



Review of State Economic Development Incentive Grants

House Appropriations Subcommittee on
Economic Development, Agriculture & Natural Resources

February 14, 2013

Study Mandate

SJR 329 (2011)

Study the effectiveness of State economic development incentive grants

- Identify available grants and determine their use
- Evaluate whether intended policy goals are met
- Recommend process for ongoing evaluation of their effectiveness

Research Activities

- Quantitative analysis of all projects that received an incentive grant during the past 10 years
 - Performance analysis
 - Economic impact analysis
- Case studies of select businesses that received grants
- Structured interviews
 - Staff of agencies that administer grants
 - Regional and local economic developers
 - Site selection consultants
- Review of statutes, program guidelines, research literature, and other states' practices

Eight Virginia Agencies Administer 18 Incentive Grant Programs

**Dept. of
Business
Assistance**

VA Jobs Investment
Program

**Dept. of Rail
and Public
Transportation**

Rail Industrial
Access Program

**Tobacco
Indemnification
and Community
Revitalization
Comm.**

Tobacco Region
Opportunity Fund

**Virginia
Coalfield
Economic
Development
Auth.**

Coalfield Regional
Opportunity Fund

**Virginia Film
Office**

Governor's Motion
Picture Opport.
Fund

**Dept. of
Transportation**

- Economic Develop.
Access
- Transp. Partnership

**Dept. of
Housing and
Community
Development**

- Enterprise Zone
- Jobs
 - Real property

**Virginia
Economic
Development
Partnership**

- 9 programs:
GOF, VIP,
custom, etc.

Virginia Incentive Grant Programs Share 3 Primary Goals

- Sway business decisions to locate or expand in Virginia
- Encourage job creation and/or capital investment
- Contribute to the broader goal of economic development in Virginia

Virginia Programs Approved 3,372 Grants During FYs 2002-2011

Economic Development Incentive Grant Program	# of Grant Awards
Virginia Jobs Investment Program (VJIP)	1,506
EZ – Real Property Investment Grant (RPIG)	1,145
Governor’s Development Opportunity Fund (GOF)	236
Tobacco Region Opportunity Fund (TROF)	212
EZ – Job Creation Grant (JCG)	94
Sub-Total (5 Highest Programs)	3,193
Total (All 18 Programs)	3,372

EZ = Enterprise Zone

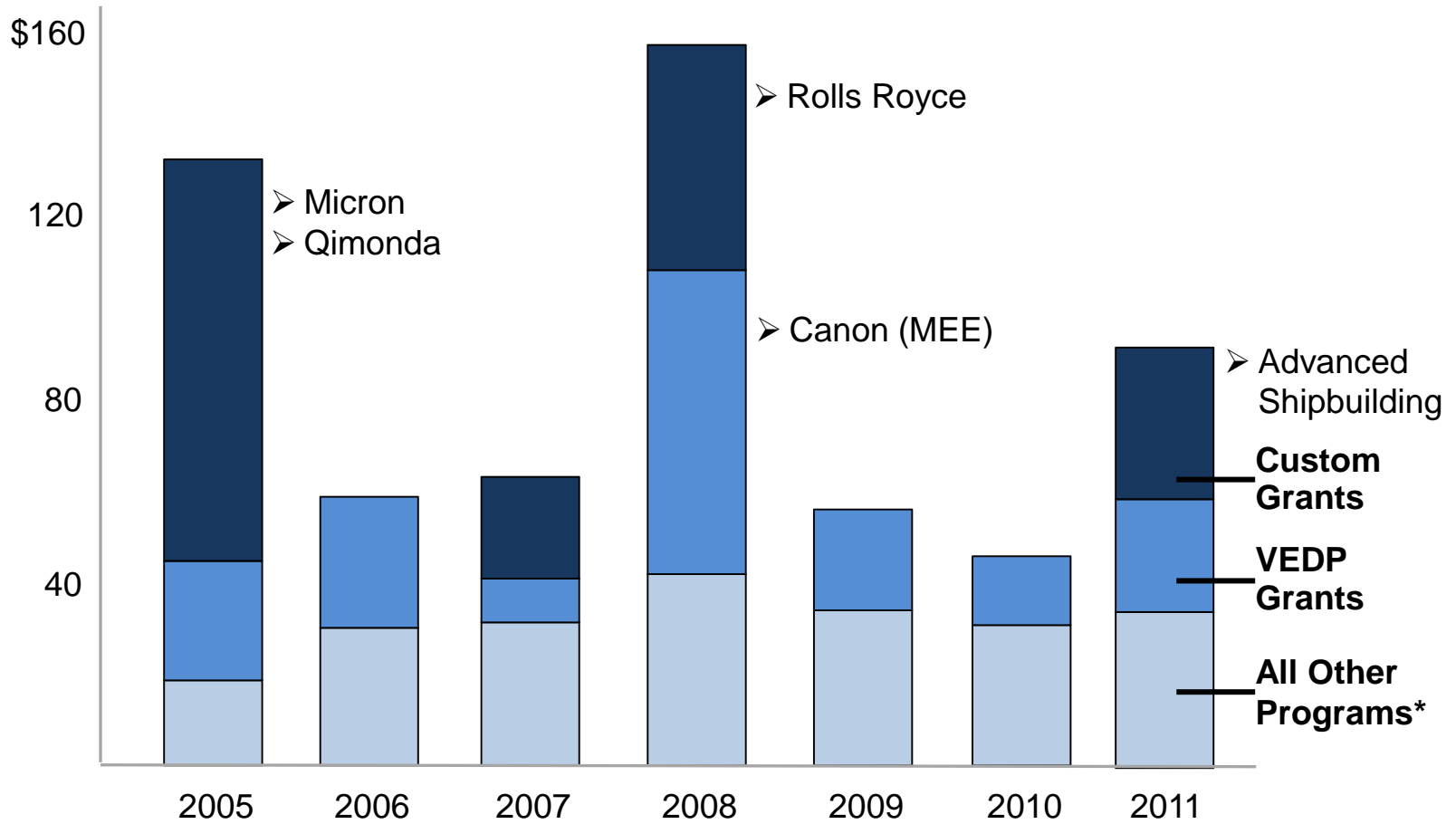
Amount Awarded by Virginia Programs Totalled \$718M During FYs 2002-2011

Economic Development Incentive Grant Program	Amount Awarded (\$ Millions)
Governor's Development Opportunity Fund (GOF)	\$99
Semiconductor Custom Grants	87
Major Eligible Employer Grant (MEE)	77
EZ – Real Property Investment Grant (RPIG)	77
Virginia Jobs Investment Program (VJIP)	61
Sub-Total (5 Largest Programs)	\$401
Total (All 18 Programs)	\$718

EZ = Enterprise Zone

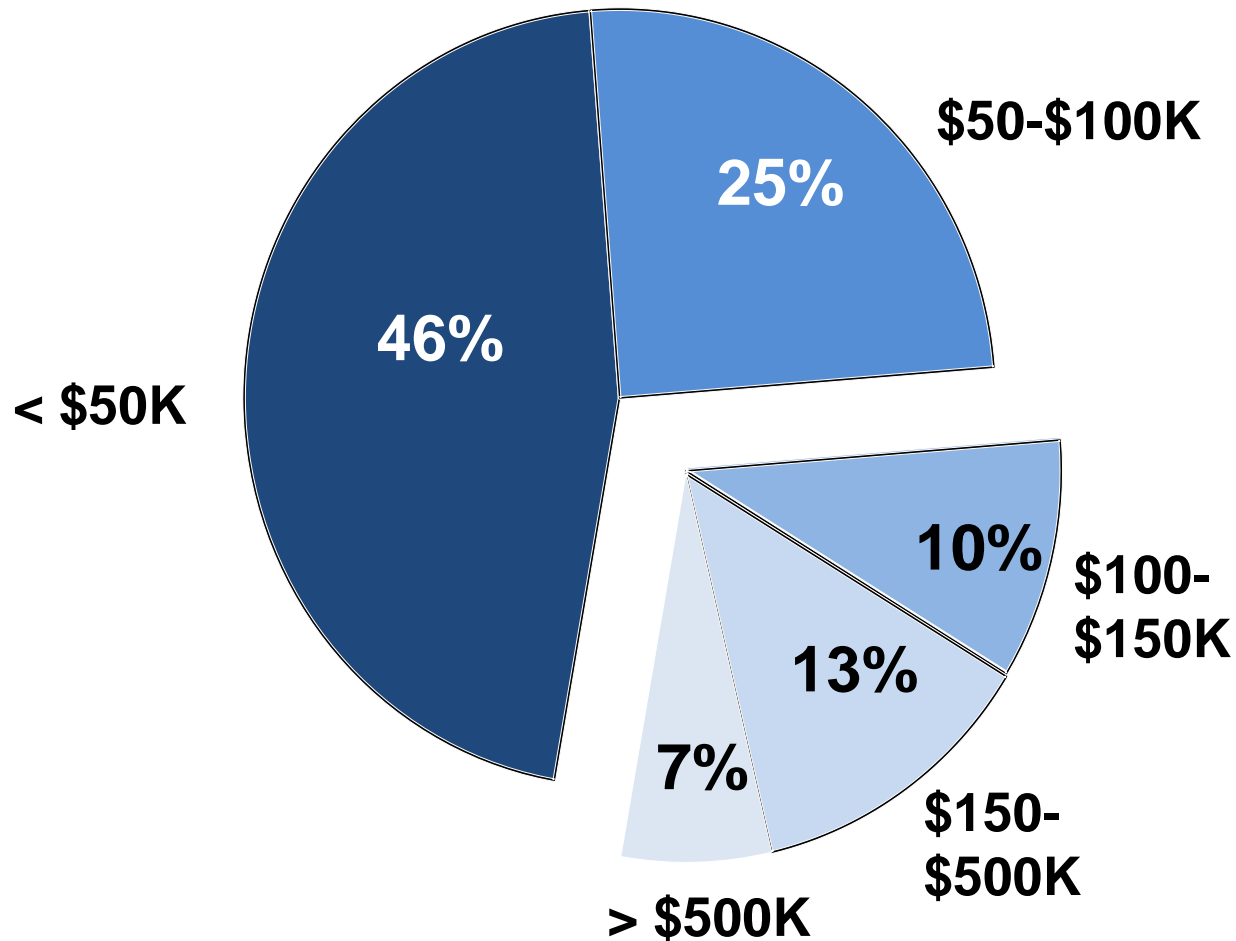
Annual Amount Awarded Has Fluctuated Due to a Few Large Projects

\$ Millions



* EZ, TROF, VJIP, transportation, GMPOF, CROF

Most Awards Were Under \$100,000 and Majority Were Under \$50,000 (FYs 2002-2011)





Seven Businesses Received 40% of Total Grant Funding Over Past 10 Years

Business	Total Amount Awarded (\$ M)	Jobs Expected
Rolls Royce	\$66	642
Qimonda	55	1,200
Philip Morris	44	450
Micron	36	860
Newport News Shipbuilding	32	1,000
Canon Virginia	27	1,035
SRI	22	140
Sub-Total	\$284 (40%)	5,327 (2%)
TOTAL	\$718	312,727

Performance Has Varied Among Grant Programs

Program	Performance Goal		
	Job Creation	Capital Investment	Average Wages
Governor's Development Opportunity Fund (GOF)	●	●	●
Virginia Investment Partnership (VIP) / Major Eligible Employer (MEE) Grant	●	●	○
Virginia Jobs Investment Program (VJIP)	---	---	●
Tobacco Region Opportunity Fund (TROF)	○	No data	No data

 Projects collectively met/exceeded goal
  Projects collectively did not meet goal

Performance Has Varied Among Custom Grant Projects

Project	Performance Goal		
	Job Creation	Capital Investment	Average Wages
Completed			
Micron	●	●	---
Qimonda*	○	●	---
Ongoing			
SRI	●	---	●
Rolls Royce	○	○	●
Newport News Shipbuilding	●	●	●

*Shut down in 2009.

● Met/exceeded goal ○ Has not (yet) met goal




Economic Impact* Has Been Highest Among Projects That Met Certain Indicators

- Projects with high employment multipliers and that are export-based had higher impacts
 - Created & sustained the greatest number of jobs
 - Generated greatest increases in income, revenue
- Research indicates that projects paying high wage premiums should have higher impact
 - Insufficient wage information for analysis

*Based on analysis of impact of completed projects after 5 and 10 years.

Half of Programs Targeted Majority of Awards to Projects Meeting 2+ Indicators

Program Name	# Programs	High Employment Multiplier	Export-Based	Pay High Wages
VEDIG, Custom	5	●	●	●
GOF, MEE, VIP	3	●	●	○
VJIP	1	○	○	○
TROF	1	○	●	no data
Transportation	3	○	○	no data
Enterprise Zone	2	○	○	no data

 $\geq 2/3$ of awards
  $1/3 \leq$ awards $< 2/3$
  $< 1/3$ awards

Precise Estimate of Business Decisions Swayed by Virginia Programs Unknown

- Factors impacting long-term costs tend to be most important to site selection decisions
 - Highway accessibility, labor costs, skilled labor
- Several researchers estimate ~10% of decisions swayed by incentives
 - Concerns about reliability of data
- Estimate in research literature may be too conservative for Virginia grant programs

No Information to Suggest Large Percent of Businesses Swayed by Grants

- No studies over past 30 years have found large, statistically significant effect
- No clear consensus among Virginia economic developers
- Some businesses indicated not decisive factor

Economy Favorably Impacted Even If Only 10% of Completed Projects Were Swayed by Grants

Measure of Economic Impact	Estimated Cumulative Impact After 5 Years** (\$Million)
Private employment	6,967 jobs
State gross domestic product	\$9,300***
Real disposable personal income	3,400
State revenue	444
State revenue net of \$91M in incentive grant awards*	353

*Net present value

**Estimates from dynamic forecast using REMI regional economic model

***All dollars are expressed in 2010 amounts.

Programs Could More Consistently Use Certain Practices to Help Sway Business Decisions

- Identify projects likely to be swayed by an award
- Use grants to address shortcomings with site
- Award grants that offset larger share of project costs & target projects likely to have high economic impact

Recommendations

- General Assembly may wish to require
 - Improved annual report with more consistent and comprehensive information across programs
 - Performance evaluation and periodic economic impact analysis of grant programs
- Secretary of Commerce and Trade should establish a work group
 - Members: agency and legislative staff, independent experts
 - Purpose: develop evaluation strategy, improved annual report

JLARC Staff for This Report

Nathalie Molliet-Ribet, Division Chief

Ellen Miller, Project Leader

Drew Dickinson

Paula Lambert

Joe McMahon

For More Information

<http://jlarc.virginia.gov>

(804) 786-1258