

Minutes
Finance and Audit Committee Meeting
Board of Directors of the Virginia Economic Development Partnership
June 17, 2020 1:00 p.m.
Electronic (Zoom) Meeting

Call to Order

The meeting was called to order at 1:08 p.m. by Chair Bill Hayter, who noted that a quorum was present.

Committee Members Present: Secretary Brian Ball, Bill Hayter, Rick Harrell, April Kees, Secretary Aubrey Layne, Dan Pleasant

Committee Members Absent: Tom Farrell

Ex-Officio Committee Member Present: Ned Masee

VEDP staff present: Lindsay Barker, Vince Barnett, Melissa Cox, Nicole David, Jason El Koubi, Kim Ellett, Stephanie Florie, Jennifer Garrett, Bob Grenell, Sandi McNinch, Lori Melancon, Debbie Melvin, Stephen Moret, Christy Morton, Johan Salén, and Tim Stuller

Guests present: Carrie Chenery, Dan Clemente, Heather Engel, Deborah Flippo, Chris Kalafatis, Charles Kennington, Vince Mastracco, Kim McKay, Cassidy Rasnick, John Reinhart, Randy Sherrod, and Turner Widgen

Chair Hayter welcomed guests to the first electronic meeting of VEDP's Finance and Audit Committee. Chair Hayter noted that the Governor had declared a state of emergency in March due to the potential spread of COVID-19, a communicable disease threatening public health. The nature of the emergency makes it unsafe for this Committee to assemble in a single location. Because an in-person meeting is unsafe and the Committee wishes to discharge its lawful purposes, duties and responsibilities, the Committee is permitted by the Virginia Freedom of Information Act, as amended by the State Budget, to meet by electronic means without a quorum of members being physically assembled at one location.

Chair Hayter added, the Committee will start in a Zoom environment that is open to the public. The agenda suggests that the Committee will enter into a closed meeting for a portion of the meeting. When the Committee is ready to enter into a closed meeting, the Committee members and VEDP support staff necessary to support the closed meeting will leave the public Zoom environment and gather in a separate Zoom environment. When the closed meeting is concluded, the Committee members will rejoin the public Zoom environment and the public portions of the meeting will continue. Should anyone from the public get disconnected from the

public Zoom environment and be unable to re-engage, he or she was invited to call 804.278.7702 and speak to Jennifer Garrett. The Committee will halt the public portion of the meeting until the connection can be re-established.

Chair Hayter shared a few reminders of things that would be different than past meetings:

- Everything on the public Zoom environment will be recorded and the recording will be posted on VEDP's website.
- All votes will be taken by roll call.
- Members should use the mute function, unless speaking—and remember to unmute at the appropriate time.
- During the public comment period, any member of the public wishing to make a comment may simply unmute and speak at that time or use the Chat function and ask to be given an opportunity to speak.
- Likewise, during the meeting, Committee members may simply unmute themselves to speak or use the Chat function.

Public Comment Period

Chair Hayter asked for public comments. There were none.

Approval of Minutes

Chair Hayter asked for approval of the minutes from the January 30, 2020 meeting. A motion was made by Mr. Harrell and seconded by Mr. Pleasant and the minutes were unanimously approved as presented by roll call vote:

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Secretary Layne	Aye
	Mr. Pleasant	Aye

VEDP FY20 Financial Results (thru 3/31/2020)

Chair Hayter introduced Mr. Grenell to report on VEDP's financial results for the third quarter of the fiscal year.

Mr. Grenell shared the report, which showed that all divisions were within budget for the first 9 months of the fiscal year. He noted that the Talent Solutions division is well below budget, mostly due to reduced spending related to the Virginia Talent Accelerator Program (VTAP). The rate of spending for that program is expected to increase.

Mr. Moret added that this delayed spending is on track with the plan. He reminded the Board that VTAP had a delayed launch last year, so VEDP was always planning to carry over some

dollars to support the ramp up in FY21, which is why VEDP did not have an ask for additional funding for VTAP from the Administration and General Assembly for FY21.

Mr. Grenell highlighted that VEDP's market-facing divisions, International Trade, Business Investment, and Marketing and Communications, are expecting to see a decrease in their spending rates, particularly in travel and events, due to COVID-19.

Mr. Grenell provided an update on the major components of the Projects, Pass Throughs, and Grants line item. He explained that all are under budget (60%) through the first nine months of the fiscal year.

Mr. Pleasant made a motion to accept the financial report. Ms. Kees seconded the motion and the motion was approved by roll call vote.

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Secretary Layne	Aye
	Mr. Pleasant	Aye

Briefing on 20-22 Biennium Budget

Ms. Morton provided an update on the 20-22 Biennium Budget. She said she was pleased to report that when session adjourned, the Governor and the General Assembly had agreed to provide funding for several key investments in the FY21-22 Biennium Budget, including additional one-time funding of \$12.5M for the expansion of the Virginia Business Ready Sites Program; VEDP's request for an additional \$4.7M in the second year of the Biennium Budget for the Virginia Talent Accelerator Program (VTAP); majority restoration of the Virginia Jobs and Investment Program (VJIP) at \$2M each year. She added that while the Governor did send down an amendment to fund International Trade, it was ultimately not included in the final version of the budget.

Ms. Morton said that as things came to a close with session, these programs did well, but unfortunately due to the COVID-19 crisis, the Governor and the General Assembly had to put things on hold until they see what the overall outlook and state revenues are for the foreseeable future.

Ms. Morton shared that the General Assembly is planning to hold a special session in late summer/early fall of this year to consider the budget. She said VEDP hopes that there will be some flexibility with federal funds to fill some of the holes left in the state's budget due to revenue losses.

Mr. Moret added that while VEDP knows it is likely that most or all of this **new** funding for our initiatives could go away due to the budget situation, he and the team are grateful for the support received from the Governor and General Assembly and that if we did have a normal budget, several of VEDP's priorities were going to move forward.

Ms. Morton highlighted other budget items of interest and gave an update on the status of each. She shared details on three programs that are moving forward including the Tech Talent Investment Program (TTIP); the Virginia Innovation Partnership Authority; the Governor's New Airline Service Incentive Fund. Ms. Morton noted that GO Virginia had a reduction in funding for the second year. She concluded her report by reviewing several other items of interest that are currently unallotted in the budget.

VEDP Budget for FY21

Mr. Grenell shared the proposed budget for FY21.

Mr. Moret noted that there is still a good degree of uncertainty in the state's budget and VEDP has been modeling multiple scenarios. He said that VEDP is honoring and following the state's hiring freeze, with a few exceptions and avoiding any spending that can be postponed while still continuing VEDP's core mission. Mr. Moret said to think of this budget as a standstill budget. He added that the budget will need to be updated when VEDP has more information from the Administration and General Assembly in August.

Mr. Hayter asked Mr. Moret what he anticipates in terms of budget impacts to VEDP. Mr. Moret deferred to Secretary Layne to share his perspective.

Secretary Layne explained that the pandemic has hit small businesses the hardest. He said that he mentioned this to point out that the state's larger businesses drive the states revenues for payroll, which is the largest source of revenue, so that source has held up better than expected. Though the projection is that these revenues will be down by \$1B, it could be less.

Secretary Layne added that this shortfall doesn't necessarily mean that the things that were unallotted will be cut. He pointed out that the base budget was built over the last couple of decades under different leadership and control, so some things in the base budget could be taken out versus the new initiatives.

Secretary Layne said the recovery will be a slow mend, but it probably won't be the deep hole some people thought. A robust discussion followed on this shortfall estimate and the impact on localities.

Mr. Moret added that there is still the possibility of one more large federal support round, which might include some flexible support for states and localities.

Mr. Grenell provided a summary of the budget. He reviewed VEDP's revenue sources, noting that the amount received from the general fund is \$35.3M down from \$47M, due to \$12.5M being unallotted for the Business Ready Sites Program.

Mr. Grenell shared an overview of carry forward budget details and a summary of the budget expenditure. He highlighted the Pass Throughs, Grants, and Projects line stating that the biggest decrease in funding is for the Commonwealth Center for Advanced Manufacturing (CCAM) which was \$3.6M this year. These funds have been moved to the Virginia Innovation

Partnership Authority, a new entity that was created for FY21, and have been removed from VEDP's budget.

Mr. Pleasant made a motion to recommend approval of the FY21 budget to the full Board. Mr. Harrell seconded the motion and the motion was unanimously approved by roll call vote.

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Secretary Layne	Aye
	Mr. Pleasant	Aye

Mr. El Koubi shared that Jack Nelson, VEDP's long time controller has decided to retire at the end of June. Mr. El Koubi praised Mr. Nelson's terrific record of service including 23 or so "clean" audits and other countless contributions to the organization throughout the years. Mr. El Koubi also recognized the wonderful team Mr. Nelson cultivated in the fiscal office, including Mr. Grenell who has stepped in and helped VEDP navigate through a very uncertain time. Mr. El Koubi thanked Mr. Grenell for all of his great work and support.

Mr. El Koubi said that the VEDP team is working on plans to celebrate Mr. Nelson and said he would share those details with the Committee and Board soon.

Internal Audit Update

Chair Hayter introduced Mr. Kalafatis with Dixon Hughes Goodman LLP (DHG) to provide an update on recent VEDP internal audits.

Mr. Kalafatis shared that since the last time the Board met at the end of January, DHG has conducted audits of the Incentives division, implementation of JLARC recommendations, and completed the annual risk assessment. Mr. Kalafatis introduced Mr. Sherrod with DHG to discuss the first two audits.

Mr. Sherrod shared a summary of the Incentives division audit. He said VEDP has successfully implemented all of the JLARC related action plans related to incentives and that the Incentives division is operating efficiently and effectively.

Mr. Sherrod shared on one low-level finding from the Incentives division audit related to how incentives related projects are documented. He stated that DHG recommends that the status of performance agreements be documented in Salesforce.

Mr. Sherrod said that management concurred with the finding and has committed to implementing the recommendation by June 30, 2020. He said DHG will follow up on implementation in FY21 and report back to the Board.

Mr. Sherrod thanked Mr. Salén and the rest of the Incentives team for their efforts during the audit.

Mr. Sherrod provided an overview of the JLARC Audit Report. He reminded the Committee that there were 27 JLARC recommendations that called for action by management and/or the VEDP Board of Directors. He said that through recent audits of the Incentives, Human Resources, International Trade, and Research divisions, DHG was able to address seventeen of the recommendations and found that VEDP has substantially implemented the recommendations. Following these audits, DHG followed up on the 10 remaining JLARC recommendations and found that VEDP had substantially implemented these recommendations as well.

Mr. Sherrod mentioned that there was one finding related to the documentation of training of Business Investment division employees. This recommendation appears to have only been partially implemented. Mr. Sherrod said that VEDP concurred with the finding and committed to implement the finding by May 31, 2020. He said DHG will follow up in FY21 to confirm that it has been done in and report back to the Board.

Mr. El Koubi thanked Mr. Kalafatis, Mr. Sherrod, and the DHG team for being terrific to work with.

Chair Hayter asked if the Business Investment related finding has been completed. Mr. El Koubi answered that it has been completed.

Mr. Pleasant asked how long the Board will need to continue receiving reports on JLARC implementation now that the findings have all been implemented? Mr. El Koubi suggested that the Committee discuss how to proceed with future JLARC updates at the next meeting.

Mr. Kalafatis provided an overview of the annual risk assessment. He explained how this assessment helps set the schedule for upcoming audits. He said that the Business Investment division, VJIP, and the Marketing & Communications division will be audited in FY21. In addition to these internal audits, DHG will also be redoing the risk assessment, which is required each year. Also, as part of DHG's work in the next fiscal year, they will be following up on any outstanding items from audits of the Incentives division, Human Resources division, and the JLARC audit that took place in FY20.

Mr. Pleasant made a motion to recommend approval of the Internal Audit Reports of the Incentives Division and JLARC-related commitments, the Annual Risk Assessment, and the Internal Audit Plan for FY21 to the full Board. Mr. Harrell seconded the motion and the motion was unanimously approved by roll call vote.

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Mr. Pleasant	Aye

JLARC Maintenance Plan

Mr. El Koubi highlighted several items that have been updated to reflect some recent changes in statute which streamline VEDP's reporting requirements and to recognize the need to clarify processes and improvements to documentation.

Update on COVID-19 Impacts on Incentives Administration

Mr. Salén shared that to date, no companies have officially asked for extension or adjustments to performance targets due to COVID-19.

Mr. Salén reported that VEDP has received a number of unofficial inquiries and expects to see more in the fall and in 2021.

Extension Requests

Mr. Salén presented 2 extension requests for the Committee's consideration.

Novatech has requested a first extension for 15 months. The company has not yet met its employment and investment targets. Mr. Salén explained that if they do not meet the investment target and the extension is not granted, repayment of the entire grant will be expected. Henry County is in favor of the extension request.

Kyocera SGS has requested a first extension for 15 months. The company has not yet met its employment and investment targets, but they have met a significant portion of both and feel that they will be able to meet their targets by the end of the 15 months. The City of Danville supports this extension request. Mr. Pleasant added that Kyocera has purchased the building where they are housed in Danville. Mr. Moret said that Kyocera has been a great sense of pride in the community and a great partner in economic development efforts.

Mr. Pleasant made a motion to recommend approval of the extension requests to the full Board. Mr. Harrell seconded the motion and the motion was unanimously approved by roll call vote.

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Mr. Pleasant	Aye

Clawback Updates and AG Referrals

Mr. Salén stated that there have been no proposed new referrals of clawback cases to the Office of the Attorney General. He said that VEDP has received a fair number of reimbursements since the Board last met at the end of January 2020.

Mr. Masee asked for an update on Tranlin. Mr. Moret answered that VEDP has a first lien on the site, currently valued at \$3.2M, which would cover the bulk of what Tranlin owes the Commonwealth. The outlook is not good for recovering everything they owe, but we do have an asset that should be worth around \$3M.

Mr. Pleasant made a motion to recommend approval of the clawback report to the full Board. Mr. Harrell seconded the motion and the motion was unanimously approved by roll call vote.

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Mr. Pleasant	Aye

Closed Meeting: Legal Matter

Upon the following motion made by Mr. Pleasant, seconded by Ms. Kees, and unanimously approved by the Committee by roll call vote, the Committee moved into a closed meeting.

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Mr. Pleasant	Aye

I MOVE THAT THE FINANCE AND AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF THE VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP AUTHORITY CONVENE A CLOSED MEETING PURSUANT TO VIRGINIA CODE §2.2-3711(A)(7) TO ENGAGE IN CONSULTATION WITH LEGAL COUNSEL AND BRIEFINGS BY STAFF MEMBERS PERTAINING TO ACTUAL OR PROBABLE LITIGATION, WHERE SUCH CONSULTATION OR BRIEFING IN OPEN MEETING WOULD ADVERSELY AFFECT THE NEGOTIATING OR LITIGATING POSTURE OF VEDP, INCLUDING CONSULTATION AND BRIEFINGS PERTAINING TO LITIGATION RELATING TO GRANT REPAYMENTS.

Back in Open Meeting, Certification of Closed Meeting – Followed by a Roll Call vote:

WHEREAS, THE FINANCE AND AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF THE VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP AUTHORITY HAS CONVENEED A CLOSED MEETING ON THIS DATE PURSUANT TO AN AFFIRMATIVE RECORDED VOTE AND IN ACCORDANCE WITH THE PROVISIONS OF THE VIRGINIA FREEDOM OF INFORMATION ACT; AND WHEREAS, THE ACT REQUIRES A CERTIFICATION BY THIS COMMITTEE THAT SUCH CLOSED MEETING WAS CONDUCTED IN CONFORMITY WITH THE ACT; NOW, THEREFORE, BE IT RESOLVED, THAT THE COMMITTEE CERTIFIES THAT, TO THE BEST OF EACH MEMBER'S KNOWLEDGE, (I) ONLY PUBLIC BUSINESS MATTERS LAWFULLY EXEMPTED FROM OPEN MEETING REQUIREMENTS UNDER THE ACT WERE DISCUSSED IN THE CLOSED MEETING TO WHICH THIS CERTIFICATION

RESOLUTION APPLIES, AND (II) ONLY SUCH PUBLIC BUSINESS MATTERS AS WERE IDENTIFIED IN THE MOTION BY WHICH THE CLOSED MEETING WAS CONVENED WERE HEARD, DISCUSSED, OR CONSIDERED IN THE CLOSED MEETING BY THE COMMITTEE.

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Mr. Pleasant	Aye

Other Topics, Adjournment, and Next Meeting

The next meeting of the Finance and Audit Committee will be held on August 5, 2020 and will be an electronic Zoom meeting, exact time to be determined.

There being no further business, Mr. Pleasant made a motion to adjourn the meeting. Mr. Harrell second the motion and the meeting was adjourned at 3:10 p.m. following a roll call vote.

Upon the vote:	Mr. Hayter	Aye
	Secretary Ball	Aye
	Mr. Harrell	Aye
	Ms. Kees	Aye
	Mr. Pleasant	Aye

Respectfully submitted,

Nicole David
Acting Recording Secretary