<http://jlarc.virginia.gov/pdfs/reports/Rpt514.pdf>

Incentives excluded from the analysis and report Several programs did not make awards during the period of analysis (FY10-FY17) and are not included in this report. Four incentive programs have not provided incentive funding because they are relatively new: • GO Virginia • Virginia Business Ready Site Program • Aircraft Parts, Engines, and Supplies Exemption • Venture Capital Account Subtraction Two custom grant programs are not included in this report because formal memorandums of understanding have not been filed: • Advanced Shipbuilding Production Facility Grant Program (Newport News Shipbuilding) • Pulp, Paper, and Fertilizer Advanced Manufacturing Grant Program Three grant programs have been active for over a decade but have not yet funded private business projects: • Tobacco Commission Agribusiness Grant Program • Southside Economic Development Grant Program • Tobacco Commission Southwest Economic Development Grant Program

When employment, capital investment, and other documented performance metrics were modeled (grant and loan programs), only a small portion of the program documented outcomes were attributed to the effect of the incentive.

For grants, the assumption was made that 10 percent of grant employment creation is attributable to the programs, with one exception (the Governor’s Motion Picture Opportunity Fund).

The 10 percent assumption was also used for modeling grant effects on capital investment (Economic Development Access Program, Rail Industrial Access Program, Real Property Improvement Grant, Tobacco Commission Megasite Grants, and Transportation Partnership Opportunity Fund), international sales increases for the VALET program, and advertising/marketing spending associated with Virginia Trade Show Assistance program grants.

“Reduction in economic activity because of the tax increase to pay for the sales and use tax exemptions”

Virginia’s legislative audit agency started its most recent analysis of Virginia’s economic development incentive programs with an assumption which boosters would quickly deny – that 90 percent of the economic activity they produce would have happened anyway.

With that assumption baked into the data, the Joint Legislative Audit and Review Commission found very small benefits indeed for the various grants or tax incentives Virginia offers employers for new business locations or expansions. This year’s summary looked at $1.8 billion spent in grants or foregone through tax exemptions over eight years.

 “For grants, the assumption was made that 10 percent of grant employment creation is attributable to the programs, with one exception (the Governor’s Motion Picture Opportunity Fund),” according to the full [text](http://jlarc.virginia.gov/pdfs/reports/Rpt514.pdf) of the JLARC report released Monday. The same 90 percent discount applied to job creation was also applied to capital investments and the tax benefits they produced.

The return on investment for the state’s various grant programs was measured at 55 cents for every dollar in grants given by the state. The payback on various specialized tax incentives was even lower, from three to five cents per dollar, as shown in a slide from the presentation made by Ellen Miller of JLARC’s staff. She pegged the overall return at 19 cents.

JLARC worked with the Weldon Cooper Center at the University of Virginia on the economic benefit analysis. Similar metrics have been applied to individual programs in past analyses, but this was the first use of the methodology across the board. It provides a stark contrast to the high pay-off projections the state usually makes about projects receiving grants, such as the recent Amazon project package which will be debated by the 2019 General Assembly.

This JLARC report looks back at the period of 2010 through 2017, so the Amazon project is not yet part of the review. No one involved with that has indicated that Amazon was 90 percent certain that it was coming to Virginia before any incentives were offered. As Miller noted in an email after her presentation, the Virginia Economic Development Partnership numbers attribute 100 percent of the outcomes to the incentives.

Some major economic development programs are not included in the analysis because they are relatively new. The GO Virginia program, managed by a group of business executives, is probably the highest-profile activity not yet subjected to JLARC review, along with a package of future grants designated for Newport News Shipbuilding as it starts construction of a new class of Navy submarine.

Another shipyard grant program, which financed construction of a new Apprentice School, is reported to have cost $32,000 per created job, the most expensive for the period covered by the report.

Much of the report’s focus is on sales tax exemptions or tax credits offered for specific industries or activities, with JLARC again concluding that in general they do not produce a major return for the state. The largest tax credit was $82 million paid out over the period for utility usage of Virginia-mined coal, and the largest sales tax exemption was $285 million in tax breaks for data centers.

The report shies away from the major sales tax exemptions with are part of virtually every state’s sales tax system, such as for services or manufacturing inputs. It focuses instead on those aimed at specific industries or activities, such as shipbuilding, nuclear repair, pollution control, the airlines, railroads and motion pictures. Many of them have justifications that don’t really cited job creation or economic development, such the exemption for pollution control investments.

In analyzing the payback on the grants and tax incentives, Weldon Cooper has added another wrinkle: It estimated and accounted for “reduction in economic activity because of the tax increase to pay for the sales and use tax exemptions (or grants).” This is the kind of dynamic scoring of opportunity cost that is rarely used by the state. In fact, not everybody on the state payroll is willing to admit that raising or lowering taxes has an inverse impact on employment and gross domestic product.

For example, Weldon Cooper estimated jobs added under the grant programs, but then subtracted 711 from the 2017 total as jobs lost because the grant money could be compared to a tax increase. It also subtracted $79 million in state gross domestic product and $69 million in personal income as opportunity costs, lowering the cost-benefit result for grants in general. The details on all this are buried deep in the appendices.

Lumping all the economic development programs and tax breaks together in the final table, JLARC and Weldon Cooper estimated $74 million in state tax revenues generated, at a cost of $272 million in grants or taxes not collected. That works out to 26 cents on the dollar, which is fine if that is on capital you continue to hold. In this case, however, somebody else walks off with the capital.

Again, JLARC got to that result with two very controversial assumptions: first, that 90 percent of the economic benefit would have appeared without the incentives, and those benefits are further reduced by the opportunity cost of the money. They are controversial, but not without merit.

None of these elements of the report generated any comments from the legislators, but Delegate R. Steven Landes did note the various programs aimed at the railroads and wondered if they make sense now that Norfolk Southern is moving its headquarters south.