



Review of the Tobacco Indemnification and Community Revitalization Commission

Study Mandate

- Evaluate performance of Tobacco Indemnification and Community Revitalization Commission (TICR)
- Review effectiveness of economic revitalization grants and strategy
- Make recommendations about outcome metrics and accountability measures

For full text of mandate, see 2010 Appropriation Act, Item 30F

Research Activities

- Surveyed 31 local economic developers
- Interviewed 60 stakeholders, including TICR members and staff, Blue Ribbon Panel chairman and staff
- Reviewed 131 TICR grant files
- Visited 34+ TICR-funded sites
- Analyzed data on 1,368 TICR-funded projects
- Attended TICR meetings and reviewed meeting transcripts (2000-2011)
- Interviewed other grant-making organizations

In Brief

The Tobacco Commission has had a significant positive impact on Virginia's tobacco region, but has also funded projects that have not contributed to regional revitalization. The commission needs a more strategic approach to guide future grants, and should better match funding to the economic needs across the region. It could also do a better job of documenting the performance of its grants.

In This Presentation

Why the Tobacco Region Needs Revitalization

Grants Have Provided Benefits But Revitalization Remains Elusive

TICR Has Made Grants With Limited Potential for Revitalization

Well-Defined Revitalization Strategy Needed

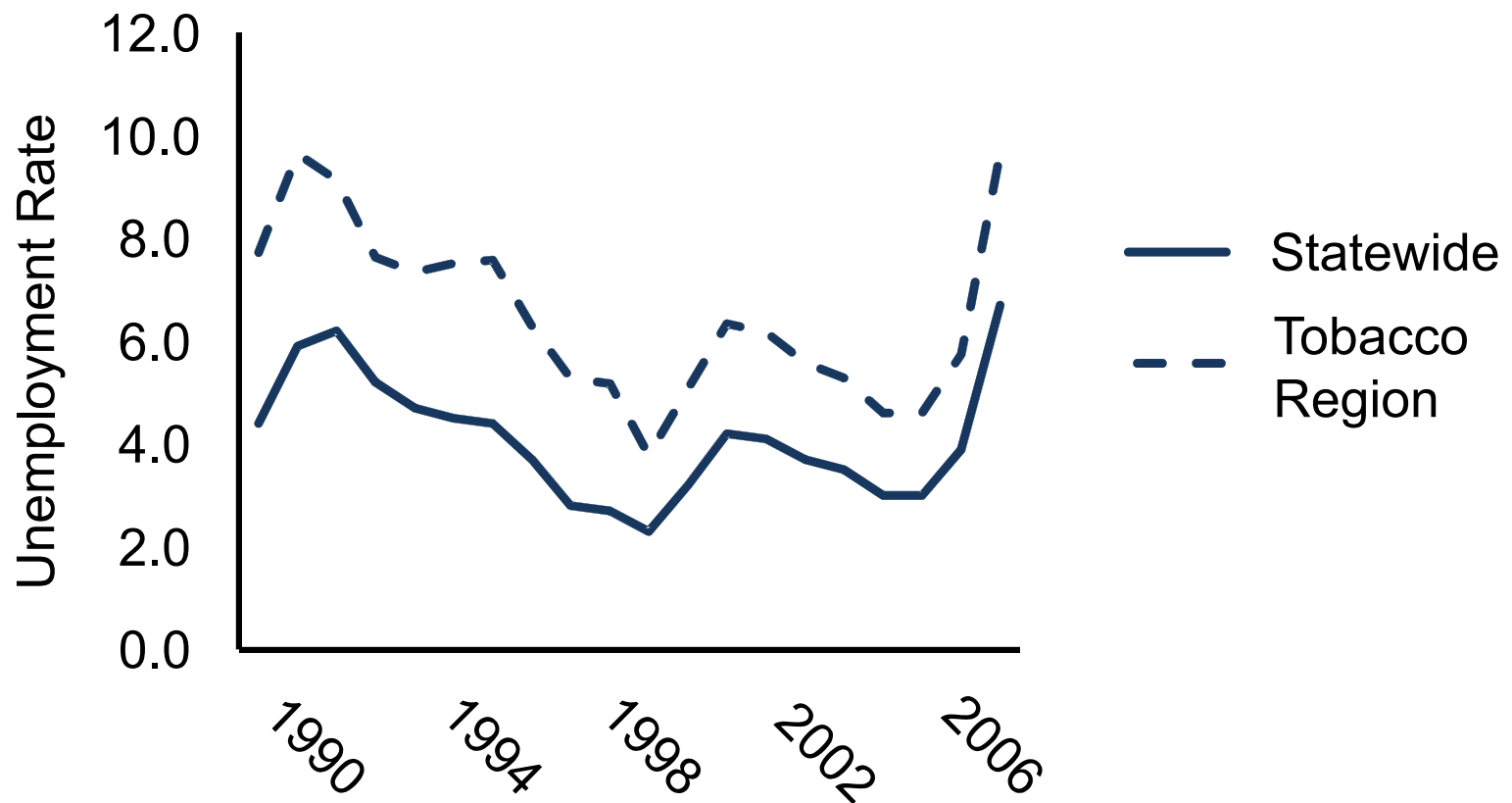
More Effective Governance Model Should Be Considered

Most Awards Not Paired With Relevant Metrics

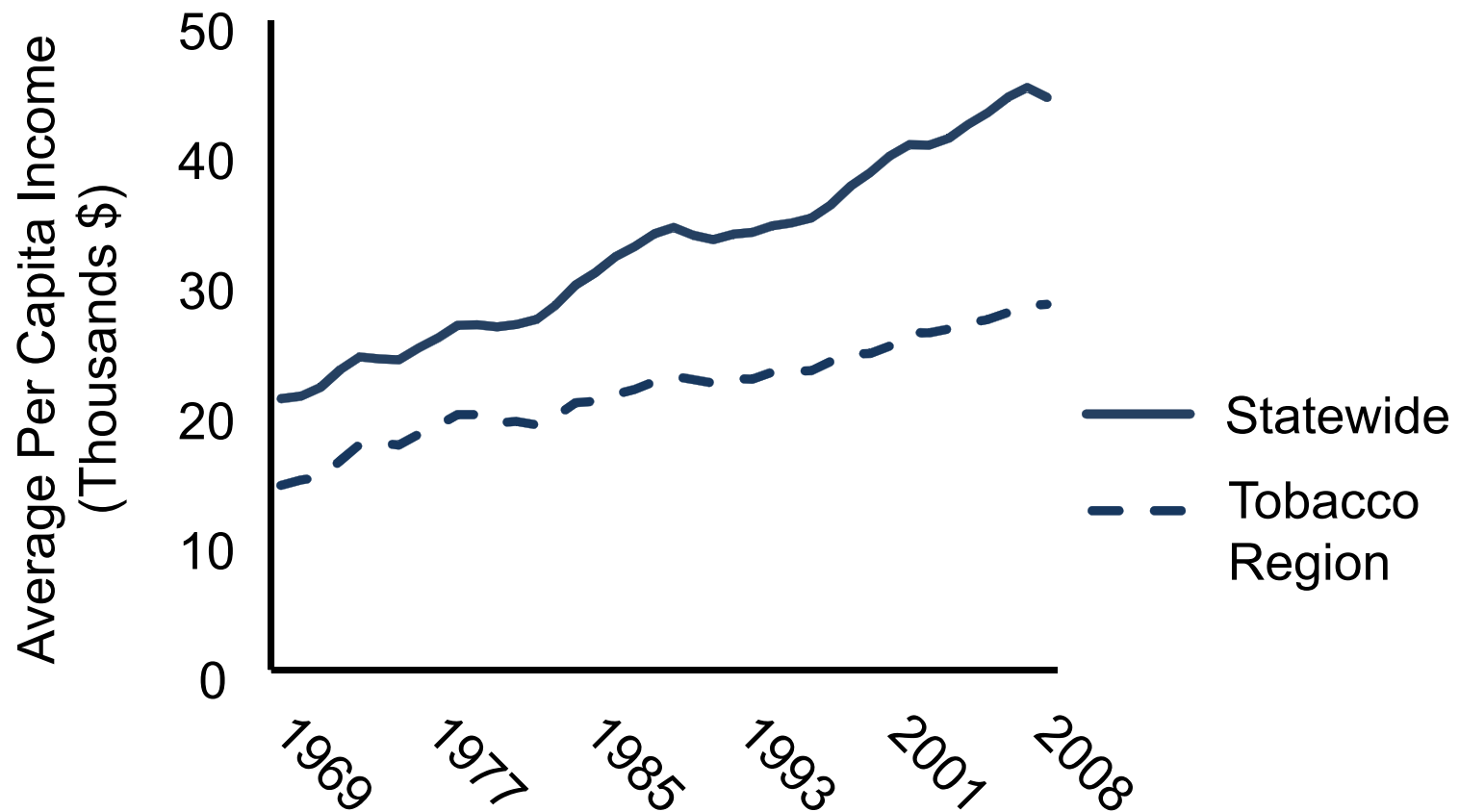
Why the Region Needs Revitalization

- Jobs lost in historically important industries
- Population losses in 18 of the 41 localities 2000-2010
 - Danville, Martinsville, Buchanan County lost more than 10%
- Economic performance and educational attainment of tobacco region localities remain below statewide levels

Unemployment Historically Higher in Tobacco Region



Region Historically Lags Statewide Income Level



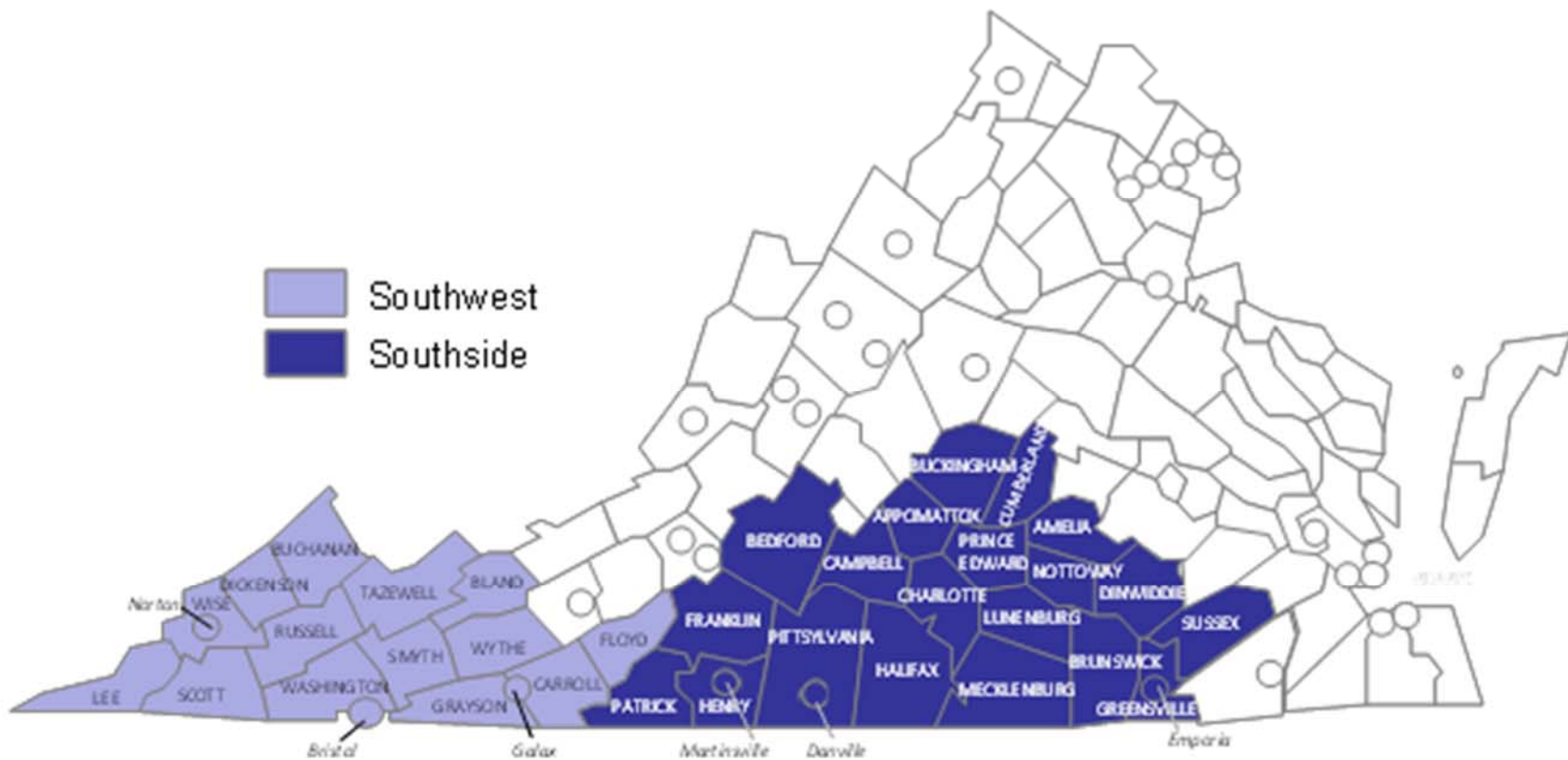
Virginia's Master Settlement Funds Split Between TICR, Health Care

- Funds come from tobacco companies, not taxpayers
- Pursuant to Tobacco Master Settlement Agreement, 1999 General Assembly directed funds
 - 50% to TICR
 - 40% to general fund (redirected to Virginia Health Care Fund by 2004 General Assembly)
 - 10% to Tobacco Settlement Fund
 - Administered by Virginia Health Youth Foundation to reduce tobacco use and obesity among children

TICR Promotes Economic Revitalization in Tobacco-Dependent Localities

- Statutes direct TICR to
 - Revitalize tobacco dependent communities ... in an equitable manner throughout the Southside and Southwest regions of the Commonwealth
 - Indemnify tobacco growers for losses
- Funding securitized in 2005-2007 generating net proceeds of \$1 billion

41 Localities in Tobacco Region



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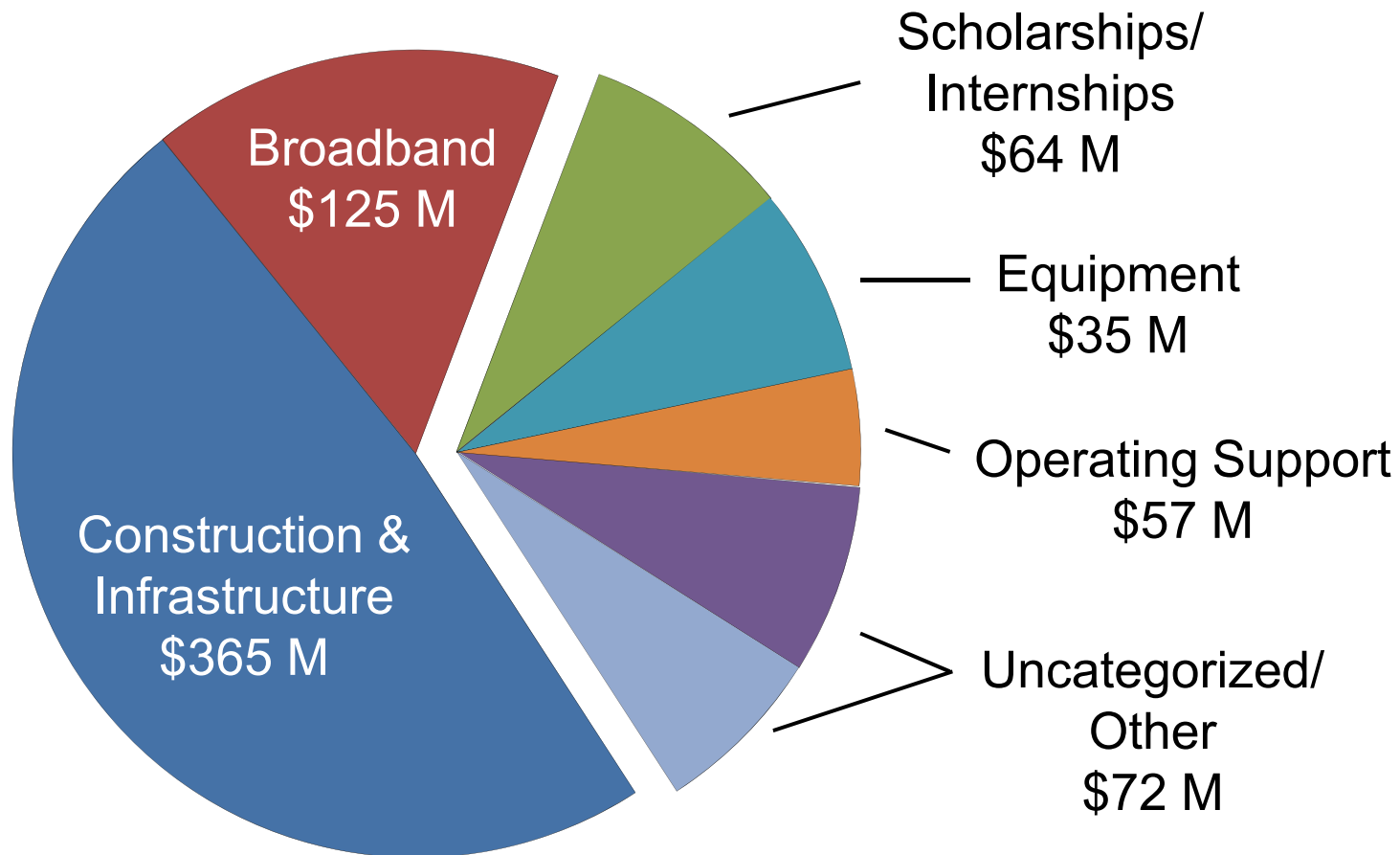
TICR Has Awarded \$756 Million for Economic Revitalization

- TICR has approved 1,368 grants since 2000

Awarded	\$756 Million
Expended	\$526
Remaining to be paid	\$229

- \$606 million remains available for future grants

Two-Thirds of TICR Awards for Infrastructure & Broadband



Largest TICR Investments

Project Type	Total TICR Awards (millions)
Industrial parks	\$155
Broadband access	125
Scholarships and student loans	64
Incentives to private entities (TROF)	61
Energy R&D centers	53
Institute for Advanced Learning & Research	27
King College Medical School	25
Total	\$510

Economic Revitalization of Tobacco Region Remains Elusive

- TICR expenditures yet to revitalize the region
 - Employment and income levels continue to lag Virginia
- TICR's ability to revitalize region complicated by
 - Two national recessions (2001, 2007-2009)
 - Limited resources: TICR's average annual expenditure of \$69 million is about 0.2% of the \$34 billion annual regional economy
 - Economic revitalization is ambitious and long-term

Economic Developers Believe TICR Having Positive Impact

- 80% said all or nearly all TICR projects they were aware of contributed to revitalization

TICR money gives us the opportunity to meet the challenges we have. TICR has made a major impact in the quality of life and the economy.

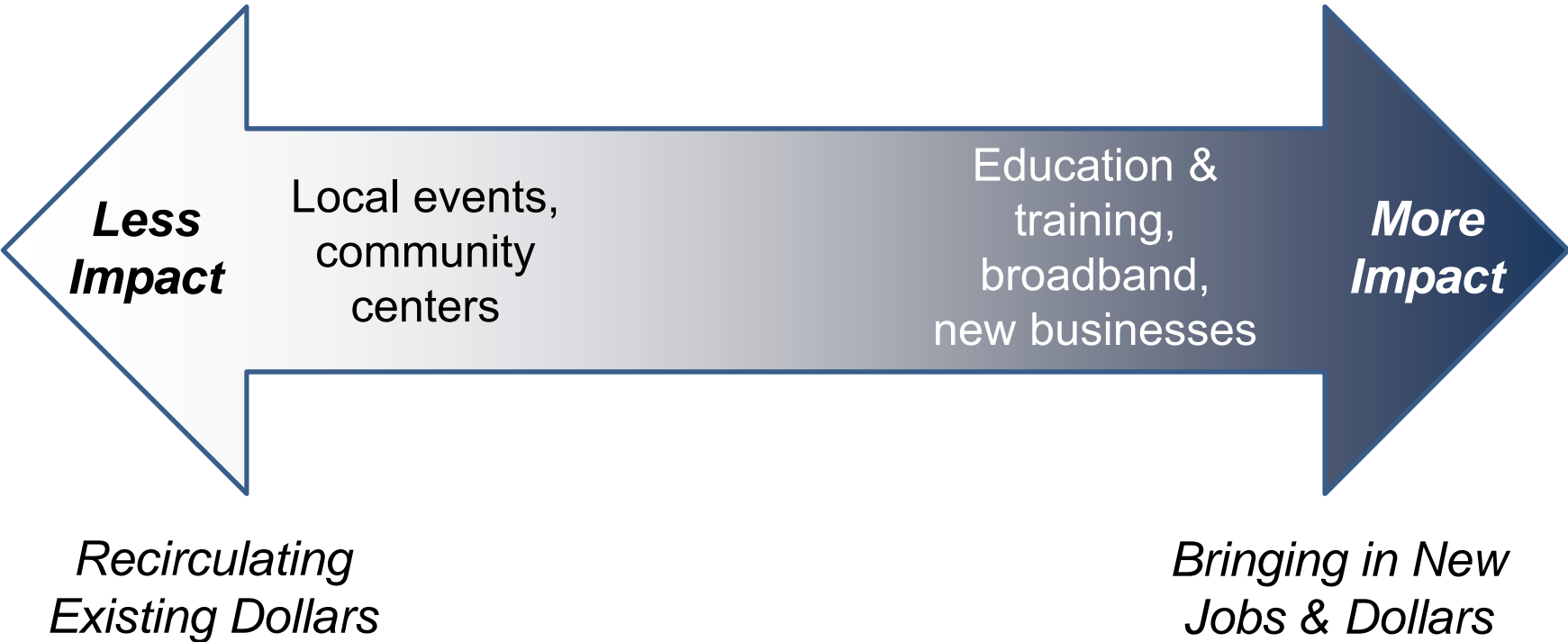
- 90% said economic conditions would be worse without TICR

I don't know where we'd be without TICR funding. The recession would have been much worse without it.

Economic Impact Difficult to Measure

- Meaningful outcomes data not collected by TICR for 89% of awards
- Many projects too recent to yield benefits
 - \$372 M awarded since 2008
- TICR's exact contribution to revitalization difficult to gauge

Some Projects Have More Revitalization Potential



TROF Grants Have Helped Generate Jobs and Investment

- \$24 M in TROF grants helped generate 7,100 jobs & \$1 B in private investment
 - Represents 55% of 13,000 promised jobs
- Other TROF grants have not generated anticipated jobs and private investment
 - \$4.7 M in grants generated few to no jobs
 - Some jobs have been eliminated due to companies downsizing or closing

At Least \$101 M Has Supported Higher Education and Workforce Projects

- \$64 M awarded for scholarships, student loans, or internships
 - Of total, \$25 M for 4-year scholarships to more than 6,200 students across the region
 - Of Southside students, 1,722 have graduated; 1,072 (62%) have returned to work in Southside
- \$17 M awarded to community colleges for variety of purposes
- \$20 M awarded to support 17 workforce & higher education centers
 - Community colleges satellite campuses, job placement assistance, business startup services

Broadband Initiative: Important Step Forward for Region

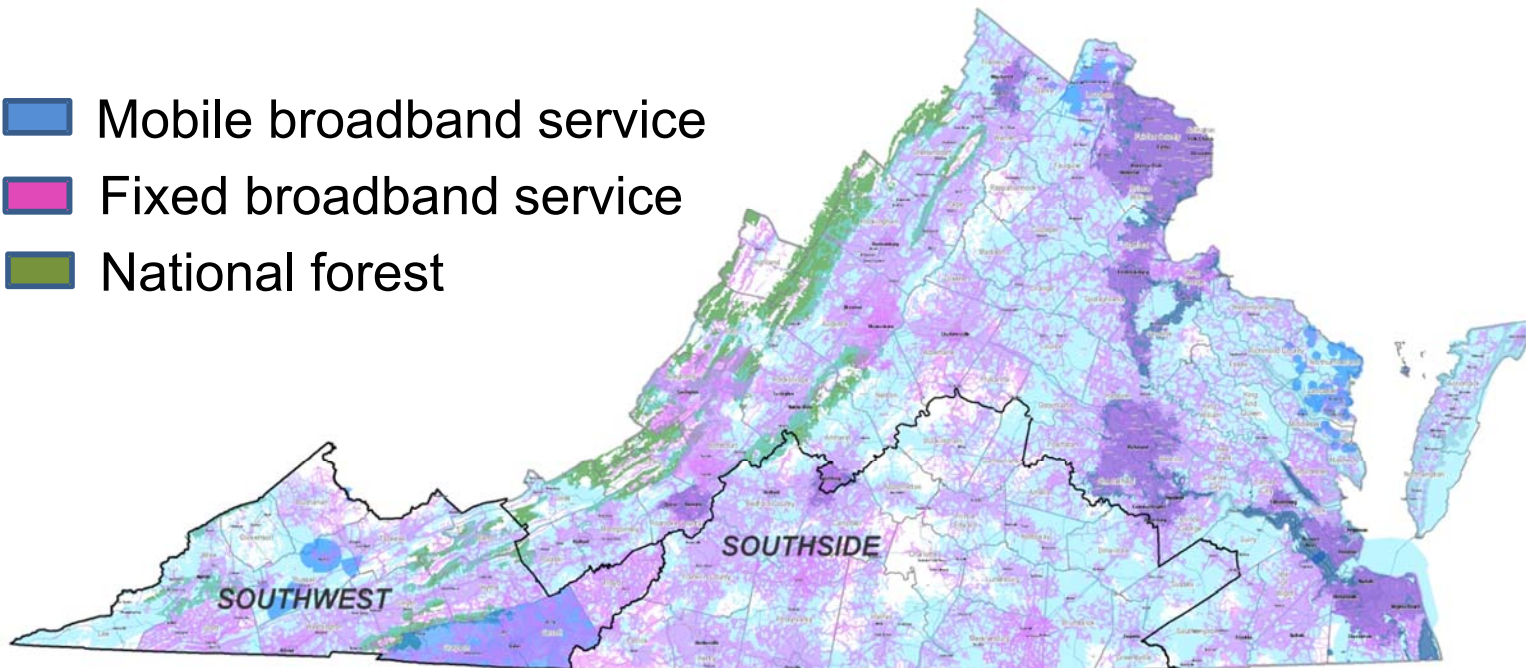
- TICR has invested \$125 M to expand high-speed Internet access
 - 1,075 miles of ‘backbone’ fiber throughout region
- New broadband access made other projects possible
 - New data centers in region
 - Microsoft, Mecklenburg County
 - CGI-AMS, Russell County
 - Distance learning initiatives
 - New College Institute, Martinsville

Mid-Atlantic Broadband Cooperative in Southside Virginia

- Created by TICR in 2003 as wholesaler of broadband access in Southside
- TICR invested \$54 M
- MBC installed 800 miles of broadband fiber
- Lowered cost of broadband access 30-98%
- 120 entities connected to MBC network
 - Schools, businesses, workforce & medical centers

Broadband Mostly Available in Tobacco Region

- Mobile broadband service
- Fixed broadband service
- National forest



Note: Broadband availability based on coverage, not connectivity. Data do not include all broadband providers in the State.

Source: Center for Innovative Technology, Virginia Geographic Information Network, Virginia Information Technology Agency, Virginia Tech, April 2011.

TICR Has Invested \$155 M in 70 Industrial Parks

- Initiative comes from localities, economic developers
 - TICR does not predetermine industrial park spending or optimal number of parks for region
- Mixed impact on region
 - Some parks successfully attracted companies & jobs
 - Others built in remote locations remain vacant
 - Many remain under development

Examples of TICR-Funded Industrial Parks

Industrial Park	County	Total Awards (millions)	Award Dates	Outcome
Riverstone Technology Park	Halifax	\$18	2001-10	Partially occupied by public & private entities
Berry Hill Mega Park	Pittsylvania	18	2008-11	Under development
Cane Creek Centre	Pittsylvania	6	2005-09	Partially occupied by IKEA supplier Swedwood
VA Heartland Regional Park	Charlotte	5	2001-10	Vacant
Constitutional Oaks Industrial Park	Lee	3	2001-10	Vacant

Industrial Parks May Be Longer-Term Investments

- Boydton Industrial Park, Mecklenburg County
 - TICR provided \$1.2 M in 2001 for acquisition & park expansion
 - Linked to high-speed broadband network in tobacco region to improve marketability
 - Actively marketed but vacant for 7 years
 - In August 2010, Microsoft announced it would build new data center at Boydton Park, representing investment of \$499 M and 50 new jobs

R&D Program Is Major New Initiative

- TIGR allocated \$100 M to research with commercial potential in region
- \$53 M awarded to develop 5 centers for energy-related research
 - 3 Southside, 2 Southwest
 - Nuclear reactor design, biofuels, clean coal technology
- 3 under development, 2 substantially complete

Appalachia America Energy Research Center, Wise



Center for Advanced Engineering and Research, Bedford



Sustainable Energy Technology Center, Danville



Institute for Advanced Learning & Research Has Generated Modest Returns

- TICR contributed at least \$27.3 M, plus \$13.3 M in related programs
 - IALR received \$45 M General Fund appropriations from FY 2004-FY 2011
 - 43 full-time employees
- State funds now 50% of budget and increasing
 - Other funding sources declining
 - FY 2010 federal grants below FY 2008 level
- Declining student enrollment at IALR
- Biotechnology research initiatives ongoing

Institute for Advanced Learning and Research, Danville



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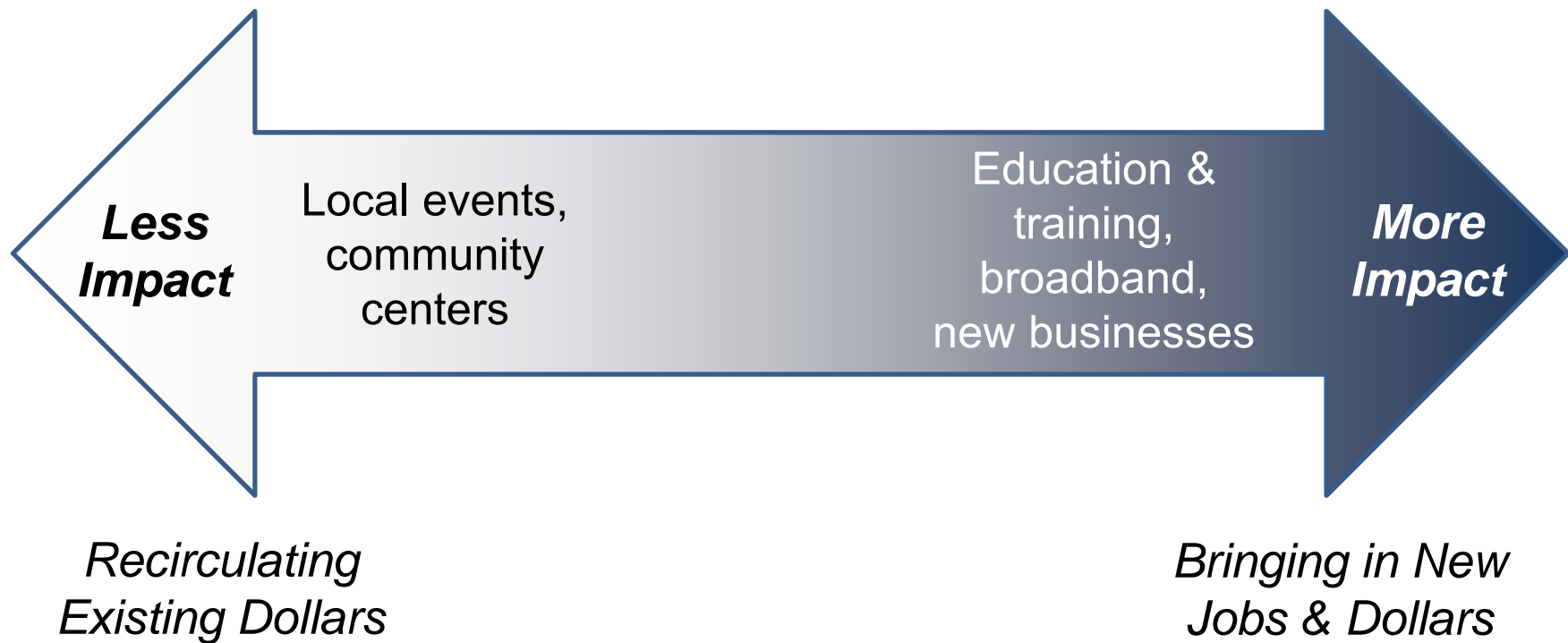
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Some Projects Have Less Revitalization Potential



TICR Has Awarded Many Grants with Limited Potential for Revitalization

- 274 projects of \$100,000 or less since 2000
 - Represents one-third of 800 TICR-funded projects
 - Small awards total \$15.6 M (JLARC staff estimate)
 - 35 awards of \$20,000 or less

Small Projects May Provide Only Local Benefits

- Small projects may benefit local community but have limited potential for revitalization
 - May only recirculate local dollars—marginal economic impact
 - Regional impact would be “surprising”
 - Examples: farmers markets, community centers, local tourist attractions and museums
- Projects with regional scope or educational component have greater potential

Kenbridge Community Center

TICR awarded \$927,000 to transform a school building into a community center. Proposed activities included community events, plays, classrooms, senior citizen activities, small business incubator.

Now used for town administrative and police offices. Two community events per month are held, and a one-employee business is officed there. No workforce development activities have occurred.

Kenbridge Community Center



Cumberland Bowl RV Park Jonesville

In 2007 TICR awarded \$300,000 to Jonesville in Lee County for an RV park in a town-owned park. Funds were for site design and construction. A project representative at TICR Committee meeting claimed the park could create jobs due to tourism, but the application stated “local residents will use the RV sites in lieu of tourists.” JLARC staff visited the site in March 2011 and found it still under development. \$120,000 in TICR funds remain unspent. The commission has rejected additional grant requests for the project.

Cumberland Bowl RV Park Jonesville



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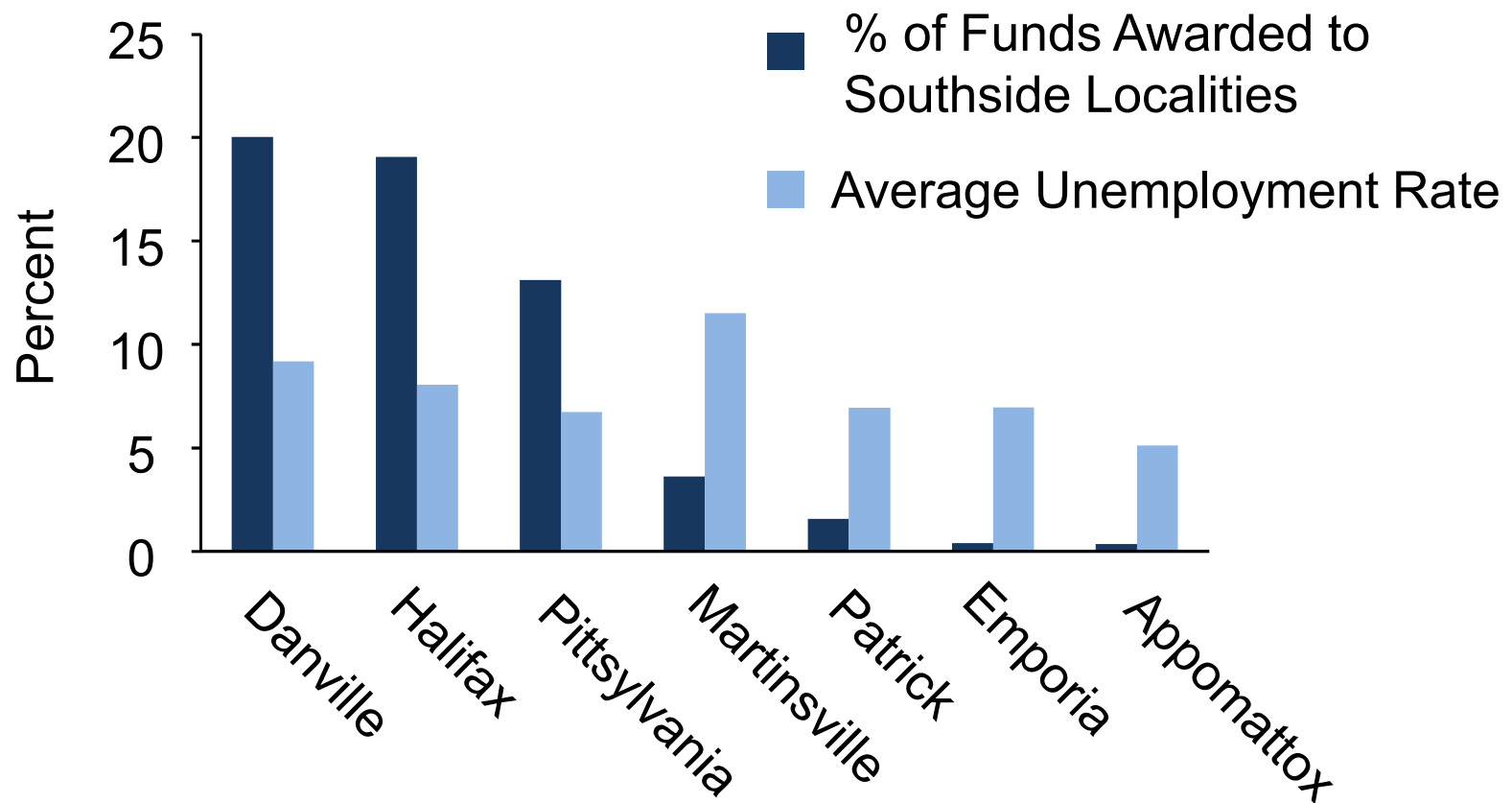
Tobacco Grower Indemnification to be Completed in 2012

- Indemnification one of TIGR's two statutory missions
- Opportunity to refine and refocus economic revitalization strategy

TICR's Process for Making Awards Is Mostly Reactive, Lacks Prioritization

- Commission announces funding availability by committee, waits for proposals
- Lack of clear priorities and vision result in many highly varied requests for funding
- No clear policy for prioritizing requests
- TICR has 7 broad-scoped grant-making committees
- Awards not linked to indicators of economic need
- Other grant-making organizations set priorities, call for proposals that respond to those priorities

Funds Awarded Compared to Unemployment Since 2000



Strategic Plan Is Minor Factor in Award Determinations

- Strategic plan last revised in 2006
 - Executive branch agencies required to update strategic plans annually as part of budget process
- Strategic plan is very broad
 - Staff: “Almost anything can be justified by it.”
- Strategic plan not consistently used in award determinations
 - Conformity with plan yields 5 points of possible 100
- Applicants do not consistently justify requests on basis of strategic plan

Other Grant-Making Organizations Use More Strategic Awards Processes

- Set well-defined priorities, research best practices, issue guidelines on what will be considered for funding

Martinsville's Harvest Foundation established a priority to improve education of area residents, and identified 3 "goal areas"—academic, career readiness, youth. It then announced funding actions to address these goals. For example, in the academic goal area an objective was "residents have opportunities to succeed academically beyond high school." This goal area had six actions that could be taken, such as "support initiatives to encourage college residents to return to area during breaks for internships."

Recommendation

The General Assembly may wish to amend the *Code of Virginia* to require TICR to reassess and revise its strategic plan at least biennially. Plan should report how TICR's awards impact key economic indicators or employment, income, and educational attainment.

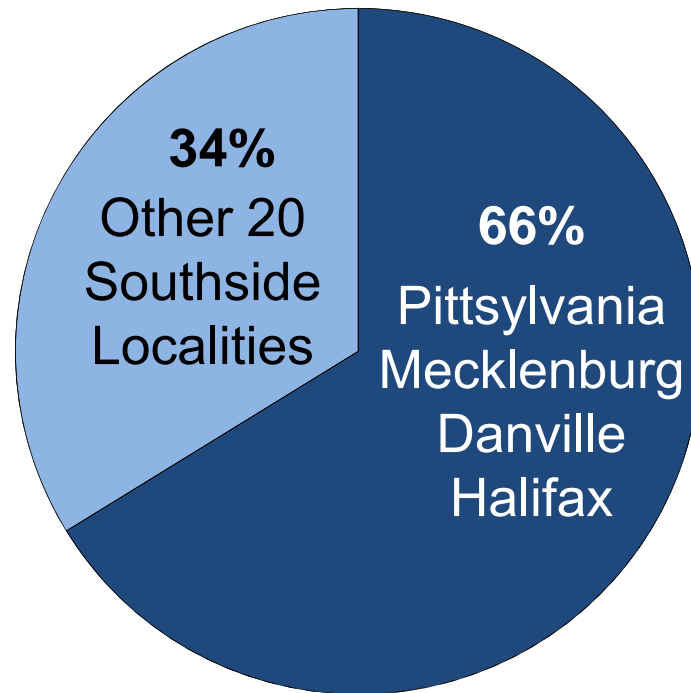
Recommendation

TICR should implement a formal process for biennially collecting input on the region's economic development priorities. This information should be used to set priorities, revise the strategic plan, and develop region-wide economic development strategies.

Formula for Southside Awards Does Not Encourage Regional Revitalization

- Funding available to Southside localities based on 1998 tobacco production
- Four (of 24) localities allotted two-thirds of funding under formula
- Awards not consistent with indicators of economic need
 - Martinsville ineligible for Southside economic development funds, despite having highest unemployment rate

Four Localities Allocated 2/3 of Southside Funds



- Cities of Emporia, Bedford, Martinsville receive no Southside allocation funds

Current Indicators of Economic Stress Should Be Factored Into Award Process

- Funds could be targeted to need
- Allow localities to compete on more even basis
- Help ensure awards are based on merits
- Could aid TICR's performance measurement efforts

Recommendation

The General Assembly may wish to amend the *Code of Virginia* to restrict TICR grant awards to projects that (a) demonstrate how they will address low employment levels, per capita income, educational attainment, or other workforce indicators and (b) that are consistent with TICR's strategic plan.

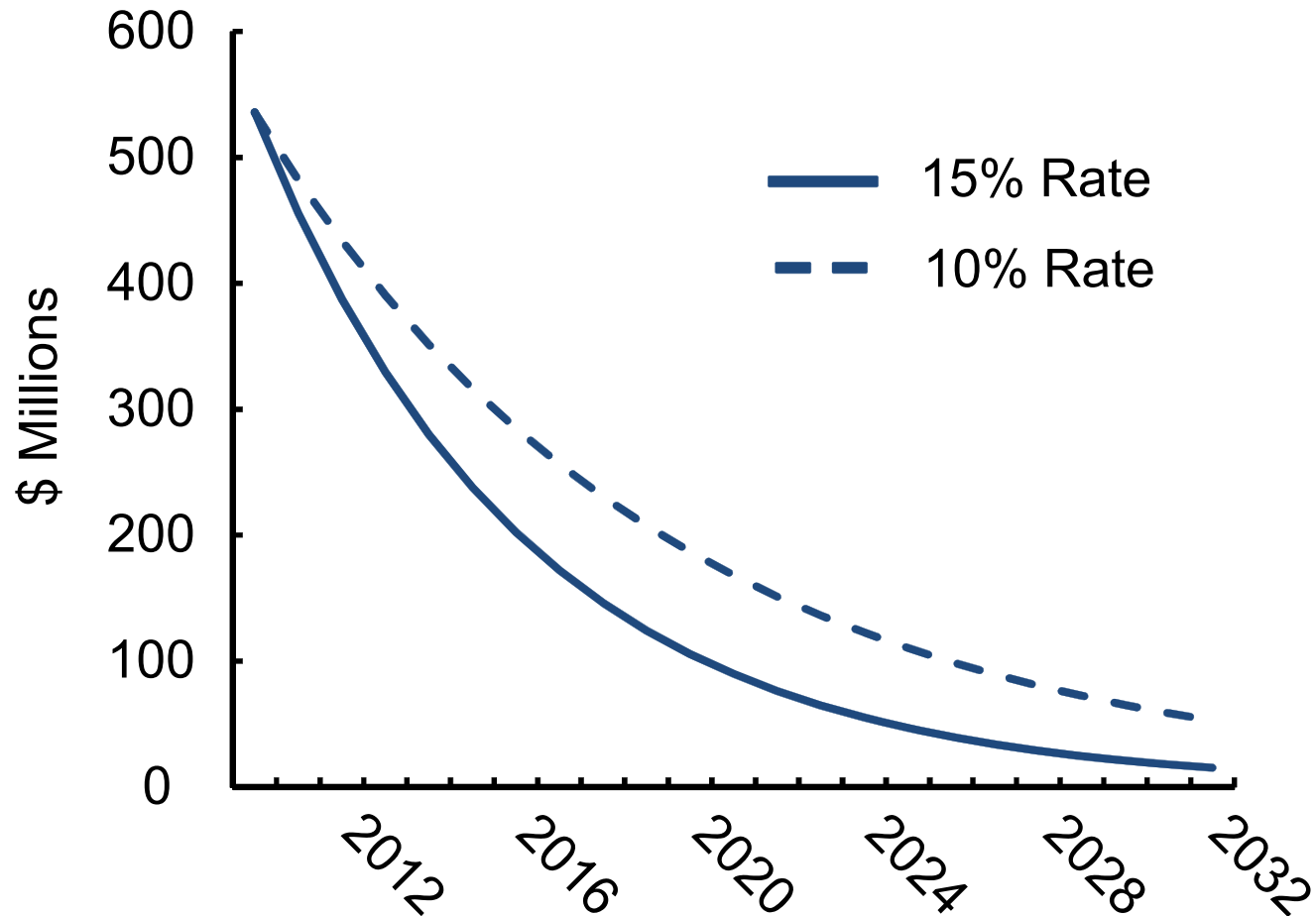
Recommendations

- TICR should eliminate the current practice of allocating economic development funds to Southside localities based on historic tobacco production.
- TICR should consider including factors of economic stress in determining awards and prioritize awards to the most economically challenged localities. Indicators could include locality-specific data on unemployment rates, per capita income, and educational attainment.

Assets Should Be Withdrawn More Slowly

- TICR has withdrawn the maximum 15% of the endowment 5 times in last 6 years
 - 2/3 vote required by *Code of Virginia*
- At this rate TICR's endowment will be half its current value (about \$280 million) by 2015
 - Will be reduced to 10% (\$56 million) by 2025

Projected Endowment Values



Recommendations

The General Assembly may wish to amend the *Code of Virginia* to permit TICR to withdraw no more than 10% of its endowment each year.

TICR Should Consider Grant-Making Risk

- Economic development is risky
- Public money is at stake
- Making well-informed decisions is key
- ‘Prudent person’ rule requires care, skill, prudence, diligence, and diversification
 - VRS Board operates under such a rule

Recommendation

- The General Assembly may wish to amend the *Code* to apply ‘prudent person’ rule to TICR’s grant-making practices.
- TICR should require any request for more than \$1 million to be accompanied by an economic impact analysis.

Recent Opinion of Attorney General Could Affect TICR Awards

- January 2011 opinion indicated that appropriations to charitable institutions not owned or controlled by the Commonwealth conflicts with *Constitution of Virginia*
- TICR has provided funding to numerous nonprofit organizations

Recommendation

TICR should request clarification from the Attorney General about whether its grant programs and practices comply with language in the *Constitution of Virginia* prohibiting the provision of public funds to charitable organizations.

Improving Skills of Current and Future Workforce Key to Revitalization

- Workforce quality is major factor in companies' decisions to locate in Virginia
- Broad agreement that educational attainment of tobacco region's workforce requires attention
 - 74% of tobacco region adults have high school diploma; 86% statewide
 - “Drop-out culture keeps us awake at night”
- Investing in the workforce identified as priority by the region's economic developers
- Employers sometimes cite workforce deficiencies as reason for not locating in region

Healthy Workforce Essential to Revitalization

- 27 of the 41 localities in tobacco region designated as “medically underserved” by State Health Department
- High rates of SSI-disability in region
- TIGR has awarded \$25 million to King College Medical School
 - Should be complemented with additional incentives for medical personnel, facilities

Recommendation

TICR should consider strategic initiatives in education and access to health care. The initiatives should focus on identifying best practices and fostering their adoption throughout the region.

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TICR's Structure and Governance

- 31 Commission members
- Seven committees
- Full commission makes final decision on every application (except TROF)
- Four meetings per year, reduced to three in 2011

Most Members Not Required to Have Economic Development Credentials

- For 29 of the 31 members, *Code of Virginia* does not specify qualifications relevant to economic revitalization
 - Lack of economic development expertise noted by Blue Ribbon Panel in 2008
- Expertise in economic development, finance, education would inform grant-making

TICR Lacks Effective Process to Evaluate Project Proposals

- Applicants expected to submit quality proposals—but few even reference TICR's strategic plan
- Comprehensive information not required from applicants
 - Feasibility, economic impact, market analysis
- TICR staff resources insufficient to review applications comprehensively
 - Most staff time spent reviewing vouchers on previously approved projects
 - PDC and locality staff not often tapped for assistance

Commission Decides on Every Proposal

- Process discourages detailed consideration
- Poorly-conceived projects remain in consideration and open to commission approval
- In 2010 TIGR decided on 196 proposals, average of 49 per meeting
 - With fewer meetings, could increase in 2011

Some Awards Based on Factors Other Than Merit

- In most meetings, few questions asked about potential economic impact of proposals
- Consensus among stakeholders that applicants gain approval by lobbying members
 - One commission member acknowledged supporting a project with little economic revitalization potential because “it was there, and the people back home were pounding on me to do it”

Improving TICR's Strategic Role

- Strengthen membership requirements
 - Enhance expertise available to TICR
 - Improve revitalization potential of awards
 - State boards often have statutory membership requirements
- Reduce commission size from 31
 - House Appropriations, House Finance: 22 members
 - Commonwealth Transportation Board: 17 members

Recommendations

- The General Assembly may wish to
 - Specify a minimum number of members with experience in economic development, investment banking, finance, education
 - Require the Secretary of Education and Chancellor of Community College System be TICC members
 - Reduce TICC's size from 31
 - Require Executive Director to have minimum 5 years' experience in economic development and grant management

Recommendations

- TICR should
 - Establish criteria for award determinations to be made by staff
 - Consider altering committee structure to focus on strategic planning, audit & compliance, outcome measurement

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Only 11% of Awards Paired With Relevant Outcome Metrics

- Only TROF and Southside scholarship awards have been paired with relevant outcome metrics
 - Represent 11% of all TICR awards
- For TROF awards, TICR measures job creation and private capital investment
 - Figures verified by Virginia Employment Commission and local commissioners of revenue
- For Southside scholarship program, TICR measures graduate return rates

Generic and Ambiguous Outcome Metrics for 89% of Awards

- TICR asks most grantees to report on
 - Total number of individuals served and number “directly affected by the tobacco-related industry”
 - Description of the population served
 - Estimated future costs and sources of funds
- A “one-size-fits-all” approach to outcome monitoring
 - These metrics do not yield meaningful data on, for example, an industrial park’s performance, economic impact

No Useful Performance Data on Most Projects

- JLARC staff file review found grantees often leave outcome reporting fields blank or are vague
 - Often report county's entire population as "number of individuals served"
- JLARC site visits found some grantees have useful data but TICR rarely requests it

Clear Expectations Not Consistently Required

- Projects with ambiguous or unrealistic outcome expectations have been funded
 - “The result of this project will be more jobs created and saved.”
 - “The Town will retain its current workforce” if a proposed tourism project is funded.
 - Virginia Institute for Performance Engineering (VIPER) staff: “I have no idea how they came up with these [outcome projections]... I couldn’t have in good conscience signed off on that.”
- Unrealistic or ambiguous outcome expectations hinder effective evaluation

TICR Recently Improved Project-Specific Outcome Metrics

- In March, TICR released first online application which requires more specific outcome expectations
 - Use of ambiguous or inflated outcome projections still possible
- New online reporting form will require grantees to report progress towards meeting original outcome expectations

TICR Uses Macro-Level Outcome Metrics to Self-Evaluate Its Performance

- TICR compares economic performance of the tobacco region to rest of state in
 - Employment in top three industries
 - Percentage change in employment
 - Capital investment per person
 - Annual average wages per person
 - Workforce participation rates
- Does not identify TICR's contribution to changes in these measures

Recommendations

- TICR should require all applicants to develop their own measurable milestones and measure progress against these milestones.
- TICR should require all applicants to provide baseline figures, explicit and quantified outcome expectations, the methodology used to calculate outcome expectations, details on timing of expected outcomes, and a specific link to economic revitalization and TICR's strategic plan.

Performance Accountability Measures Rely on Strength of Outcome Metrics

- TROF program includes relatively strong accountability measures: “clawed back” \$1.9 M from underperforming TROF recipients
 - Clawback provisions not applied consistently
- Less interest in underperformance of other projects
 - TROF awards: public funds go to private firms, requires higher standard
 - Non-TROF projects paired with weak outcome metrics

TICR's Financial Accountability Measures Have Improved

- 2000-2002: TICR disbursed awards without requiring evidence on how grantees spent TICR funds
 - No receipts were required from grantees; awards made in large payments
 - Exposed commission to improper use of funds
 - Literary Foundation—example of such abuse
- Since 2002, TICR has required invoices, receipts before disbursing funds

TICR's Financial Accountability Measures Have Improved

- JLARC file reviews found TICR staff dedicates significant effort to screening invoices
 - Ineligible expenses are not reimbursed
 - Invoice review can not tell whether all reimbursement requests are reasonable and not inflated
 - Requiring verified cost estimates in original applications would reduce staff reliance on “sniff tests”
- TICR also needs effective means to identify, specifically, what assets (or what proportion of assets) were purchased using TICR funds

Recommendations

- TICR should require applicants to develop and verify cost estimates prior to applying for funds and submit evidence of this. TICR should also develop and publicize list of ineligible expenses to reduce requests for questionable reimbursements.
- TICR should develop an asset-tracking method or system that clearly documents all assets it has purchased, regardless of whether the ownership rights for these assets have been transferred to another entity.

Additional Opportunities for Improving TICR's Monitoring Systems

- Additional staff needed to develop and implement improved monitoring systems
- More frequent and formal site visits needed
 - Less than 5% of staff time now spent on site visits
- A reliable method to track total spending on projects and in localities is needed
- To increase transparency TICR should post more information about awards online

Recommendations

- TICR should develop a clear policy stating which situations qualify for TROF repayment exceptions and should apply this policy consistently
- TICR should conduct more site visits each year to evaluate the performance of commission-funded projects

Recommendations

- TICR should hire additional full-time project management and monitoring staff to increase administrative resources available for monitoring projects outside of voucher reviews
- TICR should develop and implement a means to track, systematically and reliably, its overall investment in each project and locality
- TICR should develop a detailed and publicly available online database of all its awards

Key Findings

- Tobacco region lags Virginia on economic indicators
- TICR's strategic initiatives in broadband, education, research & development account for about half of all awards
- TICR has made grants to projects with significant economic impact, but also to projects with limited potential
- TICR's overall contribution to revitalization is unclear primarily because it does not adequately track outcomes of most grants

Key Findings

- A more effective governance model would include relevant expertise on a smaller commission
- Changes to awards process would strengthen TICR's strategic role
- Most staff resources are spent reviewing applications and processing reimbursement requests; improvements to performance monitoring are needed

JLARC Staff for This Report

Hal Greer, Deputy Director

Walt Smiley, Project Leader

Tracey Smith

Jamie Bitz

Drew Dickinson

For More Information

<http://jlarc.virginia.gov>

(804) 786-1258