

# The Foundations of Virginia Economic Development Policy

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# What Makes Virginia Economic Development Unique?

- One term governor
- Only 3 statewide elected officials
- Judges are not elected
- State Corporation Commission is not elected
- Annexation moratorium
- Extremely conservative fiscal and debt policies
- Dillon Rule
- Cities and counties have different powers

# Virginia's Underlying Strengths

- Bi-partisan commitment to business growth
- Right to Work
- Reasonable regulatory climate
- Low taxes
- Location
- Infrastructure assets (ports, airports, highways)
- Strong executive powers
- Federal and DoD spending
- Decentralized university system

# Virginia's Historical Challenges

- Pay as you go mentality
- Decentralized university system
- Overreliance on federal and DoD spending, traditional industries
- Underinvestment in R&D
- Underinvestment in infrastructure
- Educational disparities among and within localities

# What Other States Do But Virginia Cannot

- Abate local property taxes
- Rebate local property taxes
- Issue debt for private activities
- Voter initiative and referenda
- Impose special taxes for economic development
- Tax increment financing without voter approval
- Broad IDA powers on conduit purchasing/ownership

# Virginia's Constitution - Taxation

- All property must be taxed
- Property taxes are uniform by class
- Few opportunities for abatements/exemptions
- General Assembly can create different classes of property

# Virginia's Constitution – State Debt

- Voter approval required for general obligation debt
- Moral obligation debt tightly controlled
- Self-imposed debt capacity model
- No extension of state credit for private purposes

# Virginia's Constitution – Local Powers

- Cities and counties have very different powers on taxation and debt
- Local governments are creatures of the state – they can only do that which they are empowered to do by the General Assembly
- Local elected officials are sanctioned by the Constitution and each has independent power
- Local governments can use grants, IDAs/EDAs/political subdivisions to engage in development activities
- Localities could more effectively use the few tools available to them
- Eminent domain restrictions in wake of *Kelo* decision have yet to be fully tested by courts



# Virginia's Constitution – Regional Cooperation

- Any activity a local government can do on its own can be done jointly – Joint Powers Act
- 1971 Constitution provides for regional governments
- Disparities in powers and taxing authorities often create challenges for collaboration
- Historical jealousies also create barriers to collaboration
- Revenue sharing vehicles can enhance inter-local competition
- GO Virginia (legislative/executive initiative)

# Code of Virginia – Governing Economic Development

- Powers and programs are spread across multiple secretariats – Commerce and Trade, Agriculture and Forestry, Technology, Administration, Finance, Education, Transportation
- Even within Commerce and Trade, programs are spread among multiple agencies – Virginia Economic Development Partnership, Department of Housing and Community Development, Virginia Employment Commission
- Use of guidelines, not regulations, provides programmatic flexibility

# Virginia's Budget for Economic Development

- Most agencies and programs are supported by the General Fund (income and sales taxes) not the Non General Fund (fees, dedicated taxes, federal funds)
- General funds are scarce and most likely to be cut in economic downturns
- VEDP budget declined from 2007-2015, new funds in 2016 and 2018 will help
- Virginia is totally absent from advertising
- Spending is dwarfed by commitments for health, public safety, and education
- Legislature is wary of excessive executive branch freedom on economic development spending

# Emerging Issues for 2019

- Federal tax reform windfall
- *Wayfair* implementation
- Tax conformity and tax policy
- Continuing review of effectiveness of certain incentives
- Alignment of workforce training programs

# Questions or Comments?

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