



Rural Economic Development: Rethinking Strategies for Rural and Economically Distressed Communities

November 19, 2021

Rethinking Strategies for Rural and Economically Distressed Communities

- For the past 30 years, the General Assembly has supported multiple initiatives aimed at incentivizing job creation and capital investment in rural and distressed areas by funding economic diversification and training initiatives in southern and southwest Virginia intended to address economic challenges resulting from declines in regional employment, including:
 - General Fund grant programs with lower qualifying thresholds for community and economic development projects in distressed areas;
 - Virginia Coalfields Economic Development Authority (1988);
 - Tobacco Indemnification / Tobacco Region Revitalization Commission (1998); and
 - GO Virginia (2016).
- Despite targeted regional investments, population outmigration and job losses have continued in many rural areas.
 - Multiple performance reviews directed by the General Assembly suggest these investment strategies have had a mixed track record of success. For some long-range investments, such as site development, it remains too early to measure the results.
- Our panel of experts has been asked to reimagine strategies for economic development and community revitalization in the Commonwealth's rural and economically distressed communities.

Economic Distress Extends Beyond Rural Areas

Commonwealth Opportunity Fund (COF) Distressed Localities

Double Distressed

Tobacco Region
 Bristol
 Brunswick
 Buchanan
 Buckingham
 Carroll
 Danville
 Dickenson
 Dinwiddie
 Emporia
 Galax
 Greenville
 Halifax
 Henry
 Lee
 Martinsville
 Mecklenburg
 Norton
 Patrick
 Pittsylvania
 Prince Edward
 Russell
 Smyth
 Sussex
 Tazewell
 Wise
 Wythe

Accomack
 Alleghany
 Charles City
 Essex
 Giles
 Lancaster
 Northampton
 Northumberland
 Page
 Pulaski
 Charlottesville
 Covington
 City of Franklin
 Fredericksburg
 Hampton

Harrisonburg
 Hopewell
 Lexington
 Lynchburg
 Newport News
 Norfolk
 Petersburg
 Portsmouth
 Radford
 City of Richmond
 City of Roanoke
 Staunton
 Waynesboro
 Williamsburg

Single Distressed

Tobacco Region
 Appomattox
 Bland
 Campbell
 Charlotte
 Cumberland
 Floyd
 Franklin
 Grayson
 Lunenburg
 Nottoway
 Scott
 Washington

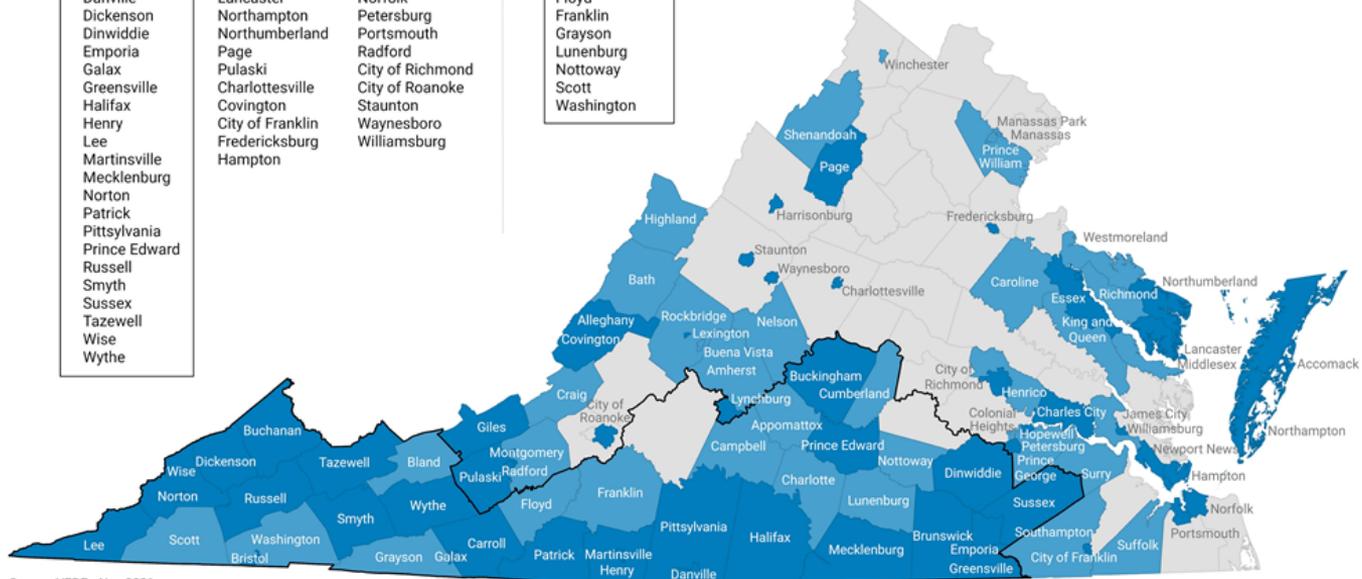
Amherst
 Bath
 Buena Vista
 Caroline
 Colonial Heights
 King and Queen

Craig
 Henrico
 Highland
 James City
 Nelson

Manassas
 Manassas Park
 Middlesex
 Montgomery
 Nelson

Prince George
 Prince William
 Richmond
 Rockbridge
 Shenandoah

Southampton
 Suffolk
 Surry
 Westmoreland
 Winchester



Source: VEDP - Nov 2021



Rural and Distressed Communities Have Unique Challenges and Similar Needs

- Lack of access to capital
- Lower educational attainment and retainment, lack of technical expertise
- Lack of community amenities
- Aging demographics and outmigration
- Geographic isolation
- Aging utility infrastructure, declining rate base
- Broadband and telecommunications needs
- Transportation network connectivity
- Lack of “ready” sites for commercial use
- Remediation of derelict structures and brownfields

Multiple Programs Seek to Incentivize Development in Distressed Communities

- Traditional economic development incentive programs have targeted eligibility thresholds for distressed communities.
 - Single Distressed – a locality with an unemployment rate above the average statewide unemployment rate or with a poverty rate above the statewide average poverty rate.
 - Double Distressed – a locality with an unemployment rate above the average statewide unemployment rate and with a poverty rate above the statewide average poverty rate.
- Special tax considerations provide incentives for investment in distressed areas.
 - HB 222 / SB 883 (2018) permits eligible companies in qualified localities to use a modified apportionment formula for purposes of the Virginia corporate income tax.
 - Opportunity Zones – an economic development incentive created under the Tax Cuts and Jobs Act of 2017 (TCJA) that allows investors to defer federal capital gains taxes when making qualifying investments in eligible distressed communities.

Multiple Programs Seek to Incentivize Development in Distressed Communities (continued)

- Community-based programs incentivize job creation and investment in distressed areas.
 - Main Street Program – preservation-based economic and community development program designed to address the need for revitalization and on-going management of smaller to mid-sized downtowns.
 - Enterprise Zones – State and local partnership to encourage job creation and private real property investment in designated Enterprise Zones.
- Economic revitalization and redevelopment programs provide additional opportunities for place-based investment in distressed communities.
 - Brownfields Restoration and Economic Redevelopment Assistance Fund – low-interest loan financing and grants to encourage the cleanup and reuse of contaminated properties that include water quality contamination.
 - Industrial Revitalization Fund – leverages local and private resources to achieve market-driven redevelopment of vacant and deteriorated industrial and commercial properties.

Multiple Programs, Mixed Results

Program	Purpose	Spending ¹ (\$ millions) FY11 – FY20	# of Awards ¹ FY11 – FY20	FY22 GF ² (\$ millions)	Effective ³
Tobacco Region Opportunity Fund	Business attraction / expansion in the tobacco region	\$106.1	288	-	
Tobacco Region Megasite Grant	Develop business-ready and publicly owned industrial sites across the tobacco region	96.9	36	-	TBD
Coalfield Employment Enhancement Tax Credit <i>(eliminated effective 1/1/22)</i>	Encourage production of Virginia metallurgical coal and coalbed methane	205.4	NA	-	
Coal Production and Employment Incentive Tax Credit <i>(eliminated effective 1/1/22)</i>	Encourage use of Virginia coal by power generators	90.5	NA	-	
Virginia Coalfields Economic Development Authority	Enhance the economic base of Virginia's coalfield region	23.0	?	\$0.5	TBD
Real Property Investment Grant <i>(Enterprise Zones)</i>	Encourage investment in distressed communities	105.5	1,545	11.8	
Job Creation Grant <i>(Enterprise Zones)</i>	Encourage job creation in distressed communities	26.9	573	2.7	
GO Virginia	Promote economic growth through regional collaboration	37.8	119	30.0	TBD
Business Ready Site Program	Encourage development of business-ready sites and associated infrastructure	1.6	13	5.6	TBD
Virginia Jobs Investment Program	Support private business job creation and worker training and retraining	61.5	937	4.7	
Commonwealth's Opportunity Fund	Attract new businesses and support existing business expansion	138.9	313	19.8	

Sources: 1) JLARC Economic Development Incentives 2021: Spending and Performance, November 8, 2021; VA Department of Housing and Community Development; 2) SFAC Staff Analysis of Chapter 552, 2021 General Assembly Special Session I, April 7, 2021; 3) SFAC staff analysis of JLARC Infrastructure and Regional Incentives, September 2020; categories explained during staff presentation.

Targeted Regional Revitalization Initiatives

Tobacco Region Revitalization Commission (TRRC)

- TRRC is the successor to the Tobacco Indemnification and Community Revitalization Commission (TICR) formed by the General Assembly in 1999.
- Originally funded from the State's share of the 1998 Master Settlement Agreement (MSA) between 46 state attorneys general and large tobacco manufacturers. In 2002, Virginia securitized half of its future tobacco settlement payments, creating an endowment managed by the Virginia Department of the Treasury to fund economic development efforts in tobacco dependent communities.
- TRRC grant awards total more than \$1.2 billion since inception.
 - Indemnification requirements fulfilled in 2012 with \$479.0 million provided to farmers.
- Current FY 2022 net position of approximately \$395.7 million.

Targeted Regional Revitalization Initiatives

Virginia Coalfield Economic Development Authority (VCEDA)

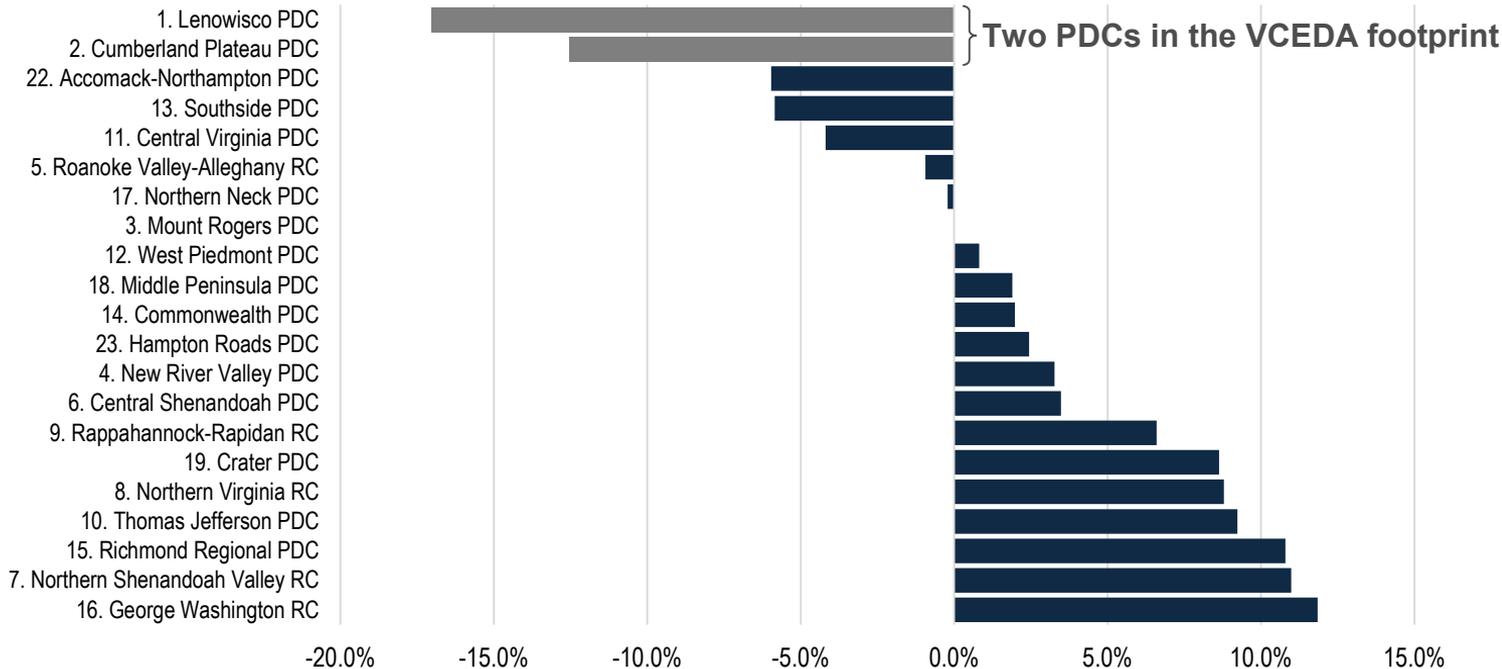
- VCEDA is a regional economic development authority created by the General Assembly in 1988 to enhance and diversify the economic base of the seven-county, one-city, coal-producing region in southwestern Virginia.
- Funding is derived primarily from a portion of local severance taxes paid by the coal and natural gas industries in the region.
 - Annual funding level has declined from \$8.6 million in 2010 to \$2.5 million in 2020.
 - Gas severance taxes scheduled to expire on January 1, 2024.
- Since inception, VCEDA has awarded more than \$251.0 million in grants and loans.
- As of December 31, 2020, VCEDA's uncommitted fund balances total \$30.3 million.

Source: Code of Virginia § 58.1-3713.4; VCEDA annual reports.

Largest Employment Declines in SWVA and Other Rural Areas

Between 2010 and 2020, employment losses were greatest in rural and southwestern Virginia communities

Change in average annual employment 2010 to 2020, by Planning District Commission (PDC)

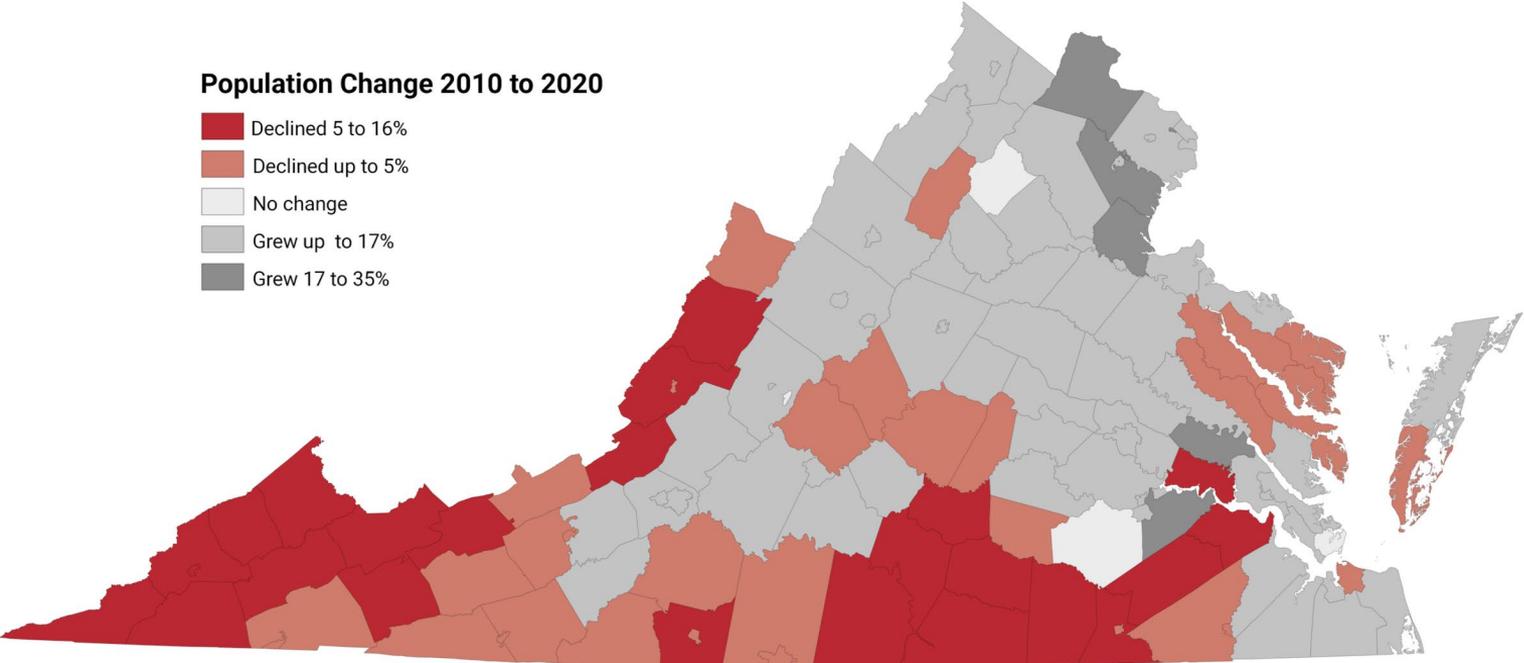


Source: Virginia Employment Commission, Current Local Area Unemployment Statistics; SFAC staff analysis.

Population Decline in Many Rural Communities Has Continued Despite Targeted Investments

Population Change 2010 to 2020

- Declined 5 to 16%
- Declined up to 5%
- No change
- Grew up to 17%
- Grew 17 to 35%



Source: U.S. Census, 2020

How Would You Reimagine Economic Revitalization in Rural and Distressed Communities?

- Acknowledging the reality of the organizational structures currently in place, today's panel discussion asks participants to envision a blank slate.

- **The Honorable Brian Ball**
Secretary of Commerce & Trade

- **Cassidy Rasnick, Deputy Secretary**
Office of Commerce & Trade

- **Christy Morton, VP, External Affairs**
Virginia Economic Development
Partnership

- **Evan Feinman, Executive Director**
Tobacco Region Revitalization Commission

How Would You Reimagine Economic Revitalization in Rural and Distressed Communities?

Questions for Panelists

- What are the fundamental resources required to revitalize economically distressed communities and enhance regional competitiveness?
- Can improved coordination of existing economic development entities advance place-based economic development?
- Would refocusing existing regional economic development programs improve program delivery and increase accountability?
- Should existing programs be modified to acknowledge metrics other than job creation and capital investment?

Looking Ahead to the 2022 General Assembly

- Legislation may be introduced to reorganize and expand the mission and footprint of the TRRC.
- Coal tax credits, and local gas severance taxes, are scheduled to expire and may result in a decision to provide additional GF to the existing regional economic development authority.
- The General Assembly will likely be asked to consider significant investments in site development.
- Going forward, effective practices regarding program design should be applied to regional investments, incentives that target distressed areas, and to economic development programs in general.
 - Prioritize grants, loans, and gap financing programs over tax incentives (tax credits, exemptions, etc.).
 - Offer “customized” assistance to business over general financial assistance, including customized workforce training/assistance, manufacturing extension partnerships, and brownfields redevelopment programs.