakeholders to understand project performance and decisions made by VEDP staff. These steps should help increase the confidence of external stakeholders in VEDP's capacity to manage public funds appropriately.

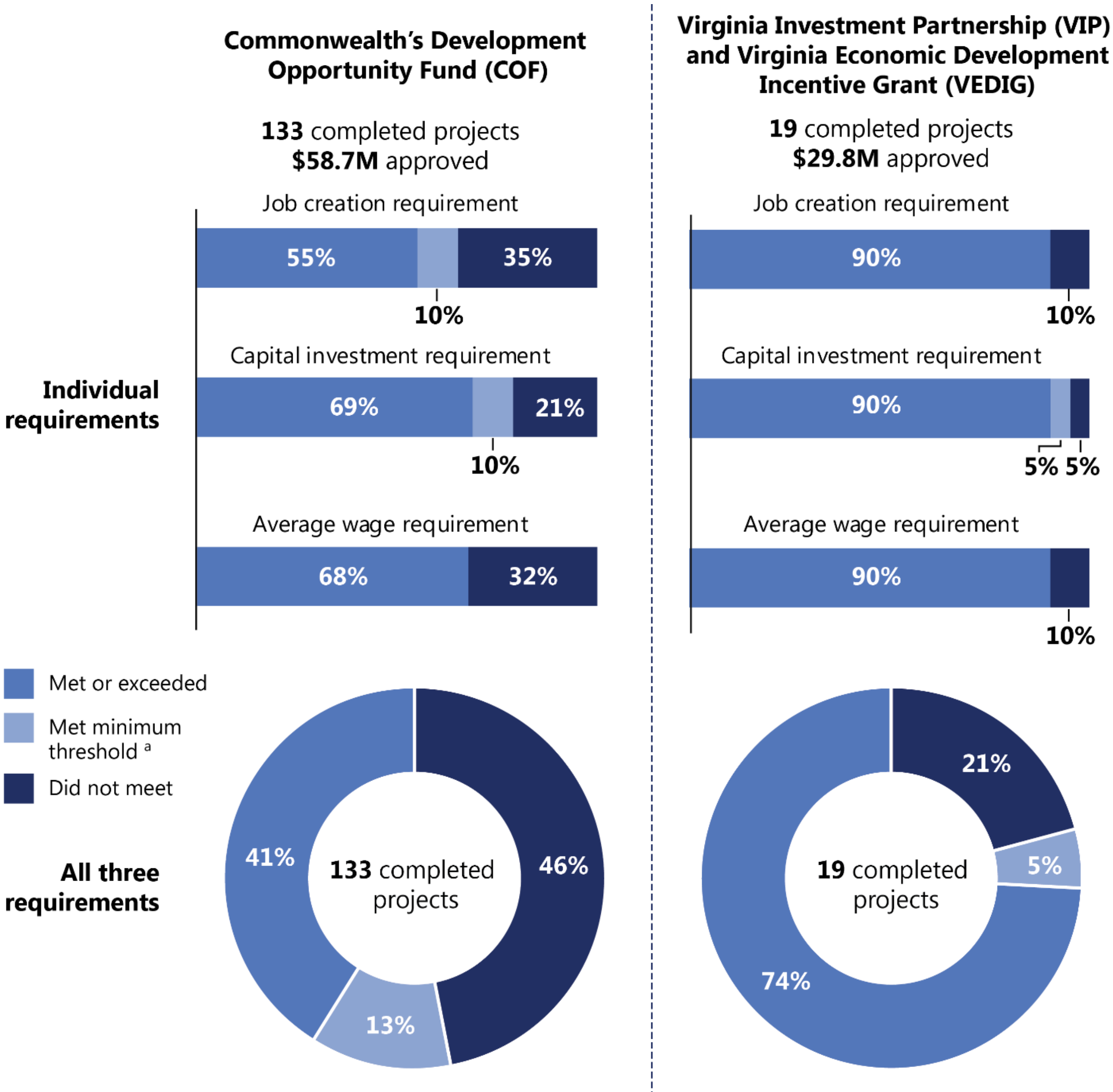
VEDP is statutorily responsible for administering 10 incentive grant programs, through which $384 million was awarded to companies between FY06 and FY15 to incentivize them to locate or expand in Virginia. (See Chapter 1 for background on grants administered by VEDP.) To receive incentives from VEDP, companies must agree to certain terms and conditions, including the creation of new full-time, quality jobs and investment of capital in Virginia. VEDP is responsible for critical aspects of the incentives administration process, including vetting companies that apply for incentive awards, determining the amount of the awards, and verifying that companies have met their contractual performance requirements.

Many incentivized projects did not meet their performance requirements

Projects that received incentives through VEDP-administered grant programs between FY06 and FY15 have demonstrated mixed performance (Figure 4-1). The majority of completed projects that were supported through a Commonwealth's Development Opportunity Fund (COF) grant met their contractual requirements for at least one of three performance categories (sidebar), according to VEDP data. However, almost half of the projects did not meet all three contractual requirements and were, consequently, required to repay at least a portion of their grant award—which is paid on an up-front basis—back to the state. The amount of funding ($117 million) awarded through the

Performance requirements are established for each project that receives an incentive grant from VEDP. These requirements include agreed-upon targets for (1) full-time jobs created, (2) capital investment made, and (3) average wages paid.

FIGURE 4-1
Many projects supported by VEDP-administered incentives did not meet all of their performance requirements (as of July 2016)



SOURCE: JLARC staff analysis of data provided by VEDP (as of July 2016).
NOTE: COF was known as the Governor's Development Opportunity Fund until July 2015. The Virginia Jobs Investment Partnership (VJIP) is not included because it was only transferred to VEDP in July 2014. Does not include performance of custom grant projects that have met the end of their performance period.
[a] Minimum thresholds indicate projects that are not subject to clawbacks because they met at least 90 percent of their job creation and capital investment contractual performance requirements. The average wage requirement does not have a minimum threshold.

COF program during this time period, and the inability of many companies to meet their performance requirements, highlight the importance of an effective and attentive grant administration function.

Analysis of grant program performance

JLARC staff performed an analysis of VEDP-administered grant programs based on data provided by VEDP. This data has not been independently verified by JLARC staff.

According to VEDP data, projects that received a reimbursement-based grant—a Virginia Investment Partnership (VIP) grant, Virginia Economic Development Incentive Grant (VEDIG), or custom grant—have demonstrated stronger performance than those supported through the COF program. Most projects that received a VIP or VEDIG grant met at least one of their performance requirements, but 21 percent of projects did not meet all three performance requirements (Figure 4-1). Both of the completed projects that received custom grants through VEDP met all of their performance requirements. (See Appendix F for information on the performance of custom grant projects.) The reimbursement-based programs represent a lower level of risk than COF awards because companies do not receive grant funding on an up-front basis. Companies are paid only after completing projects and do not receive the full amount of the award unless they meet all their performance requirements—assuming performance has been verified appropriately.

VEDP's administration of incentives leaves state vulnerable to fraud and poor use of limited resources

VEDP's approach to administering state incentive grants has been highly unstructured and has left the state exposed to avoidable risk of fraud and poor use of limited resources. VEDP staff responsible for administering incentives exercise an undue level of discretion when awarding, monitoring, verifying, and enforcing performance contract requirements such as clawbacks (repayments). Most apparent has been the lack of comprehensive policies and procedures to support consistent and effective grant administration, and to demonstrate transparency throughout this process and in staff decision-making (Table 4-1).

TABLE 4-1
VEDP had no documented policies and procedures for critical aspects of administering grant awards prior to January 2016

Aspect of grant administration	Policies & procedures prior to January 2016
Conduct due diligence before paying grant	✘
Decide when to award grants and the size of grants	✘
Collect performance information from companies during and after performance period	✘
Verify jobs created, capital invested, and wages paid	✘
Grant a performance extension to a project	✘
Enforce clawback provisions	✘

SOURCE: JLARC staff review of VEDP policies and procedures and interviews with VEDP staff.

Without comprehensive policies and procedures for all grant programs and sufficient staffing resources to ensure that grant programs are appropriately and consistently administered, VEDP will continue to expose the state to an unnecessarily high risk of fraud and increase the potential that state grant funding is not efficiently allocated.

VEDP's unstructured process to determine awards has left the state vulnerable to fraud and poor use of limited resources

Although VEDP has awarded incentives for two decades, its approach to awarding incentives has not applied due diligence or effectively prioritized grant funding to projects that are likely to have a strong positive economic impact in Virginia's regions. To protect taxpayer money, the state can take a number of steps when awarding incentive grants to companies. The state can better ensure that incentives are only awarded to companies that are legitimate and financially sound, through a structured and comprehensive due diligence process. The state can minimize its exposure to poor investment by using a consistent, thorough, and formalized process for evaluating and prioritizing grant proposals.

VEDP adopted formal due diligence procedures in 2016, only after paying $1.4 million to an illegitimate company

From July 1995 to January 2016, VEDP staff awarded grants without a formal due diligence process to protect the state from fraud and financial loss. The state's vulnerability was rooted in the fact that VEDP staff lacked a structured and thorough approach to collect and validate legal and financial information on companies seeking incentives.

Members of the **Project Review and Credit Committee** include VEDP leadership—CEO, COO, VP of business investment, general counsel, project managers, and the senior economist—as well as the director of the Virginia Small Business Finance Authority.

In 2016, after a widely reported failure of VEDP staff to validate the legitimacy of a company that received a $1.4 million COF grant in November 2014 for a manufacturing plant in Appomattox County, VEDP created formal due diligence procedures and a Project Review and Credit Committee. The new committee meets weekly and conducts a review and risk assessment evaluation of each project that is considered for discretionary incentives from VEDP, except those that are only applying for incentives through the Virginia Jobs Investment Program. The risk assessment includes a review of each company's credit rating, legal history, credit reports, and financial statements.

Depending on a project's risk assessment, the Project Review and Credit Committee may require additional information from companies or establish conditions for the release of COF funds, according to VEDP staff. Examples of conditions include paying half of the COF grant when a Certificate of Occupancy is issued and the remaining half when the company has created a specific number of jobs; paying the COF grant on a per job basis as employees are hired; and paying the COF grant only after construction begins.

VEDP senior leadership were made aware of the risks associated with awarding incentives without a formal due diligence process as early as September 2011, when VEDP research staff developed and proposed a due diligence process (Figure 4-2).

This proposed process was intended to "protect the Commonwealth from poor investments" but was not adopted or implemented. Recent changes are largely consistent with those proposed in 2011.

FIGURE 4-2
In 2011, VEDP research staff documented concerns about VEDP's lack of due diligence (excerpts from due diligence proposal provided to management)

PROPOSED DUE DILIGENCE PROCESS
For economic development projects recommended for state discretionary incentives
Draft for Review
September, 2011

and project plans in Virginia. This overview is useful, but is lacking some essential information needed for informed decision making. In order to protect the Commonwealth from poor investments, a more thorough due diligence process is proposed. To guide the development of new standards, this report presents the reasons for performing due diligence and the due diligence process of other economic

Why Perform Due Diligence

Due diligence is a vital step in vetting development projects recommended for state discretionary incentives. A detailed due diligence process better informs decision making and helps to ensure the wise use of public monies. Due diligence provides VEDP staff with a better understanding of a company's background and products, corporate image and financial soundness. Additionally, during the due diligence process company-provided information can be validated and any adverse information, such as past defaults or risk of failure, can be identified. As this information is used to inform and support VEDP's recommendations, the accuracy and completeness of this information is critical.

Process

The current process for projects recommended for state discretionary incentives does not have a comprehensive, fully documented procedure for the vetting of company information. To ensure that VEDP staff has the most accurate and complete information needed to make decisions, the process must be amended to include new due diligence procedures. This requires three new steps in the process, which are as follows: (1) a request for information sent to the company; (2) evaluation of company information by Research; and (3) reporting of company information to the Secretary of Commerce and Trade in the incentives preapproval memo. To augment current procedures, it is recommended that steps (1) and (3) be

SOURCE: JLARC interviews with VEDP staff and review of VEDP documents, including 2011 due diligence proposal.

VEDP's unstructured process to determine awards is not transparent and does not effectively prioritize the use of limited state resources

It is difficult to determine when incentive grants are needed to sway a company's decision to locate or expand. Still, it is important to pay only what is necessary and prudent, and to incentivize only those projects that will improve economic conditions in their regions. A standardized, thorough, and consistent process is needed to evaluate projects, prioritize the use of incentives for projects that create quality jobs and have the greatest economic benefit, and determine award amounts that are no higher than necessary. Clear communication and transparency about the entire decision-making process would also provide external stakeholders with greater confidence in VEDP's decisions.

VEDP's current process for prioritizing and determining incentives is not as effective as it could be at prioritizing projects that are likely to have the highest economic impact. For example, VEDP has not consistently awarded incentives to projects that are likely to produce high-quality jobs in Virginia's communities. Although creating "higher income employment opportunities" is listed as an objective in VEDP's mission statement, 31 percent of projects that were approved for a COF award between FY06 and FY15 were expected to pay average wages that were below the local prevailing average wage, according to JLARC staff analysis of VEDP data. Across all VEDP-administered incentive grant programs, almost 40 percent of projects awarded a grant between FY13 and FY15 were expected to pay an average wage at or below the local prevailing average wage, according to a presentation to the VEDP board of directors in March 2016.

VEDP staff have awarded COF funding for jobs that the state may not have intended to incentivize because they did not pay high enough wages. In these cases, VEDP staff have determined that as long as a company creates a minimum number of jobs that meet minimum statutory requirements, then additional, lower-paying jobs can also be incentivized using COF funding. The following examples highlight this practice:

- In 2015, VEDP awarded $1 million to a company that agreed to create 600 new jobs, but only 65 of these jobs were required to pay an average wage above the local prevailing average wage. The remaining 535 jobs were expected to pay an average wage that was only 68 percent of the local prevailing average wage.
- In 2013, VEDP awarded $1 million to a company that agreed to create 400 new jobs, but only 133 of these jobs were required to pay an average wage above the local prevailing average wage. The remaining 267 jobs were expected to pay an average wage that was only 70 percent of the local prevailing average wage.
- In 2012, VEDP awarded $424,240 to a company that agreed to create 174 new jobs, but only 92 of these jobs were required to pay an average wage that at least equaled the local prevailing average wage. The remaining 82 jobs would only need to pay 57 percent of the local prevailing average wage to meet performance requirements, according to JLARC staff calculations.

Although these projects may be technically eligible for COF awards under statute because a certain portion of their jobs met minimum statutory requirements, it does not appear that the General Assembly necessarily intended for COF funding to also be used to incentivize the creation of additional lower-paying jobs, which would not meet statutory requirements on their own.

Exacerbating this problem is VEDP's lack of standardized, consistent, and transparent policies and procedures for prioritizing its use of incentives. Consistent with recommended industry practices, VEDP uses a return-on-investment analysis to inform the size of each discretionary grant. However, according to VEDP staff, the findings from the return-on-investment analysis are only a "starting point" after which discretionary decisions can be made; VEDP staff also consider several subjective criteria to determine how much to award companies. In 2016, almost two decades after it began awarding incentives, VEDP developed a formal written list of the additional criteria, which include whether and how each project

- aligns with strategic sectors,
- is impactful,
- maximizes community wealth,
- aligns with local and state strategy,
- diversifies the job base in regards to skill sets,
- solves a specific need,
- uses a real competitive advantage,
- leverages other state resources, and
- advances quality of life.

The Code of Virginia requires that "**objective guidelines and criteria**" be used in awarding grants from the Commonwealth's Development Opportunity Fund (§ 2.2-115).

Formally documenting the additional criteria is a positive step toward increased transparency, but VEDP staff have not articulated how each of these criteria should be assessed and factored into award decisions. As a result, VEDP cannot consistently and effectively prioritize projects to ensure it maximizes the state's return on investment. Further, it is challenging for external stakeholders to evaluate VEDP's decision-making process with regard to incentives.

To increase the transparency of VEDP's award decisions and the consistency, thoroughness, and standardization of its decision-making process, VEDP should develop and follow written policies and procedures for evaluating and determining incentive awards and award amounts. The policies and procedures should clearly document the methods VEDP staff should use to assess and prioritize projects for potential incentives funding, including any subjective criteria, and how each measure is assessed in the determination process. Measures should include the level of increased exports from the state, the employment multiplier, and wages as compared to the regional industry average. VEDP should make these policies and procedures publicly available, so that external stakeholders can understand how VEDP decides to use public funds.

Projects that are likely to yield **higher economic benefits** (1) have a high employment multiplier, (2) are export-based, and (3) pay high wages relative to the industry average.

For more information on indicators of economic benefit, see *Review of State Economic Development Incentive Grants*, JLARC, 2012.

RECOMMENDATION 19

The board of directors of the Virginia Economic Development Partnership (VEDP) should work with VEDP staff to develop written policies and procedures to standardize VEDP's process for evaluating projects that are considered for incentives. The new policies and procedures should ensure that VEDP is appropriately and consistently prioritizing the use of incentives toward projects that create quality jobs and have the greatest economic benefit for Virginia's regions. The policies and procedures should clearly describe the criteria and methods to be used to assess projects for incentives funding. Criteria should include an assessment of each project's expected level of increased exports from the state, employment multiplier, and wages compared to regional industry averages.

VEDP's approach to monitoring and verifying project performance exposes the state to avoidable risk of fraud and financial loss

VEDP has not properly monitored the performance of projects or adequately verified the extent to which companies have met performance requirements, thereby exposing the state to avoidable risk of fraud and financial loss. To make sure companies create the jobs and capital investment promised, or mitigate the state's potential for financial loss when they are unable to perform, the state must implement effective and consistent performance monitoring and verification procedures. For an up-front incentive grant program like COF, the state can mitigate potential financial loss by actively and consistently monitoring the progress of grant recipients in meeting their performance requirements and seeking repayment when prudent to do so. For all types of incentive grants, the state can mitigate exposure to fraud and financial loss by using effective methods to verify the job creation, capital investment, and wage levels that are reported by companies.

VEDP has not adequately monitored the performance of grants to mitigate the state's exposure to financial loss in cases of non-performance

In September 2016, VEDP staff developed **new written policies and procedures** for four of its ten grant programs (COF, MEE, VEDIG, and VIP). Although a positive step, these new procedures do not contain sufficient information to effectively and consistently monitor projects, verify their performance, grant extensions, or enforce clawbacks. Vague language used in the new procedures also allows staff to exercise significant discretion in critical steps in the process.

VEDP's approach to monitoring the performance of companies that receive COF incentives has been unstructured and inconsistent. Before 2016, VEDP did not have a process in place to monitor the progress of grant recipients toward meeting their performance requirements. Instead, VEDP staff reportedly waited until the end of a project's three- or five-year performance period to request performance information from companies. The three- to five-year time interval compounded the risks for the state because it prevented VEDP from identifying problems early.

In 2016, VEDP leadership took a positive step by directing staff to monitor the performance of grant recipients every six months after COF grants are awarded. However, these procedures have not been adequately documented for staff, including how staff should follow up with companies or what questions to ask companies. This unstructured approach to data collection yields inconsistent and ultimately unreliable data.

VEDP can improve its project monitoring efforts by consistently enforcing an existing provision of performance contracts that requires companies to report annually on their progress toward meeting performance requirements. According to VEDP staff, companies are asked but not required to send annual progress reports, and VEDP staff "won't press the issue if there isn't a problem." It is unclear how VEDP staff can determine whether there is a problem if they do not have information to assess a project's performance.

RECOMMENDATION 20

The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to report to them annually on the percentage of companies that fulfilled their contractual requirement to report their progress towards meeting performance requirements.

VEDP's verification methods yield unreliable data and leave the state vulnerable to fraud

VEDP's methods for verifying job creation, wage, and capital investment claims by companies are inadequate, and leave the state vulnerable to error and fraud. Currently, VEDP compares company job creation and wage claims to data maintained by the Virginia Employment Commission (VEC). Although the VEC data can be useful as an indicator of job creation and wages paid by a company, VEDP's approach to using VEC data to verify these performance requirements is problematic. For example, because VEDP does not collect a Federal Employer Identification Number for most projects, VEDP staff must conduct a manual search of VEC's database to obtain information on the companies being verified, which can return inaccurate matches, according to VEC staff. Additionally, VEC data currently used by VEDP to verify performance does not separate part-time and full-time jobs, making it impossible to determine how many full-time jobs were created, as required in statute and performance agreements. VEDP staff are aware of the problems with relying solely on VEC data to verify job creation and wage claims. VEDP staff stated that although their verification process produces job numbers that are "never going to match up," the numbers are "close enough for government work." Obtaining precise information on companies' actual performance is critical because this information determines the award amount a company ultimately receives.

Compounding VEDP's verification problems is the fact that VEDP directs companies to report their total number of *full-time-equivalent* jobs created when collecting performance information, rather than *full-time* jobs created, as required in statute and in performance agreements (Figure 4-3). Full-time-equivalent figures include both full-time and part-time positions. Therefore, companies that follow the directions on the VEDP performance reporting form may be including some part-time jobs in the information they report. They may be receiving grant funding for full-time jobs that were never actually created.

FIGURE 4-3
VEDP incorrectly directs companies to report full-time-equivalent (FTE) jobs created, instead of full-time jobs created (excerpt from data collection survey)

Employment Level (in FTEs)

For **new** projects: Employment Goal __________ Current Employment __________

For **expansion** projects: Employment Goal _____ Current Employment__________

Employment Before Expansion __________

Average wage (per year) _______________

SOURCE: JLARC staff review of VEDP's data collection instruments for Commonwealth's Development Opportunity Fund and Governor's Development Opportunity Fund projects.
NOTE: "FTE" = full-time equivalent

VEDP's approach to verifying the information reported by companies that receive grants from the Virginia Jobs Investment Program is especially problematic. Companies are required to submit a list of the names of employees hired or retrained, but VEDP staff reported that they do not validate this information in any way. According to VEDP data, VEDP awarded $7.1 million for 86 projects through this program in FY15, with an average incentive of $971 per job.

To more reliably validate information reported by companies on number of jobs and wages paid, and to ensure that companies are only receiving state dollars for full-time jobs that were actually created at expected wages, VEDP should develop more effective verification policies and procedures with the assistance of staff at VEC and the Department of Taxation. More effective verification methods could replicate the process currently used by staff at the Department of Taxation for certain tax credits. This process requires companies to submit a list of employee names and social security numbers to support the number of jobs they report creating. Department of Taxation staff then conduct periodic audits of employment information against company tax records. Another approach, used by the Department of Housing and Community Development to verify company claims for Enterprise Zone grants, is to require grant recipients to hire an independent CPA to conduct an assessment of job creation reports and attest to their validity.

RECOMMENDATION 21

The Virginia Economic Development Partnership (VEDP), with the assistance of staff at the Virginia Department of Taxation and Virginia Employment Commission, should develop and consistently follow policies and procedures to verify job creation and wage claims of companies receiving incentive grants administered by VEDP. These policies and procedures should require VEDP staff to conduct periodic audits of company performance to verify project performance data and be sufficiently detailed to enable staff to verify company claims consistently and effectively while limiting staff discretion where appropriate.

RECOMMENDATION 22

The Virginia Economic Development Partnership (VEDP) board of directors should ensure that VEDP develops and implements formally documented performance verification procedures for staff to follow to ensure that grant recipients are meeting their expected performance requirements in accordance with established performance agreements.

Much of the capital investment reported by companies has also not been independently verified, according to VEDP staff. VEDP currently requests capital investment information from companies and attempts to verify this data with local Commissioners of Revenue. However, VEDP staff report that many Commissioners of Revenue do not respond to their requests for information, so staff often attempt to estimate a company's total capital investment on their own, even though they do not have the requisite expertise to do so. Although recent VEDP performance agreements contain language requiring local Offices of the Commissioner of Revenue to release to VEDP companies' tax records for purposes of verifying actual capital investment information, VEDP staff still report difficulties in obtaining this information. To address this issue and ensure that VEDP receives information necessary to verify project performance, statute could be modified to require localities to provide VEDP with capital investment information associated with grant projects within their jurisdiction.

RECOMMENDATION 23

The General Assembly may wish to amend the Code of Virginia to require Commissioners of the Revenue to provide the Virginia Economic Development Partnership (VEDP) with the real estate tax, business personal property tax, and machinery and tools tax information for companies that have received incentive awards, in accordance with performance agreements. Such information shall be marked and considered confidential and proprietary and shall be used by VEDP solely for purposes of verifying capital investment claims.

VEDP has not recouped grant money from businesses that did not meet contractual performance requirements

The COF program includes provisions in statute and in performance contracts whereby companies must repay the grant (or a portion thereof) to the state if contractual provisions are not met (for example, if a company did not create as many jobs as required by contract). This "clawback" provision is designed to ensure that companies do not keep public funds for jobs they did not create or capital they did not invest, in accordance with contractual performance.

Clawbacks are contractual requirements that a company repay a grant award, or a portion thereof, when a project does not meet its performance requirements.

In COF contractual performance agreements, a company is subject to a clawback when it does not meet at least 90 percent of its job creation and capital investment performance requirements. Jobs that are created must also pay an agreed-upon average wage.

Nearly half of all COF projects did not meet their contractual performance requirements and were therefore subject to clawback provisions and contractually obligated to repay their award (or a portion thereof). Companies that received COF awards during this time period were obligated to repay a combined total of $22 million to the state as of July 2016, according to JLARC staff estimates using VEDP data (Figure 4-4).

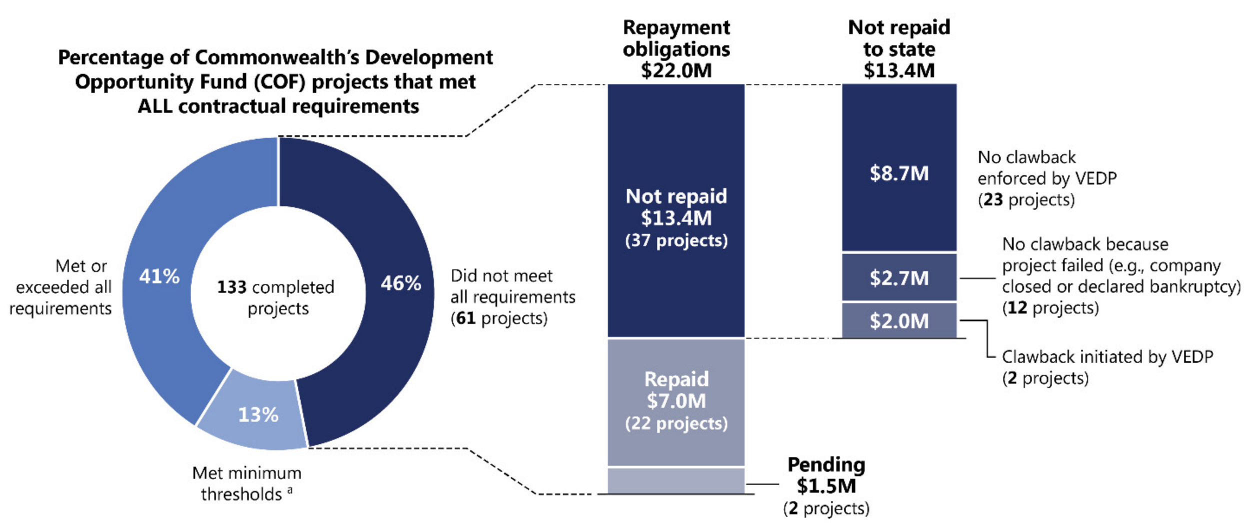
In practice, VEDP staff have not consistently enforced clawback provisions and companies have been allowed to keep public funds even though they did not meet their contractual requirements. According to VEDP data, of the $22 million owed to the state, VEDP sought to enforce clawbacks for $10.5 million and successfully recouped $7 million (32 percent), with additional repayments pending totaling $1.5 million (7 percent) as of July 2016. Grant funds were not repaid to VEDP for another 12 projects, totaling $2.7 million (12 percent), because of issues such as bankruptcy or closure (Figure 4-4).

However, VEDP did not enforce clawback provisions for 23 projects that did not fully meet their contractual obligations, and should have repaid a combined total of $8.7 million (40 percent), according to JLARC staff estimates using VEDP data. Over half of these projects should have been clawed back because although the requisite number of new jobs were created, the wages were below the requirement. (To be considered a "new job" companies must pay their employees an agreed-upon wage based on criteria specified in performance agreements.) This suggests the potential for a systemic problem with respect to how wage requirements are interpreted and enforced.

VEDP staff's reasoning behind not seeking repayment in certain cases does not appear to be legally permissible. For example, in one instance, VEDP staff decided not to enforce clawback provisions with a company that only created 69 of 219 required jobs because the company funded tech-related programs in southwest Virginia. The Code of Virginia, particularly § 2.2-115, provides no basis on which this decision could be justified. In two other instances when VEDP should have enforced clawbacks, VEDP staff decided instead to reduce the amount that companies were eligible to receive through a different grant program, such as the Virginia Investment Partnership or Major Eligible Employer programs. VEDP does not have the express authority in statute to use funds from distinct grant programs to offset each other, and all repayments required for the COF program should revert to the COF fund for future projects.

To address this issue, VEDP should develop policies and procedures to ensure staff are enforcing clawback provisions consistently. As part of these policies and procedures, VEDP should consistently enforce agreed-upon wage requirements.

FIGURE 4-4
VEDP has not sought repayment for 23 projects that did not meet their contractual requirements, totaling an estimated $8.7 million



SOURCE: JLARC staff analysis of data provided by VEDP (as of July 2016).
NOTE: n=133 projects completed between FY06 and FY15. Includes 13 projects that met job creation requirement but not average salary requirement, according to data provided by VEDP. Repayment amounts for these 13 projects were estimated by JLARC staff.
[a] Minimum thresholds indicate projects that are not subject to clawbacks because they met at least 90 percent of their job creation and capital investment contractual performance requirements. The average wage requirement does not have a minimum threshold.

RECOMMENDATION 24
The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to develop and use standard policies and procedures that clearly explain when and how staff should enforce clawback provisions. Enforcement should be consistent and effective for all companies that do not meet their contractual obligations, including wage requirements. The board should require VEDP staff to report regularly to the full board on each project that is subject to a clawback and the repayment status for each project that is subject to a clawback.

VEDP and localities have approved longer performance extensions than allowed by statute

VEDP staff have exercised significant discretion in approving extensions to projects instead of enforcing clawback provisions, and have violated statutory provisions that allow only one 15-month extension to contractual performance periods. The Code of Virginia specifies that localities may grant COF recipients an extension up to 15 months past their contractual performance period, if "deemed appropriate" by localities, to give companies additional time to meet their performance requirements. Over the past five years, VEDP staff, together with staff in localities where the projects are located, have approved performance extensions for at least 11 percent of COF projects. According to VEDP data and staff interviews, at least 10 projects over the past decade have received multiple performance extensions. The actual frequency and length of performance extensions granted has not been systematically tracked by VEDP staff and is unknown.

VEDP should develop standard policies and procedures to ensure all performance extensions granted are consistent with statute (§ 2.2-115) and that justifications for granting performance extensions are documented. VEDP should report all performance extensions, and their justification, to the board of directors.

RECOMMENDATION 25
The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to develop and implement policies and procedures to ensure that all performance extensions, whether granted by VEDP or localities, are consistent with statute (§ 2.2-115 of the Code of Virginia) and that justifications for the performance extensions are documented. The board should require VEDP staff to report all extensions granted to the full board for review.

VEDP should prioritize incentives administration by allocating more staffing resources to the function

The unstructured, informal, and inconsistent incentive administration practices at VEDP are, in part, a result of the fact that VEDP has not had any staff exclusively responsible for administering incentives until September 2016. Instead, the responsibilities for approving, monitoring, verifying, tracking, and collecting repayments have been spread across many VEDP staff, who do these activities in addition to their other full-time responsibilities. Having an adequate number of qualified staff solely responsible for administering incentives would increase VEDP's ability to devote sufficient and consistent attention to this high-risk responsibility and ensure that grant recipients meet their performance obligations.

Other states have recognized the importance of having staff solely responsible for administering incentives. For example, Wisconsin, Michigan, Indiana, Tennessee, Kentucky, and Iowa employ between six and 14 staff exclusively for administering incentives and ensuring compliance.

Although VEDP created one full-time incentives coordinator position in September 2016, this will not be sufficient to ensure adequate attention to effective and standardized incentives administration at VEDP. Additionally, this new full-time position is only responsible for administering three of VEDP's 10 incentive grant programs. Considering the number of staff assigned to this function in other states, the number of companies and amount of funding involved in administering incentives, and the findings of this report, VEDP will need to allocate additional staffing resources to this function.

To begin to improve the standardization, effectiveness, and consistency of VEDP's administration of incentive grants, and to ensure that VEDP devotes sufficient attention to incentives after they are awarded, VEDP should assign at least three fully qualified and full-time staff to ensure effective administration and compliance.

At a minimum, these staff should be responsible for

- analyzing applications for incentive grants;
- evaluating potential return on investment and financial risk to the state;
- processing and documenting payments to grant recipients;
- monitoring and verifying project performance;
- ensuring compliance with statute and agency policies; and
- enforcing clawback provisions.

VEDP indicated that it has insufficient funding resources to hire additional staff to perform this function. However, it is unclear whether VEDP has fully utilized the resources allocated to other agency functions. (See Chapter 2 for more information on the management of VEDP's staffing resources.) Given the magnitude of funds awarded through grant programs and the shortcomings of the processes currently used by VEDP to administer grants, the agency should consider reallocating its existing resources prior to requesting additional funding.

RECOMMENDATION 26
The Virginia Economic Development Partnership (VEDP) should create a separate division in VEDP that is solely responsible for incentives administration and assign at least three staff to administer incentives. VEDP should ensure all staff employed in this function have the qualifications and training necessary to perform the work assigned to them.

VEDP could be more transparent on project performance and decisions made by staff

The lack of transparency in project performance and in VEDP staff decision-making has exacerbated the inadequacies identified in this chapter. Currently, there is no mechanism for external stakeholders to systematically review and understand the performance of projects, the decisions made by VEDP staff, or the actions taken by VEDP staff to enforce contractual performance requirements. With this lack of transparency, VEDP's accountability for effectively administering grants has been minimal.

Virginiaincentives.org, a VEDP website, was created in 2016 to inform the public about projects that receive state economic development incentive grants.

The website currently provides information about grants awarded but does not provide other important information, such as the performance and status of projects.

VEDP should follow the lead of other states, like Iowa, Indiana, and Florida, and develop an online, easy-to-use, interactive website to more transparently report the status and performance of projects that have been supported through VEDP-administered incentives. The data presented on the website should include project-level and program-level information, as well as information regarding extensions and repayments. For each project, the website should include, at a minimum,

- the expected and actual performance;
- the contractually agreed-upon performance period;
- an indication of whether the actual performance has been independently verified by VEDP staff;
- an indication of whether the project has been granted an extension past the contractually agreed-upon performance period;
- the length and justification for each extension granted;
- an indication of whether the grant recipient is required to repay their grant award (or a portion thereof) to VEDP based on contract provisions;
- the amount grant recipients are obligated to repay;
- the amount repaid by grant recipients; and
- deadlines for repayment.

RECOMMENDATION 27

The Virginia Economic Development Partnership (VEDP) should increase the transparency of its incentive grant programs by developing a user-friendly website to more transparently report the status and performance of grant programs and of each project that has received an incentive grant through VEDP. The website should include, at a minimum, information on expected versus actual performance, the performance period, all extensions granted, and all repayments required of and made by grant recipients. Information should be provided for each project and also be aggregated and reported for each program administered by VEDP.

5 Coordination

SUMMARY Virginia's many economic development programs and activities are not systematically coordinated to most effectively market the state, support the growth of existing businesses, and ensure the efficient use of limited resources. Inadequate coordination among the entities that administer these programs has resulted in the fragmentation, overlap, and, in some cases, duplication of services. Coordination has been undermined by a lack of a formal definition for economic development, a lack of trust between entities, a lack of meaningful goals and strategies, and a lack of accountability mechanisms. Creating a statewide coordinating entity comprising state, regional, local, and private-sector representatives would improve systematic coordination. Greater stakeholder input is needed to improve Virginia's statewide strategic plan for economic development.

Effective coordination of economic development activities requires the participation of both public and private actors across state, regional, and local boundaries. Through statute, the state has set expectations for such coordination to take place. Specifically, the Code of Virginia requires the Virginia Economic Development Partnership (VEDP) to "encourage the coordination of the economic development efforts of public institutions, regions, communities, and private industry" (§ 2.2-2238). Furthermore, the Code of Virginia also requires each governor to develop and implement a comprehensive economic development policy for the state and allows for input from members of regional and local economic development groups as well as members of the business community (§ 2.2-205).

Despite these statutory requirements, neither VEDP nor the past several comprehensive economic development policies have proven effective at encouraging such coordination, with most entities engaged in economic development activities continuing to operate largely independently of one another. This lack of coordination limits the efficiency and effectiveness of the state's economic development activities and prevents the state from maximizing the overall impact of its investment in such activities.

Lack of coordination undermines the efficiency and effectiveness of economic development activities

Without formal mechanisms to coordinate economic development activities, Virginia's state, regional, and local entities have been unable to effectively collaborate on projects, leverage resources, and share best practices, ultimately limiting the efficiency and effectiveness of the programs they administer. This lack of coordination has also resulted in the fragmentation, overlap, and duplication of economic development activities.

Coordination is limited, mostly informal, and not systematic

State, regional, and local economic development entities in Virginia operate mostly independently of one another and do not systematically coordinate their activities and spending—limiting their ability to share best practices, align activities, and leverage the resources of others. Coordination that does occur is generally unstructured, reactive, and limited to specific projects or one-time events, according to interviews with staff at state, regional, and local economic development entities.

The **Site Selectors Guild** is an international professional organization of leading site selection consultants. Members of the Site Selectors Guild must be peer-nominated to be considered for acceptance into the organization. JLARC staff surveyed all 41 members of the Site Selectors Guild and received responses from 25 (61 percent response rate). Of the 25 who responded, two indicated a lack of familiarity with VEDP.

This lack of coordination among economic development entities in Virginia has been noticed by site selectors, professionals hired by businesses for their expertise in matching businesses to locations. According to the JLARC survey of members of the Site Selectors Guild, only one of 20 site selectors identified Virginia as one of the top three states at coordinating their economic development activities. One survey respondent stated, "I have found that local and state representatives [in Virginia] do not always communicate properly and we are stuck in the middle to bridge the communications." Given the key role that site selection consultants often play in the location decisions of businesses, this lack of coordination potentially harms Virginia's ability to compete with other states in attracting new businesses. South Carolina and Tennessee, both identified by VEDP as being among Virginia's top competitors, were identified numerous times by survey respondents as being among the best states for coordination of economic development activities.

Regional economic development organizations are voluntary public-private associations formed to market regions of the state by combining the resources of member localities.

Limited instances of coordination among economic development entities do occur, although they are driven largely by staff at individual agencies rather than any statewide strategy or requirement to coordinate. For example, VEDP and the Virginia Port Authority jointly conduct an annual tour for site selection consultants to familiarize them with the capabilities of Virginia's ports. Some coordination also occurs among certain regional and local economic development entities. Staff interviewed at local economic development entities indicated that they coordinate with their regional economic development organization in their business retention, expansion, and marketing efforts, and with their Planning District Commissions for assistance in grant writing or infrastructure-related activities.

Efforts are fragmented, overlapping, and duplicative

Evidence of fragmentation, overlap, and duplication was identified in several key areas related to economic development in Virginia. For example, administration of the state's economic development incentive grants is fragmented, with at least eight state agencies administering 19 incentive grant programs (Table 5-1). The situation is further complicated by each agency having their own application process, decision criteria, and monitoring and data collection procedures. According to a recent report, this

TABLE 5-1
Eight Virginia state agencies administer 19 economic development incentive grant programs for businesses

State agency	Number of grant programs
VEDP	10
Virginia Department of Transportation	2
Department of Housing and Community Development	2
Virginia Department of Agriculture and Consumer Services	1
Tobacco Regional Revitalization Commission	1
Department of Rail and Public Transportation	1
Virginia Coalfield Economic Development Authority	1
Virginia Film Office	1
Total number of incentive grant programs	**19**

SOURCE: JLARC staff analysis of the Code of Virginia and review of JLARC's 2012 *Review of State Economic Development Incentive Grants*.
NOTE: Does not include tax incentives.

Fragmentation refers to situations in which more than one agency is involved in the same broad area of need.

Overlap occurs when multiple agencies or programs engage in similar activities.

Duplication occurs when two or more agencies or programs are engaged in the same activities.

(Source: U.S. Government Accountability Office)

type of fragmentation can result in instances where a company receives a different performance data collection survey from each state agency it received an incentive from, creating confusion and frustration for the company (Pew Center and Center for Regional Economic Competitiveness, 2014).

A high degree of overlap exists across international marketing services provided by state, regional, and local entities. At least four state agencies, the majority of Virginia's 15 regional economic development organizations, and several localities engage in international marketing. Staff of multiple state, regional, or local entities may be marketing to businesses in the same foreign country. While it can be beneficial to have a certain degree of overlap of these efforts, a lack of coordination can result in unclear or inconsistent messages being communicated as well as inefficient use of resources. As one regional economic developer stated, "the difference is we shouldn't be competing, we should be complementing each other."

A lack of coordination has led to duplication of some services, such as those provided by VEDP to existing businesses in certain areas of the state. With some exceptions, staff at regional and local economic development organizations indicated that VEDP's services to existing businesses have been largely unnecessary and duplicative of services they already provide in their communities. VEDP formally eliminated its business expansion division in August 2016, but according to a VEDP reorganization document recently produced by the current management, VEDP has "no intention of deviating from VEDP's longstanding commitment to business retention and expansion efforts." To the extent that VEDP continues to provide services that are unnecessary and duplicative of those in Virginia's communities, it is not using its resources as efficiently as possible.

"*VEDP and localities are falling all over each other and it makes no sense.*"

– Staff
Local economic development organization

Lack of coordination undermines the efficiency and effectiveness of the state's total investment in economic development

By not systematically coordinating with regional and local economic development entities, the state is unable to ensure it is efficiently and strategically deploying its limited resources to market Virginia to businesses and support Virginia's existing businesses. For example, the state may be providing more incentive funding to companies than is necessary because the majority of state agencies administering incentive grant programs determine award amounts independently of one another. (VEDP is an exception because it considers other state incentives for projects in its return on investment calculations.) In 2012, JLARC staff found that businesses often receive a combination of grants from multiple programs, and identified a company that received seven incentive grants from four separate state agencies. Marketing activities are also not adequately coordinated to maximize the state's investment, as the state currently has no mechanism to ensure that the individual marketing efforts of state, regional, and local entities are targeted to industries or companies that align with each region's economic development assets and priorities.

The **International Economic Development Council (IEDC)** is the primary professional association for economic development staff. IEDC has developed fundamental practices that are used by many state, regional, and local economic development organizations.

By systematically coordinating efforts across state, regional, and local entities, the state could harness greater economies of scale to achieve cost savings and access resources that are not cost-effective to obtain individually. For example, according to staff of one regional economic development organization, by establishing a local cost-sharing agreement, the organization was able to arrange for an International Economic Development Council (IEDC) training course for its member localities at a discounted rate. Staff went on to explain: "If the state brokered deals like this, we could all benefit."

"*I think we could get more bang for our buck if we pooled our funds.*"

– Staff
Local economic development organization

Several barriers impede the state's ability to coordinate economic development efforts

Four major barriers currently impede the state's ability to coordinate economic development activities, to monitor and evaluate programs, and to make effective use of resources. Many of these issues were identified in JLARC's 1991 study on economic development and remain unaddressed:

- Statute does not clearly identify all state-funded economic development entities and expenditures.
- The relationships between state, regional, and local entities are characterized by mistrust.
- The state lacks meaningful economic development goals and strategies around which to coordinate.
- There are no accountability mechanisms in place to ensure coordination.

"*I couldn't begin to tell you who the other people are in economic development in Virginia.*"

– Staff
Local economic development organization

Entities, efforts, and spending related to economic development are not established in statute

Statute does not establish what should be considered an economic development entity or program, hindering any attempt to identify the entities that *should* be coordinating. In order to measure its total investment in economic development and assess whether resources are being deployed effectively, the state needs to be able to identify the entities responsible for economic development activities and the programs they oversee. Furthermore, until Virginia's many and various economic development entities have been clearly identified and inventoried, the state will be unable to assess and clarify the roles and responsibilities of these entities.

A **JLARC review of economic development** in 1991 identified 72 state entities that administered economic development programs. For this study, JLARC staff estimated that the number of state entities involved has grown to at least 80, with an additional 4 federal agencies, 37 regional entities, 133 local entities, and dozens of private and non-profit groups also involved.

Relationships between state, regional, and local economic development entities are undermined by mistrust

A lack of trust between state, regional, and local entities also undermines the coordination of economic development activities. Although localities might be expected to compete for new economic development projects, some localities expressed substantial mistrust of other localities. Staff of one locality cited instances when localities had directed their marketing efforts to persuade existing businesses to relocate from other Virginia localities.

Mistrust of VEDP and its priorities was also identified as an issue by regional and local economic development staff. Staff at several of these entities explained that they were hesitant to share potential projects with VEDP because they believed that VEDP was more concerned with its own ability to claim credit for bringing additional investment into the state than with helping the locality win the project. Specifically, staff at local and regional organizations told JLARC staff that they often do not involve VEDP until the very end of projects, when they need to apply for incentives. One regional economic developer said his organization has "a fear of getting [VEDP] involved," out of concern that VEDP staff will lessen their chance of winning a project.

"*I think we need to do what's best for VEDP first, and then locals second.*"

– Staff
VEDP

State lacks common goals and strategies around which to coordinate economic development activities

The current lack of common and actionable goals and strategies undermines coordination of state, regional, and local economic development activities. Currently, the state does establish goals through the governor's statewide economic development strategy, but these goals are not actionable because they are too broad, do not reflect the diversity of the state's regional economies, and are not aligned with regional and local economic development priorities. Most regional and local staff interviewed said that they were largely unaware of the specific content of the current statewide economic development strategy and that it did not inform their activities. Those who were familiar with the plan indicated its usefulness was limited because it does not take into account the differences across Virginia's regions, including diversity in each region's

The **GO Virginia Board** was created by the 2016 Virginia General Assembly to administer new incentive funding intended to promote regional collaboration on economic development projects. The GO Virginia Board held its first meeting in October 2016.

key industries, economic development assets (for example, proximity to the other markets, available workforce, and natural resources), priorities, and needs. To be both actionable and effective, the statewide strategy and its goals would need to reflect these regional differences.

Other states have begun to recognize the importance of identifying regional priorities in their statewide approaches to economic development. For example, Colorado's Office of Economic Development and International Trade developed its statewide economic development strategy with the assistance of regions and localities. The plan identified achievable objectives for each region with actionable strategies for achieving them and required regional progress reports every nine months.

> *"Economic development is long term. . . . we want to support [the statewide strategy], but we don't get too excited about it or operate on a 4-year cycle."*
>
> – Staff
> Local economic development organization

Local and regional economic development entities may find very little reason or incentive to align their activities with a statewide strategy that shifts every four years. Virginia's statewide strategy is intended to have some continuity across administrations, according to statute (§ 2.2-205). In practice, however, the strategy is completely rewritten every four years to reflect the priorities of each new governor. This lack of stability diminishes the strategy's long-term usefulness for local and regional entities.

No accountability mechanisms exist to promote coordination

State, regional, and local entities engaged in activities related to economic development are not held accountable for coordinating their efforts with others or achieving the goals of the statewide economic development strategy. Entities are not required or incentivized to align their efforts and spending with the statewide economic development strategy, and the majority of the state agencies interviewed indicated that the governor's statewide strategy does not directly inform their own strategy.

> **Code of Virginia § 2.2-2239**
>
> It shall also be the duty of [VEDP] to:
>
> Report annually to the Governor on the status of the implementation of the comprehensive economic development strategy and recommend legislative and executive actions related to the implementation of the comprehensive economic development strategy.

In addition, VEDP has not reported on the status of the implementation of the statewide economic development strategy, even though VEDP is required by statute to do so (sidebar). VEDP has not provided a substantive update on the statewide economic development strategy since its 2009 annual report. Prior to this, VEDP's annual reports included detailed updates on the progress of the statewide strategy, highlighting executive and legislative actions that contributed to goals outlined by the plan. Without any systematic update on its implementation, the state cannot adequately hold entities accountable for aligning their activities with the statewide economic development strategy.

Coordination could be improved by establishing board that represents all stakeholders

A state entity that is reflective of the diversity of actors involved in economic development in Virginia and supported by a full-time, independent staff could help to address the barriers to coordination. Unlike the state's approach to coordinating Virginia's workforce development system, the state does not currently have an effective mechanism or entity that can support deliberate and systematic strategic planning, coordination, and evaluation of economic development activities in Virginia. Following Virginia's approach to the coordination of workforce development activities through the Board of Workforce Development, the General Assembly could create a Board of Economic Development with similar responsibilities. The specific responsibilities of the Board of Economic Development could include:

- establishing a definition of economic development, in collaboration with state agencies, for the purposes of developing a database to monitor and report on state agency spending and programs related to economic development;
- clarifying the roles and responsibilities of the various state entities involved in economic development;
- providing research, analysis, and advice to assist localities in developing region-based economic development strategies;
- assisting the governor in the development of the statewide economic development strategy, as appropriate, and recommending revisions based on analyses of regional assets, competitive advantages, industries, needs, and feedback from state, regional and local staff;
- reporting annually on the status of the statewide economic development strategy;
- making recommendations on all requests to the governor for appropriations for new economic development programs; and
- recommending changes, as appropriate, to improve the efficiency and effectiveness of the state's policies and programs to the governor and General Assembly.

To be effective, the new Board of Economic Development would need the support of a full-time, independent staff, similar to that of the Virginia Board of Workforce Development. Staff could be responsible for providing expert advice, planning, research, and logistical support to the Board and the state's economic development system.

To promote communication, knowledge transfer, and buy-in from all stakeholders, an advisory team to the Board of Economic Development could institutionalize feedback from each of these entities. Following Virginia's approach to coordinating services for at-risk youth through the State Executive Council for Children's Services and its State and Local Advisory Team, the General Assembly could create an advisory team that is appointed by the Board of Economic Development and comprises representatives of all of the state agencies that have significant roles in overseeing and administering the programs that are central to the state's economic development objectives, as well as staff from regional and local economic development organizations, and representatives from the business community (Figure 5-1). A subset of members of the state,

The Virginia Board of Workforce Development provides policy recommendations to the governor on workforce development issues and strategic direction to and oversight of the workforce system. Its membership includes representation from the governor, secretariats, state agencies, the legislature, and the private sector.

"*Make sure that all of these stakeholders, localities and regions, feel and know that they are vital and that they have a voice for what's happening at the state level.*"

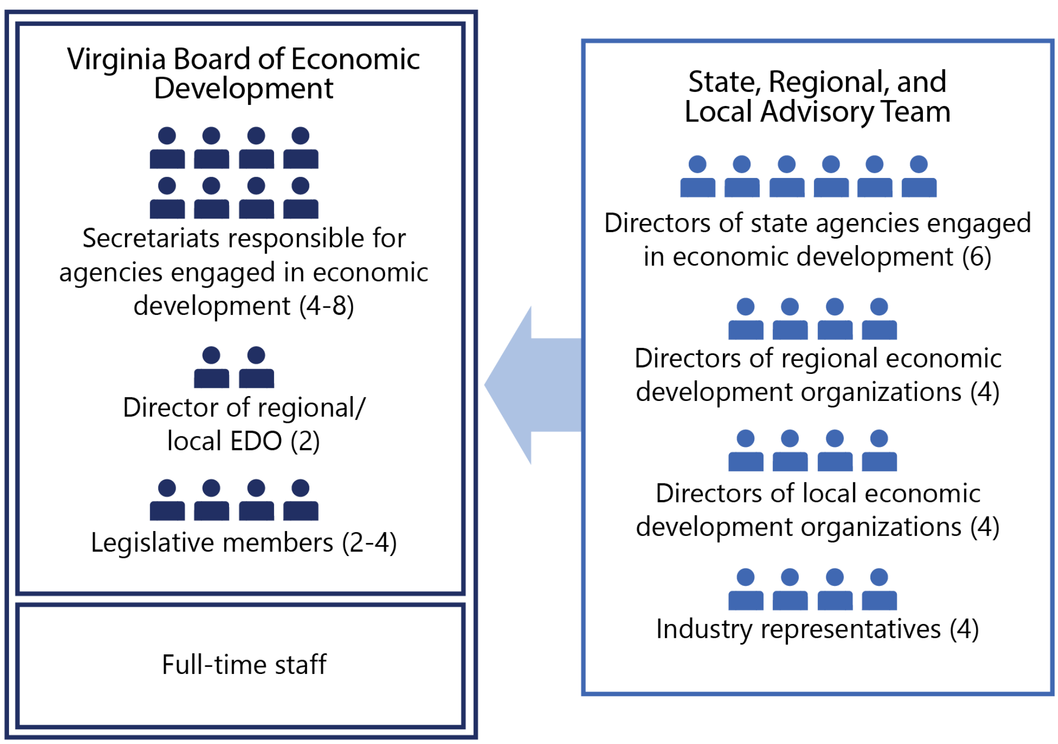
– Staff
State agency

regional, and local advisory team could also serve on the Board of Economic Development to ensure the uninterrupted representation of these entities.

The Advisory Team's purpose would be to advise the Board on proposed policies and strategies to improve economic development at the state, regional, and local level. Responsibilities of the Advisory Team could include:

- identifying opportunities to promote increased coordination of economic development efforts in Virginia;
- identifying opportunities to consolidate or eliminate programs that are inefficient, ineffective, or duplicative;
- providing technical or programmatic assistance to the Board; and
- advising the Board on how to adapt economic development strategies to reflect changes in Virginia's regions and industries.

FIGURE 5-1
New Board of Economic Development would need a full-time staff and advisory team



SOURCE: JLARC staff review of other states' economic development coordinating councils and Virginia's Board of Workforce Development and State Executive Council for Children's Services.

RECOMMENDATION 28

The General Assembly may wish to consider amending the Code of Virginia to establish a Board of Economic Development, whose purpose is to provide ongoing and systematic planning, advice, and direction for the state's economic development system to improve coordination of activities and its efficiency and effectiveness. Membership of the Board of Economic Development should include a representative from each of the secretariats responsible for agencies with economic development programs, at least one member of the House of Delegates, at least one member of the Senate, one director of a local economic development organization, and one director of a regional economic development organization. The Board of Economic Development should be a policy board, as defined in § 2.2-2100, and have full-time, independent staff for the purposes of executing its responsibilities.

RECOMMENDATION 29

The General Assembly may wish to consider including language in the Appropriation Act to fund a full-time, independent staff for the purposes of supporting the Board of Economic Development in fulfilling its responsibilities. The Department of Planning and Budget should assist in determining the number of staff necessary to provide this support.

RECOMMENDATION 30

The General Assembly may wish to consider including language in the Appropriation Act to direct state agencies to collaborate with the Board of Economic Development to develop and define standard categories of economic development program activities to use when tracking economic development program expenditures and reporting these expenditures to the Board of Economic Development. The General Assembly may wish to consider amending the Code of Virginia to require state agencies and encourage regional and local entities to adopt these categories.

RECOMMENDATION 31

The General Assembly may wish to consider amending the Code of Virginia to establish a State, Regional, and Local Advisory Team tasked with advising the Board of Economic Development on opportunities to improve the coordination, efficiency, and effectiveness of the state's economic development system. The State, Regional, and Local Advisory Team should provide advice to the Board of Economic Development on how to adapt economic development strategies to reflect changes in Virginia's regions and industries. The Advisory Team should be appointed by the Board of Economic Development and include the directors of state agencies engaged in economic development (minimum of 6), directors of regional economic development organizations (minimum of 4), directors of local economic development organizations (minimum of 4), and representatives of the business community (minimum of 4). One regional and one local director should also be appointed to the Board of Economic Development.

6 Accountability

SUMMARY The systemic deficiencies at VEDP described in previous chapters present significant challenges to the organization's ability to operate efficiently and effectively. To address these deficiencies and restore VEDP's performance and reputation, an effective and engaged governing board will be critical going forward. The board has historically not held VEDP sufficiently accountable, largely due to members' lack of engagement and apparent misunderstanding of their governing responsibilities. Recent changes have begun to address these issues, but the board will still find it difficult to hold VEDP accountable without adequate expertise and sufficient and reliable information about the agency's operations and performance. The General Assembly could modify statutory language to add certain board member qualifications, and the board could address its remaining challenges by creating an internal audit function. Given the extent of the systemic deficiencies at VEDP, the General Assembly may wish to consider making any additional appropriations to VEDP contingent upon demonstrated progress toward implementing necessary improvements.

Several recurring themes in this report point to systemic deficiencies throughout VEDP that can and should be addressed under the supervision of the VEDP board of directors. Six key deficiencies emerge that, when considered together, pose a significant challenge to VEDP's ability to effectively and efficiently use its resources (Table 6-1). To address these issues going forward, the VEDP board of directors will need to continue to improve its efforts to strengthen its supervisory role and hold VEDP accountable.

TABLE 6-1
Certain deficiencies appear to be systemic at VEDP

	Management *Chapter 2*	Effectiveness *Chapter 3*	Incentives administration *Chapter 4*	Statewide coordination *Chapter 5*
Attention to efficient and effective operations	✘	✘	✘	n/a
Attention to performance	✘	✘	✘	n/a
Attention to accountability	✘	✘	✘	✘
Attention to risk management	--	--	✘	n/a
Attention to statutory requirements	✘	✘	✘	✘
Attention to coordination	✘	✘	--	✘

SOURCE: JLARC staff interviews with VEDP staff, analysis of documents and data, and review of agency operations.
NOTE: Items with "--" were not assessed by JLARC staff. Items with "n/a" are not applicable to VEDP.

VEDP's board has historically not fulfilled its statutory mandate to hold VEDP accountable

Supervisory boards are responsible for appointing agency directors, ensuring the director complies with all board and statutory directives, and overseeing agency operations.

Advisory boards are responsible for providing advice to agencies, but do not appoint agency heads or otherwise oversee agency operations.

The **VEDP board** of directors is a supervisory board.

The VEDP board of directors, as a supervisory board, is the statutorily established mechanism for holding VEDP accountable for its performance and use of taxpayer dollars. However, the VEDP board was minimally engaged in its supervisory responsibilities prior to 2014, functioning in practice as an advisory board. Compounding these problems, the board did not clearly monitor or document the performance of VEDP or its chief executive officer (CEO) for the first 18 years of VEDP's history as an authority. As a result, VEDP has largely not been held accountable for efficiently and effectively executing its statutory responsibilities until recently.

Until recently, VEDP board has played minimal role in holding VEDP accountable

"In the absence of the board's engagement, by default, it's been the governor and his administration steering the ship at VEDP."

– VEDP board member

The VEDP board was minimally engaged in its supervisory responsibilities—including its responsibility to hold VEDP accountable for fulfilling its statutory responsibilities—prior to 2014. As a supervisory board, the VEDP board of directors is tasked with appointing and overseeing the performance of the VEDP CEO (§ 2.2-2235). According to statute, a supervisory board "ensures that the agency director complies with all board and statutory directives" (§ 2.2-2100). However, prior to 2014, the board was not sufficiently engaged to effectively monitor and ensure accountability for VEDP's performance. All members who were appointed to the board prior to 2014 interviewed by JLARC staff indicated that the board was minimally engaged before that time, with individual members citing evidence such as the lack of a functional committee system or formal orientation for new board members. One member who has served in a leadership role on the VEDP board stated in an interview with JLARC staff, "This stuff's elementary, I understand. But it wasn't done."

In addition to being minimally engaged prior to 2014, the VEDP board appears to have operated without a clear understanding of its statutory role. Although the VEDP board is a supervisory board as established in statute, it has functioned as an advisory board in practice until recently, according to nearly all board members interviewed by JLARC staff. As one board member described it,

> VEDP leadership didn't want for the board to be involved in governing VEDP. We tried to be more involved and were told "No, thank you." The way it was, it was an advisory, rubber stamp board, not a hands-on board.

"[Board] meetings were data dumps without action and direction… data dumps and a boxed lunch."

– VEDP board member

Other board members interviewed by JLARC staff described board meetings prior to 2014 as a "one-way" dialogue.

The board neither clearly established (or documented) expectations for VEDP or the VEDP CEO, nor formally evaluated (or documented) CEO performance until 2014, according to interviews with board members and review of documents submitted by

VEDP. By allowing VEDP and its CEO to operate without clear direction and performance measurements, the board has enabled VEDP to operate with minimal accountability for its use of general funds for most of its history.

Recent changes by the board have begun to improve the board's engagement and understanding of its statutory role

Beginning in 2014, 18 years after VEDP was established as a state authority, the VEDP board has adopted significant changes to its structure and operations. These changes were made for the purpose of improving the board's engagement and have included:

- a functional committee system, with board members required to serve on at least one committee;
- a formal orientation program to familiarize new members with VEDP's operations and to communicate member expectations;
- a CEO evaluation process;
- a fifth standing board meeting each year;
- a system for periodic self-assessment through biennial board self-evaluation surveys; and
- a mechanism for formally soliciting stakeholder feedback every two years, starting with a listening tour in early 2016 (sidebar).

The Chair and Vice Chair of the VEDP board conducted **a statewide listening tour** between January and March 2016 to solicit stakeholder opinions, concerns and suggestions regarding VEDP's performance. Following their visits, the Chair and Vice Chair developed a list of action items for the board, including an immediate change in executive leadership at VEDP, which occurred in March 2016.

The board's demonstrated efforts to improve its level of engagement since 2014 represent an important and necessary step forward with respect to the governance and oversight—and therefore the accountability—of VEDP.

The board has also begun making changes to improve its understanding of its statutory role as a supervisory board. As part of the changes made to the orientation system for new board members, the supervisory roles and responsibilities of the VEDP board are now explicitly articulated. For example, at the September 2016 meeting of the board, the board chair publicly presented a new member with a certificate that lists the general obligations and responsibilities associated with board service, such as "To ensure the quality of programs and services offered by the Virginia Economic Development Partnership through highly effective and efficient operations."

Despite efforts to more clearly establish the board's supervisory responsibilities, some members, including one recently appointed member, continue to understand the board's role as more advisory than supervisory. Improvements to the governance and oversight of VEDP will depend on clear articulation and documentation of the roles and responsibilities of the VEDP board.

RECOMMENDATION 32

The General Assembly may wish to consider amending the Code of Virginia to explicitly state that the Virginia Economic Development Partnership (VEDP) board of directors is a supervisory board and is responsible for ensuring that VEDP executes all of its statutory responsibilities efficiently and effectively.

Minimum qualifications and better information could improve board's oversight

Two additional changes would improve the governing capacity of the VEDP board. First, the General Assembly could establish minimum qualifications for board membership, recognizing that appointees with particular experience and competencies would be best equipped to take on the supervisory role. Second, mechanisms could be created so that the board routinely obtains all the information it needs to govern effectively.

Board's effectiveness will continue to be challenged without minimum qualifications and competencies for board members

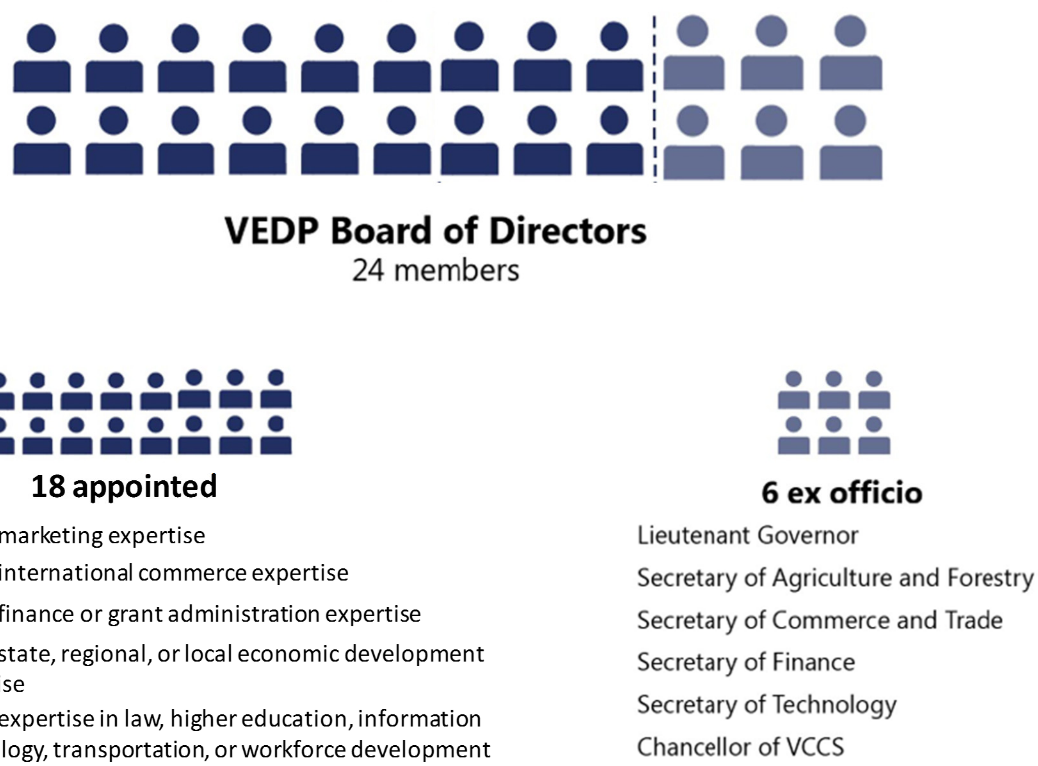
Currently, the Code of Virginia does not require VEDP board members to have specific minimum qualifications or competencies, such as demonstrated experience in economic development, marketing, or international trade. The lack of minimum qualifications and competencies for the VEDP board appears to have contributed to a lack of expertise on the board, and therefore to the board's longstanding reluctance to take on a supervisory role.

In interviews, several board members expressed concern that a lack of economic development knowledge and experience compromises the board's ability to ask those questions necessary to hold VEDP accountable. For example, one member stated, "[Board members] don't understand how economic development works.... They're looking at the top line, but not looking under and below, because everything looks good on the top line." Only half of the members who completed a board self-evaluation survey in June 2016 agreed that the board has an "understanding of the challenges and issues facing the economic development profession," and only about one-third agreed that "the board understands economic development legislative issues."

The General Assembly can ensure that VEDP board members are sufficiently qualified and possess the necessary expertise to oversee VEDP's performance by implementing statutory changes to establish minimum qualifications (Figure 6-1). Qualifications that are not currently required of appointed members include experience in marketing, international commerce, finance, and economic development. Additional qualifications that could support the work of the board include experience in law, higher education, information technology, transportation, and workforce development.

Although adding minimum qualifications for board members will support the board's ability to govern and oversee VEDP, it will not suffice as a complete solution to addressing historical problems. An effective board will also require strong leadership, attendance, and a commitment and willingness to scrutinize agency information and operations.

FIGURE 6-1
Relevant minimum qualifications could be added to ensure board of directors has adequate expertise to govern and oversee VEDP performance



SOURCE: JLARC staff review of VEDP operations and composition of boards of VEDP-equivalent entities in other states.

RECOMMENDATION 33
The General Assembly may wish to consider amending the Code of Virginia to include minimum qualifications and competencies for the Virginia Economic Development Partnership (VEDP) board of directors. The VEDP statute could be amended to require that at least 15 of the 18 appointees to the board possess experience in the areas of marketing (four members), international commerce (four members), finance or grant administration (two members), and state, regional or local economic development (five members). The remaining three appointees should possess experience in the fields of law, higher education, information technology, transportation, or workforce development.

VEDP board does not have sufficient information to effectively drive VEDP performance or hold VEDP accountable

Effective governing boards require reliable information with which to understand organizational activities, performance, and compliance, as well as sufficient expertise to understand how to interpret and appropriately respond to this information. In order to hold VEDP accountable for its performance, the board must obtain information that is current, comprehensive, accurate, and unfiltered. Although Recommendation 33 would address gaps in board expertise, the board will also require access to better information than they have had in the past. (See Chapters 2 and 3.)

As the board has become more involved in governing VEDP, board members have demonstrated an increased interest in receiving more robust information from staff concerning VEDP's performance. For example, prior to a board meeting in 2014, at least one board member requested that VEDP not only report information about the number of jobs announced, but also about the wages paid and tax revenues generated by companies receiving incentives. Additionally, in December 2015, a board member requested information from VEDP about where VEDP's leads are coming from. Although VEDP staff did provide some information to the board on these two questions, routine and comprehensive answers to questions such as these would provide more helpful context for understanding VEDP's impact, the effectiveness of VEDP's marketing activities, and VEDP's actual level of involvement in projects.

Several board members interviewed by JLARC staff indicated they do not believe they receive sufficient information to understand the effectiveness or efficiency of VEDP operations. For example, one board member questioned VEDP's impact claims and said, "You can make the numbers say whatever you want them to say.… If you get a penny of state funding, the governor's office announces and VEDP gets credit. I don't think that's the way to judge VEDP's performance."

Another board member compared the information from VEDP to information reported to the board of another organization:

> I think there is tremendous room for improvement…. The goals and strategies of the other organization are very clear and are refreshed from time to time. The information reported to us, therefore, speaks to the success of the organization towards meeting that strategy. I feel like I have a better understanding of what's going on in the other organization, and what is going well and not going well…. Today, I don't think we are seeing any analysis of how efficient VEDP is.

There is evidence that the dissatisfaction expressed by some board members about the information provided by VEDP staff is well founded. For example, in at least two instances, VEDP staff have manipulated the agency's return on investment calculations, which attempt to calculate the value VEDP is providing to the state, to present the agency in a more favorable light. In these two instances, jobs and investment—as well as other economic benefits—related to large projects in the 1990s were deliberately added to a calculation that should only have included projects approved after FY02. According to interviews with staff involved in producing the calculations, this was done against the advice of VEDP's research division.

In the past, VEDP staff have also inflated their primary agency performance measures by including projects for which VEDP's effort and role was minimal. In a presentation to the board in March 2016, VEDP staff claimed that they assisted with 182 company location and expansion decisions ("announcements") in FY14 and 201 in FY15. However, 10 percent of these announcements in FY14 and 13 percent in FY15 involved minimal action by VEDP staff: signing a standard form and forwarding it to the Department of Taxation. According to staff involved in the process, "We don't do much more than that." Removing these announcement numbers would reduce VEDP's claimed 25 percent increase in the number of announcements between FY13 and FY14 to 8 percent—a substantial difference in the primary performance measure used by VEDP.

Board should hire on-site internal audit staff to ensure it obtains sufficient information to hold VEDP accountable

One means of ensuring that the board obtains sufficient and reliable information about VEDP operations, performance, and incentives is for the board to establish an ongoing internal audit division with staff who report directly to the board. Internal auditors are used by both private and public organizations to provide additional assurance to executives and board members and to promote the organization's credibility with external stakeholders (sidebar). Virginia state agencies with internal audit staff include the Virginia Retirement System, Virginia Information Technologies Agency, State Corporation Commission, Department of Transportation, Department of Motor Vehicles, and Department of Health.

Internal auditing is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations," according to the Institute for Internal Auditors.

At VEDP, the internal auditor could be responsible for various aspects of organizational activities, including preparing and posting board meeting minutes and materials, verifying and monitoring process controls and documentation (such as standard operating procedures, consistency of terminology, and reporting), providing direct and unfiltered information about agency activities and performance to board members, and ensuring accurate and timely internal and external reporting. Internal auditors can also be valuable resources for identifying inefficient or ineffective practices and generating solutions to improve them.

VEDP-equivalent entities in many other states have either established or are beginning to establish internal audit functions. Maryland, Tennessee, New York, Utah, and Louisiana, for example, have internal audit staff in their VEDP-equivalent entities. In August 2016, the governor of Nebraska announced he was creating an internal audit position at the Nebraska Department of Economic Development to strengthen the operations of the department. Staff of the Wisconsin Economic Development Corporation told JLARC staff that they are planning to build their internal audit function to identify and address problems proactively before the Wisconsin Legislative Audit Bureau identifies them.

According to the Institute of Internal Auditors, it is important for internal audit functions to have a functional reporting relationship to a board's audit committee and a direct channel of communication to that committee to ensure objectivity and independence. Although JLARC staff did not inventory all states' internal audit functions, the VEDP equivalent entity in at least one other state (New York) has a direct reporting relationship to the organization's board of directors.

To ensure it obtains comprehensive, routine, and unfiltered information from VEDP staff, the board of directors should create an internal audit division that reports directly to the board—not to the CEO. The board, not the CEO, should determine and control the staffing, funding, and activities of the new internal audit division to ensure that it retains an appropriate level of independence from agency staff. To ensure sufficient resources are allocated to the internal audit division, the board should require VEDP staff to include a separate line item in the agency's budget and expense reports related to internal audit staff and activities, instead of aggregating this funding with VEDP's other administrative funding and expenses.

RECOMMENDATION 34

The Virginia Economic Development Partnership (VEDP) board should create an internal audit division that reports directly to the board. The board should control the staffing, funding, and activities of the new internal audit division. Responsibilities for the division should include, at a minimum, (i) verifying information presented to the board is valid and comprehensive, (ii) identifying opportunities to improve the efficiency and effectiveness of agency operations, (iii) ensuring policies and procedures are being followed by staff, (iv) monitoring and reporting on the status of the implementation of recommendations in this report, and (v) carrying out other periodic and routine board-directed audit activities. Funding and spending related to the internal audit division should be included as a separate line item in VEDP's budget and expense reports.

Increases in future appropriations should be contingent on execution of necessary improvements

The extent and impact of inadequate strategic direction and ineffective management at VEDP, along with inadequate governance and oversight, suggest a need for additional accountability for its use of general funds beyond the creation of an ongoing internal audit function. The General Assembly could create its own mechanism to ensure that VEDP and its board of directors are accountable for the efficient and effective use of state funds by withholding the additional $1.5 million appropriated to VEDP in FY18 to expand VEDP's business attraction marketing, to expand the Virginia Jobs Investment Program, and to implement the new Sustained Growth Program, and by tying any future additional VEDP appropriations to demonstrated improvements. This would allow VEDP the opportunity to show that it is capable of efficiently and effectively managing its existing resources before it receives additional funds from the state.

Improvements would include strengthening VEDP's strategic planning, incentives administration, operations, and accountability measures. Additional funding associated with implementing recommendations, such as the creation of an internal audit function and hiring of staff solely responsible for administering incentives, as well as funding associated with VEDP's international trade programs, which have demonstrated greater success than VEDP's other core functions, could be excluded from this contingency. Such improvements could be measured by VEDP's progress towards implementing the recommendations made in this report.

RECOMMENDATION 35

The General Assembly may wish to consider including language in the Appropriation Act to (i) withhold the additional $1.5 million appropriated to the Virginia Economic Development Partnership (VEDP) in FY18 to support VEDP's domestic and international marketing activities, to expand and rebrand the Virginia Jobs Investment Program, and to implement the Sustained Growth Program; (ii) make any increase in future VEDP appropriations (with the exception of funds necessary to implement recommendations) contingent on the VEDP board's execution of necessary improvements, as indicated by the implementation of this report's recommendations; and (iii) require the VEDP Chief Executive Officer and the Chair of the VEDP board to report, separately, to the Chairs of the House Appropriations and Senate Finance Committees on improvements made and progress towards implementing report recommendations directed at VEDP staff and its board no later than November 1, 2017.

Appendix A: Study mandate

HOUSE JOINT RESOLUTION NO. 7
Directing the Joint Legislative Audit and Review Commission to review
the Virginia Economic Development Partnership Authority.

Agreed to by the House of Delegates, February 12, 2016
Agreed to by the Senate, February 23, 2016

WHEREAS, in 2015 Virginia was ranked the 12th best state for business according to Consumer News and Business Channel (CNBC); and

WHEREAS, in 2007, only eight years ago, Virginia was ranked the top state for business by CNBC; and

WHEREAS, economic development opportunities are a decision driver for businesses considering whether to expand or relocate to Virginia; and

WHEREAS, in 1995 the Virginia General Assembly created the Virginia Economic Development Partnership Authority to foster increased expansion of the Commonwealth's economy; and

WHEREAS, the Virginia Economic Development Partnership Authority is a state authority governed by a Board of Directors, consisting of 18 citizens of the Commonwealth appointed by either the General Assembly or the Governor and six state government officials serving ex officio; and

WHEREAS, the Virginia Economic Development Partnership Authority's goal is to recruit new and expanding businesses to invest dollars and create jobs in Virginia and promote international sales of Virginia products and services; and

WHEREAS, the Virginia Economic Development Partnership Authority aims to achieve its goal with various initiatives related to business expansion, business attraction, international trade, and communications and promotions; and

WHEREAS, the Virginia Economic Development Partnership Authority is the central public agency for promoting economic development in Virginia; and

WHEREAS, numerous other state and local entities are engaged in economic development initiatives; and

WHEREAS, economic development operations in the Commonwealth are decentralized; and

WHEREAS, a review of economic development structures and approaches in other states and among other Virginia public entities may be helpful in developing the most effective economic development programs and policies; and

WHEREAS, the Virginia Economic Development Partnership Authority worked with over 5,000 businesses, 19,000 Virginia workers, and 119 Virginia localities in 2015; and

WHEREAS, the Virginia Economic Development Partnership Authority had an operating budget of $20.4 million in General Funds and employed over 110 individuals in fiscal year 2015; and

WHEREAS, economic growth and job creation are critical priorities in Virginia; and

WHEREAS, the Joint Legislative Audit and Review Commission has not conducted a review of the Virginia Economic Development Partnership Authority; and

WHEREAS, 1991 was the last time that the Joint Legislative Audit and Review Commission

undertook a review of state economic development policies, operations, and performance; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission be directed to review the Virginia Economic Development Partnership Authority. In conducting its study, the Joint Legislative Audit and Review Commission shall review (i) the Authority's operations, including its organizational structure, compensation, staffing, productivity, and efficiency; (ii) the Authority's performance, including the effectiveness of its initiatives; (iii) the Authority's accountability structure, including the level of oversight it receives and its governance; (iv) the level of coordination and integration of economic development programs and initiatives undertaken by other state and local entities; (v) structures and approaches used by other states to carry out their economic development functions; and (vi) any other issues and make recommendations as appropriate.

Technical assistance shall be provided to the Joint Legislative Audit and Review Commission by the Virginia Economic Development Partnership Authority. All agencies of the Commonwealth shall provide assistance to the Joint Legislative Audit and Review Commission for this study, upon request.

The Joint Legislative Audit and Review Commission shall complete its meetings for the first year by November 30, 2016, and for the second year by November 30, 2017, and the chairman shall submit to the Division of Legislative Automated Systems an executive summary of its findings and recommendations no later than the first day of the next Regular Session of the General Assembly for each year. Each executive summary shall state whether the Commission intends to submit to the General Assembly and the Governor a report of its findings and recommendations for publication as a House or Senate document. The executive summaries and reports shall be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports and shall be posted on the General Assembly's website.

Appendix B: Research activities and methods

Key research activities performed by JLARC staff for this study included

- structured interviews with Virginia Economic Development Partnership (VEDP) staff and members of the VEDP board of directors; staff from state, regional, and local economic development organizations in Virginia; and other economic development stakeholders including businesses, consultants, and experts in Virginia and other states;
- surveys of all VEDP staff and site selection consultants;
- collection and analysis of data on
    - VEDP spending and staffing;
    - VEDP staff salaries compared to relevant benchmarks;
    - VEDP marketing and international trade activities and results; and
    - VEDP-administered economic development incentive grants;
- a review of the policies and practices of economic development organizations in other states; and
- a review of documents and literature, including past consultant studies of VEDP, standards and policies published by the International Economic Development Council (IEDC), and various other documents, such as VEDP's annual operating plans, agency policies and guidelines, activity and performance reports, marketing materials, staff position descriptions, staff training schedules, and staff exit interviews.

Structured interviews

Structured interviews were a key research method for this report. Interviews were conducted with

- 36 VEDP staff and 10 members of VEDP's 24-member board of directors,
- staff at 12 Virginia state agencies and offices, five regional economic development organizations, and 10 local economic development organizations (Figure B-1),
- seven business organizations and consultants, and
- 21 economic developers and subject matter experts in Virginia and other states.

VEDP staff and board members

JLARC staff conducted in-depth structured interviews with 36 of VEDP's 107 staff (34 percent), many of whom were interviewed multiple times. The VEDP staff selected for interviews represented each core service division, support division, and administrative office and had differing job roles and levels of responsibility. Interviews were conducted in person and by phone. Interview questions varied but were intended to help JLARC staff understand VEDP staffs' roles and responsibilities, policies and practices, training, coordination within VEDP, and opportunities for improvement. JLARC staff used interviews to supplement feedback obtained from VEDP staff through a JLARC survey.

JLARC staff also interviewed 10 of the 24 members of VEDP's current board of directors (42 percent), as well as one previous board member. JLARC staff selected board members to interview with different professional backgrounds and years of service on VEDP's board. Interviews were conducted in person and by phone and covered the roles and responsibilities of VEDP and its board, along with board member engagement and training.

Staff of state agencies and regional and local economic development organizations

JLARC staff conducted in-depth interviews in person and by phone with staff at 12 Virginia state agencies and offices beyond VEDP, including the

- Auditor of Public Accounts,
- Board of Workforce Development,
- Department of Housing and Community Development,
- Department of Human Resources Management,
- Division of Legislative Services,
- Office of the Secretary of Agriculture and Forestry,
- Office of the Secretary of Commerce and Trade,
- Senate Finance Committee,
- Virginia Department of Agriculture and Consumer Services,
- Virginia Employment Commission,
- Virginia Port Authority, and
- Virginia Tobacco Region Revitalization Commission.

State agencies and offices were selected for interviews based on their involvement in the commonwealth's economic development efforts, interactions with VEDP, and expertise in selected areas (e.g., human resources best practices). Interview questions varied but were intended to assess the coordination of the state's economic development activities, the efficiency and effectiveness of VEDP's activities, and suggested areas for improvements to VEDP's operations.

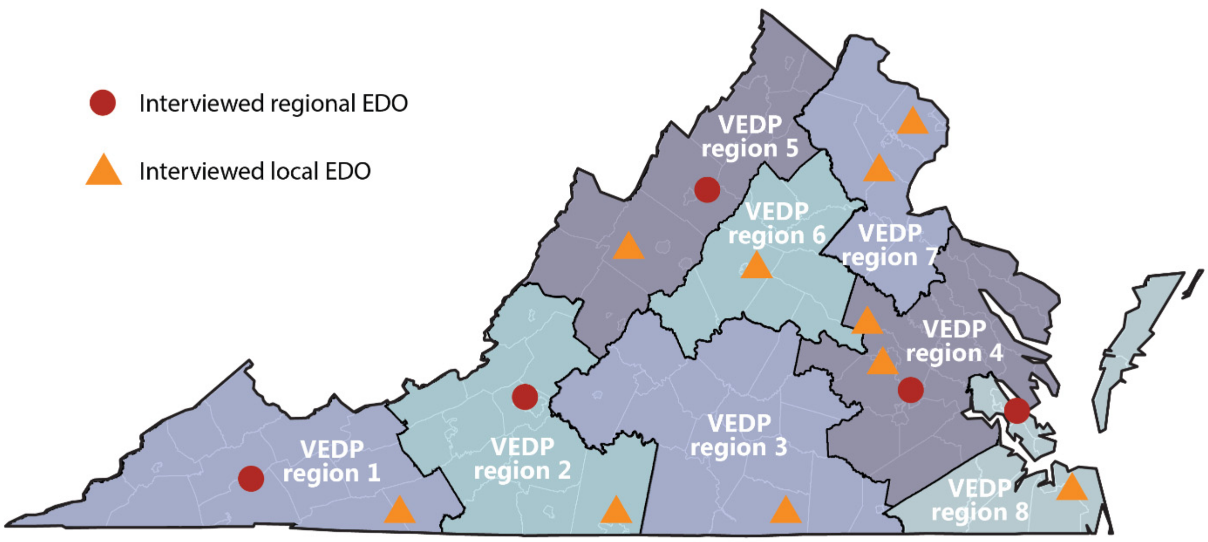
JLARC staff also conducted structured phone interviews with five regional economic development organizations and 10 local economic development organizations (cities and counties) across the state. Regional and local economic development organizations were selected for interviews based on their geographic location, population size, number of businesses, and unemployment rate, and represented all eight of the state's economic development regions as defined by the Virginia Economic Development Association (Figure B-1). Similar to state agencies, the questions asked of these organizations were intended to assess the coordination of the state's economic development activities, the efficiency and effectiveness of VEDP's activities, and suggested areas for improvements to VEDP's operations.

Virginia business organizations and consultants

JLARC staff conducted in-depth interviews with three organizations representing Virginia businesses—the Virginia Manufacturers Association, Virginia Chamber of Commerce, and Virginia Asian Chamber of Commerce—to obtain their perspectives on the efficiency and effectiveness of VEDP's activities, the coordination of the state's economic development activities, and suggested areas for improvements to VEDP's operations.

JLARC staff also conducted in-depth interviews with four economic development consultants working for different private sector companies. These interviews were used to gather a variety of information, including consultants' perspectives on VEDP's service quality, performance levels, and accountability structures.

FIGURE B-1
JLARC interviewed staff from 15 regional and local economic development organizations representing all areas of the state



SOURCE: Virginia Economic Development Association membership regions, 2016. Regional and local economic development organizations interviewed by JLARC staff.
NOTE: "EDO" stands for economic development organization.

Economic developers and subject matter experts in Virginia and other states

JLARC staff interviewed economic developers from 10 economic development organizations in other states to understand their practices related to specific economic development functions, including marketing and international trade. The economic development organizations interviewed were located in nine states: Alabama, Iowa, Louisiana, Missouri, North Dakota, Oregon, South Carolina, Tennessee, and Wisconsin (Table B-1).

JLARC staff also interviewed several economic development subject matter experts. The experts selected for interviews were employed by Virginia organizations (e.g., Virginia Economic Development Association), national organizations (e.g., PEW Charitable Trust), and public higher education institutions (e.g., University of North Carolina). Experts were asked about best practices related to specific economic development functions, such as marketing and international trade services, as well as broader trends in economic development.

TABLE B-1
JLARC staff interviewed staff from economic development organizations in nine other states on various topics

State	Entity	Topics
Alabama	Alabama Department of Commerce	International trade
Iowa	Iowa Economic Development Authority	International trade
Louisiana	Louisiana Economic Development Corporation	International trade
Missouri	Missouri Department of Economic Development	International trade
North Dakota	North Dakota Trade Office	International trade Strategic planning and governance
Oregon	Business Oregon	International trade
South Carolina	South Carolina Department of Commerce South Carolina Council on Competitiveness	Marketing Coordination practices Strategic planning and governance
Tennessee	Tennessee Department of Economic and Community Development	Organizational management International trade Incentive grants Coordination practices
Wisconsin	Wisconsin Economic Development Corporation	Organizational management International trade Incentive grants

SOURCE: JLARC staff correspondence with other states.
NOTE: JLARC staff interviewed two national organizations—Smart Incentives and Pew Charitable Trusts—to gather information on incentive grants. These organizations provided information on incentive grant policies and practices in Tennessee, Florida, California, Maryland, Iowa, Michigan, Maryland, Ohio, Indiana, and Washington, Oklahoma, Minnesota, and Louisiana.

Surveys

Two surveys were conducted for this study: (1) a survey of all VEDP staff and (2) a survey of site selection consultants.

Survey of VEDP staff

The survey of VEDP staff was administered electronically to all staff at VEDP, including VEDP's interim CEO and division vice presidents. JLARC staff received responses from 93 of VEDP's 107 staff (87 percent) representing all core service divisions, support divisions, and administrative offices.

Topics covered in this survey included staffs': (i) years of experience and division placement at VEDP, (ii) understanding of their role and responsibilities, (iii) perception of accountability structures and performance evaluations, (iv) understanding of other VEDP divisions' roles, (v) perception of collaboration across VEDP divisions, (vi) strategic targeting and planning of marketing efforts, (vii) perception of senior leadership, (viii) job training opportunities, and (ix) satisfaction with pay and work at VEDP.

Staff were given the opportunity to respond to the survey anonymously, due to the sensitive nature of the survey topics. Fifty out of the 93 VEDP staff who responded to the survey (54 percent) elected to respond anonymously.

JLARC staff modeled several survey questions after the Federal Employee Viewpoint Survey, which is a survey that is administered annually to federal employees to assess work experiences and satisfactions levels. VEDP staffs' responses were compared to federal employee responses to assess whether VEDP staffs' experiences and satisfaction levels were better, comparable, or worse than federal employees' experiences. JLARC staff used weighted federal employee survey results for these comparisons to ensure that responses were as representative of the federal employee population as possible. JLARC staff used federal employee survey responses from 2015 for the comparisons, which was the most recent year available.

Survey of site selection consultants

Site selection consultants are professionals hired to help businesses identify sites and incentive grant opportunities that fulfill their needs. Some site selection consultants are members of the Site Selectors Guild, an international professional organization founded in 2010. Members of the site selectors guild are considered leaders in their field and must be peer nominated and to be considered for acceptance into the organization. The survey was administered electronically to all 41 members of the Site Selectors Guild, and JLARC staff received responses from 25 of the 41 consultants (61%) surveyed. Of the 25 consultants who responded, two indicated a lack of familiarity with VEDP. As a result, their responses were limited to those questions focused on identifying the states most effective at economic development. Approximately 10 of the 41 Site Selectors Guild members were not expected to respond to the survey due to having an international focus on economic development. If accounting for the exclusion of these members, the effective response rate rises to approximately 81 percent.

Topics covered in this survey included consultants': (i) years of membership in the Site Selectors Guild, (ii) experience working on projects in Virginia, (iii) familiarity with VEDP and its services, (iv) perceptions of the effect of VEDP's marketing efforts on their awareness of the competitive advantages of Virginia and its regions, (v) perception of the quality of VEDP's services, (v) and perceptions of the states that are the most effective at marketing the competitive advantages of their states and coordinating economic development. Consultants were allowed to respond to the survey anonymously due to their ongoing working relationships with staff at VEDP and at other state, regional, and local economic development organizations.

Data collection and analysis

Several types of data analyses were performed for this study. JLARC staff assessed: VEDP's spending and staffing levels using data provided by VEDP; VEDP staffs' salary levels compared to similar economic developers nationwide using survey data from the International Economic Development Council and to similar Virginia state employees using data provided by the Department of Human Resources; VEDP's marketing and international trade performance using data provided by VEDP along with data from Harvard University, the Brookings Institution, and JPMorgan Chase; and the performance of economic development incentive grants using data provided by VEDP.

VEDP spending and staffing (Chapter 1)

JLARC staff analyzed VEDP's spending and staffing levels using data from state Appropriation Acts, VEDP's FY16 and FY17 Operating Plans, and VEDP expenditure data records. The state Appropriation Acts were used to determine the amount of general fund appropriations received by VEDP in

FY17 and over time (FY07 to FY18). VEDP's FY17 Operating Plan was used to identify VEDP's funding sources, allocation of funds across divisions, and staffing levels. VEDP expenditure data was used to assess VEDP's personnel and non-personnel expenditures, as well as expenditures on employee compensation, marketing, travel, and other services.

VEDP changed its allocation of funds and staffing across divisions after undertaking a structural reorganization in August 2016. JLARC staff collected and analyzed funding and staffing data before and after the change.

VEDP staff salaries (Chapter 2)

JLARC conducted two analyses to assess VEDP staffs' compensation levels:

Analysis (1)	Comparison of VEDP staffs' base salaries to the base salaries of similar economic developers nationwide,
Analysis (2)	Comparison of VEDP's base CEO salary to leader salaries at Virginia's regional and local economic development organizations and CEO salaries at state-level economic development organizations in other states, and
Analysis (3)	Comparison of VEDP staffs' base salaries to the base salaries of similar Virginia state employees.

(See Appendix D for the findings of both of these analyses.)

Analysis (1)

JLARC staff compared VEDP staffs' base salaries to the base salaries of economic developers nationwide using 2014 salary data from VEDP and the International Economic Development Council's 2014 Salary Survey, which was the most recent data available. Included in this assessment were 42 VEDP staff (VEDP's CEO and project managers from core service divisions) and 2,905 full-time, year-round, economic developers nationwide.

Several efforts were made to ensure that VEDP positions were comparable to those of economic developers nationally. VEDP staff were separated into groups by position type (VEDP's CEO, division vice presidents, department heads, and program managers) and only compared to economic developers in similar groups in the salary survey. VEDP staff were also only compared to economic developers located in southern states in the salary survey. Moreover, VEDP staff were compared to economic developers working for large organizations with annual operating budgets of $2.5 million or more (all staff) and $10 million or more (CEO salary only).

Analysis (2)

JLARC staff compared VEDP's base CEO salary to the salaries of the staff who lead Virginia's regional and local economic development organizations and the CEOs of state-level economic development organizations in other states using publicly available salary data. JLARC staff reviewed tax forms and online salary databases to obtain base salary information for FY14. JLARC staff collected salary information for nine of Virginia's regional economic development organizations, six of Virginia's local economic development organizations, and 13 state-level economic development organizations in other states.

Analysis (3)

With the assistance of staff at the Department of Human Resource Management (DHRM), JLARC staff compared VEDP staffs' base salaries to the base salaries of similar Virginia state employees using data from DHRM and VEDP. VEDP staffs' salaries and Virginia state employees' salaries were reported as of March 1, 2016. Virginia state employees were considered similar to VEDP staff if they had similar position role codes (determined by DHRM) and standard occupation classification codes (determined by JLARC staff with assistance from VEDP). A total of 56 VEDP staff were matched with and comparable to state employees.

Several efforts were made to ensure that VEDP staff were compared to similar Virginia state employees. JLARC staffs' analysis was conducted two ways, once without controlling for employee position type (employee vs. supervisor/manager) or years of work experience, and once with these controls. The number of VEDP staff that could be matched with similar state employees dropped from 56 staff to 53 staff when controls were applied. In addition, VEDP's CEO was excluded from this analysis, as few Virginia state agencies have comparable positions. JLARC staff used median base salary rather than average base salary as the basis for comparison to account for outliers.

VEDP activities and results (Chapter 3)

JLARC staff analyzed the activities and results of VEDP's core services—marketing and international trade. These services were analyzed separately due to the nature of the data available related to their performance.

Marketing activities and results

JLARC staff requested and analyzed data on VEDP's marketing activities and results from VEDP's customer relationship management database. The dataset that JLARC staff requested with information on VEDP's marketing *activities* ("campaigns" dataset) was unreliable due to inconsistent and incorrect data entry over time. Due to these data limitations, JLARC staff could not quantify VEDP staffs' marketing activities.

The dataset that JLARC staff requested with information on VEDP's marketing *results* ("opportunities" dataset) was used to quantify the number of economic development project announcements between FY13 and FY15 that resulted from VEDP staffs' proactive marketing efforts. JLARC staff assessed VEDP staffs' marketing results over multiple fiscal years to account for anomalies in single years. Data for all of FY16 was not available at the time of JLARC's data request.

JLARC staff took several steps to ensure that marketing results were assessed accurately. First, JLARC staff combined three similar project lead source variables from the opportunities dataset to create a master variable indicating each project's primary lead source. The new master variable was made to reflect the most specific lead source reported across the three variables. Second, JLARC staff counted VEDP staff as having proactively identified an economic development project if VEDP was designated as the "primary lead source." JLARC staff did not count VEDP staff as having proactively identified an economic development project if they provided reactive assistance (e.g., through the Virginia Jobs Investment Program or VEDP Data Center MOUs) or if a non-VEDP entity was the primary lead source of the project (e.g., regional economic development organizations, state agencies).

Third, when evaluating the number of announcements resulting from VEDP staffs' proactive marketing efforts, JLARC staff only counted project announcements that were marked as "closed" and "won" by Virginia. Project announcements that were "closed" but "lost" or "disengaged" were excluded from the analysis.

JLARC staff interviewed VEDP information technology staff and other staff at VEDP to verify its methods for identifying the primary lead source and determining whether a primary lead source was "proactive" or "reactive."

International trade activities and results

JLARC staff conducted three analyses to assess the activities and results of VEDP's trade programs.

Analysis (1)	Number of companies served by VEDP's International Trade division out of those potentially eligible,
Analysis (2)	Export growth of VALET companies, and
Analysis (3)	Customer satisfaction with international trade services.

Analysis (1)

JLARC staff estimated the number of companies served by VEDP's International Trade division as a portion of potentially eligible Virginia businesses. To identify the number of companies served by VEDP's International Trade division, JLARC staff requested data from VEDP on the total number of companies served by the International Trade division per year from FY11 through FY15. JLARC staff reported the median rather than the average number of companies served by the International Trade division due to the variation in the number of companies served each fiscal year and changes in VEDP's record-keeping practices in FY15.

To estimate the number of potentially eligible Virginia businesses, JLARC staff collected and analyzed 2014 County Business Patterns data from the U.S. Census Bureau and the traded sector designations developed by the US Cluster Mapping Project at the Harvard Business School. JLARC staff (1) matched traded-sector industry codes (6-digit NAICS) to industry codes in Virginia, (2) included establishments with 20 to 499 employees (n=7,721), and (3) excluded establishments in government and nonprofit categories. JLARC staff worked with subject matter experts and staff from the U.S. Census Bureau to determine which establishments to include in the estimate.

Analysis (2)

JLARC staff assessed the growth in export sales for companies participating in the Virginia Leaders in Export Trade (VALET) program from FY11 through FY15. To conduct this assessment, JLARC staff (1) excluded companies that did not complete the program and had missing export sales data, (2) changed export sales values to $1 where the starting value was $0 to calculate a percent change, and (3) calculated the median change in export sales from the beginning to the end of the program for each participating company. JLARC staff calculated the median percent export growth rather than the average to control for the variation in companies' export sales figures. VEDP reports the average percent export growth, which is higher than JLARC staffs' median percent export growth calculation.

JLARC staff assessed export sales growth using the most recent version of the Brookings Institution's Export Monitor database, which features export data by industry sector through the year 2014. JLARC staff combined county-level data to create state-level data. JLARC staff used Export Monitor data rather than export data from the U.S. Census Bureau because U.S. Census Bureau data only capture manufactured goods and reflect the state from which goods were exported. In contrast, the Export Monitor dataset includes manufactured goods *and* services and reflects the state in which goods were made. Importantly, neither dataset includes data on actual service exports at the state level. The Export Monitor dataset reflects estimates of *potential* exporting activity by sector based on the concentration of each industry sector in a given area, which is the best data available.

Analysis (3)

To assess customer satisfaction with VEDP's international trade services, JLARC staff reviewed Client Impact Statements completed by companies that received services from VEDP's International Trade division from FY11 through FY15. JLARC staff calculated average Client Impact Statement scores for FY11 through FY15 by question and service category, and reported the average total score for each fiscal year. JLARC staff also analyzed open-ended comments included on Client Impact Statements using a random sample of Client Impact Statements from FY11 through FY15.

VEDP's Site Selection Database (Chapter 3)

JLARC staff assessed VEDP's site selection database by comparing the templates used in VEDP's database (Virginia Scan) to templates developed by the International Economic Development Council's (IEDC) Site Selection Data Task Force. Using a simple random sample, JLARC select 45 VEDP templates from across three property types (industrial buildings, office buildings, and sites/land) and compared available data elements to those data elements include in IEDC templates. IEDC data elements were grouped into several categories, including identity, transportation, water, sewer, protective services, electric power, natural gas, and telecommunication services. Of the 298 data elements included on IEDC templates, VEDP templates regularly included information on only 86 (29%). (See Appendix E for greater detail on the findings of this analysis.)

VEDP-administered economic development incentive grants (Chapter 4)

JLARC staff performed three types of analyses of VEDP-administered grant programs using data provided by VEDP.

Analysis (1)	Performance of VEDP-administered grant programs,
Analysis (2)	Repayment obligations (COF projects), and
Analysis (3)	Distressed vs. non-distressed area calculations (COF projects).

Analysis (1)

JLARC staff collected and analyzed project-level data from VEDP for all grant programs VEDP administers. JLARC staff analyzed these data to determine the extent to which closed projects met performance requirements, including the agreed-upon targets for (1) full-time jobs created, (2) capital investment made, and (3) wages paid. Fiscal year 2006 was selected as the beginning year for data collection because it allowed JLARC staff to analyze the performance of projects approved over a 10-year period. The data provided by VEDP was not independently verified by JLARC staff.

VEDP-administered grant programs establish project- and program-specific performance targets against which grant programs can be evaluated. Accordingly, JLARC staff analyzed the extent to which projects within each program met or exceeded their performance requirements, such as job creation and capital investment. Only completed grant projects were included in this analysis. For each project, the jobs created, capital invested, and average wages paid (as reported by the business) were compared to the expected performance in each area as documented in the performance agreement between the business and VEDP. Results were aggregated for each grant program, but not across all programs, because some projects receive grants from more than one program, which would result in counting the data for these projects multiple times.

(See Figure 4-1 and Appendix F for results of this analysis.)

<u>Analysis (2)</u>
JLARC staff also collected and analyzed project-level data on all COF repayments initiated by VEDP over the 10-year study period (FY06-FY15) and the amounts received. As noted in Chapter 4, COF projects that do not meet at least 90 percent of their job or capital investment requirement are required to return their grant award (or at least a portion thereof) to the state, a provision known as a "claw-back." In addition, if a project does not pay the expected average salary (regardless of whether it meets the job creation requirement), the company should be required to return at least a portion of their grant award to the state, according to contractual requirements.

For the COF projects that did not meet all performance requirements, JLARC staff determined the total amount of repayment obligations ($22 million) based on the project status and clawback information provided by VEDP. JLARC staff then determined the repayment obligation amount that (1) has not been repaid to the state, (2) has been repaid, and (3) is currently pending. Of the repayment obligation amount that has not been repaid to the state ($13.4 million), JLARC staff determined the percentage where (1) no repayment has been made because it was not sought by VEDP, (2) no repayment has been made but it was requested by VEDP, or (3) no repayment was possible because the project failed (e.g., a company closed or declared bankruptcy). Table B-2 provides a summary of JLARC staff calculations of repayment obligations for closed COF projects between FY06 and FY15 that did not meet all performance requirements.

<u>Analysis (3)</u>

JLARC staff also analyzed the number of projects located in distressed vs. non-distressed areas that were expected to pay below the local prevailing wage. According to the Code of Virginia, a locality is considered to be distressed if its unemployment rate is higher the statewide annual average **<u>or</u>** if its poverty rate is above the statewide annual average. However, poverty was not used as a distressed indicator until FY12 after the 2011 General Assembly enacted Senate Bill 1379 that revised § 2.2-115.

To perform this analysis, JLARC staff collected locality-level unemployment rates from VEDP (as reported by VEC) and downloaded locality-level poverty rates from the U.S. Census Bureau Small Area Income and Poverty Estimates (SAIPE) website. Table B-3 summarizes how JLARC staff used these criteria in determining the number of approved COF projects located in a distressed area, which

TABLE B-2
Summary of JLARC staff calculations of repayment obligations for closed COF projects that did not meet performance requirements (FY06-FY15)

Repayment status category	Repayment amount owed	Repaid to VEDP	Number of COF projects
Full repayment received by VEDP	$6,210,000	$6,210,000	5 [a]
Partial repayment received by VEDP	825,150	825,150	17
No repayment sought by VEDP, although projects did not meet all performance requirements;	8,737,000 [b]	–	23
No repayment sought by VEDP, although projects failed;	2,715,000	–	12
Repayment requested by VEDP, but not received	2,000,000	–	2
Full repayment pending	1,500,000	–	2
TOTAL	**$ 21,987,150**	**$7,035,150**	**61**

SOURCE: JLARC staff analysis of data provided by VEDP on clawbacks initiated for COF projects closed between FY06 and FY15.
[a] An additional 13 COF projects repaid their full grant award amount to VEDP as a result of not meeting their performance requirements, but these projects were not included in the project performance datasets provided by VEDP.
[b] JLARC staff estimate calculated based on repayment requirements consistent with VEDP contract provisions for COF projects.

is consistent with VEDP's approach. If a COF project was approved between FY06-FY11, then JLARC staff used only unemployment rates to determine the number of approved COF projects located in a distressed vs. non-distressed area. If a COF project was approved between FY12-FY15, then JLARC staff used unemployment and poverty rates for these calculations. To determine whether a locality was distressed, JLARC staff compared the unemployment rate of the COF project locality (one year prior to when the project was approved, due to the timing of unemployment rate data reported by VEC) to the statewide average unemployment rate. For projects approved in FY12-FY15, JLARC staff also compared the poverty rate of the COF project locality (two years prior to when the project was approved, due to the lag of data available through the U.S. Census Bureau SAIPE website) to the statewide average poverty rate.

JLARC staff then calculated the number of approved COF projects where the expected wage was less than the local prevailing wage and the locality was not distressed at any point during the 10-year period (FY06-FY15). JLARC staff also determined the number of approved COF projects where the expected wage was less than the local prevailing wage and the locality was not distressed during the entire 10-year period.

TABLE B-3
Distressed criteria used in JLARC staff calculations (COF projects approved FY06–FY15)

	Distressed criteria	
Fiscal year approved	**Unemployment rates**	**Poverty rates**
2006–2011	✓	n.a.
2012–2015 [a]	✓	✓

SOURCE: JLARC staff review of the Code of Virginia (§ 2.2-115).
[a] 2015 poverty rates were not available by locality.

Document and literature review

JLARC staff conducted an in-depth review of many documents pertaining to economic development. For example, JLARC staff reviewed previous organizational assessments of VEDP conducted by external consultants, documents featuring information on the state's various economic development entities, and economic development industry standards and practices published by the International Economic Development Council.

Consultant reviews of VEDP

Since 2012, VEDP staff hired external consultants to conduct four organizational reviews of VEDP. The results of these reviews were documented in four reports—only one of which (2012) was shared with VEDP staff or all members of VEDP's board of directors. JLARC staff reviewed all four reports to identify common themes and corroborate the findings of research conducted for this study.

Documents related to state economic development entities

JLARC staff reviewed a variety of documents to estimate the number of state, regional, and local economic development entities in Virginia. Entities were identified through reviews of (a) JLARC's 1991 Catalog of Virginia's Economic Development Organizations and Programs; (b) VEDP's Ally Information Exchange database (a directory of some of VEDP's economic development partners); (c) the Code of Virginia; and (d) entities' websites, operating plans, and budgets. Due to the broad nature of economic development and the lack of a consistent statutory definition in code for "economic development" programs, this list should not be considered exhaustive.

Other documents

Numerous other documents and literature pertaining to economic development were reviewed throughout the course of this study, such as

- industry standards and practices published by the International Economic Development Council related to organizational management, business attraction, business retention and expansion, and strategic planning;
- state laws and legislation, including § 2.2-2234 of the Code of Virginia, the Appropriation Act, and HB 858 (2016);

- VEDP policy manuals, including the Human Resources Policy manual, incentive grant operational guidelines, marketing material development requirements, and international trade user manuals;
- VEDP reports, including the FY17 Operating Plan, FY17 marketing events calendar, presentations to the board of directors, and various division-level performance reports;
- VEDP marketing materials, including project and incentive proposals for clients and marketing presentations;
- VEDP organizational charts before and after the August 2016 reorganization;
- position descriptions for current and vacant VEDP staff positions;
- training schedules and topics for VEDP staff in marketing and international trade divisions;
- exit interviews completed by 18 former VEDP staff; and
- prior studies and reports on economic development, such as the JLARC reviews of economic development incentive grants (2012) and economic development in Virginia (1991).

Appendix C: Purpose, funding, and final approval authority of VEDP-administered incentive grant programs

VEDP administers 10 of Virginia's incentive grant programs, five of which it is directly responsible for and five of which are custom grant programs that it administers as a designee of the Secretary of Commerce and Trade (Table C-1). As stated in JLARC's 2012 *Review of State Economic Development Incentive Grants*, all of these incentive grant programs share the general goal of enhancing the state's economy by attracting businesses to Virginia or incentivizing the expansion of existing businesses. However, the specific purpose of each program varies.

All of VEDP's grant programs are funded by general fund appropriations each year. For most programs, VEDP has discretion over which businesses receive grant awards and the amount awarded, pending final approval by the Governor. All discretionary grant programs have eligibility requirements, whereas the five "custom grant programs" are narrowly targeted towards specific businesses or certain geographical areas of the state.

TABLE C-1
VEDP grant programs have varying purposes but all receive general fund appropriations

Grant program	Purpose	General funds	Final approval authority
Commonwealth's Development Opportunity Fund	Provide access to "deal-closing" funds to encourage locations and expansions by reducing site preparation, infrastructure, and other costs	✓	Governor
Virginia Jobs Investment Program	Offset training, recruiting, and similar costs for businesses of all sizes that create new jobs or retrain existing employees	✓	VEDP
Major Eligible Employer Grant	Attract large employers (minimum of 1,000 new jobs or fewer if high-paying) to expand or locate in Virginia	✓	Governor
Virginia Investment Partnership Grant	Encourage expansion of existing manufac-turers	✓	Governor
Virginia Economic Development Incentive Grant	Attract large headquarters, administrative, or service operations with high-paying jobs	✓	Governor
Custom grant programs			
Aerospace Engine Manufacturing Grant	Encourage Rolls-Royce to locate aircraft engine manufacturing facility in Prince George	✓	Governor and General Assembly
Advanced Shipbuilding Training Facility Grant	Encourage Newport News Shipbuilding to create new apprenticeship school, jobs, and capital investment in Newport News	✓	Governor and General Assembly
SRI-Shenandoah Valley Grant	Encourage SRI International, a non-profit research and development firm, to create its Center for Advanced Drug Research in Rockingham	✓	Governor and General Assembly
Semiconductor Memory or Logic Wafer Manufacturing Grants	Encourage the location and expansion of computer component manufacturers Qimonda (Henrico) and Micron (Manassas)	✓	Governor and General Assembly
Pulp, Paper, and Fertilizer Advanced Manufacturing Performance Grant	Encourage Tranlin to locate a paperboard manufacturing facility in Chesterfield County	✓	Governor and General Assembly

SOURCE: 2012 JLARC Review of State Economic Development Incentive Grants and interviews with VEDP staff.

Appendix D: VEDP staff salary analyses

To fulfill mandate item (i) of the study resolution, JLARC staff conducted three analyses of staff compensation: (i) an assessment of VEDP staffs' satisfaction with pay compared to federal employees' satisfaction, (ii) an assessment of VEDP staffs' salaries compared to similar economic developers' salaries, and (iii) an assessment of VEDP staffs' salaries compared to similar Virginia state employees' salaries. JLARC staff focused these analyses on staffs' salaries rather than staffs' total compensation because salary data was the most comparable to available benchmark data. JLARC staff used the results of these analyses to determine whether VEDP staffs' salaries were above or below relevant benchmarks—not what individual staff salaries should be. (VEDP hired an external consultant, Towers Watson, to assess individual staff salaries in 2014.) To conduct the salary analyses, JLARC staff worked with staff from VEDP and at the Department of Human Resources Management. (See Appendix B for explanation of the methodology used to conduct the salary analyses.)

VEDP staff are more dissatisfied with their pay than federal employees

Almost half of current VEDP staff are dissatisfied with their pay, according to a JLARC survey. In fact, 44 percent of VEDP staff who responded to the JLARC survey reported being "dissatisfied" or "highly dissatisfied" with their pay, which is worse than the percentage of federal employees who indicated dissatisfaction with their pay in the 2015 Federal Employee Viewpoint Survey (25 percent).

In addition to current VEDP staff, many former VEDP staff have also been dissatisfied with their pay. Fifty-six percent (10 of 18) of the former VEDP staff who completed exit interviews indicated that their pay was low or they were otherwise dissatisfied with it.

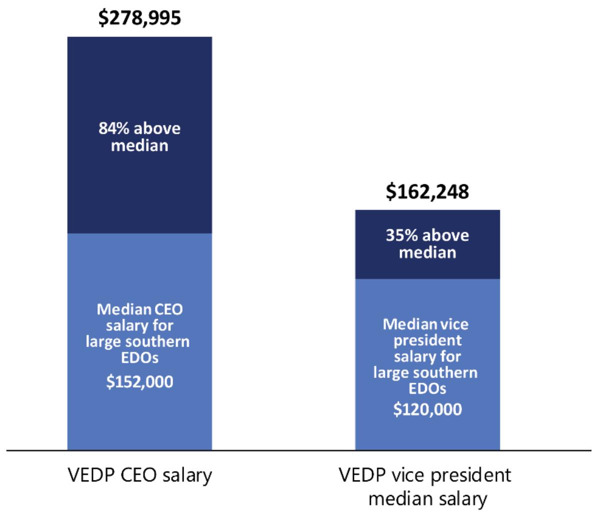
Majority of VEDP staff have higher salaries than similar economic developers

VEDP's former CEO had a higher base salary than comparable economic developers. In 2014, the base salary of VEDP's CEO was 84 percent above the median base salary reported for CEOs at other large, southern economic development organizations, according to a salary survey administered by the International Economic Development Council (Figure D-1). The base salary of VEDP's CEO was also higher than the base salary reported for the leaders of most of Virginia's regional and local economic development organizations, as well as the CEOs of several state-level economic development entities in other states, according to JLARC staffs' review of publicly available salary data. Only a few of the state, regional, and local entities that JLARC staff reviewed reported a base CEO salary that was higher than VEDP's base CEO salary during this time period.

In 2014, the base salaries of VEDP's vice presidents who oversee core service divisions were also above the median base salary reported for vice presidents at other large, southern economic development organizations by a median of 35 percent.

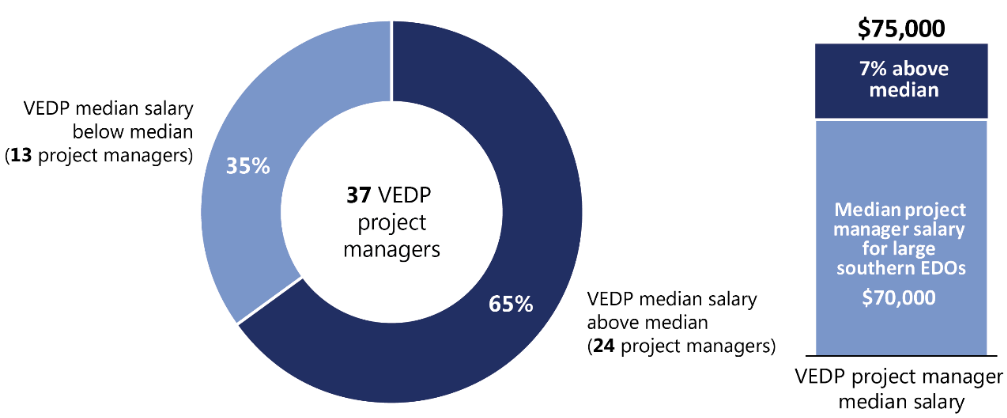
Similar to executive staff, the majority of VEDP's project managers have higher base salaries than comparable economic developers. In 2014, 65 percent (29 out of 37) of VEDP project managers working in core service divisions had base salaries that exceeded the median base salary reported for project managers at large, southern economic development organizations. VEDP project managers' salaries exceeded similar project managers' salaries by a median of seven percent (Figure D-2).

FIGURE D-1
VEDP executive staff have higher median salaries than similar economic developers (2014)



SOURCE: JLARC staff analysis of VEDP salary data (as of March 1, 2014) and International Economic Development Council Annual Salary Survey data (2014).
NOTE: JLARC staff compared VEDP staffs' base salaries to the base salaries of large, southern economic development organizations (EDOs) as defined by the International Economic Development Council's Salary Survey, which include organizations with annual operating budgets of $2.5M or more that are located in DC, DE, FL, GA, MD, NC, PR/VI, SC, VA, WV, AL, KY, MS, TN, AR, LA, OK, and TX.

FIGURE D-2
Majority of VEDP project managers have higher median salaries than similar economic developers (2014)



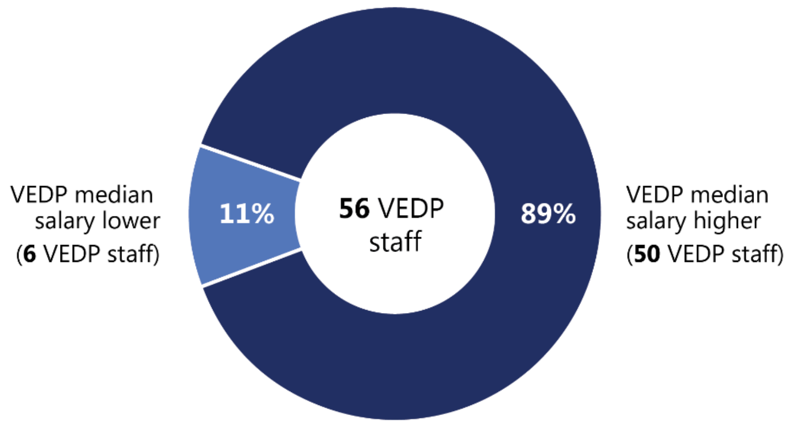
SOURCE: JLARC staff analysis of VEDP salary data (as of March 1, 2014) and International Economic Development Council Annual Salary Survey data (2014).
NOTE: JLARC staff compared VEDP staffs' base salaries to the base salaries of large, southern economic development organizations (EDOs) as defined by the International Economic Development Council's Salary Survey, which include organizations with annual operating budgets of $2.5M or more that are located in DC, DE, FL, GA, MD, NC, PR/VI, SC, VA, WV, AL, KY, MS, TN, AR, LA, OK, and TX.

Most VEDP staff have higher salaries than similar Virginia state employees

Compared to Virginia state employees in similar roles and occupations (e.g., marketing manager, accounting clerk, and computer user support specialist), most VEDP staff have higher salaries. As of

March 2016, 89 percent (50 out of 56) of VEDP staff working in core service divisions, support service divisions, and administrative offices had base salaries that were higher than the base salaries of Virginia state employees in similar roles and occupations. Across all comparisons groups, VEDP staffs' salaries exceeded similar state employees' salaries by a median of 22 percent (Figure D-3).

FIGURE D-3
Most VEDP staff had higher median salaries than similar VA state employees (2016)



SOURCE: JLARC staff analysis of VEDP salary data (as of March 1, 2014) and VA state employee salary data provided by DHRM (2016).
NOTE: JLARC staff compared only the salaries of VEDP staff for which there were comparable state employees (n=56). VEDP staff that were compared worked in core service divisions (BA, BX, and International Trade), and all of VEDP's support service divisions and administrative offices.

Appendix E: IEDC site selection data standards

The International Economic Development Council's (IEDC) developed site selection data standards to ensure economic development organizations are providing complete and relevant information to prospective businesses and site selection consultants. Economic development organizations can also use this information to better understand the available assets of localities and ensure their marketing campaigns are informed by this information.

To understand the extent to which VEDP provides sufficient information to prospective business and site selection consultants, JLARC staff compared the information available through VEDP's site and building database, Virginia Scan, through a random sample of property profiles and compared the elements within these profiles to the elements included in the standards developed by IEDC (Table E-1).

TABLE E-1
Comparison of VEDP site selection data to IEDC standards

	# of VEDP data elements identified	# of IEDC data elements	% of elements included in VEDP database
Office buildings	28	84	33%
Industrial buildings	36	122	30%
Sites	22	92	24%
Total	86	298	29%

SOURCE: JLARC staff analysis of VEDP's Virginia Scan database and IEDC's site selection data templates.
NOTE: Certain elements were at times identified in an "Additional Comments" section in VEDP's templates, but this was rare and not on a consistent basis. Information on real and personal property tax was not available in VEDP's templates, but was available on the Community Profiles, which could be accessed elsewhere through the Virginia Scan database.

The following sections include the data elements available in each of the three primary IEDC data standards templates, with an asterisk to indicate those elements VEDP includes in its standard site or building template. (See Appendix B for more information on methodology used for this analysis.)

IEDC site selection standards for available office buildings

Identity
*Building Address
Owner/Broker
Company
*Contact Name
*Telephone Number
Freestanding or Business Park
*Specific Building Site Acres
Total Complex in Acres
Acres Available for Future Growth
*Zoning Classification
Floor Area Ratio
Topography
Reside in 100 Year Flood Plain
Phase One Environmental Audit
Storm Drainage

Building specifications
*Class
*Construction Type
*Construction Date
*Prior Use
*Total Square Feet
*Available Square Feet
*Column Spacing
*Ceiling Height
Type of Wiring System
Type of Telephone Switch
*# of Floors
# of Elevators
  Elevator Passenger Capacity
  Elevator Freight Capacity
*Parking Spaces Available
  Space Available per sq. ft.
  Surface or Garage

Lease costs
*Rent per Sq. Ft. (per BOMA)
  Base Rent
  Net Taxes
  Expenses
  Total Spaces Available
Operating Expenses ALL Inclusive $ per RSF
  Building Payroll
  Maintenance
  Insurance

Utilities
Admin. Costs
Other

Sales costs
Total Taxes Paid Last Year, if Building for Sale

Transportation
*Highway Linkage
*Two or Four Lane
*Distance to Four Lane Highway
Mass Transit Service
*Light Rail
Bus Service
*Distance to Nearest Airport

Major tenants
Building
Site Complex

Electric power
*Service Provider
Service Voltage to Site/Building
Transmission Voltage
Distribution Voltage
Secondary Voltage
Total interruptions per year
Number of instantaneous delays
Total outage duration (hours/year)
Dual Feed Available - 1 Substation
Dual Feed Available - 2 Substations

Telecommunications service
*Local Exchange Carrier
Nearest Central Office (C.O.)
Nearest C.O. Location
Nearest C.O. Distance from Site
Switch
ADSL Available from C.O.
Type (e.g. Analog or Digital)
C.O. on a Fiber Ring (Yes or No)
Dual Service Provided from 2 C.O.'s
*Fiber Available (Yes or No)
*Building Served by Fiber
ISDN Available from C.O.
All Major Long Distance Carriers
Location of Nearest Major Carrier
Distance of Nearest Major Carrier

Located in a classified zone
*State Enterprise Zone
Enterprise Community
Empowerment Zone
*Foreign Trade Zone
*Specialized Local Zones

IEDC site selection standards for available industrial buildings

Identity
*Building Address
Owner/Broker
Company
*Contact Name
*Telephone Number
Freestanding or Industrial Park
*Specific Building Site Acres
*Total Complex in Acres
*Acres Available for Future Growth
*Zoning Classification
Floor Area Ratio
Topography
Elevation
Water table (Ft. Below Ground)
Reside in 100 Year Flood Plain
Phase One Environmental Audit
% of Site Residing in a Wetland
Soil Type
Load Bearing Capacity
Storm Drainage System
*Construction Type
*Construction Date
*Previous Use
*Building Size (sq. ft.)
*Available (sq. ft.)
*Building Classification
*Ceiling Height
*Column Spacing
# of Floors
# of Elevators
Elevator Passenger Capacity
Elevator Freight Capacity
Type of Wiring System
*Loading Docks
*Parking Spaces Available
Space Available per sq. ft.
Surface or Garage

Lease costs
*Rent per Sq. Ft. (per BOMA)
Base Rent
Net Taxes
Expenses
Total Spaces Available
Operating Expenses ALL Inclusive $ per RSF

Sales costs
Total Taxes Paid Last Year, if Building for Sale

Transportation
*Highway Linkage
*2 or 4 Lane
*Distance to 4 Lane Highway
Internal Site Access
Bus Service
*Distance to Airport
*Nearest Port (Name/Type/Distance)
*Rail Service Carrier
Main or Branch Line
Spur (If No: Distance to Rail Line)
Barge Facilities at Site
Name of River, Lake, etc.
Channel Depth
Turning Basin
Storage Capabilities

Effective property tax rate
*Real Property Tax (City/County/School/Special District)
*Personal Property Tax (City/County/School/Special District)

Utilities
*Water Provider
Water Main Size
Static Pressure
Residual Pressure
Flow per Minute
Treatment Plant
Rated Capacity (mgd)
Peak Demand (mgd)
Booster Pump Required
Onsite Storage
Elevated
Capacity in Gallons

Sewer
*Sewer Provider
Sewer Main Size
Use of Lift Required
Treatment Plant Type
Rated Capacity (mgd)
Peak Demand (mgd)

Natural gas
*Natural Gas Provider
Gas Main
Size
Distance in Feet from Site
Gas Pressure
Heat Value

Electric power
*Service Provider
Service Voltage to Site/Building
Transmission Voltage
Distribution Voltage
Secondary Voltage
Total interruptions per year
Number of instantaneous delays
Total outage duration (hours/year)
Dual Feed Available - 1 Substation
Dual Feed Available - 2 Substations

Telecommunications service
*Local Exchange Carrier
Nearest Central Office (C.O.)
Nearest C.O. Location
Nearest C.O. Distance from Site
Switch
ADSL Available from C.O.
Type (e.g. Analog or Digital)
C.O. on a Fiber Ring (Yes or No)
Dual Service Provided from 2 C.O.'s
*Fiber Available (Yes or No)
*Building Served by Fiber
ISDN Available from C.O.
All Major Long Distance Carriers
Location of Nearest Major Carrier
Distance of Nearest Major Carrier

Protective services
Fire Insurance Class Rating
Distance to Nearest Police Station
24 Hour police Patrol Provided
Distance to Nearest Fire Station
Fire Station (Volunteer/Full-Time)

Located in a classified zone
*State Enterprise Zone
Enterprise Community
Empowerment Zone
*Foreign Trade Zone
*Specialized Local Zones
IEDC site selection standards for <u>sites</u>

Identity
*Building Address
Owner/Broker
Company
*Contact Name
*Zoning Classification
*Acreage
*Total Usable/Subdividable Acres
# of Adjacent Acres for Expansion
Soil Type
Soil Load Bearing Capacity (lbs. Per Sq. In.)
*Topography
Elevation (Mean Ft. Above Sea Level)
Water table (Ft. Below Ground)
100 Year Floodplain (Yes or No)
% of Site in Wetlands
*Phase One Environment Audit Complete (Yes or No)
*Selling Price Per Acre

Transportation
*Highway Linkage
*2 or 4 Lane
*Miles from Site
Internal Site Access
Mass Transit Service
Nearest Mass Transit Stop
*Rail Service Carrier
Main or Branch Line
Spur (If No: Distance to Rail Line)
Barge Facilities at Site if Applicable
Name of River, Lake, etc.
Channel Depth
Turning Basin
Storage Capabilities

Water
*Water Provider
Water Main Size
Distance from Site
Static Pressure
Residual Pressure
Flow per Minute
Treatment Plant
Rated Capacity (mgd)
Peak Demand (mgd)
Booster Pump Required
Onsite Storage
Elevated
Capacity in Gallons

Sewer
*Sewer Provider
Sewer Main Size
Distance from Site
Use of Lift Required
Treatment Plant Type
Rated Capacity (mgd)
Peak Demand (mgd)

Natural gas
*Natural Gas Provider
Distance from Site
Size of Gas Line
Gas Pressure
Heat Valve

Electric power
*Service Provider
Service Voltage to Site/Building
Transmission Voltage
Distribution Voltage
Secondary Voltage
Total interruptions per year
Number of instantaneous delays
Total outage duration (hours/year)
Dual Feed Available - 1 Substation
Dual Feed Available - 2 Substations

Telecommunications service
*Local Exchange Carrier
Nearest Central Office (C.O.)
C.O. Location
C.O. Distance from site
Switch
ADSL Available from C.O.
Type (e.g. Analog or Digital)
C.O. on a Fiber Ring (Yes or No)
Dual Service Provided from 2 C.O.'s
*Fiber Available (Yes or No)
*Building Served by Fiber
ISDN Available from C.O.
All Major Long Distance Carriers
Location of Nearest Major Carrier
Distance of Nearest Major Carrier

Protective services
Fire Insurance Class Rating
Distance to Nearest Police Station
24 Hour police Patrol Provided
Distance to Nearest Fire Station
Fire Station (Volunteer/Full-Time)

Located in a classified zone
*State Enterprise Zone
Enterprise Community
Empowerment Zone
*Foreign Trade Zone
*Specialized Local Zone

Appendix F: Performance of custom grant projects

Custom grant projects have had mixed success in meeting their performance goals. SRI and Newport News Shipbuilding have met their performance milestones (Figure F-1). Conversely, Tranlin (pulp, paper, and fertilizer advanced manufacturing grant) and Rolls-Royce (aerospace grant) both lagged behind their 2015 performance milestones, based on data reported by VEDP. Rolls-Royce met approximately half of its 2015 expected jobs and capital investment. Tranlin created 10 of the 25 anticipated jobs for 2015 and only invested $6.6M of the expected $20M in capital.

FIGURE F-1

Custom grant projects have had mixed performance (as of August 2016)

	Year of completion	Amount approved		Job creation	Capital investment	Average salary
Completed						
SRI	2013	$22.0M	Goal	35	*No goal*	$85K
			Actual	38		$86K
Newport News[a]	2015	$32.8M	Goal	1,000	$300M	$51K
			Actual	1,638	$400M	$61K
Ongoing						
Tranlin[b]	2020	$20.0M	Goal (overall)	2,000	$2.0B	$46K
			Goal (2015)	25	$20.0M	*Same as overall goal*
			Actual	10	$6.6M	$132K
Rolls Royce[c]	2023	$50.7M	Goal (overall)	640	$0.5B	$49K
			Goal (2015)	416	$0.4B	*Same as overall goal*
			Actual	219	$0.2B	$71K

SOURCE: JLARC staff analysis of data provided by VEDP (as of August 2016).
NOTE: VEDP does not control the targeting of custom grants. Instead, companies are eligible for these types of grants if they meet certain conditions specified in statute.
[a] The 2016 General Assembly approved two additional custom grants for Newport News Shipbuilding (§59.1-284.29). [b] Approved in FY16. Job creation and capital investment goals are based on Tranlin's overall performance goals. Tranlin's 2015 benchmarks were 25 jobs and $20M in capital investment (reported to VEDP on 12/1/15). [c] Job creation and capital investment goals are based on Rolls-Royce's overall performance goals. Rolls-Royce's 2015 benchmarks were 416 jobs and $394M in capital investment (reported to VEDP on 6/1/16). Amount approved does not include a $40 million grant that was paid to universities, not Rolls Royce.

Appendix G: Agency response

As part of an extensive validation process, the state agencies and other entities that are subject to a JLARC assessment are given the opportunity to comment on an exposure draft of the report. JLARC staff sent an exposure draft of this report to the Virginia Economic Development Partnership (VEDP) Authority and the Secretary of Commerce and Trade. Appropriate corrections resulting from technical and substantive comments are incorporated in this version of the report.

This appendix includes response letter from VEDP.

Following VEDP's response letter is a response from JLARC staff that is intended to clarify some misinformation included in VEDP's response letter and attachment.

Virginia
YesVirginia.org
BEST STATE FOR BUSINESS

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
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Richmond, Virginia 23218-0798
804-545-5600 . www.YesVirginia.org

NOV 04 2016

November 4, 2016

The Honorable Robert D. Orrock, Sr.
Chairman
Joint Legislative Audit and Review Commission
General Assembly Building, Suite 1100
201 North 9th Street
Richmond, Virginia 23219

Re: Response of the Virginia Economic Development Partnership Authority

Dear Chairman Orrock:

The Joint Legislative Audit and Review Commission report on the Management and Accountability of the Virginia Economic Development Partnership (2016) validates many of the structural changes and management improvements that are well underway at VEDP. With a newly-energized and engaged Board of Directors, a new structure, and new management at all levels of VEDP, there is a new energy and determination to be the very best economic development organization that we can be.

While it is humbling for many to see the shortcomings of the old VEDP cataloged in black-and-white, it is encouraging to see that our vision for an improved VEDP that we embarked on in 2015 is shared by JLARC and is reflected in the Report's Recommendations. We have attached to this letter a listing that shows our progress toward the improvements suggested in the Recommendations.

We look forward to working with you to enhance the contributions that VEDP can make to the economic vitality of the Commonwealth.

Sincerely,

Daniel C. Gundersen
Interim President and Chief Executive Officer
and Chief Operations Officer

Attachment: VEDP Response to Recommendations

VEDP Response to JLARC Recommendations

#	Brief Description	Agree / Disagree	Status	Response and/or Action Steps
1	General Assembly require VEDP Board to develop and update VEDP strategic plan.	Agree	Underway	Present plan of action to Board at December 2016 meeting; Completed strategic plan by June 30, 2017; Adopted at June 2017 Board meeting; Submit reformatted VEDP operating plan for FY18.
2	VEDP should develop and implement a formal on-boarding training program.	Agree	Completed	VEDP has completed this and will present the program to the Board in December. The development of this program has been ongoing since 2015 and was recently finalized.
3	VEDP should develop formal, written staff protocols and policies.	Agree	Completed	These are included in each FY17 position description. Will be presented to Board in December 2016.
4	Clear expectations that supervisors deliver position descriptions in a timely fashion.	Agree	Completed	^All FY17 position descriptions have been distributed, signed by the employee, and returned to Human Resources by October 31, 2016 - two and one-half months after the August 2016 re-org. This will be reported to Board in December 2016.
5	VEDP should establish new organization-wide performance metrics.	Agree	Underway	These will be developed as part of the strategy development process (recommendation #1).
6	VEDP should improve its data integrity and training policies.	Agree	Underway	^The Data Integrity Group - a cross-divisional unit at VEDP - has been working on this since 2015. Some progress has been made, but more work to be done. Will report to Board in December 2016.
7	VEDP should track staff arrival and departure time.	Agree	Completed	*VEDP management has set clear expectations for office hours and has implemented a process to better manage employee activities during the work day. This issue has received higher prioritization since the August re-org.
8	VEDP should utilize a time allocation system to track employee work through the day.	Disagree	N/A	This is not reasonable for exempt staff. Many VEDP employees work odd/long hours due to travel, managing employees in different time-zones, or their significant/unexpected workload.
9	Consult with IEDC to implement new performance metrics for staff.	Agree	Underway	This ties into recommendation #1 and we would be happy to seek IEDC's assistance outlining performance metrics.
10	Establish penalties for staff who do not follow VEDP policies and statutes.	Agree	Completed	Consistent with action steps for recommendations #3 and #4: incorporate in expectations and hold supervisors accountable.
11	Regularly conduct stakeholder surveys.	Agree	Underway	^The need to routinely conduct stakeholder surveys was identified in the 2016 Listening Tour and will be administered by VEDP on an annual basis beginning in 2017.
12	VEDP should develop a written annual marketing plan.	Agree	Underway	^This is related to recommendations #1, 3, 5, and 6. A 18-to-24-month marketing plan is currently being developed by the Business Investment division This plan will direct strategies and activities for each industry sector team and Team Leaders will be expected to ensure it is developed and executed. VEDP expects to present these plans to the Board in March 2017.
13	VEDP should establish annual training requirements for marketing staff.	Agree	Underway	^This is underway within the new Business Investment division; the process needs to be fully developed and formalized.
14	VEDP should evaluate the effectiveness of marketing initiatives.	Agree	Underway	^VEDP is developing a formal process that will rely on advanced data analytics and partner feedback, as well as individual employee assessments.
15	VEDP should update its Sites & Buildings database to incorporate IEDC standards.	Partially Agree	N/A	The IEDC standards require considerably more information than many communities will provide or that many RFP's are requesting. VEDP can certainly provide opportunities for communities to submit additional information.
16	VEDP should improve transparency of marketing performance metrics that are reported to its Board.	Agree	Underway/ Completed	^VEDP's Interim President & CEO sends a weekly report to the Board that contains various performance metrics, including the percentage of projects that were generated by VEDP's marketing activities. There is always room for increased transparency and VEDP plans to continue making improvements in this area as it develops new marketing plans (see recommendations #1, 5, and 12).

VEDP Response to JLARC Recommendations

17	VEDP should develop formal coordination between its marketing and international trade efforts.	Agree	Underway	A significant obstacle for VEDP in this regard has been the culture perpetuated over many years by management. Some of these issues have been addressed through personnel changes implemented by the Interim President & CEO, and there is more to be done to ensure clear and consistent cooperation and communication at all levels between the two groups.
18	VEDP should develop better demographic profiles of companies accessing export trade services.	Agree	Underway	Protocols for accessing this information will be developed through the strategy development process (recommendation #1).
19	VEDP's Board should develop written policies and procedures directing incentives management.	Agree	Completed	^The Board incorporated written policies for incentives management into the FY17 Operating Plan at its June 2016 Board meeting. VEDP uses written policies to guide the use of incentives, including, but not limited to, a Return-On-Investment model, benchmarking data, a due diligence process that includes review by a credit committee, and formal investment philosophy criteria. Written procedures are in place for tracking incentive performance.
20	VEDP should report to the Board the percentage of companies that report on the status of their performance agreement.	Agree	Underway	VEDP can report this information to the Board.
21	VEDP should verify employment and wage claims with Tax and VEC.	Agree*	N/A	*^VEDP agrees with this recommendation, but explained to JLARC that it worked with Secretary of Finance, Ric Brown, and the Board in 2015 to attempt this, but it was not possible due to the way Tax collects its data.
22	VEDP should implement formal performance verification procedures for staff to use when monitoring companies that received incentives.	Agree	Completed	See recommendation #19. This has been an initiative of the Board's Finance and Audit Committee since 2015.
23	General Assembly may wish to require Commissioners of Revenue to provide information to VEDP.	Agree*	N/A	*This was a recommendation from VEDP to the JLARC staff.
24	VEDP's Board should develop standard clawback procedures for companies that received incentives and have not met their performance measures.	Agree	Completed	Such instances are formally reviewed by VEDP's Project Review and Credit Committee and will be reported to the Board.
25	VEDP's Board should implement policies to ensure all performance agreement extensions are consistent with Va Code 2.2-115.	Factually Inaccurate	N/A	JLARC has misunderstood the referenced Code section; Va Code 2.2-115 restriction on extensions pertains to localities, not state.
26	VEDP should create a separate division solely responsible for incentives administration.	Agree*	Underway	*^VEDP created a full-time incentives coordinator position in September 2016 and plans to create an incentives management unit similar to this recommendation.
27	VEDP should develop a website to track incentives performance.	Agree	Underway	^VEDP announced the creation of an incentives website in the summer of 2016 that addresses some of these recommendations and will be further developed to incorporate more data.
28 - 33	Recommendations 28 through 33 are directed to the General Assembly.	No Comment	N/A	
34	VEDP's Board should create an independent audit division to implement recommendations of this report and improve accountability.	No Comment	N/A	
35	Recommendation 35 is directed to the General Assembly.	No Comment	N/A	

*** indicates a caveat**

^ indicates information VEDP shared with JLARC prior to receiving any draft of this report.

JLARC staff response to VEDP response letter

JLARC staff believe it is important to convey that the list VEDP attached to its response letter does not accurately convey the agency's progress towards implementing report recommendations. VEDP has made some progress toward implementing some of the report's recommendations. This progress is acknowledged in the report where appropriate and when VEDP's claims could be validated.

The following table includes a list of recommendations VEDP listed as "completed" in its response that have not, in fact, been completed. JLARC staff have included details explaining its rationale for indicating the recommendations have not, in fact, been implemented.

Where appropriate, JLARC staff have provided additional commentary for other items included in VEDP's response.

VEDP's misleading claims reinforce Recommendation 34 (Chapter 6, page 76), that the board of directors of VEDP should hire an internal auditor to ensure it is receiving accurate, comprehensive, and unfiltered information about VEDP operations, rather than relying on claims from VEDP leadership.

Rec #	VEDP agree/ disagree	VEDP reported status	JLARC staff assessment	JLARC staff explanation
1	Agree	Underway	Not underway	Although VEDP intends to present a plan of action to its board of directors in December, JLARC staff could not validate that the actual strategic planning process is underway.
2	Agree	Completed	Incomplete	VEDP did create a new onboarding training process and provided a copy of the new written procedures to JLARC staff on November 3, 2016--very late in the review. After reviewing the new onboarding procedures, the recommendation was modified slightly to focus on ensuring all new staff receive the onboarding training, instead of creating entirely new procedures. Importantly, JLARC staff did not have an opportunity to validate the comprehensiveness of the new onboarding process because it did not receive any onboarding materials provided to new staff, although these materials were requested of VEDP staff.
3	Agree	Completed	Incomplete	Formal, written policies and procedures have not been incorporated into each FY17 position description. VEDP's response does not address the substance of the actual recommendation in Chapter 2.

Rec #	VEDP agree/ disagree	VEDP reported status	JLARC staff assessment	JLARC staff explanation
4	Agree	Completed	Incomplete	This recommendation is broader than simply providing staff with FY17 job expectations (or position descriptions). The lack of job expectations after the reorganization exemplified that job expectations have not been provided to staff in a timely manner. Instead, the recommendation directs VEDP to incorporate the timely communication of job expectations into supervisors' job expectations and annual evaluations. VEDP has not done this, according to a review of the FY17 position descriptions. Additionally, VEDP leadership's claims that all staff had received their FY17 position descriptions could not be validated. As noted in the Chapter 2, JLARC staff requested position descriptions for all VEDP staff for FY17. JLARC received most position descriptions, but did not receive these for multiple staff, including for any staff of the new Competitive Initiatives division.
5	Agree	Underway	Not underway	VEDP indicated plans for improving the metrics, but has not demonstrated progress towards doing so. Therefore, we cannot agree that this is underway.
6	Agree	Underway	Not underway	VEDP's comments do not address the recommendation, which directs VEDP leadership to develop standard definitions and routine training for staff. JLARC staff have received no information that would indicate much progress has been made to address this recommendation.
7	Agree	Completed	Incomplete	This recommendation directs VEDP to track when employees arrive and leave work. VEDP has provided no indication that it plans to do this. Additionally, VEDP has not communicated to JLARC staff its "better process to manage employee activities during the work day." Therefore, these claims cannot be validated.
8	Disagree	N/A	Incomplete	VEDP's response does not justify its apparent unwillingness to implement a formal time allocation system. As mentioned in Chapter 2, 59 state agencies, with varying missions and staff activities, currently use DHRM's time allocation system.
9	Agree	Underway	Not underway	Although VEDP indicated it is willing to seek IEDC input, its comments indicate it has not yet developed plans to do so.
10	Agree	Completed	Incomplete	VEDP provided JLARC staff with no evidence that this has been completed.

Rec #	VEDP agree/ disagree	VEDP reported status	JLARC staff assessment	JLARC staff explanation
11	Agree	Underway	Underway	The VEDP board has indicated its plans to direct staff to collect the perspectives of stakeholders on a regular basis. This was mentioned in the report. Specific sections on coordination should be included in the survey to fully address this recommendation.
12	Agree	Underway	Underway	VEDP did issue a request for proposal for a new marketing plan in August 2016. VEDP should ensure the new marketing plan fully addresses the report's recommendation.
13	Agree	Underway	Underway	VEDP has not provided JLARC staff with information that would indicate it has made significant progress towards implementing this recommendation. VEDP leadership has, however, indicated it plans to reserve some funds for staff training.
14	Agree	Underway	Not underway	VEDP leadership has expressed their interest to JLARC staff and to VEDP staff in improving the agency's efforts to evaluate the effectiveness of its marketing activities, but specific details on these plans have not been communicated to JLARC staff.
15	Partially Agree	N/A	Incomplete	Other states, such as Indiana and Wisconsin, have found it possible to provide much more useful information on their online sites and buildings database than VEDP has provided. This recommendation was made based on industry standards that are designed to help site selectors understand whether any sites in Virginia would be a good fit for companies. It remains unclear why VEDP leadership believes the data standards do not apply to VEDP.
16	Agree	Underway/ Completed	Not underway/ Not completed	VEDP leadership sent JLARC staff one example of a weekly report the CEO sends to board members, which showed that VEDP continues to report results based on the demonstrably vague "VEDP-assisted announcements" metric, as discussed in Chapter 3. The weekly report did not include the percentage of projects that were generated by VEDP's proactive marketing activities.
17	Agree	Underway	Not underway	VEDP has not provided any evidence that it has begun to develop formal mechanisms to support ongoing coordination between its marketing and export promotion services.
18	Agree	Underway	Not underway	Comments indicate that this is not underway but that it will be developed in the future.

Rec #	VEDP agree/ disagree	VEDP reported status	JLARC staff assessment	JLARC staff explanation
19	Agree	Completed	Incomplete	Although VEDP recently created new written policies and procedures for four of its 10 incentive programs, these procedures are too vague to be actionable and to ensure staff are making decisions in a consistent and transparent manner, or consistently monitoring and verifying project performance, enforcing clawbacks, and granting extensions only to the extent appropriate. The policies and procedures still allow for significant unchecked staff discretion, which has driven many of the problems identified in Chapter 4.
20	Agree	Underway	Not underway	Comment indicates this is not underway, but only that it is possible.
21	Agree (with caveat)	N/A	Incomplete	VEDP's comments do not address the report's recommendation for VEDP staff to work with staff at the Department of Taxation and the Virginia Employment Commission to develop new policies and procedures to verify job creation and wage claims of companies. Additionally, JLARC staff have not been made aware of any effort by VEDP to proactively improve its job verification procedures. Rather, JLARC staff are aware that VEDP did seek assistance from the Department of Taxation in 2015 to validate its agency return-on-investment claims. This would not have addressed the report's recommendation. VEDP's decision to label the status as "N/A" and comments suggest that it has no intention of implementing this important recommendation.
22	Agree	Completed	Incomplete	Although VEDP recently created new written policies and procedures for four of its ten incentive programs, these procedures are too vague to be actionable and to ensure staff are making decisions in a consistent and transparent manner, or consistently monitoring and verifying project performance, enforcing clawbacks, and granting extensions only to the extent appropriate. The policies and procedures still allow for significant amounts of unchecked staff discretion, which have driven many of the problems identified in Chapter 4.
23	Agree (with caveat)	N/A	Incomplete	This is not technically true, and the comment suggests VEDP initiated the request for help with its verification procedures. JLARC staff notes from a phone interview with VEDP staff on June 16, 2016 show that JLARC staff initiated the idea of a recommendation and asked whether a Code change could help VEDP better validate capital investment data.

Rec #	VEDP agree/ disagree	VEDP reported status	JLARC staff assessment	JLARC staff explanation
24	Agree	Completed	Incomplete	VEDP's response says "completed," but its comments do not address the actual report recommendation, which directs the board to ensure staff develop policies and procedures to ensure the consistent and effective clawback of funds from companies that do not meet their performance expectations.
25	Factually inaccurate	N/A	Incomplete	VEDP's interpretation of § 2.2-115 is not reasonably supported.
26	Agree (with caveat)	Underway	Underway	VEDP did not indicate its plans to create a separate incentives management unit prior to this letter. As mentioned in Chapter 4, VEDP has allocated one staff to administering incentives on a full-time basis, but more staff will be needed.
27	Agree	Underway	Incomplete	VEDP’s claims that the new website contains information that addresses pieces of this recommendation is factually inaccurate. As mentioned in Chapter 4, the new website contains none of the information required for effective implementation of the recommendation. (A list of the specific information missing is included on page 57 of the report.)

JLARC.VIRGINIA.GOV

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