

Business Incentives and Economic Development Expenditures: An Overview of Virginia's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentives programs from every state, and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Virginia's array of incentive programs and includes an analysis of the available outcome data that is used by state policy makers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of Virginia's economic development landscape, we reviewed and culled data from a range of state statutes, reports and websites, including annual tax reports and annual state budgets. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives in the state of Virginia.

In FY 2013, the most recent year for which reliable spending data are available for all program types, Virginia spent \$173 million on budgeted economic development expenditures, and \$121 million¹ on economic development tax expenditures (tax credits only).² According to the Tax Policy Center and for the purposes of this report, tax expenditures are defined as "revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures."³

The Center for Regional Economic Competitiveness (CREC) is working with the Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states, including Virginia. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

¹ This figure only includes tax expenditures for tax credit incentives, as tax expenditure data was not available for other types of tax incentives offered by Virginia, including tax exemptions, tax deductions, and preferential rates.

² Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

³ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm



Overview of Virginia's Business Incentives

Virginia has a large number of incentive programs, with a total of 57 active programs in 2014. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their business incentives to influence these behaviors through tax incentives, as well as through non-tax programs such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.⁴

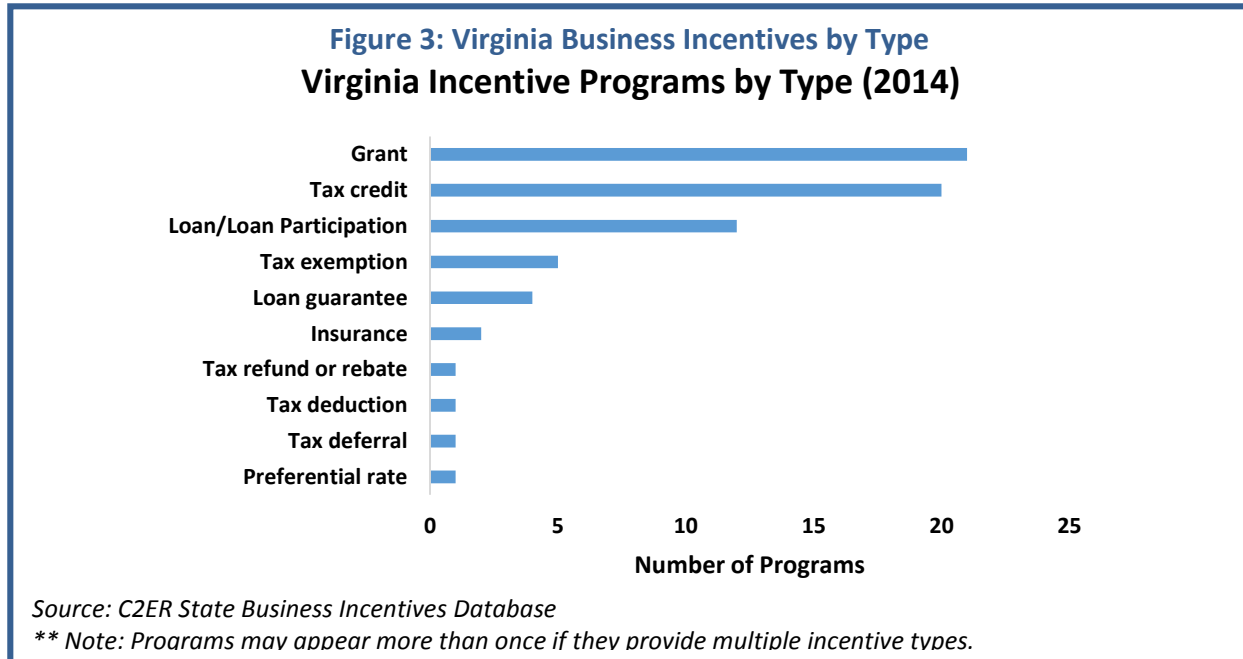
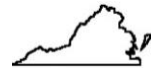
Figure 1: Virginia State Business Incentives by Agency, 2014

State Agency	Number of Programs
Virginia Department of Taxation	21
Virginia Small Business Financing Authority	10
Virginia Economic Development Partnership	8
Center for Innovative Technology	4
Virginia Coalfield Economic Development Authority	2
Virginia Department of Transportation	2
Virginia Film Office	2
Virginia Tobacco Indemnification and Community Revitalization Commission	2
Virginia Port Authority	1
Virginia Department of Agriculture and Consumer Services	1
Virginia Department of Environmental Quality	1
Virginia Department of Housing and Community Development	1
Virginia Department of Rail and Public Transportation	1
Virginia Localities	1

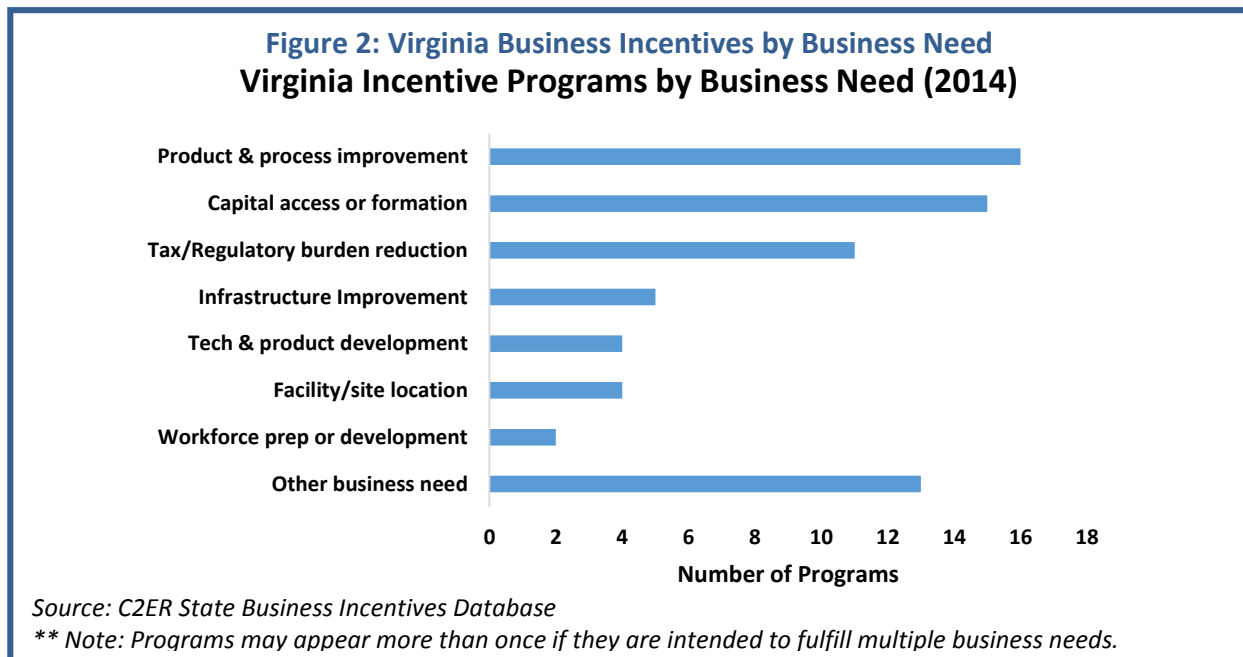
Source: C2ER State Business Incentives Database

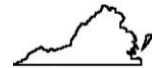
According to the C2ER State Business Incentives Database, there are 14 state agencies responsible for the administration of Virginia's business incentives. The primary agencies responsible for administering business incentives in Virginia are the Department of Taxation, Virginia Small Business Financing Authority, and Virginia Economic Development Partnership (VEDP). State agencies such as the Virginia Coalfield Economic Development Authority and the Virginia Port Authority are only responsible for a few incentive programs. (See Figure 1.) The Department of Taxation exclusively administers tax programs (primarily exemptions and offsets), while VEDP and other state agencies administer mainly non-tax programs and a small number of tax programs.

⁴ The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the Commonwealth of Virginia. For a current list of incentive programs as defined by the Commonwealth of Virginia, please see the [2014-2015 Guide to Business Incentives](#), produced by VEDP.



Virginia’s economic development programs have focused mainly on direct business financing with grant and loan programs. Over the past few decades, however, the state has developed a number of tax benefit programs, mainly providing tax credits to businesses. Currently, about 40 percent of the active Virginia incentive programs offer some kind of direct business financing benefit, while about 40 percent of the programs provide tax benefits. By comparison, tax incentives represent 45 percent of all state business incentive programs. (See Figure 2.) The most common business needs addressed by Virginia’s current portfolio of programs are product and process improvement, capital access, and tax burden reduction. (See Figure 3.) Over half of Virginia’s incentive programs target a specific industry or sector, including agriculture; manufacturing; and professional, scientific, and technical services.





Economic Development Program Expenditures

Examining Virginia’s FY 2013 budget of \$173 million, noted earlier, for economic development program expenditures reveals how various state agencies outlay money for economic development programs.

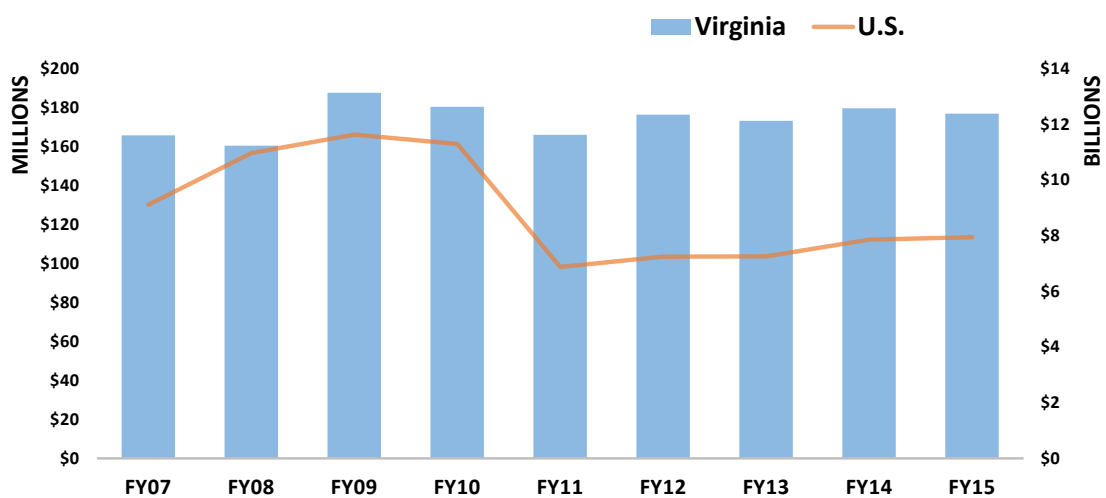
Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.⁵

According to the [FY 2013 Virginia Budget Appropriations Bill](#), the state appropriated \$173 million for economic development program expenditures in FY 2013. (See Figure 4.) This level of spending represents an average of \$729 per business, which puts Virginia below the national median level of \$923 in spending per business establishment. All of Virginia’s appropriated economic development expenditures in FY 2013 went to the Office of Commerce and Trade (which includes VEDP), Department of Agriculture and Consumer Services, Office of Administration, and Office of Technology. The Office of Commerce and Trade received the bulk of funding, with around 95 percent of funding.

State Economic Development Expenditures Function Areas

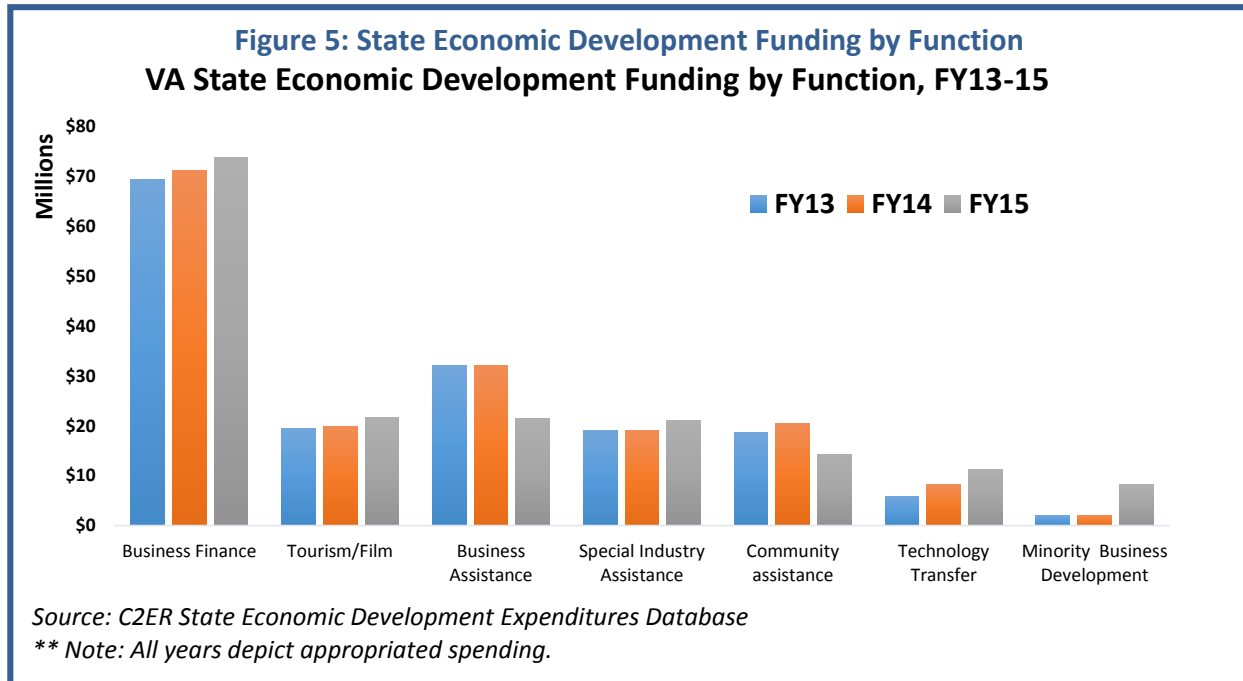
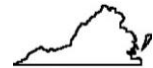
- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

Figure 4: Total State Economic Development Funding**
 Total State Economic Development Funding in Virginia, FY07-15



Source: C2ER State Economic Development Expenditures Database
 ** Note: All years depict appropriated spending.

⁵ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf



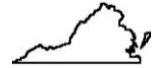
Virginia has increased economic development spending by around 7 percent since the low of \$166 million set in FY 2011. Despite recent increases, appropriated FY 2015 economic development spending by the state is 6 percent lower than the high of \$188 million set in FY 2009. This is consistent with national trends in economic development spending following the Great Recession. However, Virginia’s lowest point for economic development spending was actually FY 2008, suggesting that spending decisions by the state were influenced by additional factors.

Compared to other states in FY 2013, the state allocated a higher proportion of its economic development budget than average in the functional areas of business assistance, business finance, minority and small business development, and special industry assistance. Virginia allocated a lower proportion of its economic development budget than the average for other states on workforce preparation and development, community assistance, technology transfer, and tourism and film.

Economic Development Tax Expenditures

The Virginia Department of Taxation publishes an [annual report](#) that includes a summary listing of individual and corporate income tax credits and sales and use tax exemptions. The summary reports depict the type of credit or exemption, the number of total returns and the aggregate dollar amounts for these specific tax preferences. The report does not include detailed information on tax revenue losses from sales and use tax exemptions, which form the bulk of economic development tax revenue losses for most states. Additionally, any local tax revenue losses, such as through the Technology Zones program administered by Virginia localities, are not included in the report.

The Department of Taxation also provides [reports](#) to the state’s Joint Subcommittee to Evaluate Tax Preferences on a number of tax preferences, including sales tax exemptions and income tax credits and deductions. To date, the committee’s work has focused on tax preferences that are not related to



economic development. As of 2013, the Department of Taxation is also required to provide the General Assembly with a report on the Motion Picture Production Tax Credit.

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁶ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities. The Virginia Department of Taxation Annual Report for FY13⁷ was used for the analysis in this section. Data was collected by reviewing and recording all line items in the report related to economic development. In FY 2013, the Virginia expended a total of approximately \$120 million in tax expenditures related to economic development. All such expenditures were administered through the Virginia Department of Taxation.

For FY 2013, all tax expenditures included in the report were individual income, corporate income, or bank franchise tax credits. The primary economic development functions for these tax expenditures were business assistance, community assistance, domestic recruitment, international trade and investment, special industry assistance, technology transfer, tourism and film, and workforce preparation and development. The majority of Virginia’s tax expenditures went towards community assistance (24 percent) and special industry assistance (70 percent).

Virginia used tax incentives to assist many different industries in the state, with over two-thirds of expenditures going toward specific industries. The large majority of FY 2013 incentives went toward mining, with the remainder of expenditures distributed between the manufacturing; agricultural; and professional, scientific, and technical services industry sectors.

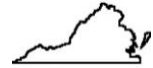
Analysis of Available Outcome Data

VEDP uses a range of tools to analyze the impact of Virginia’s incentive programs. Underlying VEDP’s incentive program management and reporting is a front-end Return on Investment (ROI) analysis. This ROI allows VEDP to estimate the new state revenue for every project considered for discretionary incentives. This analysis takes into account all state-level incentives from all agencies participating in the project. Companies are required to execute performance agreements before receiving incentive grants administered by VEDP, and are surveyed by VEDP to monitor compliance with agreements. As needed, funds may be recaptured (“clawed back”) or future grant payments suspended. VEDP has also developed a Local ROI Model that is available online as a tool to assist localities with incentive evaluation and decision-making.

Through its Return on Invested Capital (ROIC) process, VEDP conducts a financial review of its portfolio of companies that have received discretionary incentives to determine what revenues the state has actually received from these projects over time, in comparison with what was anticipated at the time the agreements were struck. VEDP uses a combination of company survey responses and data from the Virginia Employment Commission to validate employment levels which then become inputs to estimating state personal income and sales tax generated. A summary of the findings is regularly shared with the Executive Branch and the General Assembly.

⁶ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm

⁷ Report can be accessed at: <http://www.tax.virginia.gov/site.cfm?alias=AnnualReports>



In 2012, the Joint Legislative Audit and Review Commission (JLARC) published “[Review of State Economic Development Incentive Grants](#),” an extensive evaluation of 18 incentive grant programs administered by 8 state agencies. The report followed a previous JLARC report on tax preferences, which led to the creation of the Joint Subcommittee on Evaluating Tax Preferences. The report noted that policymakers did not have access to comprehensive information concerning the use or effectiveness of all programs, in part due to inadequate data collection for some programs.

The report’s recommendation led to the passage of HB1191 in 2014, which requires an annual report by VEDP to the Secretary of Commerce and Trade for the three most recent years on the effectiveness of key Virginia economic development incentive grant programs in meeting performance goals and stimulating economic activity. This report supplanted the previous VEDP annual reports, which the agency had published at the end of every fiscal year between FY 2002 and FY 2013.

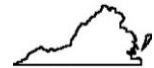
Conclusion

Virginia’s current economic development structure is notable for having many state agencies administer incentives. Therefore, there may be efficiency gains and cost savings to be had by reviewing the number of state agencies responsible for state incentives. The state’s economic development incentive portfolio favors non-tax programs over tax programs. Virginia spends below the national average on economic development expenditures per business establishment. With increased transparency and effective reporting of these data, through means like the HB1191 annual report, Virginia will be better able to focus on analyzing the relative impacts of various state incentives to help guide policymakers on the most effective ways to encourage economic development.

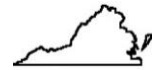


Appendix A: Full List of Virginia State Business Incentives (2014)

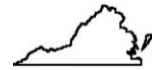
Program Name	Program Provider	Type	Business need
CIT Entrepreneur: Access to Capital	Center for Innovative Technology	Equity investment	Capital access or formation
CIT R&D: Strategic Investments in Research Commercialization	Center for Innovative Technology	Other	Tech & product development
CIT Broadband: New Infrastructure for the New Innovation Economy	Center for Innovative Technology	Other	Infrastructure Improvement
CIT Connect: Finding and Assimilating Innovation	Center for Innovative Technology	Other	Professional networking
VCEDA Revolving Loan Fund	Virginia Coalfield Economic Development Authority	Loan/Loan Participation	Capital access or formation
Coalfield Regional Opportunity Fund	Virginia Coalfield Economic Development Authority	Loan/Loan Participation; Grant	Capital access or formation
Governor's Agriculture and Forestry Industries Development Fund (AFID)	Virginia Department of Agriculture and Consumer Services	Grant	Product & process improvement
Recyclable Materials Processing Equipment And Alternative Recycling Credit	Virginia Department of Environmental Quality	Tax exemption	Product & process improvement
Virginia Enterprise Zone (VEZ) Program	Virginia Department of Housing and Community Development	Grant	Facility/site location; Product & process improvement; Workforce prep or development
Rail Industrial Access Program	Virginia Department of Rail and Public Transportation	Grant	Infrastructure Improvement
Day Care Facility Investment Tax Credit	Virginia Department of Taxation	Tax credit	Product & process improvement; Tech & product development



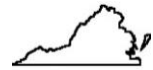
Major Business Facility Job Tax Credit	Virginia Department of Taxation	Tax credit	Product & process improvement
Worker Retraining Tax Credit	Virginia Department of Taxation	Tax credit	Product & process improvement
Clean Energy Manufacturing Incentive Grant Program	Virginia Department of Taxation	Grant	Product & process improvement
Port Volume Increase Tax Credit	Virginia Department of Taxation	Tax credit	Product & process improvement
Telework Expenses Tax Credit	Virginia Department of Taxation	Tax credit	Infrastructure Improvement; Tax/Regulatory burden reduction
Green Job Creation Tax Credit	Virginia Department of Taxation	Tax credit	Tech & product development
Refundable Research and Development Expenses Tax Credit	Virginia Department of Taxation	Tax credit	Tech & product development
International Trade Facility Tax Credit	Virginia Department of Taxation	Tax credit	Product & process improvement
Barge and Rail Usage Tax Credit	Virginia Department of Taxation	Tax credit	Product & process improvement
Sales and Use Tax Exemptions	Virginia Department of Taxation	Tax exemption	Tax/Regulatory burden reduction
Biodiesel Fuels Credit	Virginia Department of Taxation	Tax credit	Tech & product development
Farm Wineries and Vineyards Tax Credit	Virginia Department of Taxation	Tax credit	Capital access or formation
Single Sales Factor Election for Manufacturers	Virginia Department of Taxation	Preferential rate	Tax/Regulatory burden reduction
Coalfield Employment Enhancement Credit	Virginia Department of Taxation	Tax credit	Tax/Regulatory burden reduction
Coal Employment and Production Incentive Tax Credit	Virginia Department of Taxation	Tax credit	Tax/Regulatory burden reduction



Conservation Tillage Equipment Credit	Virginia Department of Taxation	Tax credit	Tax/Regulatory burden reduction
Fertilizer and Pesticide Application Equipment Credit	Virginia Department of Taxation	Tax credit	Tax/Regulatory burden reduction
Qualified Equity And Subordinated Debt Investments Credit	Virginia Department of Taxation	Tax credit	Tax/Regulatory burden reduction
Vehicle Emissions Testing Equipment, Clean Fuel Vehicle and Certain Refueling Property Credit	Virginia Department of Taxation	Tax credit	Tax/Regulatory burden reduction
Waste Motor Oil Burning Equipment Credit	Virginia Department of Taxation	Tax credit	Tax/Regulatory burden reduction
Economic Development Access Program	Virginia Department of Transportation	Grant	Infrastructure Improvement
Transportation Partnership Opportunity Fund	Virginia Department of Transportation	Grant; Loan/Loan Participation	Capital access or formation; Infrastructure Improvement
Governor's Opportunity Fund (GOF)	Virginia Economic Development Partnership	Grant	Facility/site location
Virginia Investment Partnership Grant Fund	Virginia Economic Development Partnership	Grant	Capital access or formation
Virginia Leaders in Export Trade (VALET)	Virginia Economic Development Partnership	Grant	Marketing & sales assistance
Workforce Retraining Program	Virginia Economic Development Partnership	Grant	Workforce prep or development
Virginia Jobs Investment Program	Virginia Economic Development Partnership	Grant	Workforce prep or development
Major Eligible Employer Grant (MEE)	Virginia Economic Development Partnership	Grant	Product & process improvement
Virginia Economic Development Incentive Grant	Virginia Economic Development Partnership	Grant	Product & process improvement
Defense Production Zones	Virginia Economic Development Partnership	Tax exemption; Other	Tax/Regulatory burden reduction



Motion Picture Production Tax Credit	Virginia Film Office	Tax credit	Product & process improvement
Governor's Motion Picture Opportunity Fund	Virginia Film Office	Grant	Capital access or formation
Technology Zones	Virginia Localities	Tax credit; Tax exemption; Tax refund or rebate	Tax/Regulatory burden reduction
Port of Virginia Development Zone	Virginia Port Authority	Grant	Capital access or formation; Infrastructure Improvement
501(c)3 Tax Exempt Bond Program	Virginia Small Business Financing Authority	Other	Capital access or formation
Loan Guaranty Program	Virginia Small Business Financing Authority	Loan guarantee	Capital access or formation
Small Business Environmental Compliance Assistance Fund	Virginia Small Business Financing Authority	Loan/Loan Participation	Product & process improvement
Economic Development Loan Fund (EDLF)	Virginia Small Business Financing Authority	Loan/Loan Participation	Product & process improvement; Tech & product development; Facility/site location
Virginia Capital Access Program (VCAP)	Virginia Small Business Financing Authority	Loan guarantee	Capital access or formation; Product & process improvement
Industrial Development Bond Program	Virginia Small Business Financing Authority	Other	Capital access or formation; Facility/site location
Child Care Financing Program (CCFP)	Virginia Small Business Financing Authority	Loan/Loan Participation	Product & process improvement; Facility/site location
Small Business Micro-Loan Program	Virginia Small Business Financing Authority	Loan/Loan Participation	Capital access or formation



Cash Collateral Program	Virginia Small Business Financing Authority	Insurance	Capital access or formation
Loan Purchase Participation Program	Virginia Small Business Financing Authority	Loan/Loan Participation	Capital access or formation
Tobacco Region Opportunity Fund (TROF)	Virginia Tobacco Indemnification and Community Revitalization Commission	Grant	Infrastructure Improvement; Facility/site location
Southside Region Tobacco Capital Access Program (TCAP)	Virginia Tobacco Indemnification and Community Revitalization Commission	Insurance	Product & process improvement

Source: C2ER State Business Incentives Database



Appendix B: VA Economic Development Program Expenditures (2013)

Function	Activity	Total State Funding
Business Assistance	Business retention/expansion	\$18,849,466
Business Assistance	Other Business Assistance	\$13,329,505
Business Finance	Grants to businesses	\$14,423,354
Business Finance	Other Business Finance	\$54,986,745
Community assistance	Community development	\$18,733,173
Minority Business Development	Other Minority business development	\$2,096,312
Program Support	Economic research	\$3,487,809
Program Support	Secretary/Director's Office	\$631,721
Special Industry Assistance	Agriculture/agribusiness	\$17,570,983
Special Industry Assistance	Other Special Industry Assistance	\$1,500,000
Technology Transfer	Company quality enhancement	\$4,237,811
Technology Transfer	Other Technology Transfer	\$898,650
Technology Transfer	Research & development	\$790,416
Tourism/Film	Tourism promotion (exc. Advertising)	\$19,385,930
Workforce Preparation & Dev.	Apprenticeships	\$894,546
Workforce Preparation & Dev.	Other Workforce Preparation & Dev.	\$1,500,623

Source: C2ER State Economic Development Expenditures Database



Appendix C: Virginia Economic Development Tax Expenditures (2013)

Description	Total Funds
Advanced Technology Pesticide and Fertilizer Application Equipment Credit	\$224,791
Agricultural Best Management Practices Tax Credit	\$858,504
Barge and Rail Usage Tax Credit	\$0
Biodiesel and Green Diesel Fuels Producers Tax Credit	\$0
Clean Fuel Vehicle and Advanced Cellulosic Biofuels Job Creation Tax Credit	\$229,573
Coalfield Employment Enhancement Tax Credit (Refundable)	\$21,841,032
Conservation Tillage Equipment Credit	\$428,839
Day-Care Facility Investment Credit	\$0
Enterprise Zone Business Tax Credit	\$10,200
Enterprise Zone Real Property Investment Tax Credit (Refundable)	\$0
Farm Wineries and Vineyards Tax Credit	\$100,787
Green Job Creation Tax Credit	\$0
Historic Rehabilitation Tax Credit	\$28,488,714
International Trade Facility Tax Credit	\$0
Major Business Facility Job Tax Credit	\$2,773,843
Motion Picture Production Tax Credit (refundable)	\$0
Qualified Equity and Subordinated Debt Investments Tax Credit	\$1,932,017
Recyclable Materials Processing Equipment Credit	\$2,705,672
Research and Development Expenses Tax Credit (refundable)	\$1,481,282
Tax Credit for Vehicle Emissions Testing Equipment and Clean-Fuel Vehicles and Certain Refueling Property	\$6,084
Telework Expenses Tax Credit	\$0
Virginia Coal Employment and Production Incentive Tax Credit	\$59,449,214
Virginia Port Volume Increase Tax Credit	\$0
Waste Motor Oil Burning Equipment Credit	\$0
Worker Retraining Tax Credit	\$0

Source: Virginia Department of Taxation FY2013 Annual Report