

Minutes
Finance and Audit Committee Meeting
Board of Directors of the Virginia Economic Development Partnership
March 16, 2022
1:30 p.m.

901 East Cary Street
One James Center, Katherine Johnson Room
Richmond, VA 23219

Call to Order

The meeting was called to order at 1:37 p.m. by Chair Greg Fairchild.

In-Person Committee Members: Greg Fairchild, Secretary Stephen Cummings, Deborah Flippo, Rick Harrell, and Secretary Merrick

Virtual Committee Members: Steven Stone (see note below)

Committee Members Absent: April Kees

Ex-Officio Committee Member Present: Dan Pleasant

Other Board Members: Carrie Chenery, Stephen Edwards, Ned Masee, Vince Mastracco, and Marianne Radcliff

VEDP staff present: Nicole David, Jason El Koubi, Stephanie Florie, Jennifer Garrett, Bob Grenell, Sandi McNinch, and Jordan Snelling

Guests present: Chris Kalafatis, Kim McKay, Randy Sherrod, Linda Wade, and Ryan Carter

Before the meeting, Steven Stone notified Board Chair Dan Pleasant that he would be unable to attend the meeting in person due to a personal circumstance. Mr. Stone requested to participate in the meeting electronically, which would allow him to be seen and heard by all persons at the central meeting location. In accordance with Board policy, Chair Pleasant granted the request. Mr. Stone joined the meeting via Zoom from his home in Northern Virginia. This was the first meeting of the VEDP Board in calendar year 2022 in which Mr. Stone requested to participate through electronic means.

Public Comment Period

Chair Fairchild asked for public comments. There were none.

Approval of Minutes for October 20, 2021 Meeting

Chair Fairchild asked for approval of the minutes from the October 20, 2021 Committee meeting. A motion was made by Mr. Harrell and seconded by Secretary Merrick and the minutes were unanimously approved as presented.

FY21 Financial Audit

Mr. Grenell introduced Linda Wade with the Auditor of Public accounts to present the results of VEDP's FY21 annual audit. Ms. Wade introduced Ryan Carter who was part of the audit team.

Ms. Wade explained that her team issued an unmodified opinion, which is a clean audit and reviewed details of the report.

Ms. Wade said that her team looked at internal controls and there were no findings. She noted that her team followed up on two findings from last year's audit and found that those items have been adequately resolved.

Ms. Wade stated that her team does compliance testing with certain state requirements as part of the audit and found no instances of non-compliance. She said that her team followed up on one compliance finding from last year's audit and they determined the issue has been resolved.

Ms. Wade said that her team did not have any difficulties or disagreements with VEDP management. She thanked the VEDP staff for their assistance with the audit.

Chair Fairchild thanked Ms. Wade for her report.

VEDP FY22 Financial Reports (thru 12/31/2021)

Mr. Grenell shared the FY22 Operations Budget to actual for the six months ended December 31, 2021. He explained that all divisions are close to or below budget through the first six months of the fiscal year. He said that the market-facing divisions are under budget, but he expects that this spending rate will increase in the third and fourth quarters of FY22. Mr. Grenell also reviewed Projects, Pass Thru's and Grants, which are all under budget, though he also expects spending for these programs to increase later in the fiscal year.

Mr. Grenell provided a quick mention on a couple items he hopes to report on at the next Committee meeting when the state budget has been finalized: additional funding for the Talent Accelerator program; and increased funding for implementing additional elements of the International Trade Plan.

Ms. Flippo made a motion to approve the Q2 FY22 financial results. The motion was seconded by Mr. Harrell, and the motion was unanimously approved.

Internal Audit Update

Chair Fairchild introduced Mr. Kalafatis with Dixon, Hughes, Goodman, LLC (DHG) to provide a progress update on VEDP's internal audit.

Mr. Kalafatis explained that VEDP's 5-year audit plan is wrapping up. He said that his team will be working on the next audit plan, based on the upcoming Risk Assessment, to present to the Committee in June.

Mr. Kalafatis explained the different options for conducting internal audits (i.e., processes vs. functions) and the Committee discussed the pros and cons of each. The consensus was to recommend to the Board that VEDP stick with a cycle approach, where each division will be audited at least once over the next five years.

Secretary Merrick asked why VEDP has a 5-year audit cycle, instead of a 3-year audit cycle. Mr. Kalafatis answered that the schedule is based on the funds VEDP has available for its audit function and the fact that there are so many different divisions.

Mr. Kalafatis explained that most functions will be audited at least once during a 5-year period, but certain functions may be audited twice. He said that VEDP will get quality coverage with this approach.

Mr. Kalafatis introduced Mr. Sherrod to share the results from recent audits of the External Affairs and Legal divisions.

Mr. Sherrod shared that there were no findings from the External Affairs audit, adding that the overall operations of this division are very effective. He thanked Ms. Morton and Ms. Barker from the team for their excellent cooperation during the audit process.

Mr. Sherrod provided an update on the Legal division audit. He said that he appreciated the timely responses from the Legal team, adding that the DHG team enjoyed the audit. Mr. Sherrod stated that the audit produced one low-level finding related to a policy/process that needed to be updated. Management agreed with the finding, and it has since been remediated.

Mr. Sherrod concluded his report by sharing that DHG is currently working on the VEDP Fiscal audit with Mr. Grenell and his team and on an audit of the Virginia Talent Accelerator Program, part of VEDP's Talent Solutions division. Mr. Sherrod noted that he enjoyed participating in a recent tour of the Talent Accelerator Experience Center, as part of learning about the program. Mr. Sherrod stated that DHG will share the results of these two audits at the June Board meeting.

Mr. Harrell made a motion to accept the internal audit report. The motion was seconded by Ms. Flipppo, and the motion was unanimously approved.

Chair Fairchild thanked Mr. Kalafatis and Mr. Sherrod for their reports.

Extension Requests

Chair Fairchild introduced Ms. Snelling to share her report.

Before Ms. Snelling began her presentation, Mr. El Koubi shared some general information about extension requests for the benefit of new Committee members. He noted that the Commonwealth is seeing an increase in extension requests due to the impacts of Covid-19.

Ms. Snelling presented 11 extension requests for the Committee's consideration. She stated that the localities where these companies are located are supportive of the extension requests.

ADP – City of Norfolk has requested a first extension of 15 months to make more progress on reaching its employment target. They have made good progress on hiring, but their offices were closed for a while due to Covid-19. The company projects that they will reach 90% of their jobs target by March of 2023. They have already exceeded their capital investment target. The COF grant ADP received was made prior to the inception of milestones, so they hold the entire \$5,000,000 COF grant.

Secretary Merrick asked if ADP and/or other companies have cited labor shortages for the lack of progress on hiring. Ms. Snelling answered that almost all of the companies have mentioned this as a challenge, especially in the rural areas.

Mr. Mastracco said that if a company has exceeded their capital investment goal, he feels that the Commonwealth should find a way to credit them toward their jobs goal for the additional value they have.

Mr. Harrell agreed, stating that the additional investment shows good faith on the part of the company.

Mr. El Koubi explained that there is not currently an allowance in the Code of Virginia to use outperformance on capital investment as a credit toward employment targets.

Aerofarms – Pittsylvania County has requested a first extension of 15 months to meet the statutory minimum for job creation. The company must reach and maintain the statutory minimum of 15 jobs through the performance date to receive any portion of the COF grant. They currently have not created any jobs, citing disruptions to their construction timeline due to Covid-19 impacts. Construction commenced in April 2021, one year later than anticipated. Aerofarms projects that they will have filled 92 jobs by the end of 2022 when they are fully operational. Aerofarms has exceeded its capital investment target.

Altec Industries – Botetourt County has requested a first extension of 15 months to meet its COF and VIP grant investment target. The company's progress was impacted by global supply chain shortages, limited availability of production materials, and record price increases on steel and other commodities during the Covid-19 pandemic. Altec has already met its job creation target.

Dupont – Chesterfield County has requested a first extension of 12 months to meet its statutory minimum for job creation. The company must reach and maintain the statutory minimum of 50 jobs through the performance date to receive any portion of the COF grant. They

have cited supply chain disruptions related to Covid-19 for delays in ramping up production and associated hiring. Dupont has exceeded its investment target.

Eldor – Botetourt County has met the statutory minimum for job creation and capital investment and has received a portion of the COF grant. The company has requested a first extension of 15 months to meet the requirement to maintain the statutory minimum of 50 jobs through the performance date to receive the remainder of the COF grant. Eldor’s ramp-up at its new facility experienced significant delays due to Covid-19. The pandemic also impacted the production focus for some of Eldor’s customers and suppliers, which slowed demand and delayed reaching expected production levels. Despite these challenges, the company has exceeded its investment target.

Empire Bakery – Franklin County has requested a first extension of 15 months to meet the statutory minimum for job creation. The company must reach and maintain the statutory minimum of 15 jobs through the performance date to receive any portion of the COF. The company has experienced delays in hiring due to the tight post Covid-19 labor market. They have implemented many new strategies to improve recruitment. Empire Bakery has met its investment target.

KPMG – Fairfax County has requested a first extension of 15 months to meet its job creation and capital investment targets for their COF grant. In September of 2020, due to Covid-19 impacts, KPMG was forced to reduce its national workforce to align its professionals with new market demand. The company is actively working to rebuild its workforce.

M.C. Dean – Caroline County has requested a first extension of 15 months to reach the capital investment target for their COF and VIP grants. This project was announced just prior to the start of the Covid-19 pandemic. The company’s expansion experienced some early construction delays due to the pandemic, which pushed its investment beyond the anticipated timeline. The company has exceeded its employment target.

Oran Safety Glass – Greensville County has requested a first extension of 15 months to meet the statutory minimum for job creation. The company was on track to reach their employment targets in the spring of 2020, but their employment numbers dropped with the onset of the pandemic. Oran is utilizing several tactics to ramp up employment, including increasing their starting hourly pay, and utilizing staffing agencies and job fairs to fill open positions. Oran’s COF grant was made prior to the inception of milestones; thus, the company holds the entire COF grant. The company must reach and maintain the statutory minimum of 15 jobs through the performance date to retain any portion of the COF.

Press Glass – Henry County has requested a first extension of 15 months for the company to fully reach its employment target. The company has cited impacts from the Covid-19 pandemic for hiring delays. They have received a portion of the COF grant but need additional time to reach their employment target to enable them to receive the remainder of the grant. Press Glass has met its investment target.

Hardywood Park Craft Brewery – Goochland County has requested a second extension to meet its COF and VIP employment and investment targets. The company has cited construction delays that postponed their opening by 12-18 months and loss of revenue from restaurant and tasting room closures as a result of the ongoing Covid-19 pandemic. The company has indicated that their employment is growing steadily but said that they need additional time to rebound. Hardywood’s COF grant was made prior to the inception of milestones, so the company holds the entire COF grant. The company has not yet met the statutory minimum for job creation of 50 jobs to retain any portion of the COF grant. The company must also reach the \$25 million threshold for investment to receive its VIP grant. No VIP grant payments have been made since it is a post-performance grant. It is recommended that the 5% second extension fee be waived due to Covid-19. This second extension requires MEI approval.

The Committee engaged in a lengthy discussion on this request and ultimately decided to separate the two issues. The Committee chose to vote on recommending approval for the second extension request and to take a second vote on action regarding the 5% fee for a second extension.

Mr. Harrell made a motion to recommend approval of all of the extension requests that were presented. Ms. Flippo seconded the motion, and the recommendation was unanimously approved.

Mr. Harrell made a motion to waive the 5% fee to Hardywood for the second extension. The motion failed for the lack of a second.

Ms. Flippo made a motion to recommend to the full Board that the existing agreement with Hardywood Park Craft Brewery be amended to allow payment of the 5% fee for a second extension at the end of their performance period. Mr. Harrell seconded the motion and recommendation was unanimously approved.

Clawback Updates and OAG Referrals

Ms. Snelling stated that there have been no new referrals to the Office of the Attorney General (OAG) since the last Committee meeting.

Ms. Snelling shared the clawback report and explained that no new clawbacks are past due.

Ms. Snelling reviewed the clawbacks that have been requested but are not yet past due.

Ms. Snelling shared a progress report on COF projects that are subject to clawbacks. She said that seven clawbacks have been closed out since the Committee’s last meeting in October of 2021 and that two clawbacks are still being processed.

Ms. Snelling said there are no VJIP clawbacks from this period.

Ms. Snelling shared a progress report on data center projects subject to clawback, which includes one company at this time.

Mr. Harrell made a motion to accept the clawback report. Ms. Flippo seconded the motion, and the motion was unanimously approved, except that Secretary Cummings was absent for the vote.

Semi-annual Report on Incentive Performance (as of 12/31/21)

Ms. Snelling provided the Semi-annual Report on Incentives Performance. She shared the VEDP-Administered Incentives dashboard, which offers an overview of how each program is performing and reviewed these details with the Committee.

Ms. Snelling said VEDP is still in the process of verifying some of the numbers, but she shared that overall, there is a positive trend in company performance and that the number of clawbacks are going down.

Mr. Harrell made a motion to approve the Semi-annual Report on Incentives Performance. The motion was seconded by Ms. Flippo, and the motion was unanimously approved, except that Secretary Cummings was absent for the vote.

Other Topics, Adjournment, and Next Meeting

The next meeting of the Finance and Audit Committee will be held on June 22, 2022, time TBD.

The meeting was adjourned at 3:14 p.m.

Respectfully submitted,



Nicole David
Acting Recording Secretary