

APPENDIX B-19: VIRGINIA

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Overview

For the second year in a row, Virginia has been ranked number one by *Forbes* in its "Best States for Business" report, showing that Virginia's business environment is very strong. The number one status was given to the state again for its low unemployment rate, high quality of life and large prospects for growth. However, the state didn't dominate the rankings as it did last year. Virginia placed in the top ten of six main categories last year: business costs, labor, regulatory environment, economic climate, growth prospects and quality of life. This year, the state fell out of the top ten in two fields: business costs and economic climate.

Forbes puts Virginia on the list of practically any corporation that is looking to locate on the East Coast or in the Southeast, the most competitive regions of the United States.¹ The rankings list the states from 1-50 (with a ranking of one being the best). Virginia's primary rankings *Forbes* are:

Virginia's <i>Forbes</i> Rankings	
Overall Rank	1
2006 Rank	1
Business Costs Rank	17
Labor Rank	5
Regulatory Environment Rank	1
Economic Climate Rank	11

Public Policy

The "State Competitiveness Report (SCR) 2007,"² a study by the Beacon Hill Institute ranks a state's ability to produce high income, and generally a better quality of life for its

¹ Kurt Badenhausen. "Special Report: The Best States for Business." *Forbes Magazine*. July, 2007.

http://www.forbes.com/business/2007/07/10/washington-virginia-utah-bizcz_kb_0711bizstates.html

² David Tureck, Jonathan Haughton, Frank Conte, and Christopher Doyon. *State Competitiveness Report*

citizens. The rankings compare all the states and rank them 1-50 (with a rating of one being the best). In this study Virginia received a relatively high rank of 16th. Virginia's ranking in the SCR was greatly helped by its elite rank of 3rd in the category of government and fiscal policy.³

Pursuant to Commonwealth code, each governor of Virginia must establish an Economic Development Strategic Plan during the first year in office. Governor Tim Kaine (D) started the process of developing the strategic plan in early 2006 by issuing an Executive Order establishing a steering committee to guide the process. He appointed 54 steering committee members, representing a broad cross-section of citizens with expertise and interest in Virginia's economic and community development.

In September 2006, Governor Kaine released his economic development strategic plan for the state entitled, "Virginia Leading the Way."⁴ It incorporates the governor's vision of where he wants the Commonwealth to go, along with aggressive goals and measurements by which to gauge their progress. These nine goals include:

- Enhance Virginia's strong business climate to expand economic opportunities and job growth.
- Establish state and local programs that identify and meet the needs of existing businesses and facilitate their expansion in Virginia.
- Provide a world-class workforce system that is responsive to employer and worker needs and creates a well-trained, well-educated and globally competitive workforce.
- Enhance economic development efforts in Virginia's distressed areas to help reduce economic disparity and to promote opportunity for all of Virginia's regions.
- Emphasize regional cooperation in economic, workforce, and tourism development.
- Use Virginia's proximity to the national capital and the strong military presence in the state as a base for further economic growth.
- Support technology, research and development, and other emerging sectors to diversify Virginia's economy and maintain its competitive advantage.
- Strengthen Virginia's competitive position in national and international travel and tourism markets.
- Develop a coordinated international marketing strategy for Virginia including both foreign direct investment and export/import features.⁵

² 2007. Boston: Beacon Hill Institute for Public Policy Research at Suffolk University, December, 2007. 61.

<http://www.beaconhill.org/Compete07/Compete2007State.pdf>.

³ Tureck, 61.

⁴ Timothy Kaine. Virginia Leading the Way, Governor Kaine's Economic Development Strategic Plan: Summer, 2008. <http://www.commerce.virginia.gov/EconomicDevelopment/EconStratPlan-2006.pdf>

⁵ Kaine, p. 13.

Regulatory Affairs

Forbes ranks Virginia as the nation's best regulatory environment.⁶ While the regulatory environment in Virginia is one of the least complicated of all U.S. states, the process can seem daunting at times. Most environmental regulations on business are under the leadership of the Department of Environmental Quality (DEQ). The creation of the DEQ in 1993 consolidated the functions of four former agencies to streamline both the environmental permitting process and communications with business, government and the public.

The Virginia DEQ, not the US Environmental Protection Agency administers environmental programs and enforces environmental regulations in the commonwealth. Because of this, Virginia's permitting process is found to be quicker and easier than when dealing directly with the federal government. Once a satisfactory permit is forwarded to the DEQ, a fairly quick turnaround will most likely follow.

Tax Policy

Virginia has some of the best tax rates in the country. The State Business Tax Climate (SBTC) is a tool for lawmakers and the media to compare the states' tax policies (with a ranking of one being best). In this index, Virginia placed 14th out of 50.⁷ The index particularly praised the state's corporate taxes which placed 4th among all states.⁸ Meanwhile, the 2007 Small Business Survival (SBS) index rates a state's public policies according to how friendly a state is toward entrepreneurial activity. In that study the state placed 9th out of all states and the District of Columbia.⁹ While the SBS gave Virginia a high overall rating, they were not as positive about the state's corporate tax policy, yet still ranking the corporate income at 16th¹⁰ and the gas tax at 18th.¹¹

CNNmoney.com¹² reports that the 2006 Tax Foundation, a nonprofit fiscal policy group, rates Virginia as the 10th most tax-friendly state. The state's corporate income tax has not been raised in more than thirty years and, at 6%, its rate is one of the lowest in the nation.¹³

The combined state and local sales tax is 5%. Counties and cities are separate taxing entities in Virginia. Consequently, companies pay taxes to either a county or a city, not to

⁶ Badenhausen.

⁷ Chris Atkins and Curtis S. Dubay. Background Paper: 2008 State Business Tax Climate Index. October, 2007, Number 52. The Tax Foundation. 10. <http://www.taxfoundation.org/files/bp57.pdf>

⁸ Atkins.

⁹ Raymond J. Keating. Small Business Survival Index 2007: Ranking the Policy Environment for Entrepreneurship Across the Nation 12th Annual Edition. Small Business & Entrepreneurial Council, Washington, DC, November, 2007. 2. http://sbecouncil.org/Media/pdf/SBSI_2007.pdf?CFID=514256&CFTOKEN=91743709

¹⁰ Keating, 30.

¹¹ Keating, 31.

¹² "How Tax Friendly is Your State" CNN Online. 4 Oct. 2006.

http://money.cnn.com/2006/04/10/pf/taxes/taxfriendly_states_2006/index.htm

¹³ Virginia Economic Development Partnership.

both. In some instances, towns do assess local taxes which would be added to county taxes.

Because the Commonwealth has a balanced budget, mandated by their constitution, Virginia's tradition of fiscal discipline has earned the Commonwealth an AAA bond rating.

Key Points:

Corporate Income Tax

- Tax rate of 6 %, not raised in over thirty years
- Has a three-factor apportionment formula of payroll, property and sales (with sales double-weighted)
- A double-weighted sales factor, which has the effect of reducing tax liability for firms with significant sales to customers outside Virginia
- Tax credits for job creation and investment in economically stressed areas
- No franchise or net worth tax¹⁴

Sales and Use Tax

- The total tax is 5% (4% state and 1% local).
- A seller is subject to a sales tax on gross receipts derived from retail sales or leases of taxable tangible personal property
- Manufacturers do not pay tax on purchases used for production; distributors do not pay tax on items purchased for resale¹⁵

Below is a comparison of taxes and their rates between Virginia, all of the U.S. and the South Atlantic region of the U.S.:

TAX COMPARISON ¹⁶			
Taxes	Rates		
	Virginia	U.S. (Median)	South Atlantic (Median)
Income Taxes:			
Corporate Income Tax	6.00%	6.90%	6.90%

¹⁴ VEDP.

¹⁵ VEDP.

¹⁶ "Taxes." *Virginia: Best State For Business.* in *State and Local Taxes: All States Tax Guide.* Research Institute of America. 20 Mar. 2007 and 15 May 2007.

http://www.yesvirginia.org/Virginia_Advantage/Taxes.aspx

Sales and Use Taxes:			
State Tax	4.00%	5.30%	5.00%
State and Typical Local Tax (combined)	5.00%	6.00%	5.00%

Tax Credits

Virginia demonstrates a willingness to invest in those who invest in their state. They offer a variety of performance-based incentives, from tax credits to tax exemptions. Some examples of incentives for businesses locating in the Commonwealth include:

Virginia Jobs Investment Program (VJIP)

As previously mentioned, this program offers customized recruiting and training assistance to companies that are creating new jobs or experiencing technological change. This program is designed to reduce the human resource development cost of new and expanding companies.¹⁷

Virginia Investment Partnership Grant Fund

For operating Virginia manufacturers, research and development services supporting manufacturing, and large basic employers, this is a discretionary investment performance grant program. The program is targeted to companies that have operated in Virginia for at least five years, and who are proposing expansion projects that meet certain criteria.¹⁸ In addition, Virginia offers some of the broadest sales and use tax exemptions in the U.S. They do not tax manufacturers' inventory, intangible property, and corporate aircraft. Virginia Small Business Financing Authority (VSBFA) offers programs to provide businesses with access to capital needed for growth and expansion. The programs are as follows:

- Industrial Development Bonds and the Umbrella Bond Program
- Virginia Economic Development Loan Fund
- Loan Guaranty Program
- Child Day Care Financing Program
- Virginia Capital Access Program
- Small Business Environmental Compliance Assistance Fund
- Southside Region Tobacco Capital Access Program

Enterprise Zones

¹⁷ “Business Incentives.” Virginia Economic Development Partnership.

http://www.yesvirginia.org/Virginia_Advantage/Taxes.aspx

¹⁸ “Business Incentives: Investing In Each Other.” Virginia Economic Development Partnership.

http://www.yesvirginia.org/Virginia_Advantage/BusinessIncentives.aspx

Through Virginia's Enterprise Zone program, state and local incentives are provided to businesses that invest and create jobs within Virginia's enterprise zones throughout the state.

Technology Zones

To encourage growth in targeted industries, Virginia authorizes its local communities to establish technology zones. Presently, 21 localities have created these technology zones throughout the state.¹⁹

Foreign Trade Zones

Virginia authorizes six foreign trade zones designed to encourage businesses to participate in international trade by effectively eliminating or reducing customs duties.²⁰

Innovation

The New Economy Index²¹ (NE) rates the states from 1-50 (with a one being the best) according to advancements in innovation and ability to succeed in a technology-driven society. In this study, Virginia ranked exceptionally well at 8th in the nation. The NE index gave Virginia especially high marks for having a large number of IT professionals ranking them 1st and in the number of high-tech jobs. In addition, the SCR ranks Virginia especially high for technological innovation at 11th out of all 50 states.²² The SCR ranked the state the highest for having scientists and engineers as a part of the labor force, and 3rd among all states for high-technology jobs.

Virginia's economy is obviously strong, but it is also diversified and growing at a steady pace. Current forecasts project job growth in Virginia to be at least as good as the rest of the nation and, in many industries and areas, to exceed national trends. However, a slowing housing sector and increases in energy costs could offset anticipated growth.

As it relates to international trade, Virginians provide an array of services and manufactured goods to customers throughout the world. Its strong manufacturing base produces everything from steel beams, wood flooring, and trucks to semiconductors, robots, and rocket engines. As one of the leading centers of software development, Virginia's high-technology economy continues to grow. And, as one of four US states currently licensed and capable of launching communications satellites and other commercial payloads into space, Virginia has all the right assets to continue its economic leadership.

According to Virginia's Economic Development Partnership's website, Virginia's travel and tourism industry produced a total economic contribution of more than \$16 billion in

¹⁹ Virginia Economic Development Partnership [Need complete citation]

²⁰ Virginia Economic Development Partnership.

²¹ Robert Atkinson and Daniel K. Correa. The 2007 State New Economy Index.: Benchmarking Economic Transformation in the States. Innovation Technology and Innovation Foundation. February, 2007. 13. http://www.kauffman.org/pdf/2007_State_Index.pdf

²² Tureck, et al, 61.

2005, a 9.6% increase over 2004.²³ Also, Virginia tends to have a high concentration of managers, professionals, and college-educated residents working in “knowledge jobs” which are defined as jobs that require at least a two-year degree. With one or two exceptions, their manufacturers tend to be more geared toward global markets, both in terms of export orientation and the amount of foreign direct investment, according to the Kauffman Foundation’s “2007 State New Economy Index”.²⁴

AeA, the nation’s largest trade association representing all segments of the high-tech industry, has ranked Virginia as the national leader for its concentration of high-tech workers according to their recent report, “Cyberstates 2007: A Complete State-by-State Overview of the High-Technology Industry”.²⁵

In the past few years, Virginia has attracted its share of corporate headquarters such as Philip Morris USA and paper products company MeadWestvaco Corp. to the Richmond area. Approximately 800 foreign-affiliated firms are located in the Commonwealth. These firms employ over 100,000 people and represent a capital investment of more than \$10 billion. The top five ranked countries in terms of investment are Germany, Japan, Canada, United Kingdom, and France.

Key Points:

- More than 11,500 high-tech companies operate in Virginia
- Nearly 60 firms with annual revenue over \$600 million are headquartered in Virginia
- Virginia is headquarters to 29 *Fortune 1000* firms
- More than 770 foreign-affiliated firms are located in the Commonwealth
- Virginia ranks 3rd among the 50 states as a recipient of federal R&D funds
- Virginia ranks 10th in terms of venture capital deals and 11th for total venture dollars invested.
- Virginia ranks among the top ten states best adapting to recent changes in the U.S. economy, according to “The 2007 State New Economy Index” published by the Information Technology and Innovation Foundation and the Ewing Marion Kauffman Foundation
- Virginia exported \$14.1 billion of merchandise in 2006.²⁶

Workforce

Virginia receives a relatively high ranking when it comes to its workforce. The SCR ranks the quality of its workforce in its “Human Resources” category. In this category, Virginia has an average rank of 24th in the country.²⁷ The fact that the SCR did not specifically rank the state’s number of adults in the workforce or those with high school

²³ Virginia Economic Development Partnership. www.yesvirginia.org

²⁴ Atkinson and Correa, 37.

²⁵ “Virginia Now Has the Highest Concentration of Technology Workers.” AEA Association. 4 Apr. 2007. http://www.aeanet.org/publications/idj/cyberstates2007_overview.asp

²⁶ Virginia Economic Development Partnership.

²⁷ Tureck, et al, 61.

degrees indicates that these numbers are likely somewhere in the middle, because the SCR will only specify these factors when they are either especially good or bad for a state. However it should be noted that the state's unemployment rate is the 10th best in the nation, and the state also enjoys the nation's best rates for employers when it comes to minimum wage rates.²⁸

Virginia offers customized recruiting and training services through the Virginia Department of Business Assistance. As a result of advanced training and education, combined with a vast diversity of skill sets, Virginia's workforce is one of their greatest assets and one of business' greatest advantages.

Virginia is a right-to-work state. Their right-to-work law guarantees individuals the right to work regardless of whether or not they belong to a labor union or organization. The law prohibits both a closed shop, where employers may hire only members of the contracting union, and a union shop, where an employee who is not a union member must join after a certain period of employment and must remain a member as a condition of employment.²⁹

Workforce training assistance in Virginia is provided through the Virginia Department of Business Assistance's Virginia Jobs Investment Program (VJIP). VJIP provides customized recruiting and training services to companies that are creating new jobs or experiencing technological change. The Department of Business Assistance assigns one state point-of-contact to coordinate all the resources available to a company.

Key Points

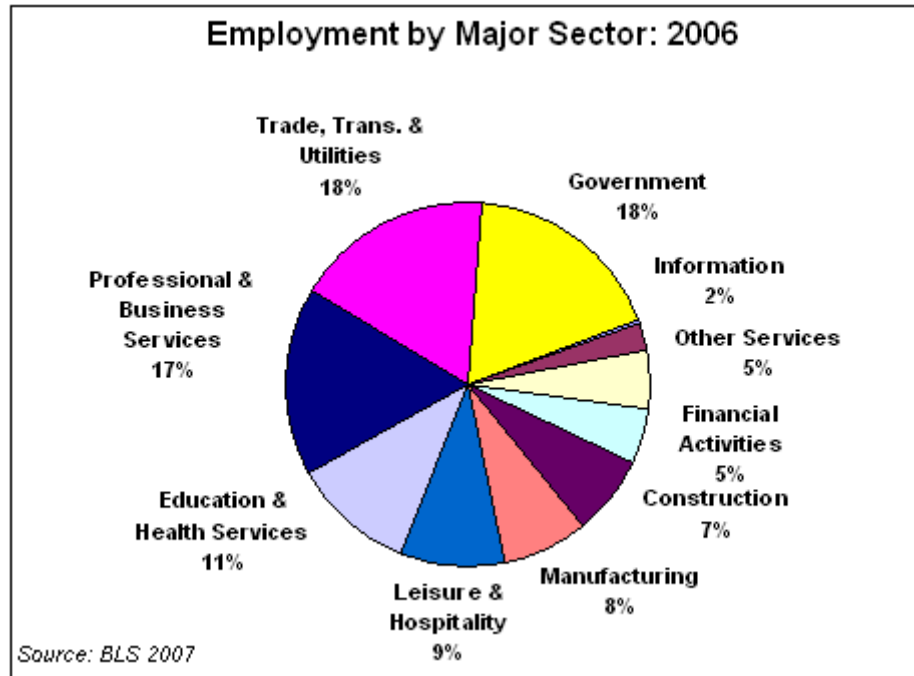
- At nearly 5.2 million, the Commonwealth's prime working population, ages 16-64, ranks 7th in the nation.
- Virginia ranks in the top ten in labor productivity
- Virginia experienced a net in-migration of more than 243,000 people from 2000 to 2005
- More than 502,000 students are enrolled in the 93 in-state institutions of higher education
- Nearly 25,000 doctoral scientists and engineers reside in Virginia, one of the highest concentrations in the nation³⁰
- The Virginia Community College System through its 23 colleges, provides occupational and technical training programs, many of which have been designed specifically to meet the needs of nearby industries.
- More than 17,000 military personnel separate from the armed services in the Commonwealth annually. This adds a skilled supply of potential recruits to the state's labor supply.³¹

²⁸ Tureck.

²⁹ National Right to Work Committee: <http://www.nrtwc.org/states/va.htm#rtwlaw>

³⁰ Virginia Department of Economic Assistance: <http://www.dba.state.va.us/workforce/>

³¹ Virginia Economic Development Partnership.



Education

According to the US Chamber of Commerce's *"Leaders and Laggards: A State by State Report Card on Educational Effectiveness"* study, Virginia performs especially well in providing secondary education to its residents. In this study, Virginia was one of only ten states to receive an overall rating of a "B" for the quality of its education system.³² In particular the state won high marks for the quality of its teachers. The state places exceptionally well for having a 21st century teaching force. These teachers are required to pass subject matter tests, thereby ensuring that students will be learning from an individual with subject matter expertise. In addition, the state also places well in the academic achievement of lower income students, the rigor of standards, workforce readiness and return on investment. The report did indicate that Virginia could improve its data quality and truth in advertising, by assigning low marks to the state on the credibility of student's proficiency scores.

The education system in Virginia creates a large pool of well-educated individuals who support industry needs. Their workforce is cited as a key factor for companies expanding or relocating to the Commonwealth. Virginia's schools exhibit excellence at all levels, from elementary and secondary schools to community colleges, universities, and graduate schools.

³² The Institute for a Competitive Workforce. *Leaders and Laggards: A State by State Report Card on Educational Effectiveness*. US Chamber of Commerce, 2007.
<http://www.uschamber.com/icw/reportcard/default>

To note, the University of Virginia ranked 2nd and The College of William and Mary ranked 6th in the *U.S. News and World Report's* 2008 Top Public National Universities list. Also, Virginia Tech's Engineering Program is ranked 14th in the nation in the 2008 *U.S. News and World Report's* Best Engineering Institutions list.³³

Key Points

- In May 2006, ten Virginia high schools were cited by *Newsweek* as being among the 100 best public schools in the country.
- Recent rankings in *Expansion Management Magazine* listed six school districts in Virginia Gold Medal Districts, while and seven received the Blue Ribbon rating.
- Virginia is home to six military schools which is the largest concentration in the nation.

More than 425,000 students are enrolled in the 90 institutions of higher education in the Commonwealth.³⁴

Cost of Market Entry

The Milken Institute releases an annual study in which it ranks the states with the highest cost of doing business on a scale of 1-50 (with a ranking of 50 being best for business).³⁵ In this study, Virginia was given an average ranking with the 25th highest cost of doing business.

According to the *Pollina Corporation Real Estate* ranking, a commercial real estate consulting firm, Virginia's top attributes include an incentive environment that is the 4th best in the country. Also, its unemployment rate is the 3rd lowest in the nation. The state's cost of doing business, quality of workforce, and regulatory environment all drove Virginia to the top of *Pollina's* ranking.

Some of Virginia's key attributes making it attractive for corporations are:

- Streamlined permitting process
- Recruitment training programs to help new businesses become operational faster
- Right-to-work law allows individuals the right to work regardless of membership in a labor union or organization
- AAA bond rating
- 6% corporate income tax rate which has not been increased since 1972
- State programs at little or no cost to help businesses increase international sales
- Thirty-one publicly funded and nonprofit small business incubators

³³ America's Best Colleges 2008." *US News and World Report*. 2007.

http://colleges.usnews.rankingsandreviews.com/usnews/edu/college/rankings/rankindex_brief.php

³⁴ "Education System." Virginia Economic Development Partnership .

http://www.yesvirginia.org/Virginia_Advantage/Education.aspx

³⁵ "2007 Cost of Doing Business Index." Milken Institute. December, 2006.

<http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf>

- Eleven Virginia localities and metropolitan areas are in “*Boomtowns 2007*,” *Inc. Magazine*'s list of top cities for business based on job growth and business vitality
- In *Governing Magazine*'s Government Performance Project, *Grading the States 2005* survey, Virginia earned an overall grade of “A-” for management of state government. This is a testament to Virginia's long-term planning and management of money, people, infrastructure, and information. Among all 50 states, an “A-” was the highest grade earned, and was received by only Virginia and Utah, with Virginia being the only state to earn “As” in every category.
- *Chief Executive Magazine* ranked Virginia as the 9th Best State for Business in its 2007 CEO Confidence Index
- Virginia ranked 12th in the U.S. Chamber of Commerce's 2007 State Liability Systems Ranking Study at doing the best job of creating a fair and reasonable litigation environment as evaluated by corporate America

Virginia and New Jersey Comparison at a Glance

The Virginia Economic Development Partnership provides a comparison of the Commonwealth of Virginia and the State of New Jersey (or any other state) as it pertains to Education, Employment, Health Care, Income and Wages, Labor Relations, Population and Public Debt. Please see chart below for their comparison:³⁶

	Virginia	New Jersey
Education		
Doctoral Scientists & Engineers (2003)	24,940	26,410
Enrollment in Institutions (Fall 2005)	439,166	379,758
Federal Obligations for R & D (FY 2004)	6.25%	1.99%
Institutions of Higher Education (2005-2006)	107	59
Pupil-Teacher Ratio in Public Schools (2004)	12.9	12.1
Science & Engineering Graduate Students (2005)	12,530	12,267
Employment		
Civilian Labor Force (2006)	3,999,000	4,518,000
Labor Force Participation Rate (2006)	69.00%	67.00%
Manufacturing Employment (2006)	288,700	325,000
Nonagricultural Employment (2006)	3,726,200	4,075,000
Nonagricultural Employment Change (1990-2000)	21.40%	9.90%
Nonagricultural Employment Growth (1996-2006)	1.80%	1.10%
Prof. & Bus. Services Employment (2006)	627,400	602,100
Average Annual Cost Paid by Employers for Health Premiums for Family Coverage, 2005	\$7,569	\$8,661
Income and Wages		

³⁶ Virginia Economic Development Partnership: <http://howvacompares.yesvirginia.org/public/hvcweb.php>

Earnings of Production Workers in Mfg. (2006)	\$16.75	\$16.55
Foreign Direct Investment (2004)	\$17,751	\$40,187
Gross Domestic Product Growth (1996-2006p)	4.00%	2.70%
Per Capita Personal Income (2006p)	\$39,173	\$46,344
Per Capita Personal Income Growth (2000-2006p)	4.70%	3.80%
Labor Relations		
Percent of Workers Covered by Unions (2006)	5.20%	21.60%
	Virginia	New Jersey
Percent of Workers Mfg. Union Members (2005)	3.40%	11.80%
Right-to-Work Law (2007)	Yes	No
Unemployment Insurance Tax/Employee (2007)	\$106	\$548
Workers' Compensation Insurance (1/1/07)	\$2.47	\$4.74
Population		
Population (2006)	7,642,884	8,724,560
Population Change (1990-2000)	14.40%	8.80%
Population Change (2000-2006)	8.00%	3.70%
Public Debt		
General Obligation Bond Ratings (6/2007)	AAA/Aaa/AAA	AA/Aa3/AA-
Taxes		
Per Capita State-Local Taxes (2004-05)	\$3,657	\$4,890
State and Local Sales Tax (2007)	5.00%	7.00%
State Corporate Income Tax (2007)	6.00%	9.00%