

Virginia's Incentives Policy

Incentives in economic development are frequently discussed, but often inadequately understood. Virginia takes very seriously her stewardship of public dollars, and aims always to make wise investments. In so doing, the Commonwealth lives by the following set of principles in developing and administering programs under the general category of “incentives”:

- *Incentives are Virginia's investment in our economic future.* We invest money now to secure expansions of Virginia companies and new locations of companies to Virginia, which all bring the state enhanced revenues in the form of individual income tax and sales taxes. Ideally, incentives level the playing field with competitor states and countries, make up for some disadvantage to the prospect company's bottom line, and target companies in desirable industries to appropriate locations.
- *The Deal must make good fiscal sense for the state and the company.* This means a good Return on Investment for the state, rather than foregoing all income for the next 10 or 20 years as some states have done to lure large projects. In every project involving discretionary (*i.e.*, not automatically required by statute when a taxpayer qualifies) incentives, the state performs a thorough cost-benefit analysis to compare the net present values (today's dollars) of incentives to new revenues over the next 20 years. We look for projects to show a positive cash flow in three to five years or less, with significant added revenues to the Commonwealth over 20 years. To evaluate further the level of incentives offered, we also calculate the dollars of incentives per job, and per dollar of investment.
- *Incentives must target the needs of the company and the development plans of the locality and the state.* Good fiscal sense for the company means that in every case we must look at the company's motivating factors and its bottom line. Training, infrastructure or road access may be the primary factor to some. Tax credits may interest some but not benefit others. Interestingly, the 100 largest Virginia companies paid nearly one-half of all corporate income tax in 1998. At Virginia's low rate of 6%, in effect since 1972, corporate income tax represents just over 4% of state revenues. Creating new credits against the corporate income tax may, therefore, not aid in attracting companies with low tax liability to Virginia. We are continually examining new ways to support companies with regard to their current needs and pressures, in order to encourage them to invest in Virginia.
- *Security is the hallmark of Virginia's investment of public funds in our economic future.* The most secure course for incentives, wherever possible, provides for payment only after the company has made its investment and created the new jobs projected. Some cases, however, require up-front state investment to help the locality and the company shoulder the heavier costs of infrastructure or construction. In those cases, performance agreements protect the public investment in case the company does not perform fully. Incentives offering payment after performance, such as the Virginia Investment Partnership or the semiconductor manufacturers' performance grants, invest in large long-term payoffs to the state by sharing some of the new revenues during years six through ten after the project's goals are fulfilled.

- *Incentives invest not only in Virginia companies, but also in our workforce.* Virginia, through the Workforce Services Program at the Department of Business Assistance, invests in its workers by supporting learning skills that lead to better employment opportunities and a higher standard of living. Companies receive partial reimbursements beginning 90 days after the new employees are hired and trained.
- *These incentives collectively have intangible benefits as well.* Programs supporting localities and companies demonstrate the state's interest in landing the project, highlight the "pro-business" climate of Virginia, and offer some level of competition to other states and countries that participate at a much higher level financially.
- *Discretionary incentives are best reserved for those cases in which it appears that serious competition from outside Virginia could win the project away, absent financial participation from the Commonwealth.* In fact, on average only 10% of Virginia's announced projects every year receive discretionary grants under programs such as the Governor's Opportunity Fund.

Everything we do relates to VEDP's mission statement, which focuses on improving the standard of living for Virginia's citizens through better employment opportunities and better services offered by state and local government through additional revenues from new and expanded employment and investment. With this as our guidepost, we continually evaluate and improve our programs, or develop new avenues to attract more investment and better jobs to Virginia.