

Recap of Five-Year (FY19-FY23) Strategic Plan for Economic Development of The Commonwealth of Virginia



In the first decade of the 21st century, the Commonwealth of Virginia was one of the fastest growing states in America, and it was repeatedly recognized by CNBC and Forbes as the best state for business in the country. However, in recent years, Virginia's growth has faltered in the wake of federal sequestration, and the Commonwealth no longer places atop any ranking of best states for business. Likewise, a decade ago, the Virginia Economic Development Partnership (VEDP) was considered one of the best state economic development organizations (EDOs) in the country, but in recent years it has been characterized as lacking efficiency and effectiveness.

Working with state, regional, and local partners; leaders of the Virginia General Assembly and Governor McAuliffe's Administration; national economic development experts; and many businesspeople and other stakeholders, VEDP has crafted a five-year Strategic Plan to get Virginia and VEDP back on top. The Strategic Plan outlines an ambitious economic vision for Virginia and VEDP as well as specifies what is required to bring that vision to life. It begins by articulating five transformational goals and ends with a comprehensive list of targeted, actionable strategies and initiatives, complete with performance metrics, cost and impact estimates, as well as suggested owners and implementation timelines.

Five Transformational Goals

VEDP engaged partners and other stakeholders to develop and refine a set of five transformational economic development goals for Virginia and VEDP.

- 1. Robust State Growth:** Over the next several years, position Virginia to achieve a growth rate (measured by employment and median earned income of workers) among that of the top 5-10 states in the U.S.
- 2. Every Region Wins:** Ensure that every region participates in the growth of the Commonwealth (i.e., all with positive growth in employment and median earned income of workers).
- 3. Best State For Business:** Restore Virginia to its previous leadership position near the top of the national business climate rankings (i.e., average position among the top 3-5 states).
- 4. Top State EDO:** Reestablish VEDP as one of America's premier state economic development organizations (principally to better enable accomplishment of the top three transformational goals).
- 5. Super Collaborator:** Exhibit collaboration and coordination as hallmarks of VEDP (i.e., place a central focus on the "P" in VEDP).

Fulfillment of these transformational goals will require VEDP's effective execution of its statutory duties and powers, as well as implementation of a variety of new strategies and initiatives that are articulated in the Strategic Plan.





Virginia's Economic Position

The Commonwealth's heavy reliance on the federal government makes its economy especially vulnerable to a pullback in federal spending. Indeed, in the wake of federal sequestration, Virginia's most recent rank for five-year growth in employment, gross state product, and median income of employed individuals fell to nos. 36, 42, and 46, respectively. Virginia's sluggish economic performance in recent years contributed to a shift toward net domestic out-migration, with more people leaving Virginia for other states than moving here from them. Forecasts suggest that Virginia will continue to economically underperform its top competitor states (e.g., Georgia, North Carolina, and South Carolina) over the next decade, with several regions in Virginia (e.g., Southwest, Southside) facing continued employment losses.

Virginia's growth is influenced by its economic competitiveness. With a wealth of human capital, geographic, and infrastructure assets; an attractive, stable business climate; and a tradition of effective governance, the Commonwealth has long been considered an attractive place for business. However, for many of Virginia's strengths, the Commonwealth has corresponding weaknesses, as illustrated in the figure below.

Virginia's Economic Competitiveness: Abundant Strengths Partially Offset by Corresponding Weaknesses (Examples – Not Comprehensive)

STRENGTHS

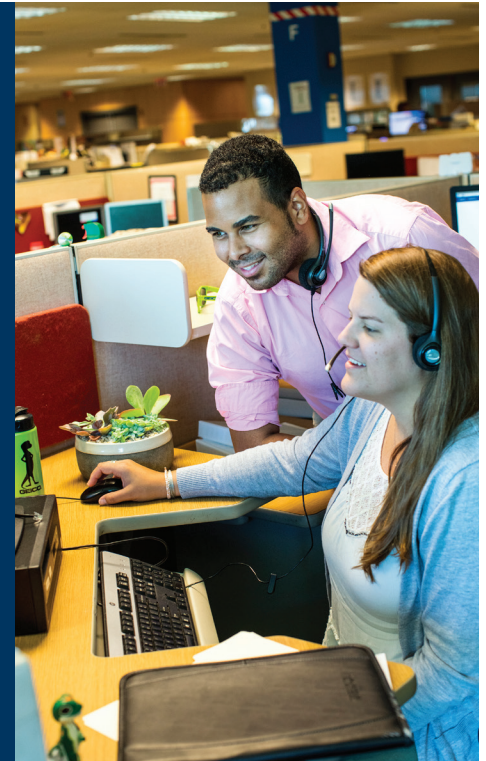
- Top 10 rankings for educational attainment, higher education, K-12
- Wide range of attractive small sites (<50 acres)
- Geographic location (e.g., Mid-Atlantic, D.C. proximity)
- Below average state/local tax burdens for existing firms
- Impressive airport infrastructure in NOVA and exceptional Port of Va.
- Diverse range of high-quality employers and headquarters
- Impressive range of federal laboratories, higher ed research
- Generally high-quality, high-speed broadband in served areas

WEAKNESSES

- Lack of a customized workforce incentive program offering; insufficient CS pipeline
- Meager inventory of larger sites (250+ acres) and certified sites
- Site development timeline and cost challenges due to topography
- Substantially above average state/local tax burdens for new investment*
- Metro, traffic congestion challenges in NOVA; road limitations in ROVA
- Unusually high reliance on federal government-related activities
- Limited commercialization of intellectual property
- Large swaths of Virginia have no broadband access

* 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

Source: U.S. News & World Report; Tax Foundation/KPMG; interviews with site consultants; McKinsey; VEDP analysis



For example, Virginia has one of the best higher education systems in America, but it is not producing enough graduates in computer science and related fields to keep up with the talent needs of its technology sector. The Commonwealth lacks a customized, turnkey workforce recruitment and training incentive program comparable to those in states with top-ranked state workforce development programs (e.g., Georgia). Virginia often loses manufacturing projects because it lacks a competitive portfolio of development-ready sites. Many rural communities lack access to broadband service, which limits their attractiveness and economic prospects.

Likewise, VEDP itself is a mix of strengths and weaknesses. While it has strong international trade development and research divisions, it needs to improve alignment and coordination with its partners, as well as its lead-generation capabilities. VEDP is particularly hampered by the lack of a marketing budget. In contrast, most peer states (e.g., Georgia, Florida, Ohio) have multi-million-dollar economic development marketing budgets, in addition to their marketing budgets for tourism, which enable them to improve perceptions and awareness among corporate decision-makers.

Strategies and Initiatives

Working with its partners and experts, VEDP drafted a framework for action, including three types of strategies and related initiatives that collectively will, if funded and implemented as recommended, position the Commonwealth and VEDP to achieve the five transformational goals. These are summarized in the figure below.

Three Types of Strategies in the Strategic Plan Designed to Position Virginia and VEDP to Accomplish the Five Transformational Goals

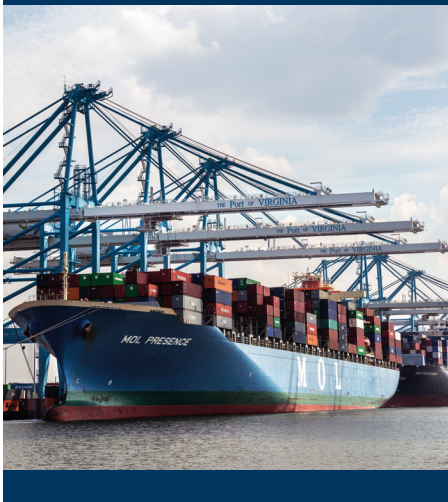
- 1 Cultivate target industry growth clusters**
 - Push new boundaries as a U.S. leader in information technology
 - Assemble a world-class transportation and logistics hub
 - Position Virginia's manufacturing base to be future-ready
 - Create business services and operations centers of excellence (e.g., HQs)
 - Capitalize on Virginia's unique assets to become a leader in promising disruptive technologies (e.g., unmanned systems, genomics, personalized medicine)
- 2 Improve VA's economic competitiveness**
 - Strengthen Virginia's human capital development engine
 - Assemble an ample, strategic portfolio of project-ready sites and buildings across Virginia
 - Rigorously assess and steadily improve Virginia's state, regional, and local economic competitiveness
 - Leverage public-private partnerships to strengthen Virginia's digital infrastructure (i.e., broadband)
 - Place a special focus on achieving growth in Virginia's rural regions and small metros
- 3 Enhance VEDP's capabilities**
 - Cultivate world-class execution at VEDP
 - Implement robust marketing/branding, lead generation, and site consultant cultivation programs
 - Strengthen and expand business and international trade development programs
 - Become a national leader in incentives administration

Source: McKinsey; IBM; interviews with site-selection consultants and national experts; VEDP analysis

The strategies and initiatives contained in the Strategic Plan are modular – the success of any single initiative is not contingent upon the implementation of others. Nevertheless, the initiatives reinforce each other, such that their impact will be amplified if complementary initiatives also are implemented. Further, although most of the strategies and initiatives articulated in the Strategic Plan would require new investments, many of them do not. VEDP can substantially improve its performance with its existing resources, but the first four transformational goals are very unlikely to be fully accomplished without implementation of the strong majority of the strategies and initiatives described in the Strategic Plan.

Top short-term priorities articulated in the Strategic Plan include: launching a customized workforce recruitment and training incentive program in close partnership with the Virginia Community College System; creating a modern economic development marketing and lead generation program to improve perception and awareness of Virginia among corporate executives, with a special focus on rural Virginia; expanding VEDP's well-regarded and oversubscribed international trade programs; and investing in site development programs.





Performance Monitoring and Accountability

In order to measure success against each transformational goal as well as their precursors, the Strategic Plan includes two sets of economic metrics that VEDP intends to track and report each year. The first set are Commonwealth performance metrics that are beyond VEDP’s direct control but function as indicators guiding VEDP’s strategies. The second set directly reflect VEDP’s activity and performance.

Commonwealth Economic Indicators and VEDP Performance Metrics

● Connection to transformational goal ■ Commonwealth measures are indirectly influenced by VEDP

Commonwealth Economic Performance	Commonwealth Economic Competitiveness
<ul style="list-style-type: none"> • Employment growth rate • Median earned income growth rate • Gross state product (GSP) growth rate • State exports growth rate <p>Note: Measured at state and regional levels, relative to peer states and US average</p> <p style="text-align: right;">1 2</p>	<ul style="list-style-type: none"> • National business climate rankings • Workforce development capabilities • Certified site inventory for target sectors • State/local business tax burdens • Title V environmental permitting speed <p style="text-align: right;">3</p>
VEDP Performance Metrics: Outcomes	VEDP Performance Metrics: Inputs
<ul style="list-style-type: none"> • VEDP-assisted project announcements: jobs and capital investment • VEDP-generated leads • VEDP-generated leads converted (to info-gathering or higher stage of activity in pipeline) • VEDP International Trade metrics (companies enrolled; projected international sales; projected trade-supported jobs) <p style="text-align: right;">4 5</p>	<ul style="list-style-type: none"> • Partner satisfaction measures of organizational performance (based on annual surveys) • Internal organizational employee engagement measures (based on annual surveys) • State economic development organization published rankings (e.g., DCI, Site Selection) <p style="text-align: right;">4 5</p>

In addition to reporting on these metrics, VEDP will provide detailed company performance data on a public website for all companies that have received incentives administered by VEDP.

Call to Action

Virginia has an important choice to make – maintain the status quo, watching peer states continue to outpace the Commonwealth while some of our rural regions continue to languish, or commit to adapt, innovate, and invest in strategies that will drive healthy, broadly shared growth over the next decade and beyond.

An extended version of this document is available at www.yesvirginia.org/strategicplan

