

VEDP AND THE VIRGINIA CHAMBER: UPDATE ON THE NATIONAL RANKINGS INITIATIVE

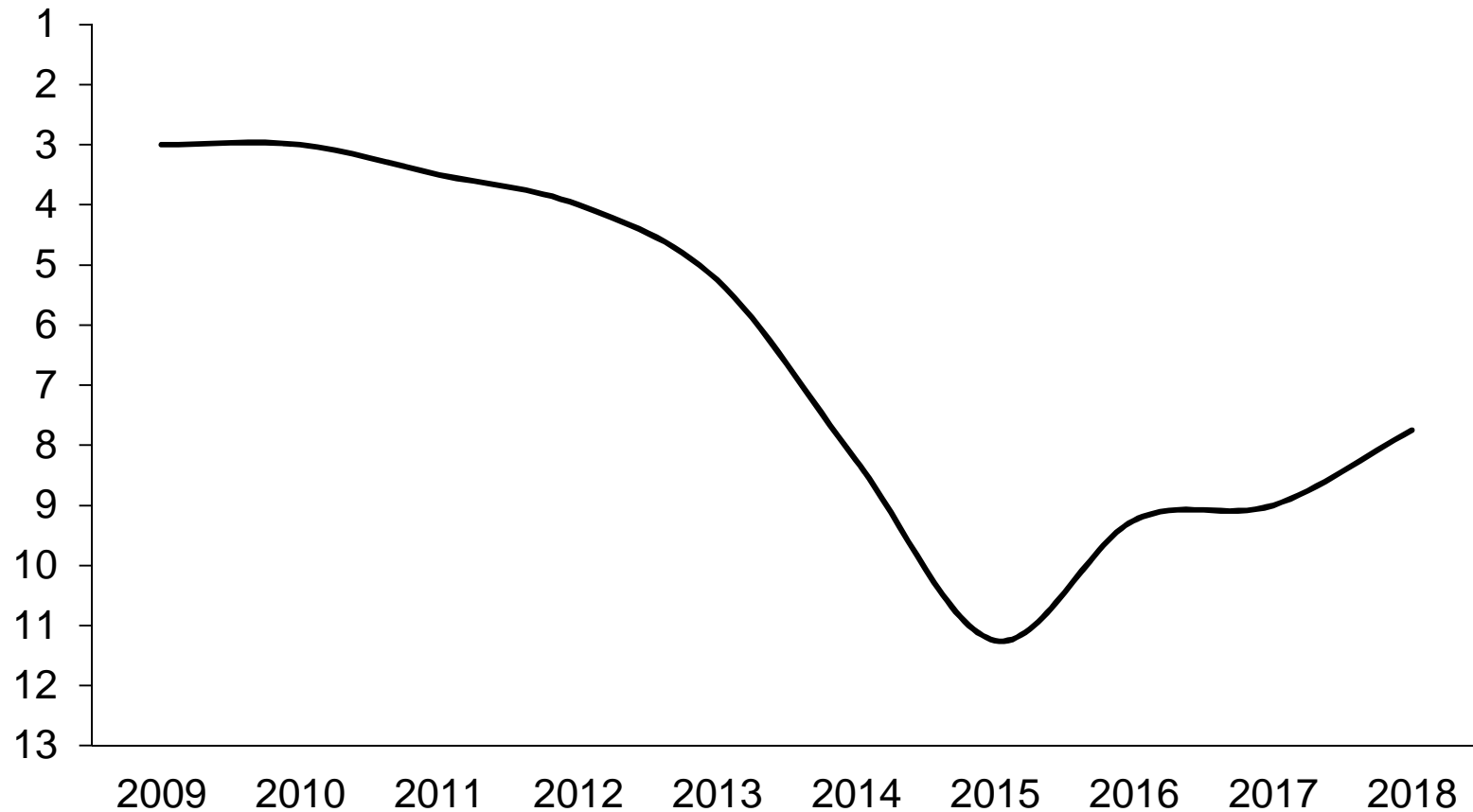
October 29, 2018

NATIONAL RANKINGS IN VA: MAKING PROGRESS, BUT MORE TO DO

- While Virginia's average performance for major business climate rankings has improved slightly since the Virginia Chamber and VEDP launched the national rankings initiative, Virginia still lags key competitor states . especially in *perception-based* rankings
- Getting back to the top will require a combination of substantive policy and programmatic initiatives combined with a more robust marketing effort
- VEDP and the Virginia Chamber have made substantial progress on the major initiatives aimed at improving the Commonwealth's standing in the business climate rankings
- Five of those initiatives will be highlighted today:
 - Establishment of a customized, turnkey workforce recruitment and training incentive program, following the General Assembly's allocation of funds.
 - Launch of a comprehensive marketing and branding and site consultant cultivation program, in collaboration with partners.
 - Development of a dedicated effort to securing major transformational project wins to each region of the Commonwealth.
 - Development of targeted proposals aimed at improving Virginia's tax competitiveness for new investment across a range of industry sectors.
 - *New:* Expand Virginia's portfolio of developable, business-ready sites

THE COMMONWEALTH'S BUSINESS CLIMATE RANKINGS FELL AFTER 2010, BUT VIRGINIA'S STANDING RECENTLY HAS BEEN IMPROVING

Virginia's average state rank in selected national business climate rankings



Source: Chief Executive magazine; CNBC; Forbes; Site Selection; VEDP analysis

CURRENT STATEWIDE RANKINGS

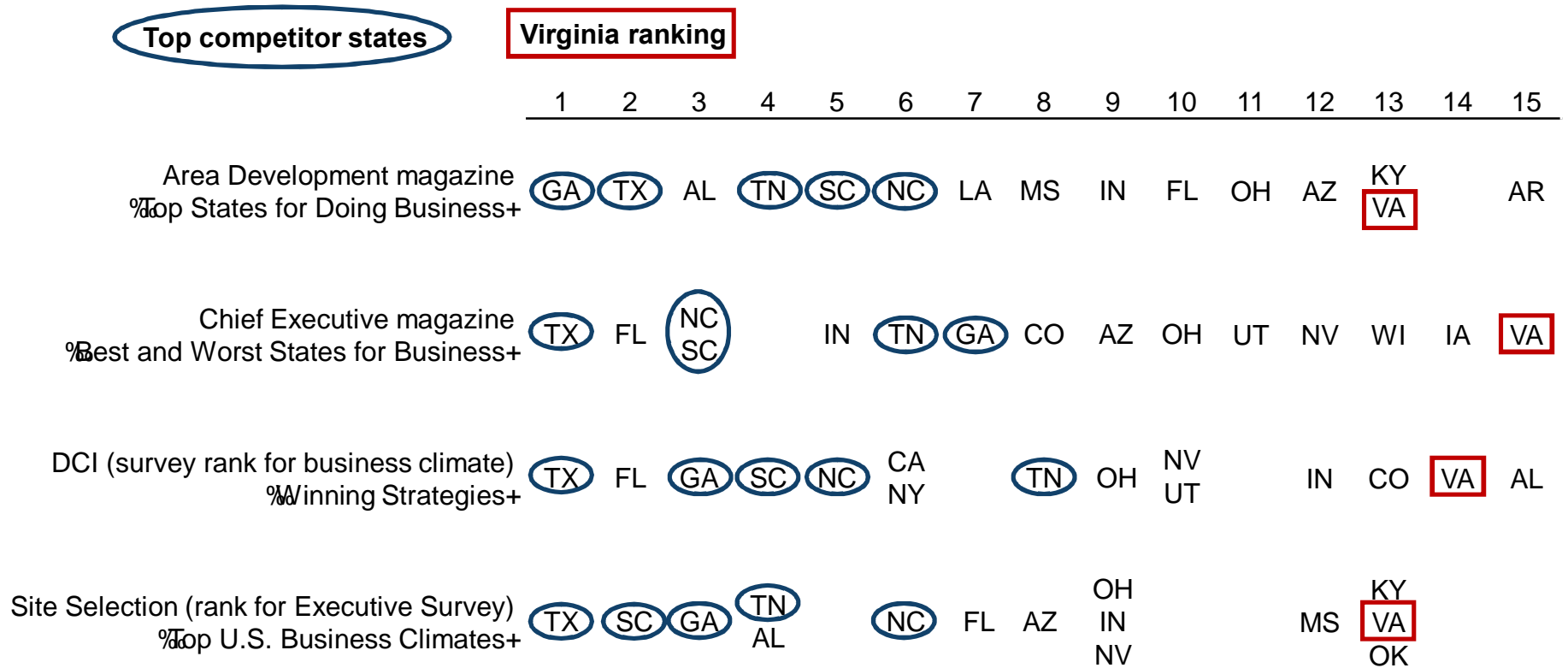


Recently released

Major statewide rankings at-a-glance

Publication	Rank	Last year published	Highlight(s)
Forbes: Best States for Business	5	2017	While VA's ranking has improved, it still ranks well below its former No. 1 position; Ranks in Economic Climate (33) and Growth Prospects (14) would significantly improve if VA's economic growth strategy is implemented; Business Costs rankings (29) if VA implements changes that reduce its state/local tax burden
Site Selection: Top Business Climates	9	2017	VA's poor performance in the Executive Survey (13) would improve if VA invests in a targeted business-focused marketing program; state/local tax changes would also strengthen its tax competitiveness ranking
Development Counsellors International (DCI) Best Places for Business	14	2017	VA's performance in this survey-based ranking lags behind peer competitor states; performance would be strengthened by strong investment in marketing
Area Development Top States for Doing Business	13	2018	Full implementation of a strategic marketing program would improve Virginia's perception among site selection consultants, and full implementation of a world-class custom workforce program would improve Virginia's workforce development program ranking (currently 7)
Business Facilities Best Business Climate	5	2018	Like Area Development, adoption of a customized workforce recruitment and training incentive program would greatly improve its workforce training rank (7)
CNBC Top States for Business	4	2018	While Virginia's overall performance improved six spots, most is due to the movement of other states and methodology changes; VA's economic performance continues to lag competitor states, affecting its overall rank
Chief Executive Best States for Business	15	2018	Chief Executive represents VA's poorest performance in surveys of corporate executives, which could be improved via investment in a strategic marketing program

VIRGINIA NO LONGER PLACES AMONG THE TOP 10 STATES FOR BUSINESS IN ANY NATIONAL SURVEY OF BUSINESS EXECUTIVES



Note: Years for each survey include 2018 for *Area Development* magazine, 2018 for *Chief Executive* magazine, 2017 for *DCI*, and 2017 for *Site Selection*.

DESPITE RECENT IMPROVEMENTS IN VA, SITE CONSULTANTS RANK OUR TOP COMPETITORS HIGHER IN NEARLY EVERY CATEGORY

	1	2	3	4	5	6	7	8	9	10	VA outside top 10*
Overall cost of doing business	TX	TN	GA AL		SC MS IN			NC	LA FL		VA
Corporate tax environment	TX	TN FL		GA	NC NV SD			SC	VA UT		
Business incentive programs	SC	GA AL		MS	TX TN LA			OK	IN OH NY NJ		VA
Access to capital and project funding	CA	TX NY		NC	GA MA		FL	TN IL		LA	VA
Cooperative and responsive state government	GA	SC	NC	AL	TN	MS LA		AZ	IN VA		
Favorable general regulatory environment	AL GA		TX	SC	TN	LA	MS	FL			VA
Shovel-ready sites program	TN	GA	AL	SC	NC	OH	TX	IN MS		KY LA	VA
Favorable utility rates	AL	GA	IN OH MI			KY NC		TN	SC AZ VA		
Competitive labor environment	TX	GA NC		FL	TN	AL IN AZ			UT OH		VA
Leading workforce development programs	GA	AL	LA	SC TN		NC	VA OH		FL	MS IA CA	
Most improved economic development policies	AL	GA	TX	SC MS		TN	LA IN		AZ	KY	VA

*Only the top 10 states in each category are published

Source: *Area Development* magazine, 2018 %Top States for Doing Business+survey results

RECAP: THREE BROAD APPROACHES WILL BE UTILIZED IN COMBINATION TO GET VIRGINIA BACK ON TOP



Policy Improvements

Example: Lower the effective tax burden for new, capital-intensive manufacturers



Programmatic Initiatives

Example: Create a world-class, turnkey, customized workforce recruitment and training incentive (*note: implementation in process*)



Marketing/Branding Programs

Example: Position VA as the leading state brand for target industry sectors, place a national spotlight on the rural VA opportunity, and highlight VA's alluring business climate (*note: partial implementation in process*)

These broad approaches also will enable faster employment growth, further bolstering Virginia's rankings

FOCUS FOR TODAY: TOP INITIATIVES THAT WILL HELP RESTORE VIRGINIA'S POSITION AS AMERICA'S BEST STATE FOR BUSINESS

1. Create a world-class, turnkey, customized workforce recruitment and training incentive
2. Invest in marketing efforts to improve perceptions of Virginia's business climate among key targets
3. Secure transformational economic development projects that attract positive national attention
4. Enact targeted tax changes to reduce tax burdens on new business investments
5. Implement a comprehensive economic growth strategy for Virginia (*today: update on site preparation initiative*)

CREATE A WORLD-CLASS, TURNKEY, CUSTOMIZED WORKFORCE RECRUITMENT AND TRAINING INCENTIVE PROGRAM

Issue

- “ Workforce concerns regularly top priority lists of site-selection consultants and companies as they consider locations for new business investment
- “ While we have some of the best 4-year institutions and community colleges in America, our workforce development programs do not rank among the top 5 states, which offer turnkey, customized workforce solutions

Solution

- “ Launch a world-class, turnkey, customized workforce recruitment and training program in collaboration with VCCS as a discretionary incentive for competitive new projects and expansions, as funded for FY19

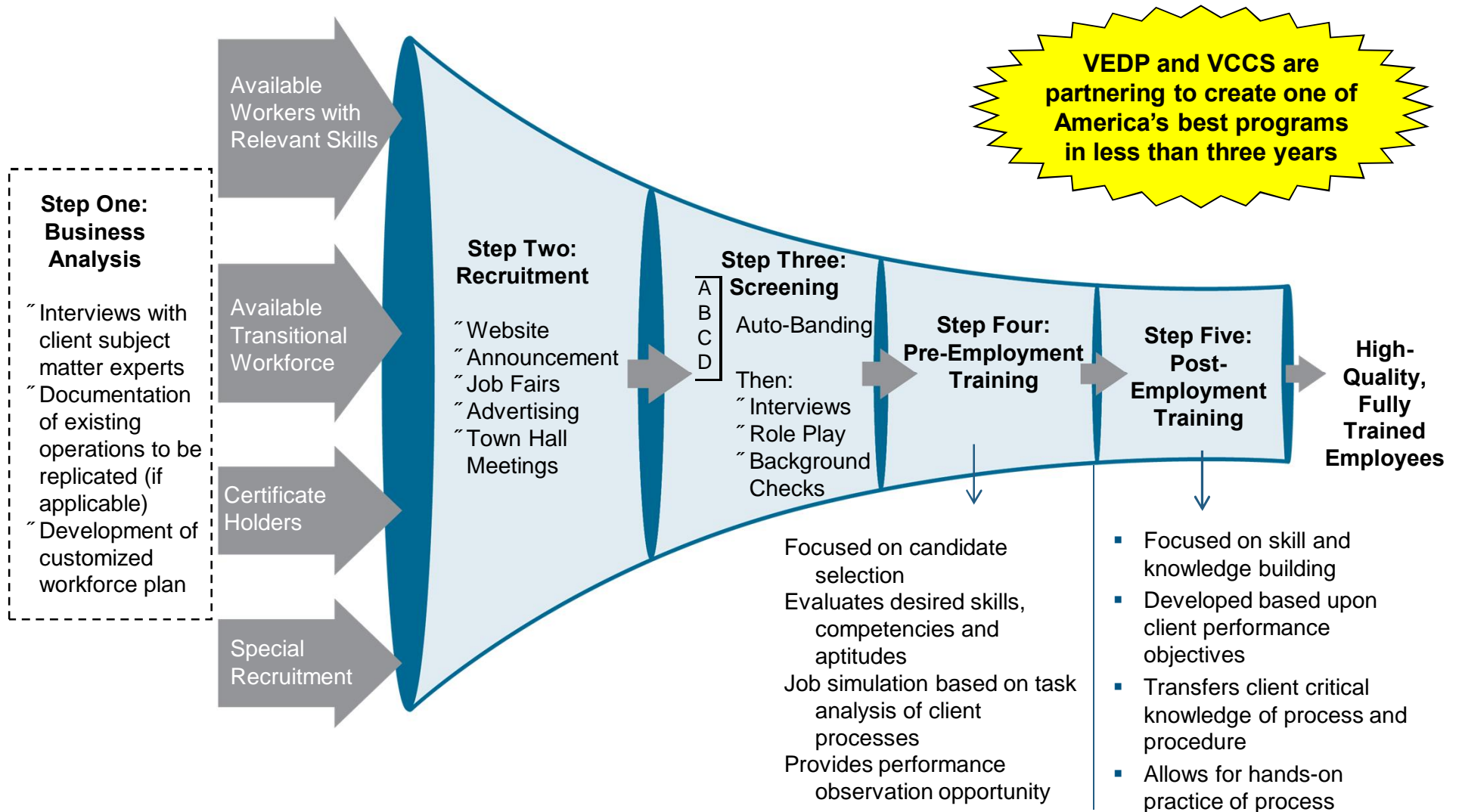
Execution

- “ The General Assembly funded a custom workforce recruitment and training program that will be led by VEDP in collaboration with VCCS at approximately \$2.5 million in FY19
- “ During FY19, VEDP will assemble a team of highly-experienced professionals to manage the program, including a program leader with extensive experience in the development and delivery of custom workforce solutions across multiple industry sectors
- “ In addition, VEDP will build partnerships with individuals and institutions essential to program implementation and establish third-party relationships to deliver recruitment and training solutions
- “ Once the team is assembled and the program is ready for launch, VEDP will identify 3-5 diverse pilot projects to begin testing program implementation and complete a full launch of the program by June 2019

Impact

- “ Virginia will break into the top five of state workforce development programs in the country within three years, with a solid chance of top three within five years
- “ Because workforce concerns are so acute for economic development projects, Virginia's placement in perception-based business climate rankings will improve, particularly in those published by Area Development, Business Facilities, DCI, and Site Selection

THE TURNKEY CUSTOMIZED WORKFORCE SOLUTION WILL PROVIDE EMPLOYERS WITH THE WORKFORCE THEY NEED



Every project is delivered by a mix of full-time employees (roughly one-third) and specialized contractors (roughly two-thirds) who are assembled to meet the needs of the particular client

IMPLEMENT A ROBUST THIRD-PARTY MARKETING PROGRAM

Issue

- “ Virginia places outside the top 10 in every perception-based ranking of state business climates, even though the Commonwealth’s assets frequently compete with or are better than those of top-ranked states
- “ Many states that consistently rank in the top 10 dedicate significant funding toward marketing their assets to company executives and site selection consultants

Solution

- “ Implement a comprehensive marketing program to spread awareness of Virginia’s assets and thereby improve Virginia’s perception as a place to do business

Execution

- “ With an FY19 marketing budget of \$1.7 million (\$2.7 million for FY20), VEDP will implement a basic version of comprehensive marketing program, which was designed for a budget of \$10 million per year (similar to some competing states); FY19 marketing activities include:
 - “ Creating a best-in-class marketing materials to articulate advantages for business for each of the Commonwealth’s target sectors and regions
 - “ Sponsoring and hosting events and conferences to raise awareness of Virginia’s advantages for business
 - “ Hosting FAM tours for influencers (e.g. site selection consultants, industry media) to experience Virginia first-hand
 - “ Utilizing direct mail, email, and social media to communicate with core targets and influencers about Virginia’s business climate strengths

Impact

- “ If FY20 funding levels continue for three years, the marketing program is expected to place Virginia in the top 10 in perception-based business climate rankings, create 100 additional leads per year, and bring 5-7 projects and 1,200 jobs to Virginia per year
- “ With a fully-funded marketing program (\$10 million), these impacts would increase substantially

VEDP WILL IMPLEMENT A BASIC THIRD PARTY MARKETING PROGRAM BASED ON LIMITED FUNDING*

Strategy	Focus				\$1.7M Budget (\$ million)	Envisioned Activities
	General Perception	Rural Virginia	Target Industries	Site Consultants		
Create best-in-class marketing materials to articulate advantages for business for each of the Commonwealth's target sectors and regions.	High	High	High	Medium	.55	Continue to upgrade materials and website (incl. lead gen. and resource tools); develop custom materials for rural VA and target industries including company testimonials
Leverage creative, paid marketing placements to increase awareness and improve perceptions of VA among C-level executives and top site selectors.	High	Medium	Medium	Medium	.15	Implement limited SEO and SEM campaigns
Strategically place paid media to raise the profile of rural VA as a business destination.	Medium	High	Medium	Medium	0	No funds available for this strategy in FY19
Develop and place messaging to position VA as a business location of choice for target sectors.	Medium	Medium	High	Medium	0	No funds available for this strategy in FY19
Sponsor and host events and conferences to raise awareness of VA's advantages for business.	Medium	Medium	High	High	.2	Recruit an industry/site selector conference to VA (could be for future fiscal year); sponsor and host events for targets in conjunction with partners
Host FAM tours for influencers (e.g. site selection consultants, industry media) to experience VA first-hand.	Medium	High	High	High	.3	Implement a robust inbound FAM tour program for consultants (15-20 events) and media (3 events) in conjunction with partners
Utilize direct mail, email, and social media to communicate with core targets and influencers about VA's business climate strengths.	High	High	High	High	.5	Deploy direct email and targeted social media campaigns as well as pitch stories to earn media; implement a limited direct mail and (paid) social media campaign to communicate VA's advantages for business, launch a quarterly magazine in 2019

* Funding for a comprehensive third-party marketing program is not yet available

ADEQUATELY FUNDING THIRD-PARTY MARKETING ACTIVITIES WOULD HAVE A SUBSTANTIAL IMPACT ON JOBS AND INVESTMENT

Strategy	\$1.7M Budget (\$M)	\$3M Budget (\$M)	\$5M Budget (\$M)	\$10M Budget (\$M)
Create best-in-class marketing materials to articulate advantages for business for each of the Commonwealth's target sectors and regions.	.55	.75	.75	2.0
Leverage creative, paid marketing placements to increase awareness and improve perceptions of VA among C-level executives and top site selectors.	.15	0	1	1.5
Strategically place paid media to raise the profile of rural VA as a business destination.	0	0	.25	1
Develop and place messaging to position VA as a business location of choice for target sectors.	0	0	.5	1.25
Sponsor and host events and conferences to raise awareness of VA's advantages for business.	.2	.75	1	1.75
Host FAM tours for influencers (e.g. site selectors, industry media) to experience VA first hand.	.3	1	1	1.75
Utilize direct mail, email, and social media to communicate with core targets and influencers about VA's business climate strengths.	.5	.5	.5	.75
Impact within three years (annual)				
VA will become perceived as one of the top states for business in the US (based on surveys of C-level execs and/or top site consultants).	Top 10	Top 5-7	Top 5	Top 3
VA will secure more high-quality leads per year in targeted traded industry sectors, at least 25% of which will be focused on rural communities	100 add'l leads	200 add'l leads	400 add'l leads	600 add'l leads
VA will secure more high-quality announcements each year creating at more high-wage direct jobs annually	5-7 projects 1,200 jobs	10 projects 2,500 jobs	25 projects 5,000 jobs	80 projects 15,000 jobs

SECURE TRANSFORMATIONAL ECONOMIC DEVELOPMENT PROJECTS THAT ATTRACT POSITIVE NATIONAL ATTENTION

Issue

- “ A relatively small number of high-impact economic development projects (e.g., Fortune 500 headquarters relocations, major auto assembly facilities) each year attract an outsize amount of national media and corporate executive attention, with the winning states benefiting from big economic boosts as well as enhanced business reputations
- “ While Virginia has won some of these projects, other states often secure the lion’s share of them, usually due to their more robust sites and/or incentive offerings

Solution

- “ Develop a transformational projects matrix highlighting the top 5-10 types of high-impact projects and firms by region and sector, as well as incentive packages to attract them
- “ Aggressively court leading companies with a custom-fit, aggressive approach, while simultaneously working to strengthen Virginia’s site and building offerings

Execution

- “ In FY19, VEDP will develop criteria to classify the types of transformational projects and categorize them by impact and priority
- “ Based on these project types, VEDP will work with MEI and its partners (interested localities, Tobacco Commission, UVA-SIF, VCEDA, Danville Regional Foundation, and others) to develop a list of potential custom incentives and investments by region and sector that could be deployed to attract transformational projects
- “ Finally, VEDP will syndicate this list of incentives and investments with the General Assembly and administration leadership to ensure alignment on incentives strategies for each project type. VEDP also will work with partners to identify any program changes needed to fit identified needs

Impact

- “ Virginia can attract 2-3 transformational projects each year, gradually covering every region of the Commonwealth; both rural and urban areas will benefit
- “ The Commonwealth’s perception-based rankings will improve, Virginia will be more often considered for exceptional projects, and employment growth will increase

ENACT TARGETED TAX CHANGES TO REDUCE STATE/LOCAL TAX BURDENS ON NEW BUSINESS INVESTMENTS AND EXPANSIONS

Issue

- “ Virginia has relatively high state/local tax burdens in America for new, job-creating business investment projects, including expansions and greenfield projects. Virginia’s worst ranking is for new, capital-intensive manufacturing projects for which its effective tax burden is ranked 2nd highest in the U.S.
- “ High tax burdens discourage new investment in the form of economic development projects, potentially eliminating Virginia as a competitor for projects that would bring significant investment and jobs to the Commonwealth; moreover, they have substantially reduced Virginia’s overall business climate rankings published by Forbes and CNBC

Solution

- “ Pursue targeted tax changes to reduce the combined state/local effective tax burden for new, job-creating business investment projects of traded-sector firms

Execution

- “ Ideally collaborate with key stakeholders, including TAX, VACO, and VML, to develop proposals to reduce tax burdens on new investment while minimizing any negative impacts on local tax revenues

Impact

- “ Lowering Virginia’s effective tax burden for expansions and greenfield projects would have one of the most significant impacts on improving Virginia’s business climate rankings because the Tax Foundation’s Location Matters scores are incorporated into rankings published by CNBC, Forbes, Pollina, and Site Selection; indirectly Virginia’s perception-based rankings also would improve
- “ Tax changes also have a direct impact on the kinds of transformational projects Virginia can attract to better the lives of its citizens in each of its communities

VA'S HIGH STATE/LOCAL TAX BURDENS FOR NEW PROJECTS AND EXPANSIONS NEGATIVELY IMPACT OUR BUSINESS CLIMATE RANKINGS

Location Matters 2015 Rankings

Business Type	Rank*		
	New	Mature	Delta
Capital-intensive manufacturer	49	20	29
Labor-intensive manufacturer	36	2	34
Corporate headquarters	31	12	19
R&D facility	45	35	10
Distribution center	31	15	16
Call center	29	21	8
Retail store	23	16	7
Straight average	35	17	18

No. 1 represents the lowest state/local tax burden rank



Site selection consultants' and corporate decision-makers' perceptions of Virginia's cost competitiveness

* VEDP has identified a potential error in KPMG's tax rankings that, if confirmed and corrected, could improve Virginia's state/local tax burden ranking for new, capital-intensive manufacturers from nearly the worst in America to the mid-20s

TARGETED TAX CHANGES WOULD BE A SIGNIFICANT STEP IN IMPROVING VIRGINIA'S OVERALL TAX BURDEN RANKINGS

Tax burden rank for new projects and expansions
(1 = lowest tax burden)

Business type	2015	Corrected*
Capital-intensive manufacturer	49	24
Labor-intensive manufacturer	36	11
Corporate headquarters	31	31
R&D facility	45	45
Distribution center	31	25
Call center	29	24
Retail store	23	23
Straight average	35	26

New projects and expansions in VA are heavily affected by high tax burdens relative to competitor states, often the result of a lack of by-right incentives to encourage job creation and/or capital investment

VA's ranking for manufacturers would improve significantly if higher than average property tax burdens for new firms could be addressed

Source: Tax Foundation . ¹Based on tax law and available data as of April 1, 2014+

No.1 represents the lowest state/local tax burden rank

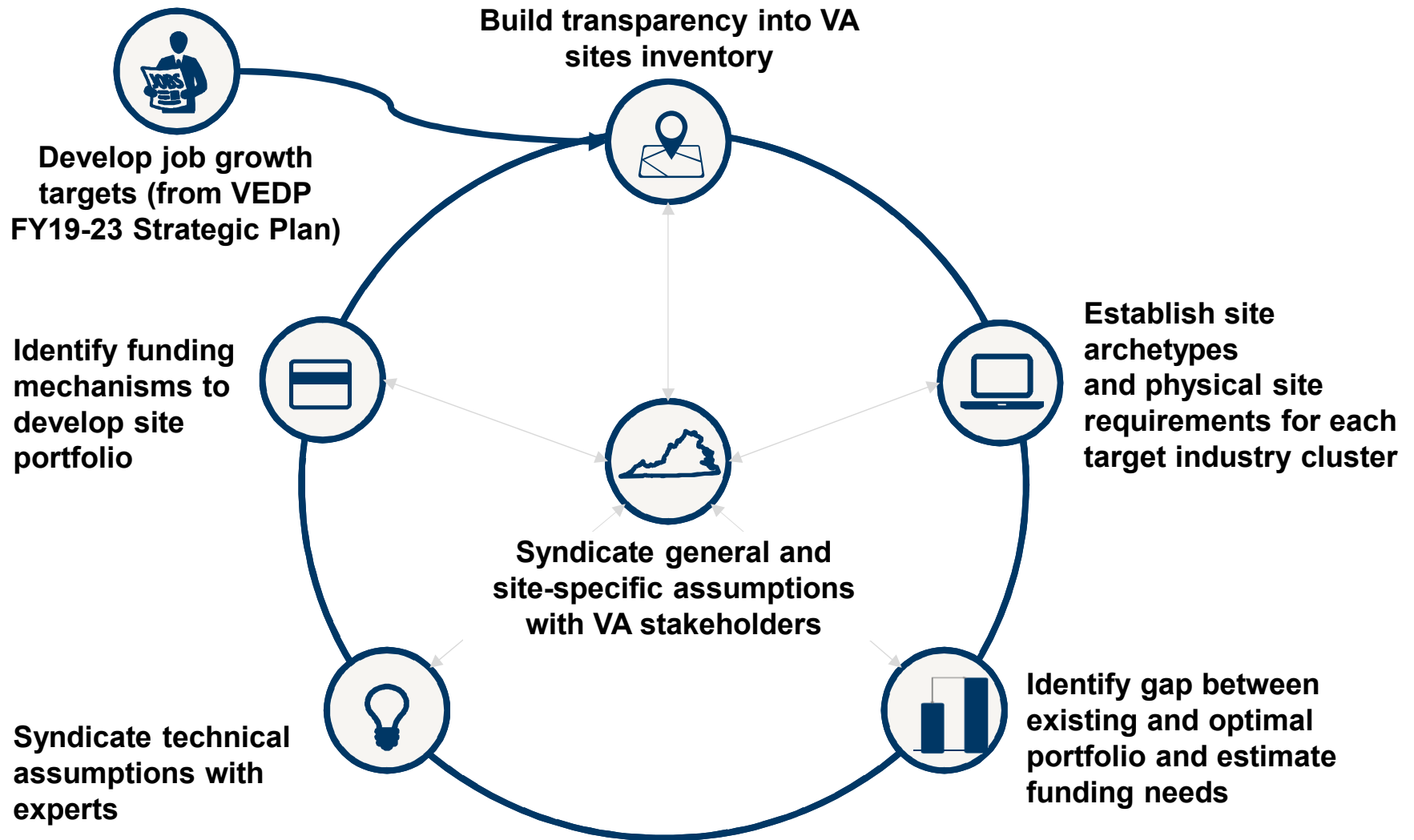
*VEDP has identified an error in KPMG's tax rankings that, if corrected, would improve Virginia's average state/local tax burden ranking for new firms from the mid-30s to the mid-20s

Source: Location Matters; MMK; VEDP analysis

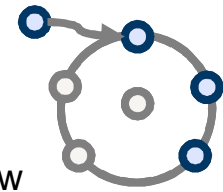
THE CASE FOR SITE DEVELOPMENT IN VIRGINIA

- “ With rapid site-selection timeframes and increased focus on speed to market, companies increasingly desire sites that are fully prepared for development
- “ A well-prepared site (i.e., one that confidently can be ready with all necessary infrastructure within 12-18 months, if not sooner) usually is more critical than a robust incentive package; incentives typically only make a material difference for finalist locations
- “ Considering only projects for which we are considered, the lack of development-ready sites represents the most common reason that Virginia loses manufacturing and distribution projects to other states
- “ Georgia, North Carolina, Tennessee, and other states often win projects over Virginia because they have invested in prepared sites through state, utility, and local efforts
- “ The lack of prepared sites and buildings cost Virginia nearly 50 projects and \$6.5 billion in investment over the last five years

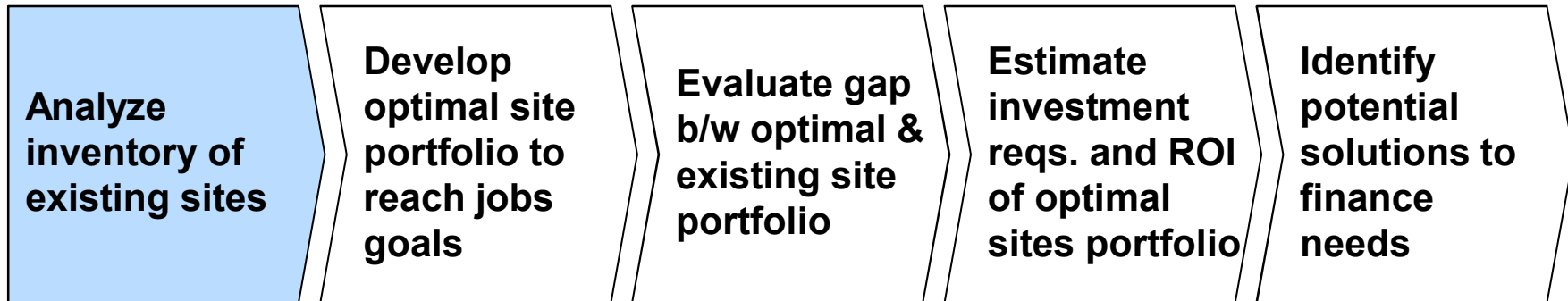
OVERVIEW OF VEDP'S SITE DEVELOPMENT PORTFOLIO WORKPLAN



SITES MODEL OVERVIEW



 Details to follow



How many sites are available across the Commonwealth that fit specific target industry cluster criteria (both physical and other competitiveness factors)?

How many sites do we need within each target sector to achieve job growth targets?

How many sites are project-ready vs. how many sites will need to be developed to achieve job growth targets?

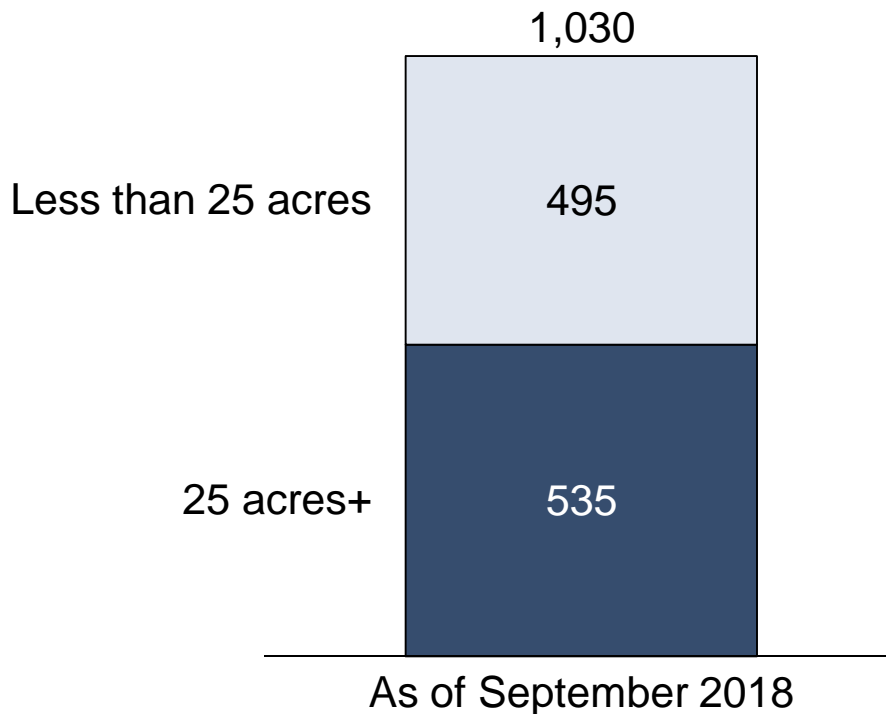
How much investment will the development of the portfolio require? What are the expected returns to the Commonwealth?

What funding streams are currently available for these efforts? What new funding streams could be developed?

Site inventory analysis will be based on identified target industry clusters

WE ARE LIMITING OUR FOCUS TO SITES 25 ACRES OR MORE

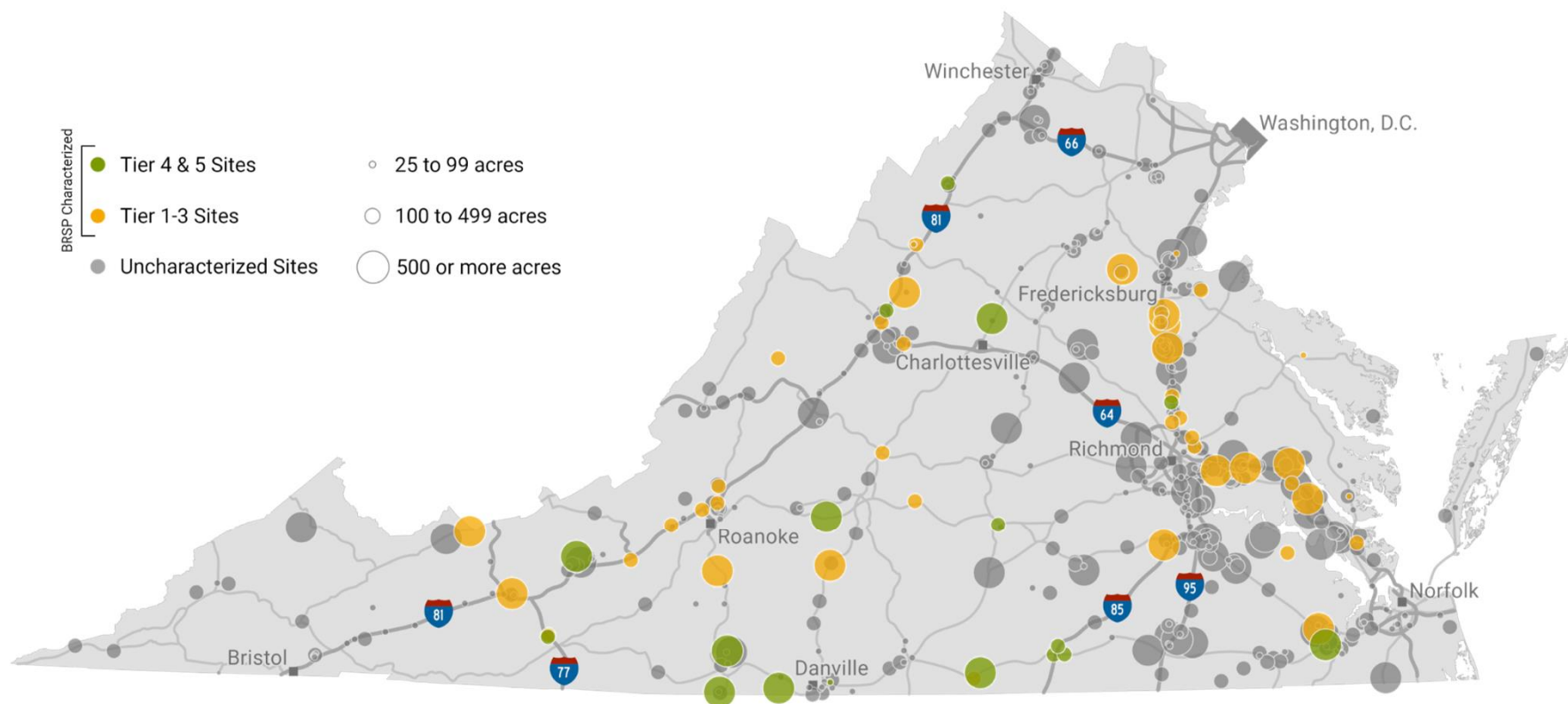
Number of sites in VirginiaScan database
of sites



Rationale for limiting efforts to 25
acres+ sites

- “ Virginia has a **relatively robust portfolio of project-ready sites less than 25 acres in size**
- “ Medium-to-large sites have **significant regional and statewide economic impact**
- “ But, the development costs to get these sites project-ready are typically **beyond the scope of any one locality** and often any one region

61 INDUSTRIAL SITES OVER 25 ACRES IN VIRGINIA HAVE BEEN CHARACTERIZED, LESS THAN 15% OF THE POTENTIAL POOL



“ 61 characterized sites are shown, approximately half funded by VBRSP characterization grants and the remainder by regional and/or local efforts

“ VBRSP has provided characterization grants to 36 sites¹ to date

“ Sites characterized as tier 4 and 5 are considered certified (total: 27 sites are 25+ acres)

¹ VBRSP grants can be applied to an entire site, a subset(s) of one parent+ site, or multiple sites (i.e., two sites within one industrial park)

OTHER STATES HAVE MORE ESTABLISHED (AND LARGER) SITE PREPARATION AND CERTIFICATION PROGRAMS

State	Area Development, 2018	
	“Shovel ready” sites program rank	Overall cost of doing business rank
TN	1	2
GA	2	T-3
AL	3	T-3
SC	4	T-5
NC	5	8
OH	6	-
TX	7	1
IN	T-8	T-5
MS	T-8	T-5
KY	T-10	-
LA	T-10	T-9



Tennessee

- 2018 budget of **\$7M** for site development
- Tennessee Certified Sites program lists 52 certified sites (8 with “sold” sticker)
- Minimum 20 acres; professional photos and video for each site



Georgia

- Georgia Ready for Accelerated Development (GRAD) program launched in 2008 and counts over 60 active certified industrial sites; minimum 50 acres
- Website lists 24 companies that have located on certified sites



Alabama

- AdvantageSite established in 2008 and claims 59 active certified sites (though only 23 shown on websites)
- Since 2008, 33 projects have located on AdvantageSites, investing \$1.3B+ and creating 6K+ jobs



North Carolina

- 2018 Rural ReadySites Program will invest more than **\$14M** in public infrastructure construction at sites that have strong potential to attract employers

VA's VBRSP program is substantively similar to the other state programs though VBRSP is newer and likely resourced differently than other states

Source: Statesqprogram websites