

To: Loudoun County Board of Supervisors

CC: Tim Hemstreet, County Administrator  
John R. Roberts, County Attorney  
Julie Grandfield, Assistant County Administrator  
Thomas Flynn, Director, Department of Economic Development

From: Loudoun County Government Reform Commission

Date: June 13, 2012

Re: Recommendation to Create an Economic Development Authority (EDA)

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On behalf of the members of the Loudoun County Government Reform Commission (GRC), and in particular the work of its Subcommittee #2 co-chaired by Mr. Robert Gordon and Ms. Tanya Matthews, we hereby submit one of what we expect will be a continuing series of recommendations on restructuring County government to make it more efficient, effective, equitable and responsive to the burden placed on taxpayers to shoulder the cost of government services.

Specifically, the GRC recommends that the Board of Supervisors (BOS) take immediate steps to initiate the reform and consolidation of certain existing functions of government in order to unite them under a new Loudoun County Economic Development Authority (EDA). Much of what we propose is already called for under enabling legislation passed by the Virginia General Assembly in 1992, and has been considered from time to time by previous Boards over the past twenty years.

The GRC believes now is the time to act and that the reasons are compelling. The following summarizes the GRC's analysis of the issue after considerable discussion with current and past County officials, officials from other jurisdictions, as well as County organizations with responsibility for economic development-related activities, and individual citizens.

The GRC's position described in this memorandum was supported by a vote of 10-1-2 during our regular meeting on May 24, 2012, with Mr. Walker opposed, and Mr. Glozer and Mr. Sandoe absent.

**QUESTIONS PRESENTED:** Can the economic development structure of the County be changed to promote more cohesive and results-driven business development that contributes more effectively to overall County revenues? Specifically, should the County create an Economic Development Authority to replace in part or in whole the current structure of economic development-related functions?

If so, how would this relate to or replace the current Economic Development Commission (EDC), Industrial Development Authority (IDA), Rural Economic Development Council (REDC), Loudoun County Chamber of Commerce (LCCC), and/or County Department of Economic Development (DED)? Further, how and when would it be established and what kinds of checks and balances might be incorporated so the EDA's mission is clear and consistent, so progress is measurable, and so it is held accountable by the BOS?

**RECOMMENDATION:** The GRC recommends that the BOS act to formally establish and fund a Loudoun County Economic Development Authority to take over certain functions related to the marketing of the County, capital attraction and retention, and the expansion of the County's commercial tax base. Most of these functions are currently being performed by the County's DED, and the GRC believe that some should be retained by County government notwithstanding the creation of an EDA. As a starting point, the existing IDA should be renamed and converted into the EDA, with expanded responsibilities, and would no longer have an independent existence.

**DISCUSSION:** Loudoun County already has the power to establish EDA by virtue of bipartisan legislation co-sponsored by State Sen. Charles Waddell (D) and State Delegate William C. Mims (R) that passed the Virginia General in early 1992. The Acts of Assembly during the

1992 Virginia General Assembly Session, Chapter 643 of the Acts of Assembly of 1964, relating to economic development authorities, was amended to state “There is hereby created . . . within the County of Loudoun . . . the Loudoun County Economic Development Authority.” Thus an EDA was established as a matter of state law but the County Board of Supervisors at that time, nor any Board since, has never moved forward to implement it.

The structure of the Loudoun County Economic Development Authority, as authorized, appears to include all powers granted to the existing Loudoun County Industrial Development Authority. Specifically, the Acts provide the following:

- The Authority shall be governed by a commission composed of seven (7) commissioners, appointed by the Board of Supervisors. One commissioner may be a member of the Board of Supervisors.
- To stagger their terms, these seven (7) commissioners shall be appointed initially for terms of one, two, three and four years, two being appointed for one year terms; two for two year terms; two for three year terms and one for a four year term. Subsequent appointments would be for terms of four years, except in the case of filling a mid-term vacancy.
- The commissioners shall elect from among their membership a chairman and a vice chairman. They may, but are not required to appoint from their membership, a secretary, treasurer, or secretary/treasurer, and assistants.
- The commission shall meet at least monthly.
- Commissioners shall receive no salary but shall be reimbursed for necessary travel and other expenses consistent with EDA’s annual budget and any memoranda of understanding between the EDA and BOS.
- The Commission shall keep detailed minutes of its proceedings which shall be open to public inspection at any time.

- The Authority shall have an enumerated list of powers, including (i) to contract and be contracted with and to sue and be sued; (ii) to acquire real and personal property or interests therein which the board of directors of the Authority may deem necessary and convenient; (iii) to lease to others any or all of its facilities and to charge and collect rent therefor; (iv) to employ a director and such other agents or employees including attorneys as may be necessary, and to fix their compensation and prescribe their duties; and (v) such other acts and things as may be necessary and convenient to carry out its purposes and powers.
- The Authority shall be purposed to foster and stimulate the development of industry in the area within its jurisdiction. To this end, the Authority may appoint an Industrial or other Advisory Committee to advise it, consisting of such number of persons as it may deem advisable. Such persons shall not receive any compensation for their services, but may be reimbursed necessary travel and other expenses incurred while on business on behalf of the Authority.
- The Authority may accept and expend for the purposes stated above, money from any public or private source, and may accept, maintain, operate, use, or sell or lease any property conveyed to it for such purposes.
- The BOS is authorized and empowered to transfer to the Authority the operation and maintenance of such suitable facilities as are now or may be hereafter owned or leased by the County, on such terms and conditions which it may prescribe.
- The Authority shall have the power to issue bonds from time to time in its discretion, to accomplish its stated purposes, including the payment of all or any part of the cost of Authority facilities, including the payment or retirement of bonds previously issued by it. All bonds issued by the Authority shall be payable solely from the revenues and receipts derived from the leasing or sale by the Authority of its facilities or any part thereof. In addition, the Authority shall have

the power to issue bonds as are conferred upon industrial development authorities created pursuant to Chapter 33 of Title 15.1 of the Code of Virginia.

**CURRENT STRUCTURE OF ECONOMIC DEVELOPMENT:** During its deliberations, the GRC discussed the current structure of the County's economic development and marketing efforts, and had a work session on April 12, 2012, with representatives of various bodies involved in this effort, including (i) Thomas Flynn and Buddy Rizer from the Department of Economic Development, (ii) Shaun Kelley, the current Chair of the Economic Development Commission, (iii) Brian Chavis, the current Chair of the Industrial Development Authority, and (iv) Tony Howard, President of the Loudoun County Chamber of Commerce.

The Board of Supervisors is already familiar with the current structure of its economic development efforts, so we will not repeat basic information known to the Board, except to highlight the following points:

- We note that the DED is subject to all County procurement and HR policies, including restrictions and limitations on the ability to offer incentive compensation. Moreover, certain Board members have over the years, made the issue of employee travel and entertainment for recruitment purposes a political topic and have imposed severe restrictions on employee travel for any purpose.
- The DED is responsible for several functions that may not be appropriate for transfer to an EDA, including management of the Agricultural and Forestal District program, liaison with and support of the Rural Economic Development Council (REDC), and efforts to promote and support the rural economy. These are all valuable functions but they are not functions that should necessarily be transferred to an EDA. We believe that the REDC has historically expressed concurrence with this view.

- The EDC is an advisory body and citizen forum for providing advice to the Board of Supervisors and County agencies on economic development matters. The EDC does not have the power to enter into contracts, make investments, hire staff, or issue bonds. To the contrary, the EDC is strictly an advisory body comprised of volunteers and has not been actively utilized to support economic development efforts over the years.
- The IDA exists only as a vehicle for authorizing the issuance of tax exempt industrial revenue bonds, which it authorizes with the approval in each instance of the Board of Supervisors. The IDA is not involved in any way in the marketing of Loudoun County or its commercial tax base.

**PROS AND CONS OF AN ECONOMIC DEVELOPMENT AUTHORITY:** It is apparent in a review of this issue that the central issue surrounding an EDA revolves around the word “control.” In establishing an EDA the Board of Supervisors would be giving up day-to-day management of economic development activities, while retaining ultimate control by virtue of funding the EDA, reviewing its performance and appointing its members.

Some may see the loss of control as a negative. The GRC instead sees a reduced level of political influence and intervention as a benefit that can lead to a more sustained, consistent, institutionalized commitment to professional economic development activities by this and future Boards.

Today, the BOS (through the County Administrator) has direct control of the day-to-day operation, goals, and measure of performance of the DED. The BOS not only provides funding for the DED, but also has ultimate control over the hiring and firing of staff members, and determines the department’s priorities. Some may view this as a good thing, and the GRC is not suggesting there have not been positive outcomes under the current structure.

However, no long-time observer of Loudoun County's local politics, or the composition and policies of various Boards of Supervisors over the years, can ignore the swings of the pendulum related to issues that include growth, business development, and economic matters generally that have occurred over the past twenty years. Both rhetoric and fundamental policies have swung widely during this time, which the GRC believes is not healthy for a jurisdiction of the nature and national stature of Loudoun County.

Nor can the many examples of interpersonal conflict among Board members on successive Boards, and the effect of such actions on County staff and economic development efforts, be ignored. Extreme swings in policy and such conflict impede the development of a consistent message on economic development and opportunities to grow the employment and commercial tax base of Loudoun County.

Similarly, the Board of Supervisors has an advisory body in the EDC, and experience over the years has shown that there have been times when the Board of Supervisors professes strong interest and support of the advisory views of the EDC, and there have been times when the Board has not been interested in the EDC. This is also a reflection of the swings in the political pendulum that have characterized Loudoun for many years.

Both the BOS and the GRC have recently studied the structure and efforts of the Fairfax County EDA. There can be no argument that the Fairfax EDA, established in 1964, has provided a stable, predictable, and consistent marketing effort for Fairfax County. This effort has been largely independent of Fairfax County political and Board discussions on growth and related issues, and has given Fairfax the financial and structural flexibility to forge ahead with marketing activities linked to annual performance metrics regardless of the state of the national economy or local politics.

It would be a mistake to attribute all of Fairfax County's success to an EDA, or to suggest that Loudoun County would be magically transformed by the establishment of a Loudoun EDA.

After all, the physical location of Fairfax County in relation to the nation's capital, the immense infrastructure of Fairfax County and number of available buildings for corporate occupancy, and the relative availability of developed versus undeveloped land, create different opportunities for marketing the two jurisdictions regardless of the quality or nature of governmental marketing activity. Also, the many real estate brokers, investors, developers, lenders, and other businesses that profit from growth in commercial employment and the attraction of corporate users, will be marketing themselves, their wares, and the County, and will enjoy success or failure largely based on their efforts and the state of the local and national economy. A rising tide lifts all ships, and vice versa.

However, it would be an equal mistake to state that the consistent, predictable funding of the Fairfax EDA, and its ability to project a consistent message, has had no impact on Fairfax County's successful development of its commercial tax base over a long period of time.

Loudoun County's commercial and employment tax base has been characterized by boom and bust. British Aerospace, WorldCom, and America Online, to name just a few examples, arrived with explosive growth and fanfare, only to suffer economic trials and challenges that have resulted in their departure, failure, or dramatic reduction in size and local presence. We have many successful corporate citizens in Loudoun, but the number of Fortune 500 or comparable national and international companies with headquarters or substantial operations based in Loudoun County is not impressive. The GRC believes that a consistent focus on development of built infrastructure, best practices, and attraction of corporate occupancy, will show positive results in the long term with the addition of more prominent national and international companies, the retention of the current commercial base, and its strengthening.

The GRC respectfully suggests that the principal perceived negative—the Board not having day-to-day control over Loudoun County's marketing activities—is the very reason why



establishment of an EDA should be embraced. Removing marketing and business development activities from day-to-day politics is a good thing.

An independent EDA would have the all-important ability to say no to suggested policies put forth by an individual Board member, such as “you should get involved in [e.g. workforce housing, affordable dwelling units, redevelopment, etc.] because that’s important to me,” or “I want one of those in my district too.” The ability to say “no” to pet projects that are not perceived by the EDA as vital to its Board-approved mission and the success of Loudoun County, would be an important benefit of an EDA structure.

We note that although the Board of Supervisors would be giving up day-to-day operational and policy control of the EDA, it would retain ultimate control through (i) funding the annual budget of the EDA with resulting opportunities to annually review the policies, activities, and performance metrics; (ii) appointment annually of EDA Commissioners through a public vetting and decision-making process, possibly including a member of the BOS itself; and (iii) the ultimate legal authority to approve any bond issuances proposed by the EDA. It is noteworthy, as confirmed by the Loudoun County Attorney, that by law the EDA cannot issue bonds unless approved by the Board of Supervisors.

In addition, certain aspects of control or mutual understanding between the Board of Supervisors and the EDA could be established in a Memorandum of Understanding between the Board and the EDA dealing with particular administrative matters.

The DED and its staff are limited in certain ways by personnel and activity policies of the government. This can include the salary structure, which does not allow meaningful bonuses or incentives for exceptional performance, as well as restrictions on travel and entertainment for the purpose of attracting businesses.

The GRC supports transferring to the EDA various DED marketing efforts relating to the County's commercial tax base, including the current business development efforts relating to "growing the business base in Loudoun County by focusing on industry sectors including Information Communication Technology (ICT), Federal Government Contracting (FGC), Life Science, and Airport Support Services."

**PROPOSED STRUCTURE:** The Board of Supervisors could implement the Economic Development Authority in the following manner:

1. Convert the current Industrial Development Authority to an EDA. The EDA would assume the functions of the IDA for approving and issuing industrial revenue bonds, and in performing such functions as are necessary with respect to the approximately \$1 billion in bonds outstanding. If the County Attorney's office anticipates a problem with conversion of the IDA to an EDA (which to date we are not aware exists), the same result could be obtained by activating the existing EDA and then merging the existing IDA and its functions into the EDA.
2. Expressly recognize the mission of the EDA as marketing, promoting, and facilitating the development of the County's employment and commercial tax bases, and generally creating governmental, business, and built infrastructure to make Loudoun County a world class business center. The EDA would have no involvement with residential growth policies, and would have no role in promotion or support of the rural economy *per se*. The EDA would co-exist with, and not supplant, the Loudoun Convention and Visitors Association, i.e. Visit Loudoun. In short, the EDA would focus on marketing and promoting the commercially zoned areas of the County.
3. The Board of Supervisors could retain the EDC as it presently exists, as a valued volunteer advisory body and business forum. Alternatively, the Board could convert

the EDC into an advisory committee to the EDA as authorized by the EDA enabling legislation. The EDC's current functions of formulating and monitoring an economic development strategic plan, and of serving as a community educational forum, providing advice and perspective, could be performed both for the Board of Supervisors and for the EDA, working with both organizations.

4. Retain within the County government those DED functions that serve as an ombudsman or expeditor of business applicants through the development process. This function does not need to be in a separate department of economic development in our opinion; the function could instead be housed within the Department of Building and Development. The key is that the person or persons helping to get business applicants through the process be empowered to prioritize staff work and mitigate logjams. The EDA would work with County staff on these issues but would not itself set policy for the development approval process.
5. The GRC does not envision that the EDA would have any authority to grant direct financial incentives to prospective businesses. This should always remain with the Board of Supervisors which has traditionally (and properly, in our view) been guarded in the use of direct economic incentives such as tax abatements. The EDA could however assist businesses in applying for and taking advantage of other economic incentives provided by the Commonwealth such as the Governor's Opportunity Fund.
6. The EDA would have the ability to establish a performance compensation program with greater flexibility than is allowed by County HR policies. Here the Fairfax experience is instructive. Incentive compensation is not discretionary by employee or based on individual performance. Instead, the entire office has a salary set, and that base salary can be adjusted either up or down by 10% based on whether

annually established performance metrics are met.

7. The County should seek to appoint top business leaders to serve as Commissioners of the EDA. Moreover, it appears from the Fairfax County model that longevity and continuity among commissioners of the EDA promotes stability of mission and message.

**TIMING:** The Commission recognizes that during deliberations for the 2013 budget, the Board of Supervisors enhanced the funding of the Department of Economic Development and discussed, but rejected, a motion to hire a consultant to study whether the County should activate an EDA. Approximately \$586,000 was added to the Department of Economic Development budget, with authorization to hire three more full time staff members and to explore possible incentive compensation programs for selected positions.

Since the approval of this budget enhancement, some Board members have stated that the County should not consider the establishment of an EDA on the grounds that this would send the wrong message to DED staff and undercut efforts to enhance the DED's marketing program.

The GRC does not agree with this conclusion. First, we reject any premise that professionals in the DED would cease or diminish their labors because of the potential establishment of an EDA. Indeed, most or all of them might logically move to the EDA. We further believe that members of the DED staff may perceive opportunities in the establishment of an EDA and will be energized even more to accomplish their objectives.

Second, the proper measure is not what current staff may feel about this issue—after all, change in structure occurs in all organizations, at all levels, everywhere, all the time—but rather what the BOS, business community and taxpaying citizens generally may feel about

establishment of an EDA and how it might impact regional, national and international perceptions of Loudoun County.

Third, the establishment of an EDA is a long term commitment to a specific method of economic development, and the decision to establish an EDA should not be based on short term considerations of internal morale.

**CONCLUSION:** The GRC believes that the establishment of an Economic Development Authority would facilitate a consistent, ongoing marketing of Loudoun County as a business friendly place to live, work, and play, free from overly intrusive political control. It would confirm that “Loudoun is open for business” is not just jargon that can be changed after the next election, but rather a cultural value and state of mind with a strong, independent marketing effort to back it up.

The establishment of an EDA would have a budget impact because it would likely involve more expense than is being spent for the present system. However, these additional expenses should be viewed as an investment which should be returned through the growth of the County’s non-residential tax base both in absolute dollars and as a percentage of total County tax receipts. Moreover, the justification for certain EDA appropriations could, and should, be linked to the achievement of performance metrics.

Finally, the Loudoun County taxpayer is the ultimate beneficiary of our recommendation. A successful EDA offers opportunities to improve Loudoun’s commercial tax base beyond the relative “tinkering” with DED done by Republican and Democrat Boards of Supervisors over the years. The generation of new commercial revenue for Loudoun is a good thing, and would reduce the County’s longstanding and heavy reliance on residential property taxes.

We recommend that if the BOS wishes to move forward with the GRC’s recommendation, a working group of County staff and private sector individuals be appointed this summer to

study specific structural issues so an EDA can be put in place by July 2013, the beginning of the County's next fiscal year.

Thank you for the opportunity to present this assessment and recommendation. We welcome the opportunity for dialogue with you about any and all of what is contained here.