

**BOARD OF SUPERVISORS
FINANCE/GOVERNMENT OPERATIONS and ECONOMIC DEVELOPMENT
COMMITTEE
INFORMATION ITEM**

SUBJECT: **Overview of Economic Development Incentive Funds and Guidelines**

ELECTION DISTRICT: Countywide

STAFF CONTACT: Buddy Rizer, Executive Director, Department of Economic Development

PURPOSE: The purpose of this item is to provide the Board of Supervisors (Board) with background information and a status report on the County's Economic Development Commercial Business Incentive and Agriculture and Forestry Industries Development (AFID) Funds along with their associated guidelines.

BACKGROUND:

Economic Development Commercial Business Incentive Fund and Guidelines

On June 5, 2013 the Board approved Economic Development Commercial Business Incentive Guidelines (Attachment 1). The goals of the guidelines are to:

- Support the attraction and expansion of businesses in Loudoun County's targeted sectors.
- Attract high paying jobs to employ the County's educated workforce.
- Attract significant private sector investments to grow the County's commercial tax base, particularly in the defined target areas of the Route 28 and Metrorail Service Districts.
- Provide the required local match in order to leverage economic development incentives provided by the State of Virginia to companies in Loudoun's targeted sectors.
- Provide a return on the County's investment through property and other direct business related taxes which "pay-back" the County's investment within a three year period (five year period if the local match includes public infrastructure).
- Ensure corporate accountability for the incentives through a contract establishing performance goals and "claw back" provisions, which would require repayment of the grant if performance goals were not met.

The Board of Supervisors initially appropriated \$500,000 in FY 2014 from the FY 2013 fund balance for the Economic Development Commercial Business Incentives Fund. The Board further agreed to consider funding for business incentives annually, as part of the year-end allocation of fund balance.

In July of 2014, the Board approved amendments to the existing Commercial Business Incentive Guidelines to include: 1) criteria, guidelines, and incentives for a new section "Retention of

Companies within Loudoun”, 2) the use of cash incentives, to the extent authorized by law, to the existing sections “Virginia Companies Relocating to or Expanding in Loudoun County” and “Loudoun Companies Expanding Within Loudoun”, 3) flexibility in the number of years to produce the revenue equal to the match amount for business expansion projects, and 4) non-substantive refinements to the business incentive guidelines. In December of 2014, the Board further amended the existing guidelines to allow the use of cash appropriations, to the extent authorized by law, to the existing section “Companies Moving to or Expanding in Loudoun County, Virginia” that does not require a match to the Governor’s Commonwealth Opportunity Fund (COF). For ease of reference, staff has included a comparative table to the Commercial Business Incentive Guidelines to allow for side-by-side comparison (Attachment 2).

In summary, the criteria for incentives under each scenario are tied to job and investment thresholds and the County must be competing with another state or local Virginia jurisdiction for the company’s final location decision. Companies must also be within the County’s targeted industries or clusters. Projects that qualify for the incentives under the guidelines will be qualified for the County’s “Fast Track” program and all incentive scenarios could include public infrastructure improvements, fee waivers, and a cash grant in that order of preference. For two scenarios, Virginia companies looking to relocate or expand into Loudoun County and existing Loudoun companies seeking expansion within the County, local incentives are tied to a match with the Virginia Economic Development Partnership’s Virginia Jobs Investment Program (VJIP). The VJIP provides services and funding to companies creating new jobs or experiencing technological change.

The Department of Economic Development (DED) manages the economic development incentives process, which includes providing recommendations to the Board of Supervisors on potential incentive projects, conducting Return on Investment (ROI) projections, and monitoring companies’ compliance with incentive agreements.

The ability to calculate a project’s ROI is essential to judging the merit of any incentive request. For each scenario, the amount of an incentive given must demonstrate an ROI within three to five years, depending on the scenario and type of incentive provided. Stated another way, the ROI model should demonstrate that the amount of the County’s incentive granted over the three to five year time period will be paid back through the company’s contribution of new real estate and personal property taxes. The company’s investment, including construction and upfit of a building and the purchase of office, manufacturing or other equipment including computers and servers, impacts the County’s General Property Taxes.¹

To date the fund has provided two incentives. In February of 2014 the Board approved a public infrastructure improvement COF in-kind grant match for the retention and expansion of Telos in the amount of \$500,000. The improvement was for the construction of a segment of Russell Branch Parkway, adjacent to Telos, between Ashburn Road and Ashburn Village Boulevard. Because no

¹ For the retention of companies within Loudoun County, the guidelines specify additional criteria and the ROI takes into account lost revenue over three years should the company relocate elsewhere. See Attachment 2 for additional information.

local money was given to the company, this deal did not impact the incentive fund. The Board also approved in January of 2015 a COF grant match in the amount of \$450,000 in the form of fee waivers and cash for the planned construction of a K2M Group Holdings, Inc. (K2M) new headquarters facility in the Oaklawn development located in the Town of Leesburg².

Agriculture and Forestry Industries Development Fund

At their June 5, 2013 meeting when the Economic Development Commercial Business Incentive Guidelines were approved, the Board also directed staff to develop guidelines for matching grants to agricultural businesses under the State's AFID Fund program.

To support local efforts in attracting new and expanding agriculture and forestry processing/value-added facilities using Virginia-grown products, the Governor's AFID Fund allows the Governor to make discretionary grants to political subdivisions of the Commonwealth that can be used for designated project purposes. The maximum grant request under AFID is \$250,000. AFID guidelines dictate that the company must use the funds on the following: public and private utility extension or capacity development on and off site; public and private installation, extension, or capacity development of high-speed or broadband Internet access, whether on or off site; road, rail, or other transportation access costs beyond the funding capability of existing programs; site acquisition; grading, drainage, paving, and any other activity required to prepare a site for construction; construction or build-out of publicly or privately owned buildings; and, training. By providing the funding critical to the success of these projects, the state is helping these businesses create new product markets for Virginia's working lands, and new opportunities to those who derive value from them. The AFID program facilitates an increase in high-value agricultural production by requiring a minimum 30 percent of the agricultural or forestry products to which the facility is adding value either be grown or produced within the Commonwealth of Virginia in normal years.

In determining grant awards, the State Secretary of Agriculture and Forestry will consider the following criteria: (i) amount of jobs expected to be created, (ii) anticipated amount of private capital investment, (iii) anticipated additional state tax revenue expected to accrue to the state and affected localities as a result of the capital investment and jobs created, (iv) anticipated amount of Virginia-grown agricultural and forestal products used by the project, (v) projected impact on agricultural and forestal producers, (vi) a return on investment analysis, (vii) an analysis of the impact on competing businesses already located in the area and (viii) other factors deemed appropriate by the Secretary of Agriculture.

AFID is similar to the COF in that it requires a local match and considers job creation, investment and tax generation in determining the amount and eligibility for the AFID grant. However, the COF requires the project to be a competitive project with another jurisdiction. AFID has no similar requirement.

² The Town of Leesburg also provided fee waivers for development applications and permits along with matching funds in the amount of \$150,000 towards the Virginia Department of Transportation's Economic Development Access Program.

In October 2013 the Board of Supervisors approved Economic Development Business Incentive Guidelines for the Agriculture and Forestry Industries Development Fund (Attachment 3) with an initial appropriation of \$100,000 from FY 2013 fund balance. The Board also approved the consideration of additional monies for the fund as part of the regular year-end fund balance decision-making process.

As with the Commercial Business Incentive Fund, DED also manages the AFID Fund process. Upon receipt of a formal request from a company, DED will review the capital investment, new job creation (both full-time and part-time/seasonal), and the dollar value and volume of Virginia grown agricultural and forest products that the project will purchase. Department staff will then forward information to the Virginia Department of Agriculture and Consumer Services (VDACS) for a preliminary qualifying amount. VDACS will then ask the Governor to approve the total package prior to presenting the package to the company. If the company decides to make the investment in Loudoun, once an announcement is made, staff will request the Board's consideration for approval of a matching grant.

Since the announcement of available funds through the AFID Fund, the Board in July of 2015 approved one AFID Fund grant match in the amount of \$40,000 in fee waivers and cash grant for the expansion of Black Hops Farm, LLC. The grant assisted with the construction of an on-farm, state-of-the-art hops processing (drying and pelletizing) facility in western Loudoun County.

ISSUES: For commercial business incentives, staff has identified additional potential options for business attraction and retention that offer financial and regulatory incentives. These options include establishment of a business license incentive program for businesses that locate in the County for the first time; creation of a local technology zone; and establishment of a development taxation program for the technology zone. The business license incentive program would allow the County to grant qualifying new businesses relief from business license taxes for a period of two years. Creation of a local technology zone would allow the County to offer incentives such as reduced permit fees and user fees, reduced gross receipts taxes, and various forms of regulatory flexibility (e.g., special zoning, exemption from certain ordinances, etc.) for up to ten years. In addition, if the County established a development taxation program for the technology zone, a specified portion of the real estate tax revenue from the technology zone could be granted to the Economic Development Authority to support economic development efforts within the zone. The Board may want to consider whether these options would be beneficial to the County and whether additional research and consideration by staff and legal counsel is warranted.

FISCAL IMPACT: In FY 2014, \$500,000 was set aside for Economic Development Commercial Business Incentive Funds, of which \$340,000 in cash grant was encumbered for K2M. In January of 2015, the Board allocated unassigned FY 2014 fund balance in the amount of \$950,000 to current incentive fund balance; thereby increasing the set aside for funds up to \$1,110,000 to accommodate recent activity and potential business retention and expansion projects that meet the proposed amended guideline criteria.

In FY 2014, \$100,000 was set aside for the Economic Development AFID Fund. In January of 2015, the Board allocated unassigned FY 2014 fund balance in the amount of \$100,000 to the current incentive fund balance, thereby increasing the set aside for funds up to \$200,000. Of the total, \$39,700 in cash grant was encumbered for Black Hops Farm, LLC.

Cash funds used for a company incentive are transferred to the Economic Development Authority (EDA) for disbursement and Performance Agreements are executed between Loudoun County, the EDA, the State (if applicable) and the company. The Performance Agreements typically include performance targets, disbursement instructions, a description and use of funds, reporting requirements and clawback provisions. In the case of matching grants under the AFID Fund, Performance Agreements would also commit the company to certain performance standards for the dollar value and volume of Virginia grown agricultural and forest products that the project purchases.

ATTACHMENTS:

1. Loudoun County, Virginia Commercial Business Incentive Guidelines
2. Incentive Guidelines Table
3. Economic Development Business Incentive Guidelines for the Governor's AFID Fund

**LOUDOUN COUNTY, VIRGINIA
COMMERCIAL BUSINESS INCENTIVE GUIDELINES**

Targeted Industries

At the discretion of the Loudoun County Board of Supervisors, qualified businesses that are relocating to or expanding within Loudoun County, Virginia may be offered incentives outlined in these guidelines. Incentives will be limited to U.S. or international companies in these industries:

- Information, Communications and Technology
- Aerospace
- Airport-Related/Air Cargo
- Federal Government Contracting
- Life Sciences
- Advanced Manufacturing
- Energy/Green Technologies
- Destination Retail

Companies Moving to or Expanding in Loudoun County, Virginia

Loudoun County may elect to match the Virginia Governor’s Development Opportunity Fund or provide cash appropriations as authorized by Virginia Code § 15.2- 953 or other applicable law.

Minimum Requirements

- The company must create a minimum of 50 new jobs, each of which pay at least 100 percent of the county’s median wage.
- The company must make a minimum \$5 million investment in buildings, land and equipment.
- Virginia must be competing with another state for the company’s final location decision;
- The company must be in one of the targeted industries listed above.

Incentive Guidelines

- Companies that meet the minimum requirements will, at the Board of Supervisors’ discretion, be approved for Loudoun County’s Fast Track commercial development process.
- If the county chooses to provide a match to the Governor’s Opportunity Fund with fee waivers and/or cash, then the new real estate and personal property taxes that will be paid to the county by the company over the three years following the incentive award must at a minimum be equal to the amount of the county match.

- If the county match includes public infrastructure improvements, then the new real estate and personal property taxes that will be paid to the county by the company over the five years following the incentive award must at a minimum be equal to the amount of the county match.

The types of incentives available to businesses moving to or expanding in Loudoun County will be limited to:

1. Public infrastructure improvements, such as roads, sidewalks, parking facilities, etc.
2. Waiving commercial development processing fees.
3. Cash appropriations as authorized by Virginia Code § 15.2-953 or other applicable law.

Virginia Companies Relocating to or Expanding in Loudoun County

Minimum Requirements

- The company must create a minimum of 50 new jobs, each of which pay at least 100 percent of the county's median wage. The company must make a minimum \$5 million investment in buildings, land and equipment.
- The company must receive a Virginia Jobs Investment Program grant.
- Loudoun County must be competing with another jurisdiction for the company's final location decision.
- The company must be in one of Loudoun County's targeted business industries.

Incentive Guidelines

- Companies that meet the minimum requirements will, at the Board of Supervisors' discretion, be approved for the county's Fast Track commercial development process.
- If the county chooses to provide a match to the Virginia Jobs Investment Program with fee waivers and/or cash, then the new real estate and personal property taxes that will be paid to the county by the company over the three years following the incentive award must at a minimum be equal to the amount of the county match.
- If the county match includes public infrastructure improvements, then the new real estate and personal property taxes that will be paid to the county by the company over the five years following the incentive award must at a minimum be equal to the amount of the county match.

The types of incentives available to Virginia companies relocating to or expanding in Loudoun County will be limited to:

1. Waiving commercial development processing fees.
2. Public infrastructure improvements, such as roads, sidewalks, parking facilities, etc.
3. A match of the Virginia Jobs Investment Program grant.
4. Cash appropriations as authorized by Virginia Code § 15.2-953 or other applicable law.

Loudoun Companies Expanding Within Loudoun County

Minimum Requirements

- The company must create a minimum of 25 new jobs.
- The company must make a minimum \$2.5 million investment in buildings, land and equipment.
- The company must receive a Virginia Jobs Investment Program grant.
- Loudoun County must be competing with another jurisdiction for the company's final location decision.
- The company must be in one of Loudoun's targeted business industries.

Incentive Guidelines

- Companies that meet the minimum requirements will, at the Board of Supervisors' discretion, be approved for the county's Fast Track commercial development process.
- If the county chooses to provide a match to the Virginia Jobs Investment Program with fee waivers and/or cash, then the new real estate and personal property taxes that will be paid to the county by the company over three to ~~five~~¹ years following the incentive award must at a minimum be equal to the amount of the county match.
- If the county match includes public infrastructure improvements, then the new real estate and personal property taxes that will be paid to the county by the company over the five years following the incentive award must at a minimum be equal to the amount of the county match.

The types of incentives available to companies expanding within Loudoun County will be limited to:

1. Waiving commercial development processing fees.
2. Public infrastructure improvements, such as roads, sidewalks, parking facilities, etc.
3. A match of the Virginia Jobs Investment Program grant.
4. Cash appropriations as authorized by Virginia Code § 15.2-953 or other applicable law.

¹ Number of years to be determined on a case-by-case basis dependent upon economic and ROI analysis.

Retention of Companies within Loudoun

Minimum Requirements

- Company must maintain a minimum of 100% of current full-time jobs over the next five years.
- Company must make at least a \$1,000,000 investment in the County to occur over the ROI period of no more than three years.
- Company must commit to remain in the County for an additional five years and for leased locations, the business must sign a written lease for a period of no less than the five-year period.
- Company must demonstrate that the incentive is a "material factor" remaining in Loudoun; applicants must not have signed a lease, entered into a purchase contract, or otherwise committed to a site in Loudoun prior to receiving incentive approval.
- Company must certify that it is not currently involved in any merger or acquisition which would alter the nature of the corporation for the next 12 months.
- Loudoun County must be competing with another jurisdiction for the company's final location decision.

Incentive Guideline

- The project will yield a positive benefit to the County with an ROI of no more than 3 years.

The types of incentives available to companies expanding within Loudoun County will be limited to:

1. Waiving commercial development processing fees, if applicable.
2. Public infrastructure improvements, such as roads, sidewalks, parking facilities, etc.
3. Cash appropriations as authorized by Virginia Code § 15.2-953 or other applicable law.

Amended December 3, 2014

Incentive Guidelines Table

Scenario	Businesses Moving to or Expanding in Loudoun County, Virginia	Virginia Companies Relocating to or Expanding in Loudoun County	Loudoun Companies Expanding Within Loudoun County	Retention of Companies Within Loudoun
Match				
	May elect to match the Virginia Commonwealth Opportunity Fund	Must receive a Virginia Jobs Investment Program grant	Virginia Jobs Investment Program	None
Minimum Requirements				
Job Requirement	50 new jobs which pay at least 100% of the county's medium wage.	50 new jobs which pay at least 100% of the county's medium wage.	25 new jobs	Maintain a minimum 100% of current full-time jobs over the next five years
Investment	\$5 million investment in buildings, land and equipment	\$5 million investment in buildings, land and equipment	\$2.5 million investment in buildings, land and equipment	\$1,000,000 investment in the County to occur over the ROI period of no more than three years
Competition	Virginia must be competing with another state for final decision	Loudoun County must be competing with another Virginia jurisdiction for the company's final location decision.	Loudoun County must be competing with another jurisdiction for the company's final location decision.	Loudoun County must be competing with another jurisdiction for the company's final location decision.
Targeted Industry	Must be in targeted industries	Must be in targeted industries	Must be in targeted industries	Must be in targeted industries
Commitment to Stay in Loudoun	N/A	N/A	N/A	Commit to remain in the County for an additional five years and for leased locations, the business must sign a written lease for a period of no less than the five-year period .
Material Factor of Incentive Award	N/A	N/A	N/A	Demonstrate incentive is a "material factor" remaining in Loudoun; applicants must not have signed a lease, entered into a purchase contract, or otherwise committed to a site in Loudoun prior to receiving incentive approval
State of company	N/A	N/A	N/A	Company certifies that it is not currently involved in any merger or acquisition which would alter the nature of the corporation for the next 12 months .
Incentive Guidelines				
Process	At BOS's discretion, can be approved for Fast Track process	At BOS's discretion, can be approved for Fast Track process	At BOS's discretion, can be approved for Fast Track process	N/A

Cash	New real estate and personal property taxes paid to the county by the company over the three years following the incentive award must at a minimum be equal to the amount of the county match.	New real estate and personal property taxes paid to the county by the company over the three years following the incentive award must at a minimum be equal to the amount of the county match.	New real estate and personal property taxes paid to the county by the company over three to five years following the incentive award must at a minimum be equal to the amount of the county match. ¹	Project will yield a positive benefit to the County, taking into account lost revenue, with an ROI of no more than three years .
Fee Waivers	New real estate and personal property taxes paid to the county by the company over the three years following the incentive award must at a minimum be equal to the amount of the county match.	New real estate and personal property taxes paid to the county by the company over the three years following the incentive award must at a minimum be equal to the amount of the county match.	New real estate and personal property taxes paid to the county by the company over three to five years following the incentive award must at a minimum be equal to the amount of the county match. ²	The project will yield a positive benefit to the County, taking into account lost revenue, with an ROI of no more than three years .
Infrastructure Improvements	New real estate and personal property taxes that will be paid to the county over the five years following the incentive award must at a minimum be equal to the amount of the county match.	New real estate and personal property taxes that will be paid to the county over the five years following the incentive award must at a minimum be equal to the amount of the county match.	New real estate and personal property taxes that will be paid to the county over the five years following the incentive award must at a minimum be equal to the amount of the county match.	The project will yield a positive benefit to the County, taking into account lost revenue, with an ROI of no more than three years .
Incentive Type				
Public Infrastructure Improvements	Allowed	Allowed	Allowed	Allowed
Waving processing fees	Allowed	Allowed	Allowed	Allowed
Cash*	Allowed	Allowed	Allowed	Allowed
Virginia Jobs Investment Program grant match	N/A	Allowed	Allowed	

* Cash appropriations, as authorized by Virginia Code § 15.2-953 or other applicable law, are distributed through the Loudoun County Economic Development Authority

¹ Number of years to be determined on a case-by-case basis dependent upon economic and ROI analysis

² Number of years to be determined on a case-by-case basis dependent upon economic and ROI analysis

**Economic Development Business Incentive Guidelines for the Governor's
Agriculture and Forestry Industries Development Fund**

1. Match AFID if the company aligns with one of the Rural Economy Business Development Strategy recommendations.
2. If Fee Waiver and/or Cash is involved, real and personal property taxes should “payback” the County in three (3) years.
3. If public infrastructure improvements are involved, real and personal property taxes should “payback” the County in five (5) years.
4. Sources of County Match (in priority order).
 - Public Infrastructure (road and/or other public infrastructure improvement)
 - Fee Waiver
 - Cash (payment to company would have to be made through the EDA)