

**MANUFACTURING IMPACT
AND
ECONOMIC DIVERSIFICATION PLAN
FY 2007-2011**



MANUFACTURING IMPACT AND ECONOMIC DIVERSIFICATION PLAN FY 2007-2011

Introduction

Pursuant to Chapter 375 of the 2006 Acts of Assembly, this report outlines initiatives in the Commonwealth of Virginia aimed at assisting localities dependent upon manufacturing operations and facilities with diversifying their economies. These initiatives have been consolidated to form the basis of the five-year plan of assistance as envisioned by the legislation. As further mandated by the legislation, this plan addresses two key topics:

1. The direct and indirect economic impact of manufacturing on the Commonwealth; and
2. Economic development assistance that will aid cities, counties, and towns with tax base diversification and skill-enhancing employment and training opportunities.

Process

The Virginia Economic Development Partnership (VEDP) coordinated the planning process leading to the development of the plan which included input from a variety of public and private sector organizations as stipulated in the legislation. Organizations engaged in this process included:

Virginia Economic Development Partnership
Virginia Manufacturers Association
Virginia Chamber of Commerce
Virginia Poultry Federation
Printing Industries of Virginia
Virginia Association of Counties
Virginia Municipal League
Commissioners of Revenue Association of Virginia
Secretary of Commerce and Trade
Virginia Department of Business Assistance
Virginia Tobacco Indemnification and Community Revitalization Commission

The VEDP contacted each of the entities noted above and requested input regarding their current initiatives to strengthen and diversify local and regional economies. This request sought suggestions and recommendations from these organizations as to specific new initiatives that would support the intent of the legislation. VEDP also surveyed regional economic development organizations and other unaffiliated localities to ensure consideration of those areas' strategies for economic diversification and overall sustainability.

Key stakeholders met in Richmond on October 5, 2006, prior to the Governor's 2006 Summit on Manufacturing, to capture key input from the manufacturing community. In addition, participants coordinated this study and planning initiative with concurrent studies responding to other legislative mandates.

For example, the Rural Economic Development Strategic Plan required by § 2.2-2238.1 of the Code of Virginia, embraces many of the same communities in rural Virginia that have been impacted by severe economic dislocation as a result of the closure of many "traditional" manufacturing operations, principally in textiles, apparel, and furniture. The Joint Legislative Audit and Review Commission (JLARC) prepared a study in response to SJR 360 that looked at issues impacting manufacturing in Virginia. VEDP and many of the other organizations noted above have had opportunity to provide comments as part of development of that study. Additionally, the Governor is charged with preparing a statewide, comprehensive economic development strategy (strategic plan) which also touches on themes concurrent with this plan, including addressing economic disparity in the Commonwealth. Those elements of Governor Timothy Kaine's plan that were on point with the spirit of this legislation were incorporated into this plan. The Governor publicly unveiled his plan, "*Virginia Leading the Way*," in Roanoke as part of the Virginia Economic Developers Association Fall Conference on September 29, 2006. Lastly, as the second part of the legislative charge for this plan addresses "skill-enhancing employment and training opportunities," there are elements from the Governor's Workforce Development Strategic Plan, due to be publicly presented in December 2006, which have been taken into consideration in the development of this study.

Part 1 - The Economic Impact of Virginia's Manufacturing Sector

Background Data

Manufacturing operations in Virginia continue to remain an important linchpin of our economy. While clearly not the dominant employment sector of a generation ago when manufacturing employment exceeded 20 percent of statewide non-agricultural workers, manufacturing employment now consists of about 8 percent of Virginia's workforce. Recent years have brought intense upheaval in the manufacturing realm with the emergence of new global players. Heightened competition for manufacturing capacity and explosive advances in technology and communications have resulted, giving rise to historic increases in overall productivity. These forces have led to structural shifts in the U.S. manufacturing industry from labor-intensive, lower wage operations towards more value-added, higher-wage advanced manufacturing which requires a more skilled workforce. Other industries were forced to embrace technology and steadily hone operations so that they could "do more with less," particularly as it relates to employment levels. The domestic U.S. automobile industry, for example, continues to grapple with these issues.

The process of change has been painful for many communities in Virginia, but especially for the rural economies like Southside Virginia and Southwestern Virginia that were based on agriculture, natural resources, or branch manufacturing plants. Long known as the home of traditional non-durable goods like apparel and textile manufacturing, these regions suffered high unemployment as these and other industries shifted operations offshore. These same areas also operate at a competitive disadvantage in the new global economy as the displaced workforce often lacks the skill sets and education required to meet the new demands brought about by these tremendous advances in technology.

Despite these challenges, Virginia’s manufacturing base remains strong and vibrant, with nearly every region of Virginia relying on significant advanced manufacturing operations as part of its overall economic base. Shipbuilding, automotive suppliers, machinery and equipment manufacturers, food processors, semiconductor fabricators, plastics, wood products and chemicals all make up major portions of a thriving manufacturing base in Virginia.

Chart 1 shows a comprehensive overview of all industry sectors statewide. As depicted in this chart, manufacturing is ranked 11th by number of establishments, 9th by annual average wage, and 5th by total employment. Of note, the manufacturing average annual wage of \$45,198 exceeds the statewide average annual wage of \$43,137.

Chart 1			
Industry Overview - Virginia Statewide			
<i>2005Q2-2006Q1</i>			
Industry	Establishments	Total Employment	Average Annual Wage
Accommodation and Food Services	10,164	288,956	\$14,833
Administrative and Waste Services	10,137	210,560	\$28,324
Agriculture, Forestry, Fishing, and Hunting	1,620	12,992	\$24,770
Arts, Entertainment, and Recreation	2,417	61,481	\$20,597
Construction	25,593	258,496	\$41,163
Education Services	2,228	327,190	\$35,792
Finance and Insurance	7,009	133,416	\$70,587
Health Care and Social Assistance	12,580	373,553	\$38,393
Information	2,561	98,836	\$74,738
Management of Companies and Enterprises	1,334	74,093	\$88,678
Manufacturing	5,683	302,299	\$45,198
Mining	229	8,927	\$53,385
Other Services, Except Public Administration	24,061	130,667	\$31,515
Professional and Technical Services	26,793	342,193	\$75,696
Public Administration	678	215,964	\$57,457
Real Estate, Rental, and Leasing	6,813	59,375	\$41,730
Retail Trade	17,246	428,196	\$24,383
Transportation and Warehousing	5,041	131,002	\$41,557
Unclassified	2,946	5,675	\$41,723
Utilities	242	18,202	\$66,609
Wholesale Trade	11,667	118,089	\$59,393
Statewide*	177,038	3,600,163	\$43,137
Manufacturing ranks 11th in Establishments, 5th in Total Employment, and 9th in Average Annual Wage.			
<i>Source: Virginia Employment Commission - Quarterly Census of Employment and Wages, annualized data</i>			
* Statewide totals do not exactly match the sum of the individual industries due to rounding			

For the latest Virginia Employment Commission (VEC) data available, 2005 Second Quarter through 2006 First Quarter, there were 5,683 manufacturing establishments in Virginia. This number is down from 6,032 five years ago and represents an annual average decline of 1.2 percent or an overall decline of 6 percent during this five-year period. For the latest VEC employment data available (the average of 2nd quarter 2005 through 1st quarter 2006), 302,299 employees worked in manufacturing across Virginia. This number represents a decline of 65,287 employees in the last five years and 87,131 employees in the last 10 years. Chart 2 depicts this information and gives a statewide overview of activity in relationship to all industries in Virginia. As indicated in Chart 2, manufacturing in Virginia currently represents 8.4 percent in total employment and 3.2 percent in total establishments.

Chart 2				
<u>Manufacturing Overview - Virginia Statewide</u>				
<i>2005Q2-2006Q1</i>				
	Manufacturing		All Industries	
Establishments	5,683		177,038	
Total Employment	302,299		3,600,163	
Average Annual Wage	\$45,198		\$43,137	
Employment Change	Number of Jobs	Annual Average % Change	Number of Jobs	Annual Average % Change
Last Year (2004Q2-2005Q1)	-2,958	-1.0%	90,448	2.6%
Last 5 Years (2000Q2-2001Q1)	-65,287	-3.8%	166,741	1.0%
Last 10 Years (1995Q2-1996Q1)	-87,131	-2.5%	550,653	1.7%
Establishment Change	Number of Establishments	Annual Average % Change	Number of Establishments	Annual Average % Change
Last Year (2004Q2-2005Q1)	-29	-0.5%	5,405	3.3%
Last 5 Years (2000Q2-2001Q1)	-349	-1.2%	12,856	1.6%
Last 10 Years (1995Q2-1996Q1)	-258	-0.4%	27,454	1.8%
As a percentage of all industries, manufacturing comprises 3.2% of establishments and 8.2% of total employment.				
<i>Source: Virginia Employment Commission - Quarterly Census of Employment and Wages, annualized data</i>				

Chart 3 illustrates the statewide distribution of manufacturing employment by type of manufacturing industry and employment change over the last 10 years. As indicated in this chart, all manufacturing industries except petroleum and coal products have experienced employment loss over the last ten years. The largest job losses have occurred in textile product mills, apparel manufacturing and computer and electronic product manufacturing. These job losses represent some of the lowest annual average wages, \$23,636 for apparel manufacturing and the highest, \$67,306 for computer and electronic product manufacturing.

Chart 3

Manufacturing By Detailed Industries - Virginia Statewide
2005Q2-2006Q1

Industry	Establishments	Total Employment	Average Annual Wage
Food manufacturing	385	31,614	\$32,601
Beverage and tobacco product manufacturing	100	8,459	\$65,293
Textile mills	72	9,150	\$29,241
Textile product mills	171	4,393	\$28,432
Apparel manufacturing	110	3,344	\$23,636
Leather and allied product manufacturing	15	311	\$22,878
Wood product manufacturing	506	20,255	\$32,525
Paper manufacturing	84	11,750	\$52,726
Printing and related support activities	776	15,664	\$40,329
Petroleum and coal products manufacturing	23	810	\$57,401
Chemical manufacturing	185	16,672	\$61,542
Plastics and rubber products manufacturing	172	21,459	\$43,467
Nonmetallic mineral product manufacturing	295	12,103	\$40,150
Primary metal manufacturing	62	6,039	\$48,456
Fabricated metal product manufacturing	756	21,210	\$47,369
Machinery manufacturing	328	18,842	\$49,460
Computer and electronic product manufacturing	274	16,361	\$67,306
Electrical equipment and appliance mfg.	105	8,090	\$45,843
Transportation equipment manufacturing	226	48,557	\$53,883
Furniture and related product manufacturing	564	19,459	\$30,838
Miscellaneous manufacturing	508	7,759	\$36,425

Employment Change						
Industry	Number of Jobs (1 Year)	Annual % Change (1 Year)	Number of Jobs (5 Year)	Annual % Change (5 Year)	Number of Jobs (10 Year)	Annual % Change (10 Year)
Food manufacturing	-1,850	-5.5%	-3,531	-2.1%	-5,232	-1.5%
Beverage and tobacco product manufacturing	-549	-6.1%	-2,565	-5.2%	-3,473	-3.4%
Textile mills	-2,358	-20.5%	-9,564	-13.3%	-13,307	-8.6%
Textile product mills	-59	-1.3%	0	0.0%	739	1.9%
Apparel manufacturing	-405	-10.8%	-6,006	-18.6%	-24,693	-19.2%
Leather and allied product manufacturing	-35	-10.2%	-106	-5.7%	-716	-11.3%
Wood product manufacturing	674	3.4%	-263	-0.3%	869	0.4%
Paper manufacturing	-171	-1.4%	-3,385	-4.9%	-4,495	-3.2%
Printing and related support activities	-335	-2.1%	-3,880	-4.3%	-3,956	-2.2%
Petroleum and coal products manufacturing	60	8.1%	86	2.3%	25	0.3%
Chemical manufacturing	-759	-4.4%	-4,429	-4.6%	-5,726	-2.9%
Plastics and rubber products manufacturing	-28	-0.1%	-3,425	-2.9%	1,233	0.6%
Nonmetallic mineral product manufacturing	367	3.1%	-483	-0.8%	-7	0.0%
Primary metal manufacturing	87	1.5%	-2,608	-6.9%	-1,614	-2.3%
Fabricated metal product manufacturing	469	2.3%	-698	-0.6%	-1,140	-0.5%
Machinery manufacturing	355	1.9%	-1,647	-1.7%	-1,545	-0.8%
Computer and electronic product manufacturing	393	2.5%	-13,608	-11.4%	-8,760	-4.2%
Electrical equipment and appliance mfg.	308	4.0%	-2,827	-5.8%	-5,803	-5.3%
Transportation equipment manufacturing	11	0.0%	1,023	0.4%	-1,132	-0.2%
Furniture and related product manufacturing	-116	-0.6%	-6,872	-5.9%	-6,361	-2.8%
Miscellaneous manufacturing	-140	-1.8%	-1,546	-3.6%	-451	-0.6%

Source: Virginia Employment Commission - Quarterly Census of Employment and Wages, annualized data

* Manufacturing totals do not exactly match the sum of the detail industries due to rounding

1 Year = (2004Q2-2005Q1)

5 Year = (2000Q2-2001Q1)

10 Year = (1995Q2-1996Q1)

Estimated Impact of Manufacturing in Virginia

Following is a summary of the estimated impact of the manufacturing sector on the Commonwealth of Virginia. This analysis was made using IMPLAN, a commercially available input-output modeling program. Based on calendar year 2005 data from the VEC, there were 303,829 people working in Virginia's manufacturing sector in 2005. The impact of those direct jobs ripples out across the Commonwealth by supporting Virginia suppliers of goods and services to manufacturers. The personal expenditures of the manufacturing workers also support jobs throughout Virginia. In addition, manufacturers and their workers provide tax revenues to localities and the state.

Based on Calendar Year (CY) 2005 employment data, Virginia's manufacturing sector supports:

- 1,015,971 jobs
 - 303,829 direct jobs
 - 712,142 additional jobs
- \$172.0 billion in annual economic output
 - \$85.8 billion direct output
 - \$86.2 billion additional output
- Based on direct and indirect jobs, 27 percent of total employment in Virginia for 2005 was related to the manufacturing sector

Based on CY 2005 employment data, Virginia's manufacturing sector, its supporting industries, and its employees generate:

- \$6.3 billion in tax revenue
 - \$3.5 billion in state tax revenue, including sales and income taxes
 - \$2.8 billion in local tax revenue
 - \$2.4 billion in property taxes
 - \$400 million in sales taxes

Leading sectors for supported jobs include:

- Retail Trade (68,631 jobs)
- Agriculture, Forestry, and Fishing (59,335 jobs)
- Health and Social Services (55,202 jobs)
- Personal and Other Services (54,076 jobs)
- Professional, Scientific, and Technical Services (53,844 jobs)
- Accommodation and Food Services (50,576 jobs)
- Transportation and Warehousing (38,902 jobs)
- Wholesale Trade (36,104 jobs)
- Administrative and Waste Services (31,036 jobs)

On the next page is a series of charts that highlight a regional analysis of the impact of Virginia's manufacturing sector in relationship to jobs, output and as sources for state and local revenue.

Chart 4

Employment Impact of Virginia's Manufacturing Sector

	Virginia	Southwest Virginia	Southside Virginia	Valley	Northern Virginia	Central Virginia	Hampton Roads
Direct Jobs	303,829	38,466	59,401	58,691	28,800	46,470	71,798
Additional Jobs	712,142	72,297	141,286	122,190	33,318	161,237	159,422
Combined Jobs	1,015,971	110,763	200,687	180,881	62,118	207,707	231,220

Economic Output Impact of Virginia's Manufacturing Sector

figures in billions

	Virginia	Southwest Virginia	Southside Virginia	Valley	Northern Virginia	Central Virginia	Hampton Roads
Direct Output	\$85.8	\$9.6	\$14.7	\$15.1	\$6.7	\$20.3	\$19.4
Additional Output	\$86.2	\$6.1	\$15.1	\$12.8	\$3.7	\$23.0	\$17.1
Combined Output	\$172.0	\$15.7	\$29.8	\$27.9	\$10.4	\$43.3	\$36.5

Tax Impact of Virginia's Manufacturing Sector

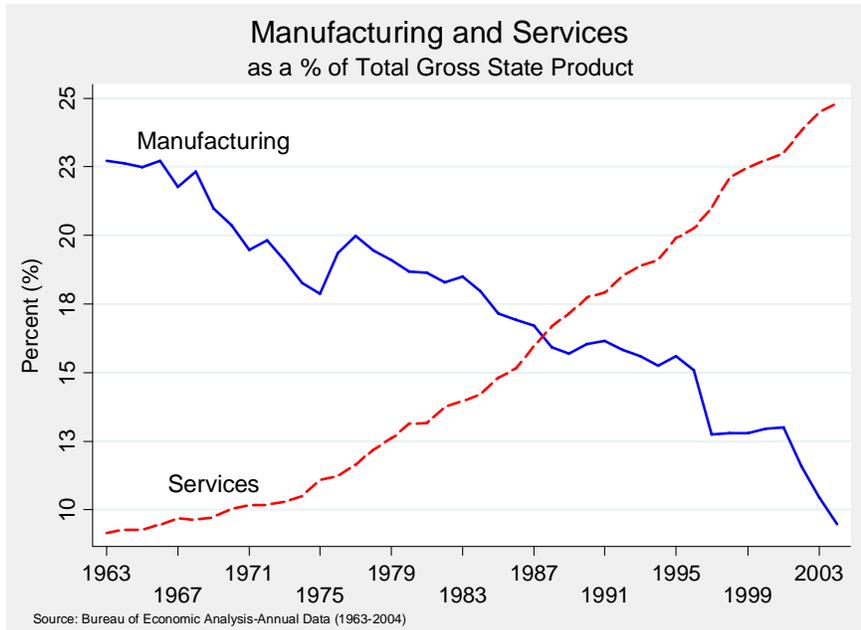
figures in millions

	Virginia	Southwest Virginia	Southside Virginia	Valley	Northern Virginia	Central Virginia	Hampton Roads
State Tax Revenue	\$3,535	\$231	\$434	\$485	\$201	\$1,228	\$590
Local Tax Revenue	\$2,808	\$157	\$297	\$361	\$120	\$1,251	\$366
Local Property Taxes	\$2,451	\$137	\$259	\$315	\$105	\$1,091	\$320
Local Sales Taxes	\$357	\$20	\$38	\$46	\$15	\$160	\$46
Combined Taxes	\$6,343	\$388	\$731	\$846	\$321	\$2,479	\$956

Region totals do not add up to statewide totals due to economic leakages at the regional level.

The graph shown on the next page illustrates the relationship of manufacturing and services¹ as a percentage of total gross state product (GSP). As noted in this graph, manufacturing and services accounted for 23 percent and 9 percent of total gross state product in 1963. Over the past 40 years, the modern day economic structure has evolved into a more service-based economy than a production-based economy. This is evident from today's relationship between manufacturing and services, where the proportion of total gross state product is a mirror image of what it was in 1963.

¹ Services are a composite of NAICS industries- professional and technical services; administrative services; educational services; health care and social assistance; arts, entertainment and recreation; accommodation and food services; and other services, except government



It is important to note that this change in dynamics can be partially attributed to certain functions of manufacturing operations being outsourced. Back-office functions and related jobs, such as accounting and human resources, that were once integral components of a manufacturing workforce are now contracted out and appear as part of the service-related industry.

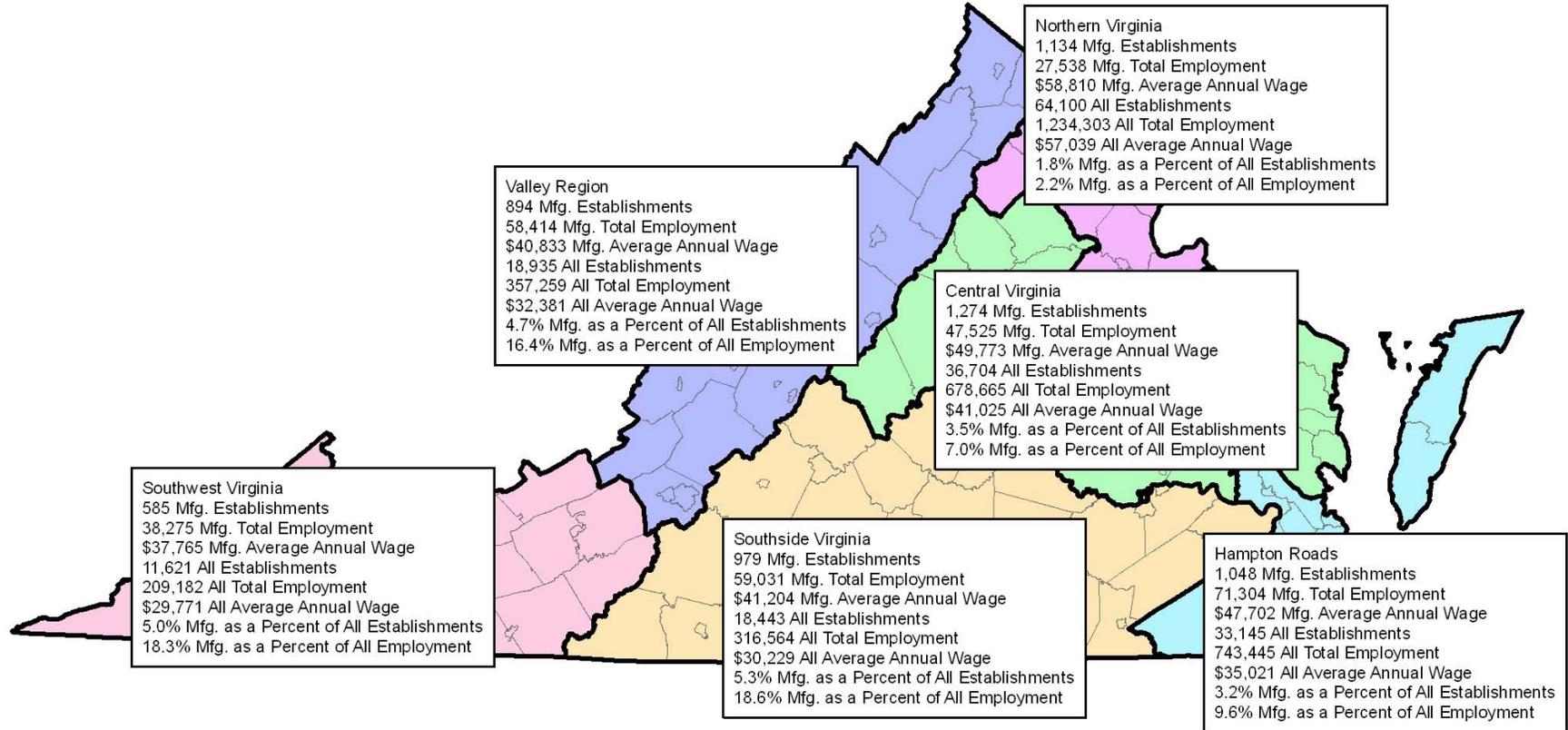
On the next several pages, a series of state maps illustrates manufacturing activity in relationship to all industries on a regional basis. As shown on the first map, manufacturing employment as a percentage of all industries is more than double the state average of 8.2 percent in Southside with 18.6 percent, Southwestern with 18.3 percent and the Valley with 16.4 percent. This high concentration of manufacturing jobs illustrates the dependency of these regions on manufacturing and their vulnerability on this declining industry sector. However, this map does show that the manufacturing average annual wage is greater than the composite of all industries average annual wage in all regions of Virginia and it is understandable why these jobs are sought after.

The second map shows the dramatic manufacturing job losses in these same three regions, Southside (30,537), Southwestern (13,683) and the Valley (11,385), over the last 10 years. Of particular note is the substantial manufacturing job loss in Central Virginia over the last five years. This region has experienced over 16,000 jobs lost in the last five years in comparison to Southwestern Virginia where approximately 6,700 jobs were lost in the same time period. All regions except Northern Virginia have lost manufacturing jobs for the last year. The biggest losses have been in Central Virginia (1,498) and Southside Virginia (1,587) and the smallest loss in Southwestern Virginia (59).

The third map depicts employment changes for all industries over the last 10 years. All regions have experienced a net gain in jobs in the last 10 years. Southside Virginia is the only region that has lost jobs in the last five years which can be attributed to the continued loss of textile and apparel manufacturing losses.

Map 1

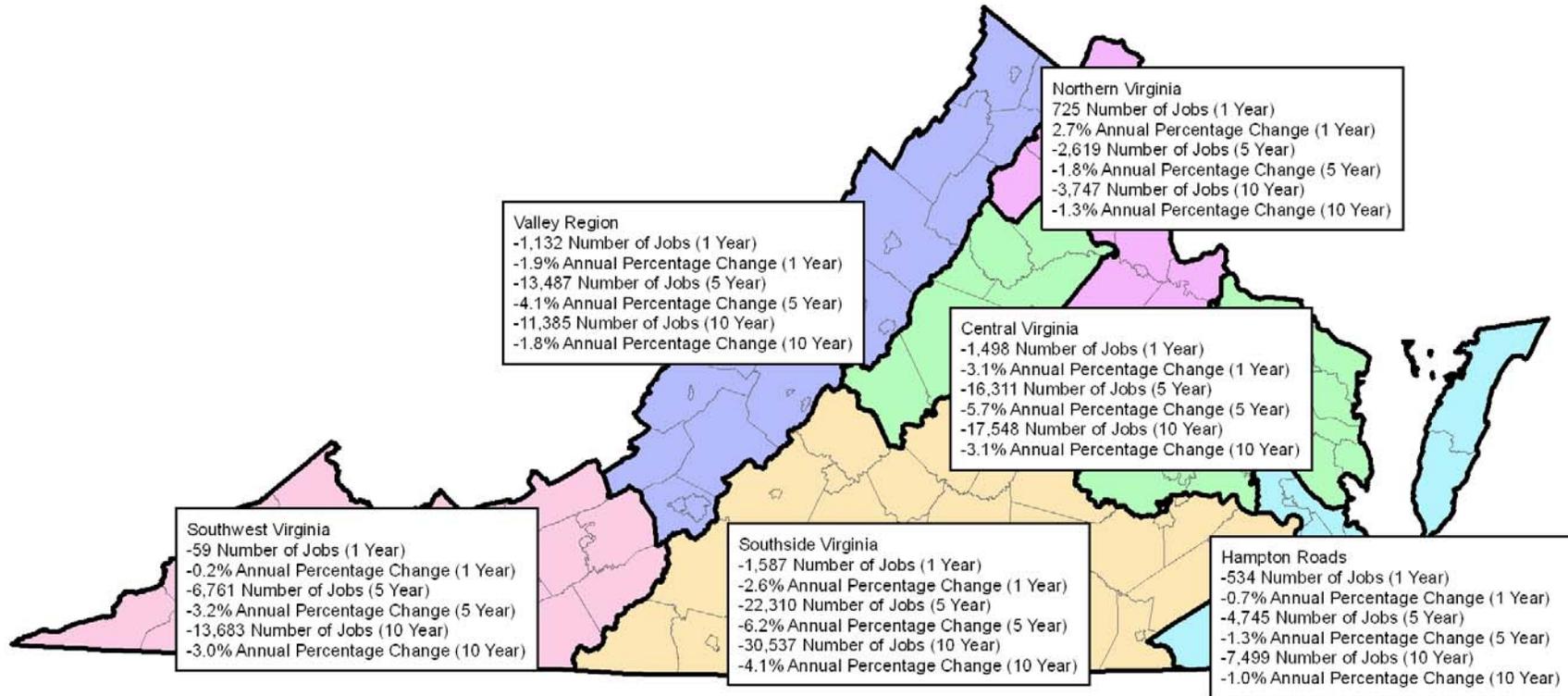
Manufacturing Overview



Source: Virginia Employment Commission - Quarterly Census of Employment and Wages, annualized data (2005Q2-2006Q1)

Map 2

Manufacturing Employment Change

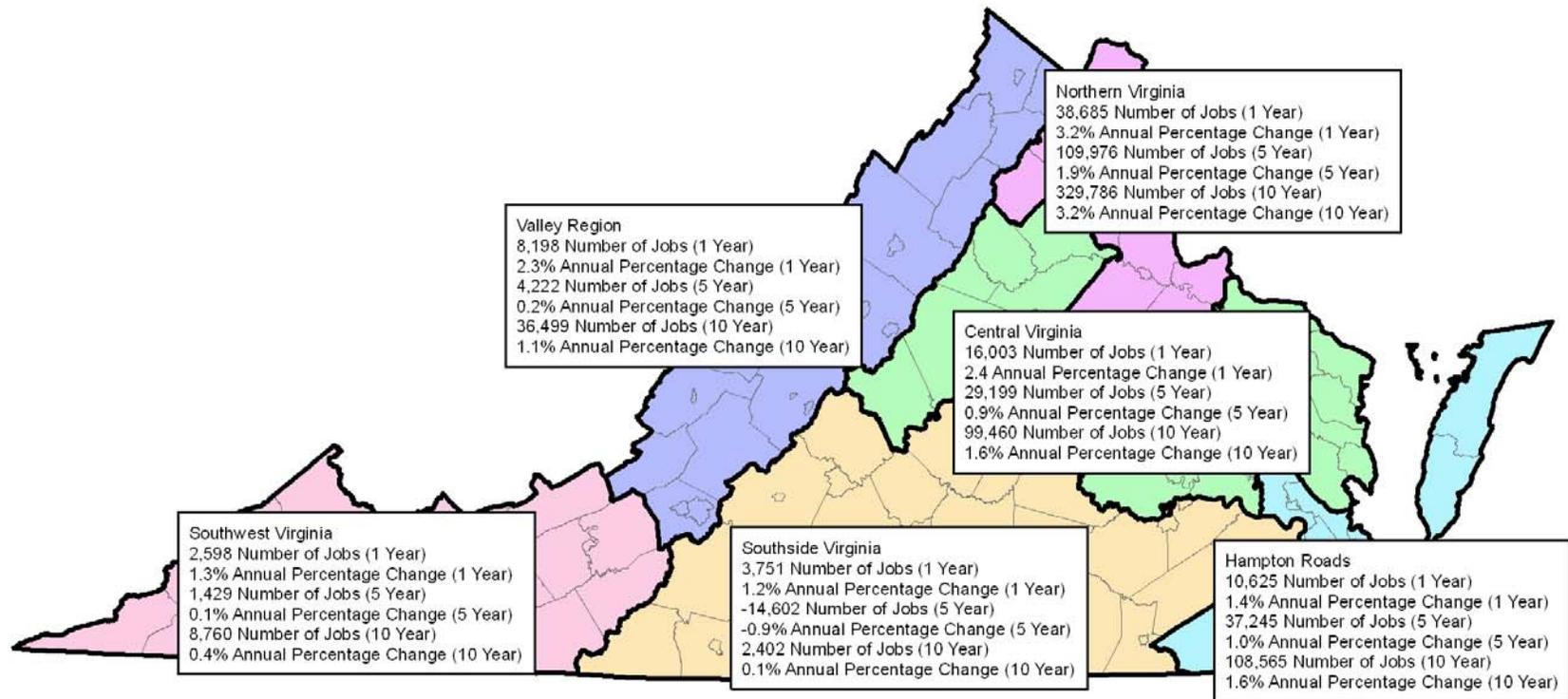


Source: Virginia Employment Commission - Quarterly Census of Employment and Wages, annualized data (2005Q2-2006Q1)

1 Year = (2004Q2-2005Q1)
 5 Year = (2000Q2-2001Q1)
 10 Year = (1995Q2-1996Q1)

Map 3

All Industries Employment Change



Source: Virginia Employment Commission - Quarterly Census of Employment and Wages, annualized data (2005Q2-2006Q1)

1 Year = (2004Q2-2005Q1)
 5 Year = (2000Q2-2001Q1)
 10 Year = (1995Q2-1996Q1)

PART 2 - Economic Development Assistance to Aid Localities with Tax Base Diversification and Skill-Enhancing Employment and Training Opportunities

Virginia Economic Development Partnership Mission

The Virginia Economic Development Partnership (VEDP) is the lead economic development organization for the Commonwealth of Virginia. Accordingly, VEDP focuses its programs and activities on creating improved economic performance for Virginia and its various regions. Formed in 1995 by an Act of the General Assembly, the Partnership is a state authority governed by a 21-member Board of Directors composed of businesspersons from across Virginia, 15 of whom are appointed by the Governor and 6 appointed by the General Assembly. Key operational functions of the Partnership encompass business recruitment and expansion assistance, international trade, research, and promotion.

VEDP's stated mission is:

“To enhance the quality of life and raise the standard of living for all Virginians, in collaboration with Virginia communities, through aggressive business recruitment, expansion assistance, and trade development, thereby building the tax base and creating higher income employment opportunities.”

VEDP's mission statement captures the spirit and essence of the legislative charge to aid localities in their quest for economic self-sufficiency, diversification, and workforce development. The following describes VEDP's plans and accomplishments in dealing with shifting economic realities and optimizing state and regional resources to achieve economic performance goals.

Focus on Growth Markets & Alignment with Regional Assets

VEDP focuses available recruitment and outreach resources towards growth markets expected to produce strong, sustained higher-wage employment gains with and new capital investment for Virginia and its collective regions. In FY 2006, VEDP conducted a critical assessment of those market areas with growth potential and for which Virginia and its various regions had the prerequisite assets and attributes to capture significant future market share. As a result, VEDP has established four broad vertical markets against which it is deploying its limited marketing resources, in close collaboration with respective regions of Virginia, to build a coherent value proposition for companies in those markets. VEDP will develop a strong “go to market” strategy for each selected area of concentration. The market seems to be responding, as over 85 percent of announced capital investment and employment in basic industries for FY 2006 falls within these declared target markets.

VEDP's four primary vertical markets include:

Advanced Manufacturing: This market area recognizes that the manufacturing sector in Virginia remains an important cornerstone of the Virginia economy and is particularly vital to a number of rural regions and localities in the Commonwealth. In general, for reasons noted in Part 1, the expected employment growth for these industries is likely to be more modest than that found in other key market areas; however the wages and salaries associated with these industries tend to be strong. Further, advanced manufacturing operations tend to have strong employment multipliers generating higher than average indirect/spin-off employment that keeps an economy vibrant. Industries embraced within this market area would include, but are not limited to, plastics and polymers, chemicals, advanced materials, food processing, machinery and equipment, fibers, instrumentation, etc. The tables and maps associated with Part 1 of this Plan provide information on the distribution and concentration of the manufacturing presence within Virginia.

Security & Services: The technology advances of recent years have propelled this market area to the forefront in job growth on a statewide basis, although clearly the strongest employment growth has been concentrated in Northern Virginia, and secondarily in Hampton Roads and the metropolitan Richmond area. Federal government and government-related contractors in Virginia from the departments of Defense and Homeland Security alone contribute annually about \$40 billion in direct investment to Virginia's economy. Virginia must continue to take advantage of its many assets in this arena, and treat federal security agencies and providers as both clients and partners to leverage continued economic growth opportunities throughout all regions of the state. This market area encompasses industries such as information technology, professional and business services, financial services, and corporate headquarters and management.

Transportation: This market area recognizes and builds upon the tremendous geographical advantages that Virginia enjoys as it relates to providing exceptional market access. This includes our central location on the Eastern U.S. coast, providing an exceptional platform for the movement of goods from the most populated markets of North America through extremely efficient channels for distributing goods outbound via the Ports of Virginia or through Dulles Airport. Key manufacturers, such as the automotive and aerospace industries, require closely linked supply chains and market access. The increased demand for international container traffic gives Virginia an even greater strategic advantage as the Ports of Virginia are one of the few ports that have planned for and can accommodate more traffic. This gives Virginia a basis to be the East Coast port of choice for the North American market and allows Virginia to focus on global logistics providers as a means of directing new opportunities for economic diversification to many regions of Virginia. This logistics focus can help support the existing manufacturing base in Virginia as well as help establish a larger presence of distribution centers throughout Virginia, particularly in rural regions.

Science & Research: Virginia's many significant assets provide the potential to be a leader in technology, research and development, and emerging markets. Virginia's universities are renowned for their exceptional programs across many cutting edge technologies. The Commonwealth has captured a dominant market share in information technology but has not succeeded similarly in other areas of research and innovation. This provides the basis for significant advances in areas like biotechnology, nanotechnology, health care, alternative energy, and other emerging industries. Virginia must identify her unique competitive advantages and develop a set of strategies to align these advantages with a consensus on the emerging target markets most likely to drive long term job

growth as a result. Naturally, initiatives in this market area may evolve more slowly and produce lower near-term employment results but offer the longer term potential for enhanced job growth.

Virginia has had notable recent successes in this area with leading examples like the \$500 million Howard Hughes Medical Institute in Loudoun County and the \$300 million Philip Morris USA Research & Technology Center in Richmond.

Strategic Marketing Initiatives

Complementing this market focus, VEDP is developing a series of Strategic Marketing Initiatives intended to provide a catalyst to success in a variety of different market areas. These initiatives test out methods and techniques with selected prototype communities over a relatively defined period (18-24 months) and make refinements as required before broadening the initiative to a more inclusive statewide coverage, as appropriate. This approach allows the targeted communities and regions an opportunity to fully understand the key industry location factors, develop their business case and distinctive advantages for these markets, and gain experience in working closely with client companies. As VEDP and local partners test and refine market penetrating methods, the process will expand to a statewide scale so that all Virginia communities with the requisite attributes to support that market area can have the opportunity to court key companies. This also serves to preserve credibility on the part of VEDP with the corporate community by recommending regions and communities that understand the needs of their industry and can meet, at a minimum, the basic facility, workforce, and infrastructure requirements of that business.

VEDP's Market Initiatives include:

Distributed Services Initiative: Four prototype communities (Harrisonburg, Danville, Blacksburg, and Lynchburg) are working to generate a value case for relocating segments of the information technology industry from higher to lower-cost locations, while meeting local employers' workforce development goals. As many of these information technology operations support federal defense and security activities, these elements cannot be sent "offshore" as often has been the case with other industries. These efforts will provide much-needed economic diversification in those communities and regions.

Recent successes exhibit the type of success Virginia can reap in coming years, and serve as a springboard for further economic diversification and workforce skills enhancement. Russell County's 2005 announcement of the new CGI-AMS 300-person IT operation in Lebanon has the potential to transform that community. Similarly, Diversified Information Technologies announced its decision to locate a 200-person operation in rural Orange County providing business process solutions and records management services to financial institutions, healthcare providers, and other public and private entities.

Modeling & Simulation Initiative: Initially launched in Hampton Roads based on that region's strong military and related simulation cluster, Virginia's modeling and simulation initiative has an opportunity to disperse the work into other regions of the state. Old Dominion University leads higher education support for this function, but there are other opportunities to engage additional universities and to create a larger geographic footprint in this unique market niche.

A major “win” for Virginia in this initiative was the location of a \$30 million Lockheed Martin Integrated Solutions Center in Suffolk which provides computer-based modeling, simulation, and integration functions close to its major defense and homeland security customer base. Lockheed Martin joins a cluster of over 30 related M & S firms in the Hampton Roads region employing over 4,000 highly skilled Virginians.

Global Logistics Initiative: This initiative began in FY 2007 and will strive to leverage the growth of the Port of Virginia, including significant private sector activity with the new Maersk Terminal. The Port activity will link with Dulles Airport, the major rail carriers, and other key transportation and logistics providers to make Virginia the Eastern U.S. gateway of choice for the movement of goods. The initiative holds great promise for rural Southside and Southwestern Virginia in particular as inbound goods need to reach inland markets through key intermodal and distribution centers in areas beyond the port region. VEDP’s work, in collaboration with several partners including UPS-Freight, Norfolk Southern, Maersk Line, Wal-Mart, and the Virginia Port Authority, will help refine the market message and develop new business clients and customers for locating operations in Virginia.

Recent announcements in this arena include two expansions, announced 14 months apart, for the North American headquarters of the French company CMA-CGM America Inc., whose \$15 million expansion in Norfolk created 200 jobs. CMA-CGM is the 3rd largest container shipping line in the world.

Distribution center successes include Wal-Mart’s \$55 million, 1.2 million square foot facility in Rockingham County. Announced in 2003, the facility opened in March of this year and reached its employment projection of 1,000 in the first six months of operation.

In July 2005, Food City, a major grocery distributor, chose its current Washington County facility as the location for a 168,000 square foot expansion creating jobs for 110 people and investing \$19 million. In September 2006, Red Bull announced its decision to locate a \$12 million, 300,000 square foot facility in Frederick County.

Wood Products Initiative: This classic example of a natural resource, “traditional” manufacturing industry still remains a viable niche market for Virginia despite recent losses to foreign competition. For example, the sustained strength of the housing market, even considering recent moderation, has pushed demand for building materials and high value added niche markets associated with home improvement. This initiative will seek to pre-position some rural communities for opportunities in the fabricated wood products sector in regions with potential for success based on logistics, natural resources, and appropriate skill sets.

Recent examples of success in this market include the MasterBrands announcement in Martinsville/Henry County and Yorktown Cabinets and Swedwood (IKEA) in the Danville/Pittsylvania County region. Collectively, these three projects accounted for about 2,000 jobs and \$321 million in capital investment in areas that had been crippled by layoffs.

Future Planned Initiatives: On the schedule, but not launching until late FY 2007 or FY 2008, are initiatives for Alternative Energy and Plastics/Polymers Chemicals. The Alternative Energy Initiative will capitalize on increased federal funding and leverage strengths at several Virginia universities and industries such as nuclear power generation, in which Virginia has a strong

foothold. This initiative will also coordinate with the Commonwealth's new statewide Energy Plan. The Plastics & Polymers Initiative will build upon significant corporate strengths in various regions of Virginia. These initiatives are also intended to involve our research universities as a major sponsor and ally in both providing substantive guidance and partnering in outreach marketing activities.

International Integration and Promotion

VEDP has consolidated its international foreign direct investment and export promotion efforts. This will allow Virginia to better develop and deliver its international message on a global scale. Virginia has foreign offices in Europe, Japan, Korea, Mexico, Brazil, and Hong Kong.

At present Virginia has over 880 firms with foreign affiliation, representing more than 65,000 jobs and capital investments of about \$8 billion. These firms span many types of industries, including primarily advanced manufacturing operations. Jobs supporting export related activity in Virginia directly and indirectly support 4.4% of all private sector jobs, and one-sixth of all manufacturing employment in the Commonwealth. The estimated combined total of Virginia's exports of goods and services exceeded \$18 billion in 2005.

VEDP requires new funding to assess how best to penetrate China and India for both new investment and trade opportunities to help continue the process of economic diversification across the Commonwealth.

Additional financial support is required to expand targeted trade support programs such as the VALET and AIM program to help expand the network of existing Virginia businesses actively engaged in internal export sales.

Existing Business Expansion

Virginia's continuing economic success requires closely monitoring and meeting the needs and demands of the existing business community. More than 70 percent of new announced basic sector employment in Virginia results from expansions of existing businesses. More than 60 percent of Virginia's revenue base springs from personal income and corporate income taxes from companies and employees in Virginia. These investments also provide substantial local contributions in real and personal property tax revenues. Virginia must establish meaningful outreach and assistance programs that address the needs of our existing businesses to facilitate their competitiveness in today's complex global economy. Particularly in distressed regions of the state, where the smaller business base is more vulnerable to economic volatility than in more diversified regions of the state, localities must focus on needs of existing businesses. The initiatives noted below also appear in Governor Kaine's economic development strategic plan, *Virginia Leading the Way*.

VEDP is embarking on an effort to encourage and assist all Virginia localities and regional economic development organizations to establish business retention and expansion programs in which staff members visit all major employers at least annually. Staff would conduct appropriate follow-up on specific needs that are deemed to be within the purview of the government to address. VEDP will establish a statewide technology platform to collect consistent strategic information on business trends and needs derived from these local and regional business assistance calls. This

information will then be shared statewide to guide the development of goals, policies, and action plans of economic development organizations at all levels.

A “Virginia CEO Advisory Council” will be established which will provide the Governor and key legislative leaders with advice on policy issues impacting the business community. The council will be established under the auspices of the Virginia Economic Development Partnership to ensure geographic and business sector balance, as well as consistency from one administration to the next.

University Integration into Economic Development

Until just two years ago, no entity in Virginia attempted to engage the colleges and universities of Virginia into the mainstream of the economic development process. Today, the University Based Economic Development Group represents each public institution of higher learning and several private institutions, as well as the Virginia Community College System.

This organization has sought to bring higher education into the marketing and prospect assistance role and to create a larger, more cohesive voice for university based economic development in Virginia. Over time, as knowledge based economies gain primacy, this activity should produce significant yields for Virginia’s economic performance statewide and at the regional level.

Virginia will need to identify opportunities to more fully connect complimentary research programs and initiatives among and between our research universities to ultimately advance private sector employment and investment in Virginia.

Policies and financing tools to encourage commercialization of technologies from the academic community to the marketplace are required to keep Virginia competitive. Supporting the formation of new companies at all stages of the financial growth cycle in emerging markets will be critical to the long term performance of Virginia and its regions.

Regional Liaison Network Program

VEDP’s new Regional Liaison Network will provide opportunities for regional economic development organizations to work together and with VEDP to identify business sectors that match up well with regional attributes. Over time, the regions should better understand the needs of the targeted businesses, and will have a more mature “pitch” stressing key regional assets to companies. Ultimately, this effort should consistently yield more and better new projects. Other outcomes from this initiative should include:

- Improved identification and coordination of resources to support the capacity-building of distressed regions to market into appropriate target business sectors.
- Participation in the VEDP response to areas with immediate economic distress, such as plant closings.

Virginia Opportunity Regions: VEDP implemented a new program, Virginia Opportunity Regions (VOR) to focus on marketing Virginia’s economically distressed areas with the help of funding allocated by the General Assembly. Among the program goals are better use of the internet to disseminate information, earlier targeting of selected business sectors, and region-specific

marketing activities. The VEDP also hired a new Marketing Manager for VOR. The manager's role is to develop strong working relationships with distressed regions and localities, increase the number of prospect visits to these areas, manage transition of prospects to project managers and localities, and assist in "closing the sale." The program also includes a \$150,000 VOR Marketing Grant Program to fund local and regional needs that may not be addressed by the statewide marketing program.

VEDP/Virginia Community College System Industry/Occupational Web Tool. VEDP and the Virginia Community College System (VCCS) are working together to provide tools to share regional information on industries and occupations. This autumn, the two organizations will launch a new Interactive web-based tool which can assist the economic development community, local and regional leaders, and the educational community with labor force planning and support regional demand based curricula and training programs.

The new Web-based tool will provide access to all of the underlying data from the recent statewide *Industry and Occupational Cluster Analysis*, including all necessary updates. At a regional level, any industry can be explored to view recent trends in the industry, occupations required for the industry (or related occupations), wages paid to those occupations, and skills, training, and tools required for a given occupation. The beta edition of the tool already assists VEDP in developing responses for prospect site selection by validating regional labor attributes needed by companies. It also will help regions and communities to assess the suitability of their regional workforce assets for their business recruitment targets. This product also gives workforce development and economic developers a viable tool to aid in the alignment of workforce development and economic development strategic plans and initiatives. Specific to the Virginia Community College System, this tool assists in identifying key areas to develop new instructional programs and revise existing instructional programs to meet the workforce needs of the Commonwealth.

Distressed Communities Visits Increase. Business Development staff assisted with 284 prospect visits, representing 115 companies, to distressed communities across Virginia. These 115 companies represent 62.5 percent of all companies visiting Virginia, with nearly 54 percent of the total prospect visits occurring in distressed communities.

Right Now Sites Program. This program is designed to assure business prospects and consultants that business properties designated as "Right Now" Sites have all the essential elements in place for rapid business location. The "Right Now" Sites program establishes minimum infrastructure requirements for eight industry groups (light manufacturing, general manufacturing, heavy manufacturing, mega sites, business/industrial parks, office parks, warehouse/distribution, and research and development). In addition to these industry-specific standards, separate "readiness standards" have been established to ensure that the sites are truly "ready to go." Since the inception of this program, VEDP has certified 45 sites that meet readiness standards.

Virtual Buildings Program. This program expands the "ready to go" concept to include preliminary architectural design, cost estimates, and time frames for construction and site plan permit approval for proposed buildings. Local industrial properties meeting these standards are featured prominently on the VEDP website. There are currently 12 virtual building designs across the Commonwealth. VEDP also distributed matching grant awards totaling \$75,000 to five communities to plan and design new Virtual Buildings to further enhance the marketability of these areas. All of the grant recipients represented economically distressed areas.

The Department of Business Assistance Mission

Whereas VEDP was created to foster the expansion of Virginia's economy, DBA was established by the Virginia General Assembly in July 1996 to cultivate the expansion of Virginia's businesses.

DBA's mission is:

"To promote economic growth in the Commonwealth by helping Virginia businesses prosper through expansion assistance, small business and workforce development, and by providing comprehensive resource information."

Building Capacity for Virginia's Businesses

Virginia Small Business Financing Act. The Small Business Financing Act recognizes the need to assist small businesses in obtaining financing in order to promote long-term economic health of the Commonwealth through the enhancement of its tax base and the promotion of employment. The Act establishes the governmental body; the Virginia Small Business Financing Authority; and the structure, powers, duties, and authority of this public body as a corporate and political subdivision of the Commonwealth.

The Virginia Small Business Advisory Board. The Small Business Advisory Board is appointed by the Governor to assist the Commonwealth's business service providers in supporting Virginia's small businesses. Each member represents a particular congressional district. DBA employs three major strategies to assist the Commonwealth's business:

- Increasing their access to capital
- Providing business specific assistance and funding needed for workforce development
- Custom designed business development consultative services

Workforce Services Job Investment Program. The Workforce Services Jobs Investment Program (WSJIP), established in 1965, provides workforce development assistance to Virginia employers creating new jobs or experiencing technological change. It is one of the major recruitment tools utilized by the Commonwealth's economic development community. As a business development incentive supporting economic development efforts statewide, the program reduces the direct human resource development costs of new and expanding companies.

In FY 2006, WSJIP assisted 575 companies involving 13,252 jobs and over \$7.5 billion in new capital investment. The program targeted state and Workforce Investment Act (WIA) funding to several economic development projects in distressed communities with a declining manufacturing base. Across the Commonwealth, the program funded jobs averaging \$17.67 per hour or \$36,754 annually – generating approximately \$1,770 per job in annual state tax revenues. This economic development incentive is performance based, so the company must create the jobs and undertake the capital investment and training before the Commonwealth reimburses a portion of the costs. WSJIP's goal is to recover its investment within one year. With an average of \$577 per job funded, the program achieves a positive return on its investment in less than 4 months.

Governor Kaine's economic development strategic plan recommends focusing the use of more incentives on workforce training, retraining and education, including increasing opportunities for apprenticeship, co-operative education, and internships to develop skills required by businesses now and in the future. The Governor's strategic plan for workforce development, due for release in December 2006, will provide more specific directions and strategies on this topic.

Diversifying Southwestern Virginia's Employment Base

A significant number of manufacturing companies have left Southwestern Virginia or closed entirely. Southwestern Virginia, with 18.3 percent manufacturing employment as a percentage of all non-agricultural employment, has more than twice as high a share of manufacturing jobs as the state average of 8.2 percent. This high concentration of manufacturing jobs created a vulnerability resulting in a negative impact on the area's economy over the last ten years. Southwestern Virginia has lost 13,683 manufacturing jobs in ten years, of which 6,700 were lost during the previous five years.

Coordinate Region's Support for CGI-AMS and Northrup Grumman Projects

Virginia successfully recruited two companies, CGI-AMS and Northrup Grumman, to locate in Southwest Virginia and create, respectively, 300 and 433 high-tech, high-wage jobs. The Secretary of Commerce and Trade designated the Department of Business Assistance Southwest Office to coordinate the region's efforts to support both the CGI-AMS and Northrup Grumman projects. The project manager assigned to this task is responsible for coordinating advisory teams with the following functions:

- **Workforce Development:** to prepare the workforce for jobs in the Information Technology industry and ensure a sustainable pipeline of workers.
- **Regional Preparedness:** to develop mid and long-term strategies in addressing the community development requirements of the new economy created by the location of these two firms.
- **Communications Strategy:** to develop strategies for informing citizens throughout the region and state of project status and planning aspects, and to recruit Southwestern Virginians from other regions to return to job opportunities back in their hometowns ("Return to Roots").
- **Company Implementation Teams:** to address operational issues concerning the new facilities and logistics.

Current results indicate that these efforts are making a significant impact in facilitating the establishment of the companies in the region. CGI-AMS is currently exceeding its recruiting goals and is nearing completion of its facilities. Northrup Grumman will break ground in October 2006. This coordinated support should facilitate the creation of 733 jobs, and result in considerable progress toward the region's economic diversification.

Promote private business ownership as a career alternative

Working with local economic development partners, DBA is organizing a 22 event calendar of workshops to support an entrepreneurship culture in areas negatively impacted by the reduction of manufacturing jobs, specifically Southwest Virginia. These events will cover topics like accounting, marketing and legal formation and will provide an aspiring entrepreneur an opportunity to network with service providers. Currently, DBA plans to participate in over 50 events in FY 2007 to connect entrepreneurs and existing businesses with information and resources to help them prosper.

Virginia Business Information Center (VBIC)

Provide direct support to entrepreneurs through the VBIC, the state's business portal for entrepreneurs and existing businesses, so that they can access easily the information they need. By conveniently offering information on the over 100 state business regulatory and assistance programs, DBA is supporting the strong business environment in Virginia. In FY 2006, VBIC was contacted by almost 15,000 businesses.

Assist Small and SWAM Business Win More State Contracts

In FY 2005, the Commonwealth spent over \$5 billion in goods and services. In an effort to help Virginia companies sell to the state, DBA offers training sessions, one-on-one counseling sessions and matchmaking opportunities to help businesses, especially SWAM businesses, sell more product to the state. In FY 2006, DBA helped over 3,500 companies and helped deliver 37 training sessions.

Governor's Workforce Development Strategic Plan

Economic development prospects focus on areas that can provide the workforce they need. Virtually every study regarding the site selection factors driving investment and hiring decisions places the issue of adequacy and competency of area workforce at the top of the list of requirements. Virginia must strive to provide the quantity and quality of workforce that modern employers now require. Moreover, as lower skilled occupations continue to decline, Virginians will increasingly find that they cannot become self-sufficient without post secondary education or training. Virginia employers need skilled workers with the capacity to adapt to the demands of a changing global economy. In addition to specific job-related skills, workforce development efforts need to focus on developing generic skills such as customer service, self-direction, problem solving, and cooperative work habits. Regions of the state which have been overly dependent on the labor-intensive "old line" manufacturing jobs of the past will need to receive extra attention and assistance from state, federal, regional, local, and corporate partners in order to successfully compete in the contemporary global economy. Additionally, some rural areas face unique contemporary problems related to drug dependency and the inability of adequate segments of the potential workforce to pass drug screening tests.

Workforce Development Recommendations from Governor's Economic Development Strategic Plan

The following recommendations are derived from Governor Kaine's economic development strategic plan, *Virginia Leading the Way*, and outline approaches that will be addressed in more detail in the Governor's workforce development strategic plan to be released later this year. Nevertheless, they provide some broad outlines of where the state can influence a closer alignment of workforce development assistance with those areas with identified needs.

- Work to ensure and promote a quality statewide education system from pre-Kindergarten through post-graduate programs, including affordable access to post-secondary education for Virginians.
- Reform the local Workforce Investment Boards (WIBs) and local infrastructure to improve the efficiency and effectiveness of the Virginia Workforce Network, sustain business involvement and ensure that workforce development and training are responsive to Labor markets, commuting patterns, economic cluster data, educational attainment data, job projection data, existing Higher Education infrastructure and other strategic economic demands.
- Focus the use of corporate incentives more on workforce training, retraining, and education, including increasing opportunities for apprenticeship, co-operative education, and internships to develop skills required by businesses now and in the future.
- Increase the number of college graduates in high demand areas, by establishing incentives to provide tuition reimbursement or loan forgiveness for students in science, technology, engineering, mathematics, nursing, education, and other critical fields, provided the student agrees to work in an area in Virginia in need of those skills for a required period.
- Align workforce development and training activities with state, local and regional economic development goals and objectives.
- Promote parity in skills development in areas of the state where individual skill levels do not meet economic demand.
- Promote effective mechanisms for collaboration across secretariats, regions, and agencies to ensure a coordinated approach and eliminate overlap and duplication of effort.

Part 3 - Recommendations

The Manufacturing Impact and Economic Diversification Plan study participants met to consider the above information and developed the following recommended actions for further consideration:

1. The Manufacturing Development Commission should continue investigating the current tax policy of the Commonwealth, with particular emphasis on machinery and tools taxes and others that affect manufacturing and may impede further capital investment. Additionally, a group chaired by the Secretary of Commerce and Trade and the State Tax Commissioner that includes local government officials and members of the manufacturing community, is currently exploring these issues on a multilateral front and should continue to do so. Issues to consider include the impact of machinery and tools taxes on existing and potential Virginia manufacturers, and particularly how these taxes factor into expansion (investment in additional taxable equipment) and location decisions.

2. Provide a data model for localities/regions to aid in tax base diversification and to encourage localities to market to their strengths. A state level, multi-agency “economic opportunity team” is proposed to gather and analyze data on the locality’s or region’s level of dependence on machinery and tools taxes with particular focus on workforce demographics, educational attainment (for cluster analysis), and industrial concentration (at-risk industries and communities). This analysis is intended to also focus on the transferability or applicability of existing industry skills to other industries that could form the basis for an industrial recruitment effort. The team, which is proposed to also include private sector business leaders, will then assist in the development of an economic development and existing business retention plan. As a critical antecedent to the development of this plan, each locality or region must first assess its attributes and assets and create a vision and strategy for achieving success in the target markets they identify. Localities should also access extension services in the community/economic development context so that they become an integrated partner. The state team should develop appropriate performance metrics for each local/regional effort, measuring both input and output. The team of state agencies should include but not be limited to the following agencies: Department of Business Assistance, Department of Agriculture and Consumer Services, Department of Housing and Community Development, Virginia Community College System, Virginia Employment Commission, Virginia Economic Development Partnership, and Virginia Resources Authority. The Department of Business Assistance should lead these efforts including coordinating continuing reporting, if any, on the progress of the initiative.
3. The Virginia Economic Development Partnership, in conjunction with local economic development officials, should develop a model business retention plan that will involve data gathering, analysis and management, and methods and training for developing contacts, communications, and problem-solving strategies with local industries and businesses. This model plan should be made available to localities to better coordinate existing business outreach throughout the Commonwealth.
4. Establish a pilot program aimed at educating and attracting young people to manufacturing careers that ultimately could become a statewide campaign. This statewide campaign should complement the efforts of the national “Dream It, Do It” campaign spearheaded by the National Association of Manufacturers. This program would be coordinated with K-12 education and extracurricular efforts, as well as manufacturing internship/apprenticeship opportunities offered through the Virginia Department of Labor and Industry and privately held companies. Funding resources for the initial pilot program could be requested from the Virginia Tobacco Commission’s special programs allocation.
5. Support the development and implementation of the state energy plan and other recommendations that seek to keep Virginia competitive with low energy costs. This support should include the review of obstacles related to the establishment of additional co-generation facilities and maintenance of current low energy costs.
6. Working in tandem with those strategies outlined in the Governor’s Workforce Development Strategic Plan, seek additional resources for existing training gaps and retraining programs. Use the existing community college network and other providers (including targeted employers) for training and retraining services on a community level. Maximize training resources from all available sources including the Workforce Investment Act (WIA) funding allocated to the local Workforce Investment Boards. Focus the use of the WIA funds for more corporate incentives on workforce training, retraining and education. Seek maximum flexibility, within the confines of federal law, in utilizing WIA funds statewide. Request additional funding for the Workforce Services programs within the Department of Business Assistance.

7. Expand broadband access in Virginia's underserved areas by investing federal, state, local and private resources with a goal of ensuring that every business in the Commonwealth has access to broadband services by 2010 as stated in Governor Kaine's Economic Development Strategic Plan, *Virginia Leading the Way*. Broadband infrastructure is vital for these areas to remain competitive in the global economy, and is crucial for business attraction and expansion, education, workforce development, entrepreneurship and other areas.
8. Increase the amount of occupation-specific training delivered by the Virginia Community College System (VCCS) by 30 percent over the next three years by providing additional state support for non-credit instructional courses and services. The VCCS administers, markets and delivers occupational and career-focused non-credit courses and services both for a specific business or company and to the general public in support of community-wide workforce development. Non-credit courses can be more flexible than credit offerings and tailored to specific workforce needs. Additional funding will allow community colleges to develop and deliver additional courses and services to raise the skill level of incumbent workers, provide entry-level training to newly hired workers, and raise the overall occupation specific skills in a community.