

We're #1

- Virginia has long enjoyed a reputation for competent and efficient government. In recent years, Virginia has been recognized as a leader among the states in rankings done by groups aligned with business, information technology, human resources, government, and public finances.
- *Forbes.com* is a business and financial news organization with a strong focus on business, technology, stock markets, personal finance, and quality of life issues.



Best Places

Virginia: The Best State For Business

August 16, 2006

- *Pollina Corporate Real Estate, Inc.* is a full service brokerage and consulting firm, representing corporations in real estate matters on a national and international basis.



Pollina Corporate Real Estate Inc.
(Virginia's Ranking Among Top 10 Pro-Business States)

2006
2nd

2005
2nd

2003
1st

We're #1

- *Standard and Poor's, Moody, and Fitch* all give the Commonwealth the highest possible credit rating.
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- *AeA* (formerly the American Electronics Association) is a nationwide non-profit association representing some 2,500 technology companies and 1.8 million employees.
 - On April 26, 2005, *AeA* reported that Virginia had moved up to 5th place in *high-tech employment*;
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- The *Milken Institute* is an independent economic think tank whose mission is to improve the lives and economic conditions of people in the US. The Institute's 2004 *National State Technology and Science Index* ranked Virginia as 5th in terms of economic vitality.
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- *Chief Executive Magazine* reports on business, money and accounting. The magazine ranked Virginia as the 7th Best State for Business in its 2006 CEO Confidence Index.

We're #1 

- The Pew Center on the States examines effective policy approaches to critical issues facing states, and sponsors the Government Performance Project.

Government Performance Project Grading the States 2005

Virginia	
A-	Overall
A	Money
A-	People
A-	Infrastructure
A-	Information

- Virginia, along with Utah, shared the top honor of the Government Performance Project

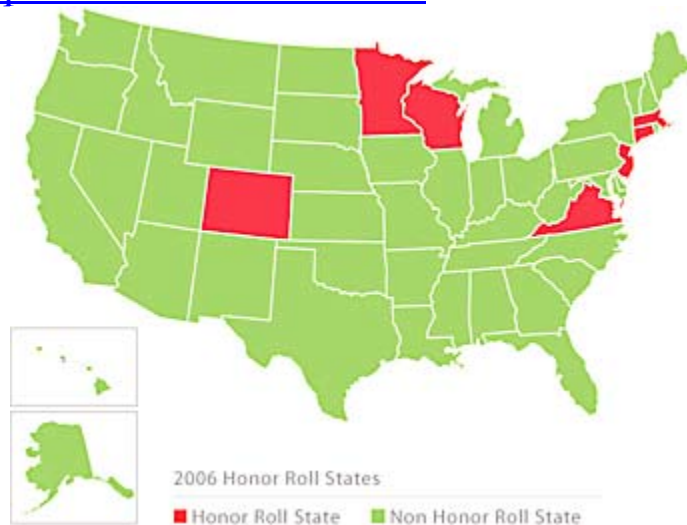
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- *CFED* is a nonprofit organization that expands economic opportunity. *CFED* works to ensure that every person can participate in the economy by bringing together community practice, public policy, and private markets.
 - The organization also compares how states perform relative to each other in performance, business vitality, and development capacity.

[2006 Development Report Card For The States](#) honor roll

Earning As and Bs are:

- Colorado
- Connecticut
- New Jersey
- [Virginia](#)
- Wisconsin
- Massachusetts
- Minnesota



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- In its 2007 edition of the *State Business Climate Tax Index*, the Tax Foundation ranked Virginia as the 13th best state for maintaining a positive business climate. The Foundation rated Virginia on corporate income, personal income, and sales tax as fifth, 17th, and 6th most positive.

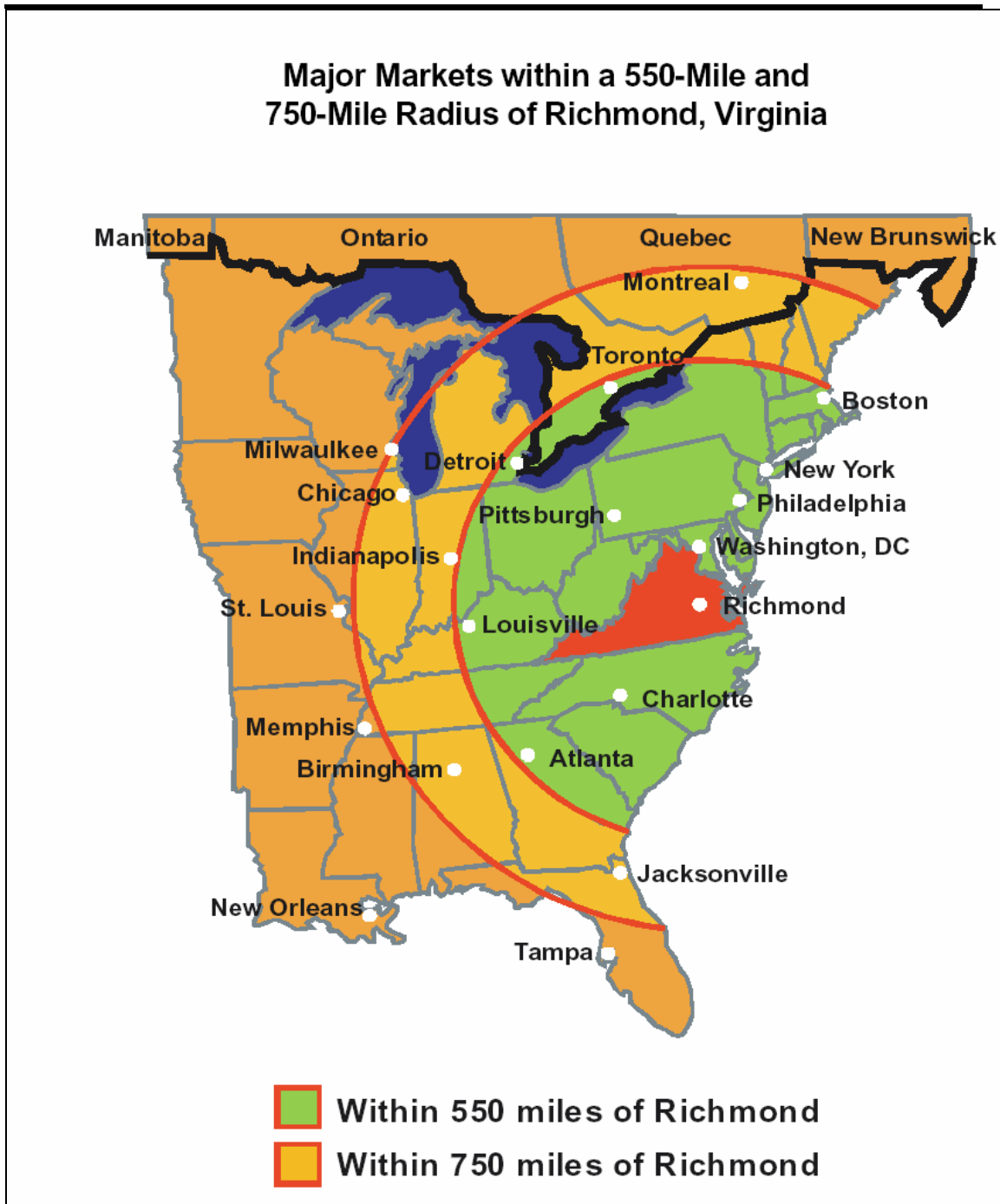
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- The reasons for Virginia's strong showing in national rankings are varied. Some reasons are beyond the control or influence of the General Assembly and the Governor.
- This paper focuses on variables that are subject to policy actions as discussed in Forbes.com.

First reason for rating – Location

- Let's first acknowledge some of the factors that might be seen as not subject to policy actions.
- Nearly half of the nation's population and manufacturing are within 500 miles of Richmond. The close proximity of the federal government provides major economic boost -- \$43.3 billion in FFY 2005. (See Appendix A.)
- The Port of Virginia, served by a 50-foot deepwater channel, is one of the most successful shipping ports in the world.
- The state's climate is marked by four distinct seasons, rain is fairly well distributed throughout the year, and snowfall is moderate in most of the state's regions.
- Numerous recreational opportunities are available because of the state's 1,500 miles of shoreline and over two million acres of public lands in the Coastal Plain, Piedmont, Blue Ridge, Valley and Ridge, and Appalachian Plateau.

First reason for rating – Location



Second reason for rating – Business Costs

- In its ranking, Forbes.com reviewed some 30 metrics within six general categories, including *business costs*, *economic climate*, *growth prospects*, *labor*, *quality of life*, and *regulatory environment*.
 - **Virginia dominated the rankings by placing in the top ten in each of the categories. No other state placed in the top ten in more than three categories.**

Virginia Grabs Top Spot in Forbes.com Rating					
<i>Business Costs</i>	<i>Labor</i>	<i>Regulatory Environment</i>	<i>Economic Climate</i>	<i>Growth Prospects</i>	<i>Quality of Life</i>
10 th	4 th	1 st	8 th	10 th	5 th

- Forbes.com pointed out that Virginia's low business costs are nine percent below the national average, citing as reasons the state's low corporate income tax, relatively low energy costs, Virginia's triple AAA bond rating, and very low worker compensation costs.

Business Costs - Taxes

- A key element in determining business costs is taxes. And, Virginia is a low-tax state.
 - In terms of overall state-local tax burden compared to the national average, the Tax

Second reason for rating – Business Costs

Foundation rated Virginia 41st in 2005 and 2006 and 40th in 2004.

- In its 2005 report on *Virginia Compared to the Other States*, the Joint Legislative and Audit Review Commission (JLARC) reviewed 2002 Census Bureau data and 2005 data from the Bureau of Economic Analysis. For state and local revenue as a percentage of personal income, Virginia ranked 49th lowest at 16.1 percent. The national average was 21.3 percent.

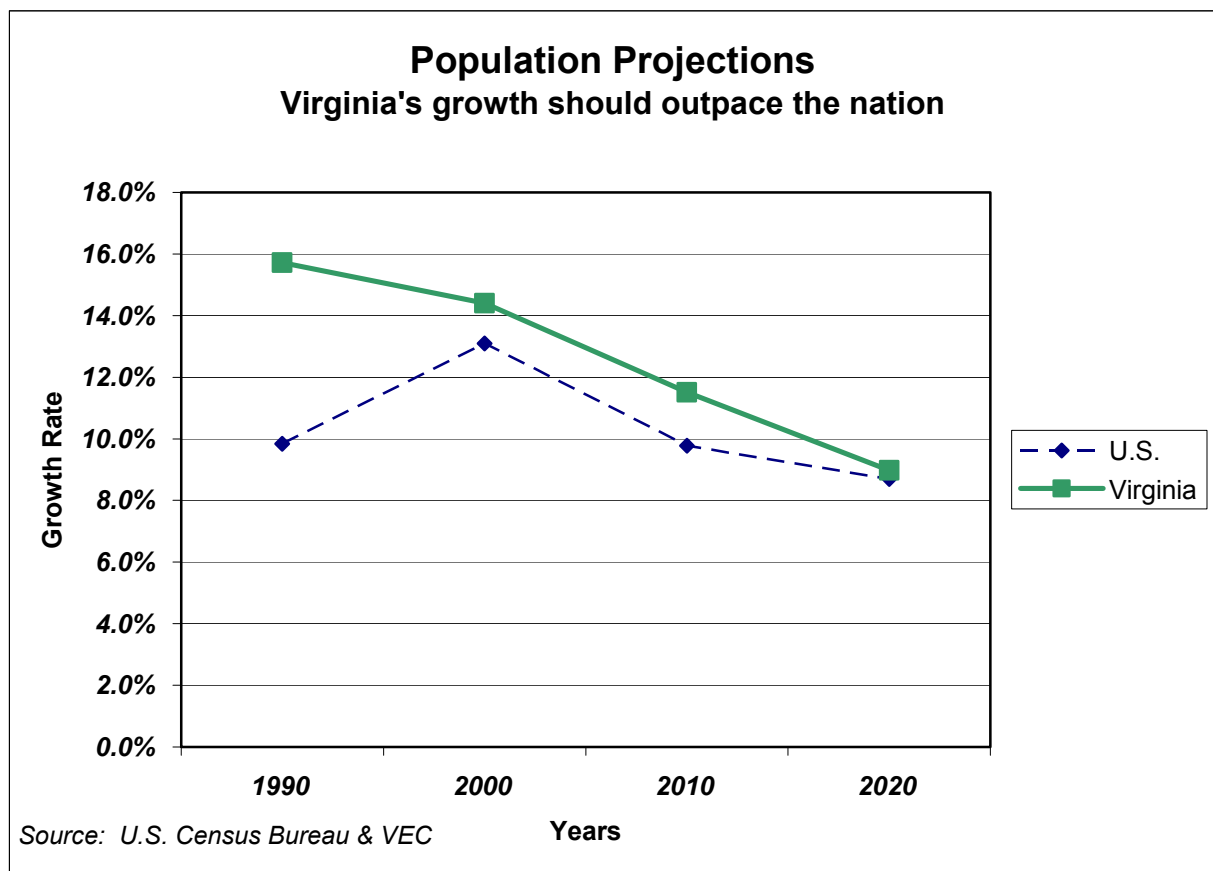
Business Costs – Labor and Energy

- Concerning labor costs, data from 2005, shows that Virginia ranked third lowest in workers' compensation insurance for manufacturing industry at \$2.20 per \$100 of payroll.
- Virginia's right-to-work law is attractive to manufacturers interested in controlling labor costs. Virginia is one of 22 states with such legislation, and is the northern-most right-to-work state along the Atlantic Seaboard.
- Regarding energy costs, the average cost per unit of electricity for the industrial sector was 4.04 cents in Virginia, compared to 5.02 cents for the nation.

Third reason for rating – Labor Force

- To measure the quality and availability of Virginia's workforce, Forbes.com used data on educational attainment, net migration, and projected population growth.
- From 1990 to 2000, Virginia's population increased at a rate of 14.4 percent – the 16th highest in the nation. For the first five years of this decade, the population change has averaged 6.9 percent, which is the 11th greatest. Today's population is over 7.5 million.
- Virginia's civilian labor force grew 13.3 percent from 1995 to 2005, increasing to more than 3.9 million. This is 0.5 percent greater than the national increase.
- This population growth rate is projected to outpace the nation's rate through the foreseeable future.

Third reason for rating – Labor Force



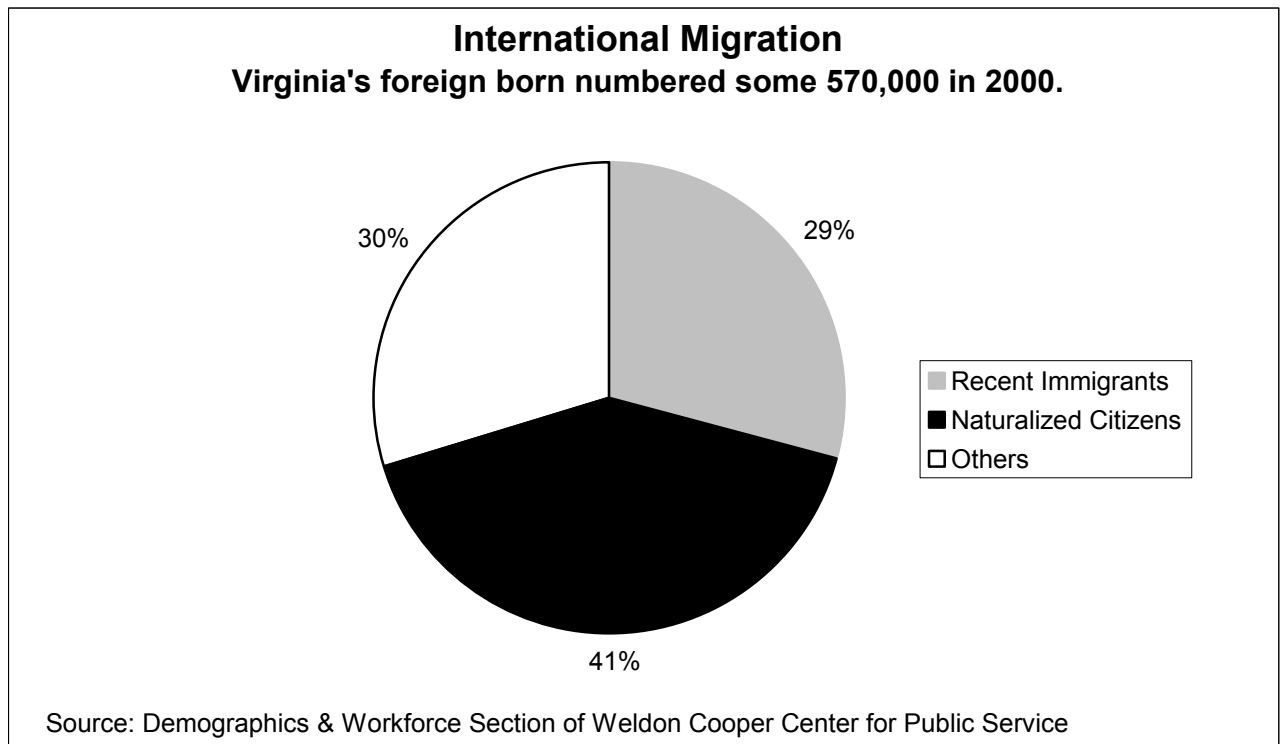
Net Migration is Important to Virginia's Population Growth

- Part of the reason for the labor force increase is net migration. Between the years 2000 to 2005, Virginia's population grew by 104,000. Net migration made up more than half of the state's total population increase.
 - About 45.0 percent of the migrants were between the ages of 25 and 44. Over 70.0 percent have some college experience, a bachelor's degree or an advanced degree. They are also more likely to

Third reason for rating – Labor Force

work in managerial, professional and related occupations.

- Almost 60.0 percent of all migrants came from outside of the United States.



- In 2000, 26 states had a higher percentage of adults who had completed high school. But the story changes when higher education is considered. Virginia ranked as the 7th highest state with adults having a bachelor's or higher degree (29.5 percent).

Third reason for rating – Labor Force

- In 2004, Virginia's ranking in the category of adults with a bachelor's or higher degree slipped to 9th highest, but the percentage increased to 33.1 percent.

Educational Attainment Levels are Improving					
	Percent of Population, 25 Yrs old and over, by education level, 2000			Percent of Population, 25 Yrs & over, by education level, 2004	
	% less than high school completion	% high school completion or higher	% with bachelor's degree or higher	% with high school completion or higher	% with bachelor's degree or higher
U.S.	19.6	80.4	24.4	85.2	27.7
VA	18.5	81.5	29.5	88.4	33.1
Source: Digest of Education Statistics, 2005 Edition					

- For the period 1994 through 1996, 86.3 percent of Virginia's 18 to 24 year-olds had completed their high school education. In comparison, the percentage of these young Virginians completing their high school education from 1999 to 2001 increased to 88.2 percent.

Fourth reason for rating – Regulatory Environment

- Forbes.com used regulatory climate, state government incentives, transportation, “tort climate”, and bond ratings to assess a state’s regulatory environment.

Regulatory Environment – Virginia’s Regulations are not Unduly Burdensome

- This past October, JLARC reported on the *Impact of Regulations on Virginia’s Manufacturing Sector*.
 - Virginia manufacturing spent between \$923.0 million and \$3.49 billion to comply with federal and state regulations in 2005.
 - The study concluded that Virginia’s regulations largely mirror federal requirements and do not add substantial costs.
 - Virginia’s regulatory process provides multiple opportunities for public participation. Executive Department agencies are usually willing to engage with manufacturers during the regulatory development process; thereby preventing regulations with overall costs that exceed overall benefits.
 - According to JLARC, the majority of Virginia manufacturers who responded to the agency’s survey believed the Commonwealth makes few

Fourth reason for rating – Regulatory Environment

modifications to federal regulations and the modifications reflect Virginia's priorities. Only 14 percent of responding companies believe that state regulations go substantially beyond federal requirements.

Regulatory Environment – Fair Legal System

- Concerning Virginia's "tort climate," the U.S. Chamber of Commerce in March of this year designated the Commonwealth along with the states of Delaware, Nebraska, Iowa, and Connecticut as the top states for overall legal fairness.

Regulatory Environment – Virginia's Strong Credit Rating

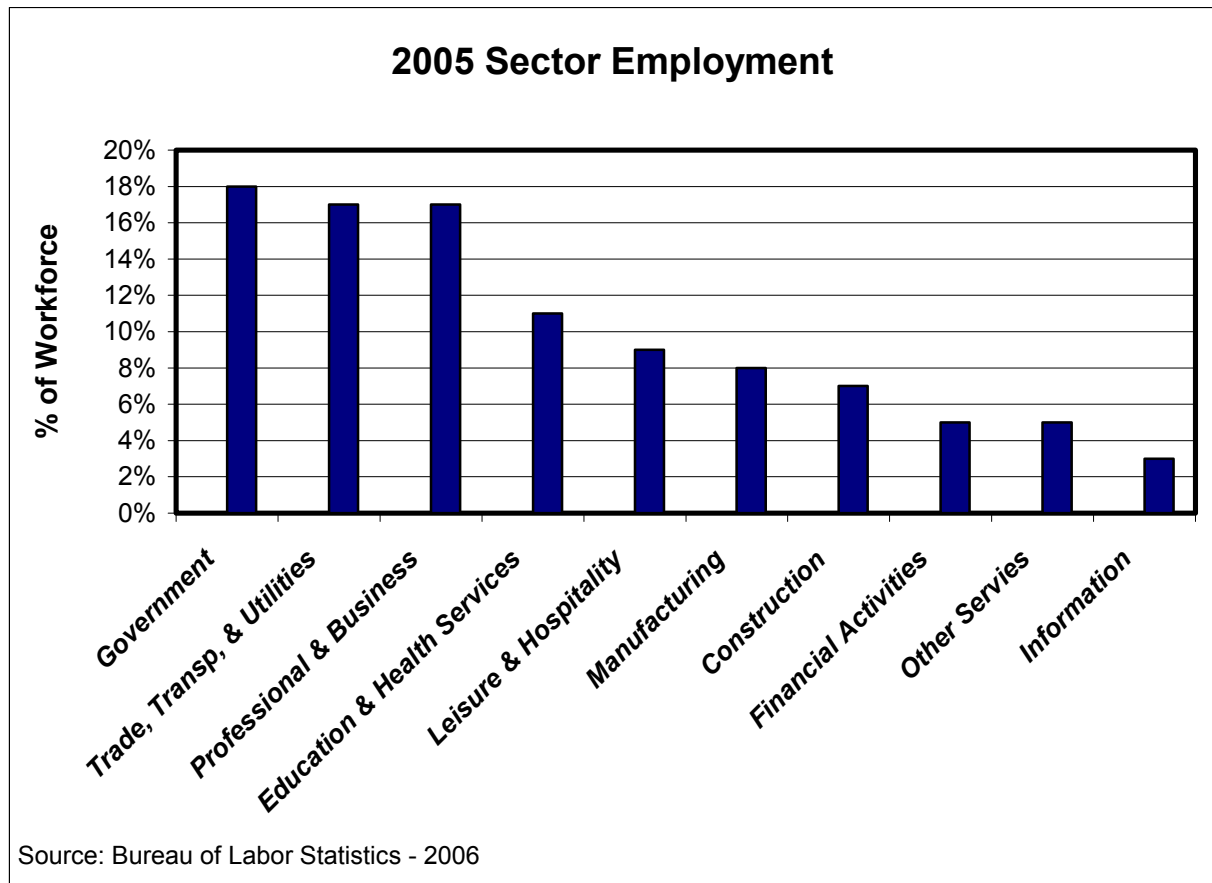
- This category also includes an assessment of state credit profiles. Virginia is one of nine states rated by Standard & Poor's as a "AAA" state.
- The factors Standard & Poor's review include: (1) diversity of the economy, (2) demographic trends, (3) cost of living, (4) state tax burden, (5) statutory or constitutional budget stabilization reserve, (6) nonpartisan revenue estimating practices and budgetary controls, (7) debt management policy, and (8) capital and operating planning processes

Fourth reason for rating – Regulatory Environment

Standard & Poor's Rating of Virginia (2005 data)						
		3 Year Average				
Personal Income % of U.S. Average	Personal Income National Rank	Unemp Average (%)	Employment growth (%)	Overall debt as % of Personal Income	Debt Service as % of GF Spending	Pension Funded Ratio (%)
111	7	4.7	4.0	2.0	3.4	90.0
Source: Standard & Poor's <i>Credit Profile of 'AAA' States Continues to Improve</i> , October 12, 2006						

Fourth reason for rating – Regulatory Environment

Regulatory Environment – Diversified Economy



- Service jobs dominate the economy with over half of the workforce engaged in three employment sectors.
- The growth of the services economy will continue. In 2002, Virginia scored 72 on the New Economy Index, compared to a nationwide score of 60. The New Economy Index, developed by the Progressive Policy Institute, measures the extent to which states are participating in knowledge-based industries.

Fourth reason for rating – Regulatory Environment

Regulatory Environment – Cost of Living

- Although the cost of living varies among the state's regions, Virginia is not considered expensive on a statewide basis. For the second quarter of 2006, the Council for Community and Economic Research rated Virginia as the 33rd least expensive state for cost of living.
 - Grocery, transportation, and utilities were at or below 100 on the cost of living index. But, health care and housing were two categories where the cost of living in Virginia scored expensive.

Regulatory Environment – Transportation Network

- Virginia has an extensive multi-modal transportation network to support economic development.
 - Six major interstates, I-64, I-66, I-77, I-81, and I-95 link Virginia with Eastern and Midwestern markets.
 - Virginia serves as a junction between north-south and east-west rail freight lines on over 3,400 miles of track. Major providers of rail service include CSX Corporation and Norfolk-Southern Corporation. In 2001, rail carried 189 million tons of freight.

Fourth reason for rating – Regulatory Environment

- There are 67 public use airports in Virginia. All of the state's metropolitan areas are served by nine commercial airports. General aviation airports are located in 58 Virginia communities. Over a third of these can serve corporate jet aircraft.
- The Port of Virginia handled nearly \$16.2 billion of import cargo and \$11.2 billion in export cargo last year. (The port's business has increased by an average of nine percent for the past three years.) Construction of a new, privately-owned port by A.P. Moller-Maersk Group, is expected to produce revenues of \$6.4 billion over the next 15-years.

Regulatory Environment – Trade is Important to Virginia's Economy

- Trade is also becoming an increasingly more important component of Virginia's economy. In 2002, 13.0 percent of all manufacturing workers depended on exports. In 2004, 5,757 companies exported goods from Virginia locations. Most were companies with less than 500 employees.

Fourth reason for rating – Regulatory Environment

TOP EXPORT INDUSTRIES

Traditionally dominated by coal and tobacco, Virginia's export industry strength now lies in the manufactured goods sectors. Exportation of vehicles, paper products, and optical instruments earned higher positions as top commodities in 2005; pharmaceuticals fell out of the top ten.

VIRGINIA'S TOP TEN EXPORT INDUSTRIES 2005		
Industry	2005	Change 2004-2005
Industrial Machinery	\$1.76 billion	5.16%
Electrical Machinery	\$1.57 billion	34.13%
Vehicles (not railway)	\$1.16 billion	0.65%
Tobacco	\$875.83 million	-24.71%
Mineral Fuel/Oil (mostly coal)	\$866.21 million	27.74%
Plastic	\$644.92 million	10.22%
Paper/Paperboard	\$529.10 million	10.22%
Optical & Medical Instruments	\$448.03 million	9.53%
Aircraft/Spacecraft	\$382.24 million	-19.29%
Organic Chemicals	\$274.07 million	25.40%

(Source for Text and Graph: World Trade Atlas 2005)

VIRGINIA TRADE OVERVIEW 2006

TOP EXPORT COMMODITIES

VIRGINIA'S TOP EXPORT COMMODITIES 2005			
Commodity	Millions \$USD	+/- 2004	Top Destinations
Coal	835.66	28.0%	Brazil, Italy, France
Integrated Circuits	645.57	61.1%	Germany, Singapore, Malaysia
Tobacco: cigarettes and loose	844.50	-24.0%	Japan, Germany, Saudi Arabia
Aircraft Parts	276.96	-21.5%	Germany, UK, France
Paper/paperboard	260.53	-11.0%	China, Japan, Belgium
Tractors & Tractor Parts	443.38	19.5%	Canada, Sweden, Nigeria
Vehicle Parts	245.67	113.3%	Canada, Netherlands, UK
Manmade Staple Fibers	173.47	2.8%	Belgium, China, Indonesia
Office Machine Parts	168.87	-17.8%	Netherlands, Mexico, Canada

(Source for Graph: World Trade Atlas 2005)

Fourth reason for rating – Regulatory Environment

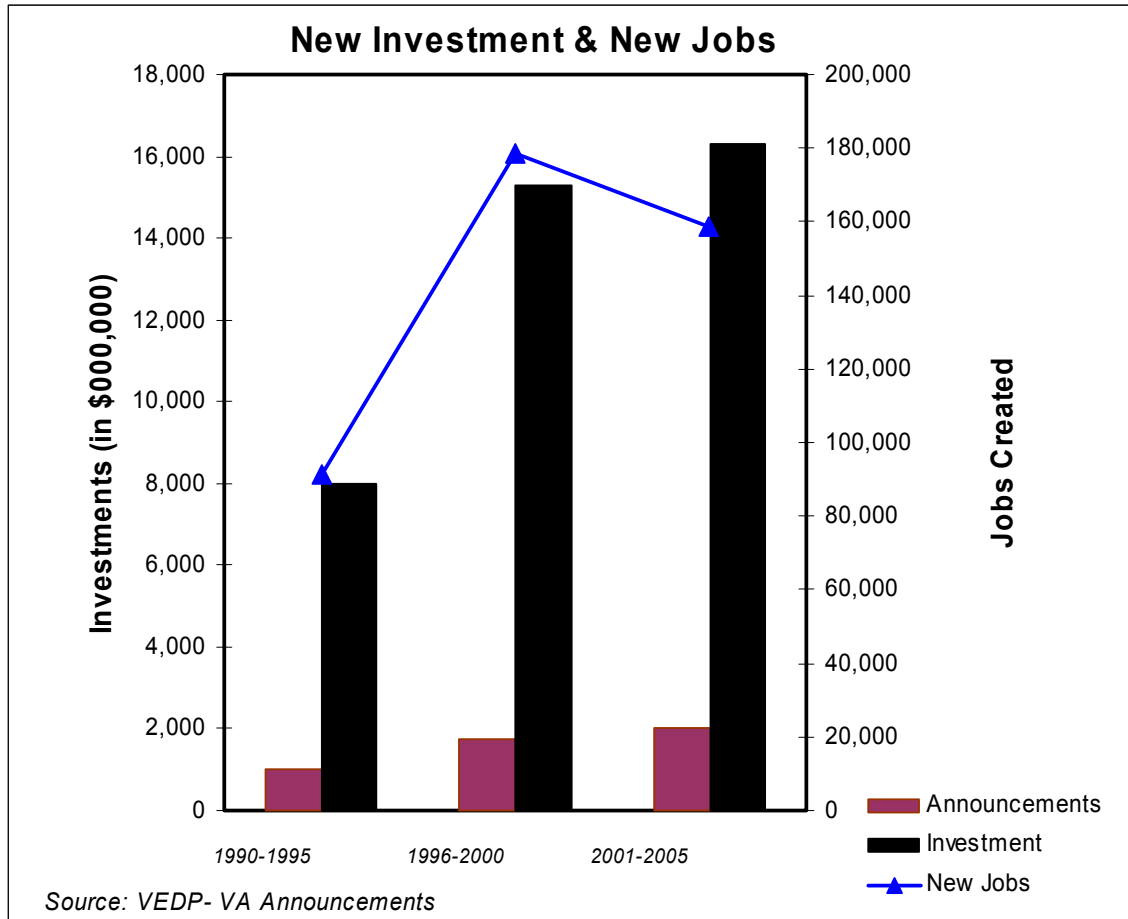
Regulatory Environment – Virginia's Economic Development Role

- The Council for Community and Economic Research released this past September a survey of state economic development budgets.
 - The Council grouped economic development spending into fifteen categories, including community assistance, business assistance, tourism development and promotion, special industry initiatives, workforce development, business finance, international trade, domestic recruitment, technology transfer, entrepreneurial development, and minority development.
 - In order of size, Pennsylvania, Ohio, California, New York, Texas, Virginia, and Michigan reported the largest budgets, all totaling \$200.0 million or more in both FY 2005 and FY 2006.
- As noted in the Pollina Corporate Top 10 Pro-Business States for 2006, “A close examination of Virginia’s programs reveals a well-balanced understanding of economic development. The programs include: low-interest loans, infrastructure improvement grants, corporate tax credits, enterprise zone tax credits, customized industrial training, and property tax abatements.”

Fourth reason for rating – Regulatory Environment

- The state provides incentive programs in almost all of the categories identified in the Council for Community and Economic Research study. Pollina Corporate Real Estate, Inc. considers Virginia's incentive program as one of the best in the country. (See Appendix B.)
- Virginia's incentive "philosophy" is based on several principles. First, incentives should be available to existing companies as well as new companies. Second, the incentives must make economic sense and be performance-based. Third, an eligible project must add new investment and jobs to the state's economy. Fourth, the state's and the project's commitments must be set forth in a performance agreement subject to evaluation.
- To ensure accountability, the General Assembly requires the Secretary of Commerce and Trade to report annually on the use and efficacy of state incentives in creating investments and jobs.

Fourth reason for #1 rating – Regulatory Environment



2005 Virginia Employment and Capital Investment Summary

	Employment (No. of jobs)	% of Total	Capital Investment (millions)	% of Total	Number of Announcements	% of Total
Manufacturing						
New Announcements	3,224	10.0%	\$398.02	9.6%	34	7.5%
Expansion Announcements	9,061	28.1%	\$2,477.18	59.6%	151	33.2%
Totals	12,285	38.1%	\$2,875.20	69.2%	185	40.7%
Nonmanufacturing						
New Announcements	6,525	20.3%	\$612.56	14.7%	55	12.1%
Expansion Announcements	13,398	41.6%	\$665.59	16.0%	215	47.3%
Totals	19,923	61.9%	\$1,278.15	30.8%	270	59.3%
Virginia Totals	32,208	100.0%	\$4,153.35	100.0%	455	100.0%

Fifth reason for rating – Economic Climate and Growth Prospects

- For Forbes.com, economic climate and growth prospects are measured by job and income growth, gross state product growth, unemployment, venture capital investments, and the number of “home offices” of major corporations.

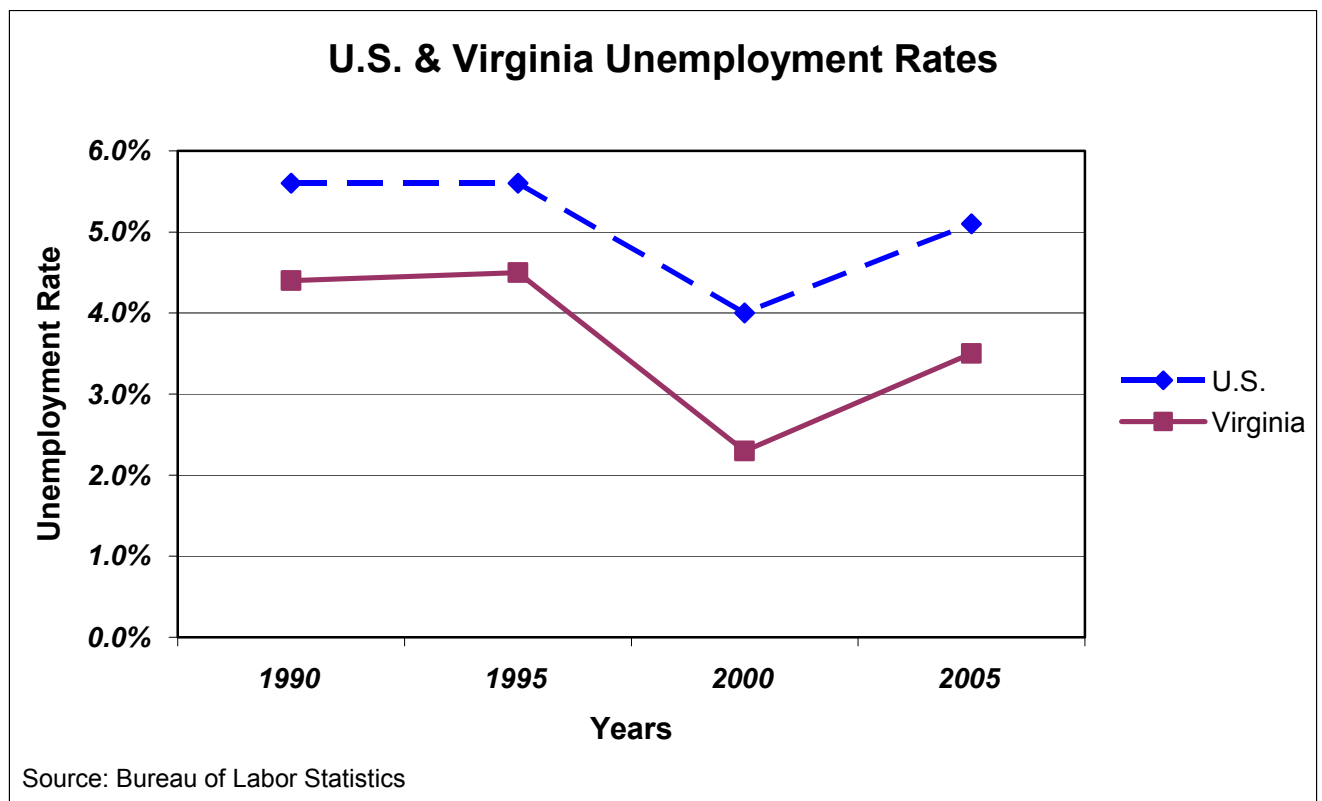
Employment and Personal Income Growth Outperform the Nation

Summary of Key Economic Indicators (Secretary of Finance Presentation; August 28, 2006)			
	FY 2006 Actual	FY 2007 Forecast	FY 2008 Forecast
Real GDP	3.4%	3.1%	3.4%
Employment			
U.S.	1.5%	1.4%	1.3%
VA	2.2%	1.7%	1.6%
Personal Income			
U.S.	5.5%	6.4%	5.8%
VA	5.9%*	6.5%	6.0%
Wages & Salaries			
U.S.	5.8%	6.0%	5.8%
VA	5.5%*	6.4%	6.0%
* Estimate based on 3 quarters of actual data.			

Fifth reason for rating – Economic Climate and Growth Prospects

Virginia's Unemployment Rate is Consistently Less than Nation's

- According to the U.S. Bureau of Labor Statistics in 2005, only four other states had lower unemployment rates than Virginia.

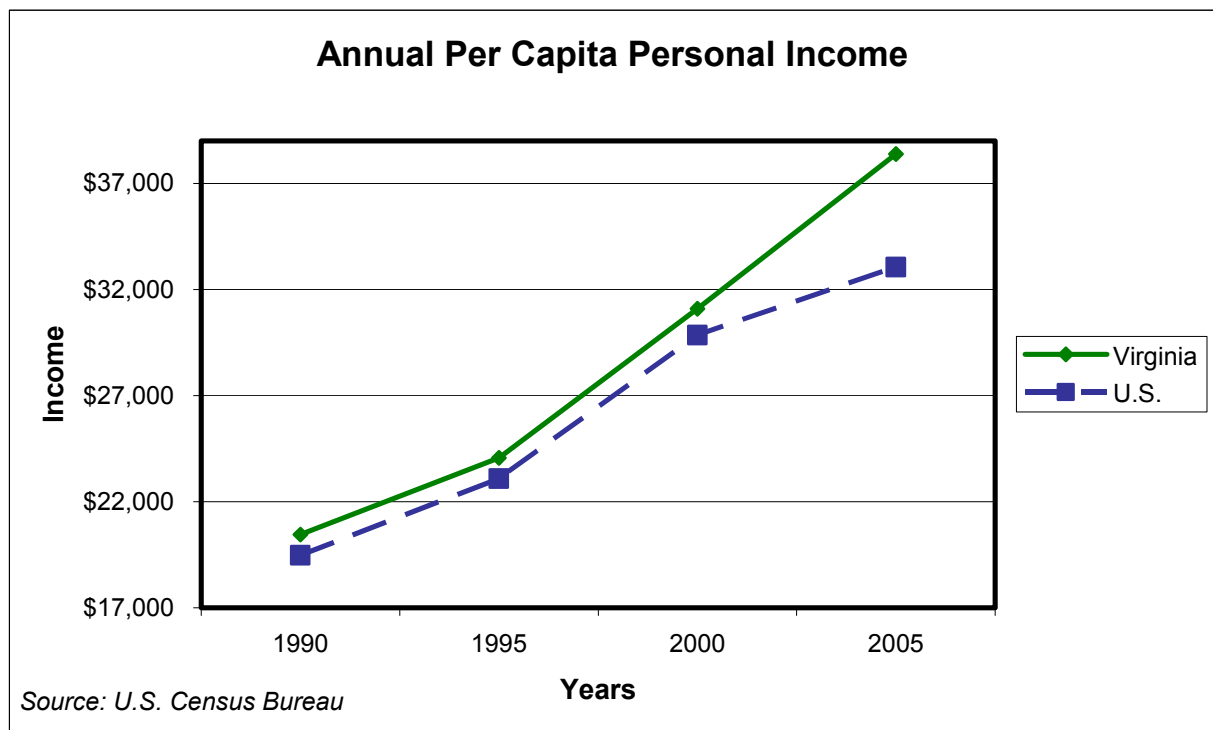


Per Capita Personal Income Climbs Faster in Virginia

- An expanding economy (along with increasing productivity and investment) results in an increase of income.

Fifth reason for rating – Economic Climate and Growth Prospects

- The U.S. Bureau of Economic Analysis reported that in 2005, Virginia's per capita personal income was the seventh highest in the country.



- Virginia is home to seventeen Fortune 500 companies.

Fifth reason for rating – Economic Climate and Growth Prospects

Fortune 500 Companies in Virginia		
Business	Description	Location
Advance Auto Parts	Vehicle parts and information	Roanoke
Capital One Financial	Holding company for Capital One Bank	McLean
CarMax	Largest retailer of used cars	Richmond
Circuit City Stores	Third largest consumer electronics retailer	Richmond
Dominion Resources	Integrated gas and electric holding company	Richmond
Gannett Company	International news and information company publishes 90 daily newspapers	McLean
General Dynamics	Leader in developing sophisticated defense systems	Falls Church
LandAmerica Financial Group	Owens several title insurance companies	Richmond
Norfolk Southern	Freight rail transportation business	Norfolk
NVR	Parent company of Ryan Homes, Fox Ridge Homes, NV Homes & NVR Mortgage	Reston
Owens & Minor	Supplier of wide array of medical products and consulting services	Mechanicsville
Performance Food Group Company	One of nation's largest food service distributors	Richmond
SLM	Leading provider of education finance services (Sallie Mae)	Reston
Smithfield Foods	A top U.S. meat company in hog production and pork processing	Smithfield
Sprint Nextel	World leader in telecommunications	Reston
The AES Corporation	Generates and distributes power	Arlington

Fifth reason for rating – Economic Climate and Growth Prospects

Fortune 500 Companies in Virginia		
Business	Description	Location
	in 27 countries	
The Brink's Company	Leader in global security services	Richmond
Source: Hoover's Inc.		

Business Failures are Relatively Low

- Business-rating organizations are also interested in the number of business failures and resulting job losses. Concerning business closings, CFED noted in its 2006 development report card for the states that Virginia ranked eighteenth lowest in business closings. The percent rate of firm terminations in 2003-2004 was 11.9 percent.

Virginia Attract Venture Capital

- In 2005 Virginia ranked eleventh in the nation in the amount of venture capital investments with a value of almost \$402.0 million; up from 13th and \$272.0 million in 2004.
 - The state, through a special gap financing fund managed by the Center for Innovative Technology, closed seven deals with start-up technology companies.

Fifth reason for rating – Economic Climate and Growth Prospects

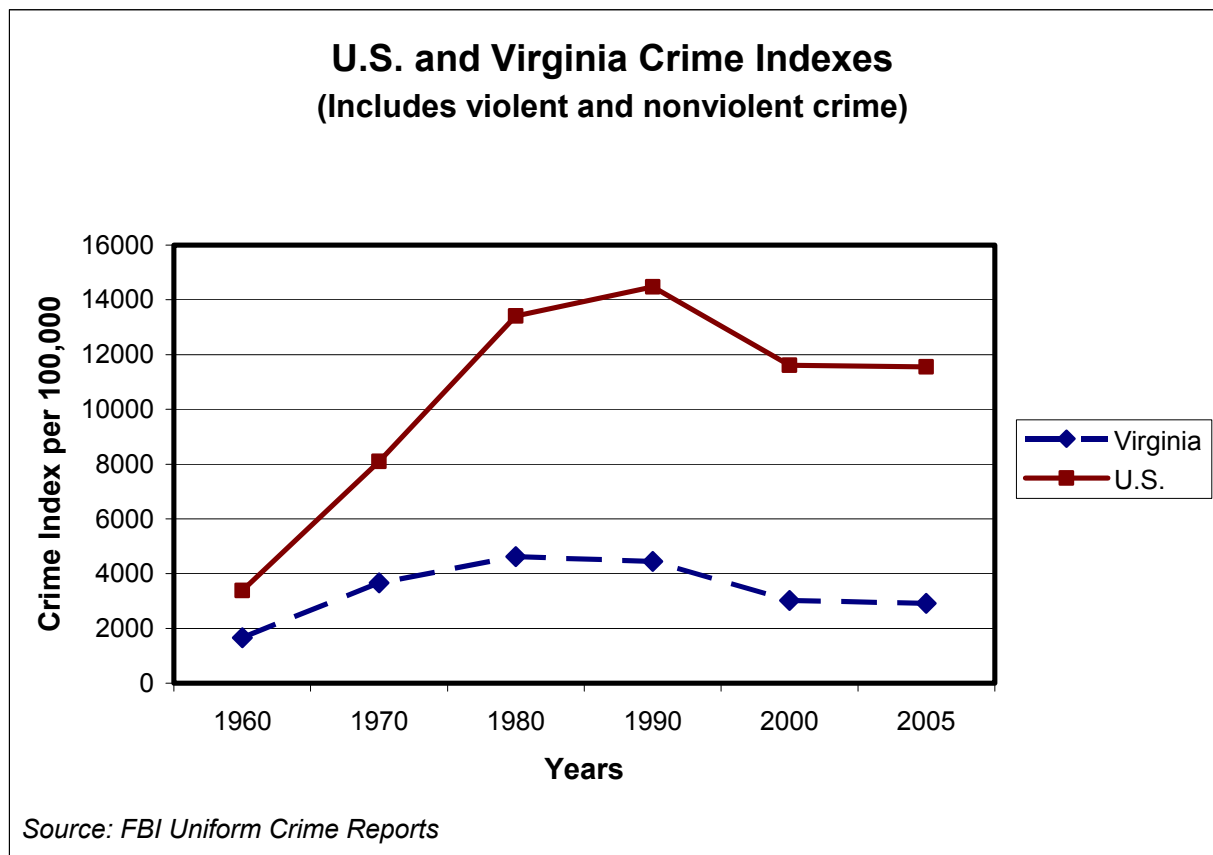
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- This fund provides up to \$100,000 to start-up technology companies who are headquartered or have a significant portion of operations located in Virginia, or must agree to relocate to Virginia. In addition, the companies must be involved in IT, communications, biotechnology, nanotechnology materials, or sensors. And, approved applicants

must have a complete business plan with evidence of one-to-one match to requested funding.

Venture Capital in Virginia		
Time Period	# of Companies	Total \$ Investment
1991-2000	585	\$6.5 billion
2001-2005*	437	\$2.5 billion
* First three quarters of 2005 Sources: Venture Economics and Pricewaterhouse Coopers		

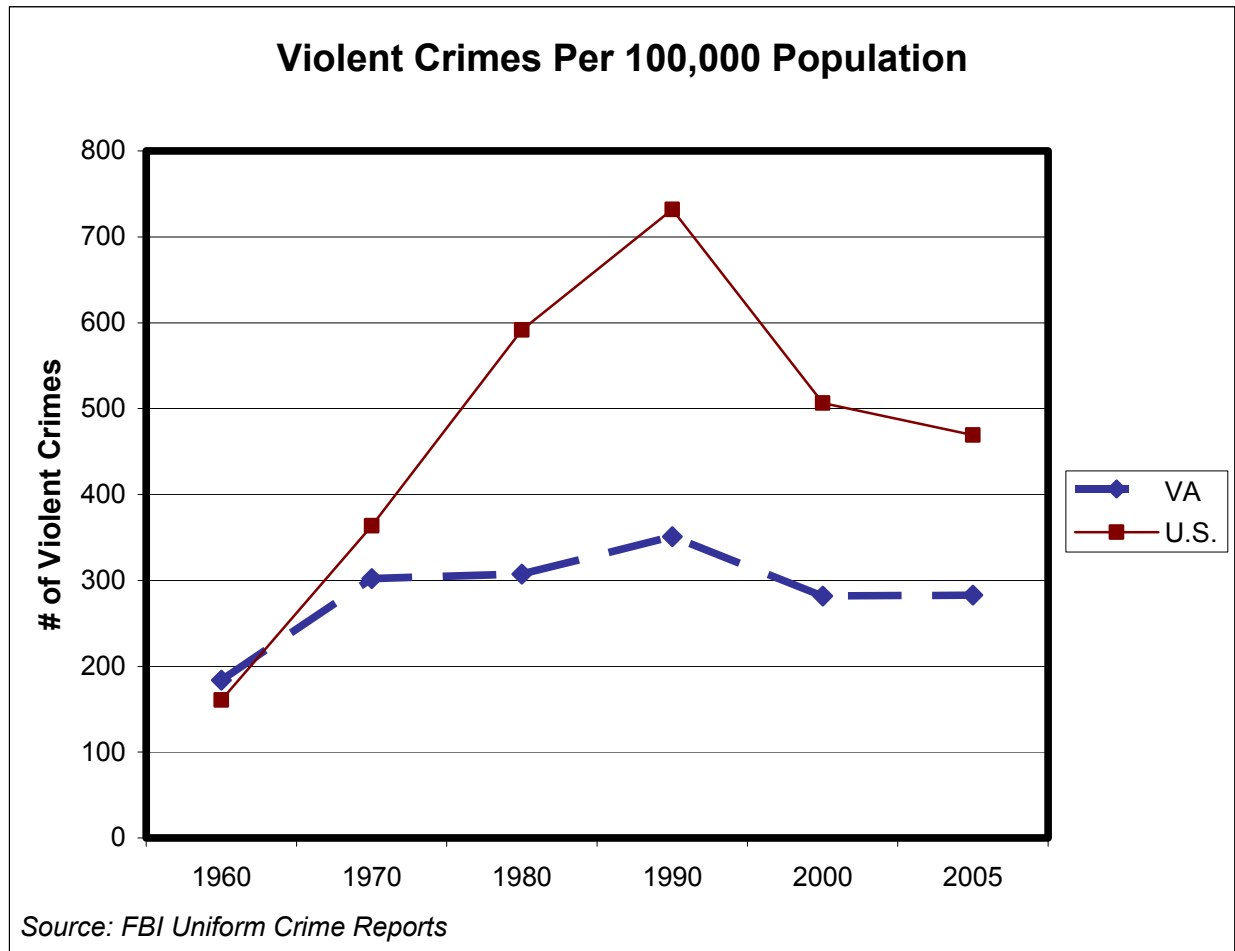
Sixth reason for rating – Quality of Life

- Forbes.com measured quality of life issues such as schools, health, crime, cost of living, and poverty rates.
- Crime in Virginia is not as severe as in other states.



- Concerning incidents of violent crime, including murder, forcible rape, robbery, and aggravated assault, Virginia's rate is less than the nation's.

Sixth reason for rating – Quality of Life



Poverty in Virginia

- The percentage of Virginians living in poverty is less than the national average. Over the period 2002-2004, the U.S. Census Bureau estimated that 12.4 percent of Americans lived in households with incomes below the federal poverty line.

Sixth reason for rating – Quality of Life

- For this same period, the percentage in Virginia was 9.8 percent.
- However, there is evidence to suggest that despite the growth of personal incomes in Virginia, the percentage of Virginians in poverty remains stubbornly stable. The CFED 2006 development report card for Virginia indicates that between 1998-1999 and 2002-2003 the percent of Virginians residing in poverty actually increased by 1.5 percent.
- Concerning health insurance coverage, an average of 86.4 percent of Virginians had coverage during 2002 through 2004. This favorably compares to the national average of 84.5 percent.

Virginia: Health Insurance Coverage of the Total Population, states (2004-2005), U.S. (2005)

Health Insurance Coverage of the Total Population, states (2004-2005), U.S. (2005)

	VA #	VA %	US #	US %
Employer	4,406,750	60	156,326,430	53
Individual	307,820	4	14,162,970	5
Medicaid	554,500	8	37,868,010	13
Medicare	839,090	11	34,654,120	12
Other Public	211,220	3	3,358,460	1
Uninsured	1,028,200	14	46,577,440	16

Sixth reason for rating – Quality of Life

Total	7,347,570	100	292,947,440	100
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- As pointed out earlier, the cost for health care is more expensive than the national average. These costs also include health insurance coverage.

Virginia: Average Single Premium per Enrolled Employee For Employer-Based Health Insurance, 2004				
Average Single Premium per Enrolled Employee for Employer-Based Health Insurance, 2004				
	VA \$	VA %	U.S. \$	U.S. %
Employee Contribution	735	19	671	18
Employer Contribution	3,130	81	3,034	82
TOTAL	3,865	100	3,705	100
<i>Source: Kaiser Family Foundation – statehealthfacts.org</i>				

Effectiveness of Virginia's Educational System

- Education is critical to workforce quality, and the performance of a state's school system – K-12 and higher education – is of keen interest to business. The National Center for Public Policy and Higher Education graded Virginia as follows:

Virginia's Grades			
Preparation	Participation	Completion	Benefits
A-	B	B+	A

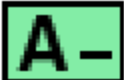




Sixth reason for rating – Quality of Life

Source: National Center for Public Policy and Higher Education – Measuring Up 2006

- See Appendix C for details.
- In 2004, there were 360,484 undergraduate students in Virginia, another 55,658 enrolled as graduate students, and 9,039 in professional programs. About 60.0 percent of these students attended as full-time.
- Virginia's institutions of higher education attract students from outside of the state in significant numbers – 4,665 more students entered the state to attend college than left. About 19.0 percent of Virginia high school graduates who go to college attend out-of-state schools.

Seventh reason for rating – Good Government Management

- In 2005, a team of academics and journalists working for the Government Performance Project (GPP) issued grades on how well states manage their money, people, infrastructure, and information.
- GGP awarded Virginia with an overall A- grade. Only Utah had as high a grade. (See Appendix D.)

Virginia	
	Overall
	Money
	People
	Infrastructure
	Information

Despite Being , Challenges Remain

- In the 1991 Session, the General Assembly enacted legislation requiring each governor to develop an Economic Development Strategic Plan during the first year of office.
 - Developing the plan helps the governor to identify and focus on the problems and opportunities that challenge Virginia.
- Although impressive, the growth in population, personal income and educational attainment has not been enjoyed by all regions of the Commonwealth or by all Virginians.
- This fact is documented in Governor Kaine's Economic Development Strategic Plan.
- *Employment Growth*
 - More than 150,000 jobs have been added to Virginia's economy over the past five years. Six of Virginia's metropolitan areas have gained jobs while five others have lost jobs.
 - The Virginia portion of the Kingston-Bristol metropolitan area, as well as the Roanoke, Lynchburg, Danville, and Blacksburg-Christiansburg-Radford metropolitan areas all lost jobs between 2000-2005.

Despite Being , Challenges Remain

- Virginia's non-metropolitan areas lost 17,000 jobs during this same period.
- *Unemployment*
 - Unemployment rates vary by locality and region. Northern Virginia, Hampton Roads, and the Shenandoah Valley have rates below 3.0 percent. But, the situation in Southside and Southwest is markedly different.

UNEMPLOYMENT
(Not Seasonally-Adjusted)

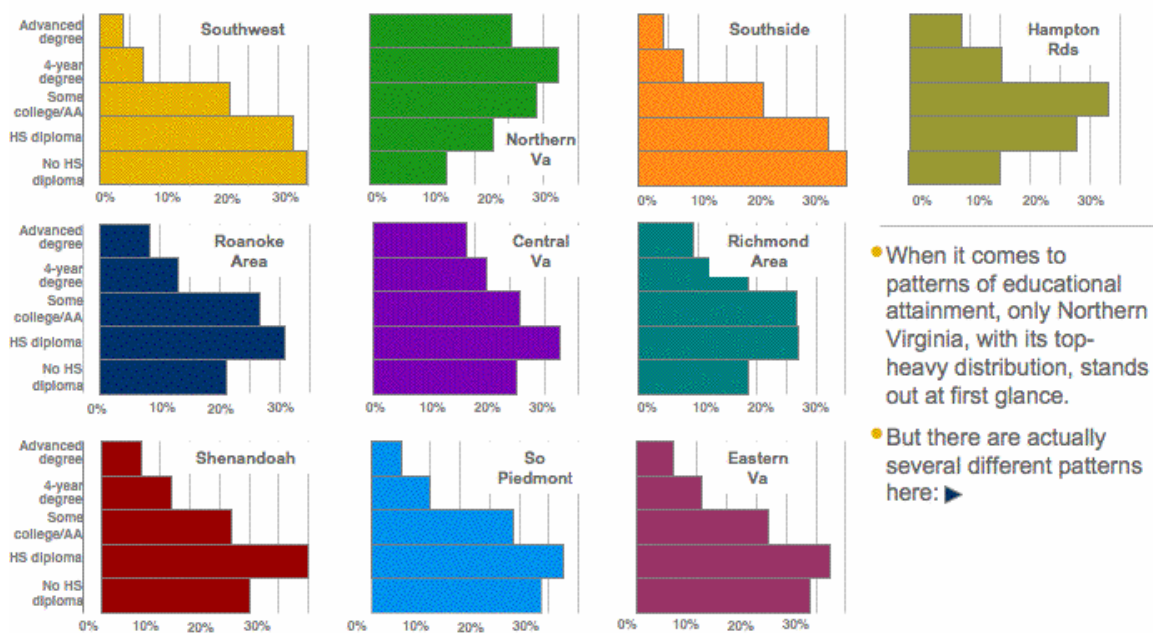
	September 2006		August 2006		September 2005	
	Number	Rate	Number	Rate	Number	Rate
United States	6,625,000	4.4	7,086,000	4.6	7,259,000	4.8
Virginia	125,700	3.1	129,200	3.2	136,400	3.5
Blacksburg-Christiansburg-Radford	2,450	3.1	3,080	3.9	2,700	3.5
Charlottesville	2,460	2.4	2,730	2.8	2,800	2.8
Danville	4,190	7.9	4,030	8.0	4,530	8.5
Harrisonburg	1,610	2.6	1,610	2.7	1,780	2.9
Lynchburg	3,760	3.1	4,040	3.4	4,880	4.1
Northern Virginia	31,490	2.2	33,360	2.3	33,690	2.5
Richmond	20,810	3.3	21,330	3.4	23,110	3.7
Roanoke	4,830	3.1	5,150	3.3	4,950	3.2
Virginia Beach-Norfolk-Newport News, Virginia/North Carolina	30,850	3.8	29,520	3.6	32,370	4.0
Winchester, Virginia/West Virginia	1,820	2.8	1,990	3.1	1,630	2.6

Source: VEC – Unemployment in Metropolitan Statistical Areas

Despite Being , Challenges Remain

- *Income*
 - The Average Weekly Wage (AWW) is one measure of income. In 2005, the statewide AWW was \$813. In Northern Virginia, the 2004 AWW was \$1,017. In rural areas of the state, the range was from \$508 to \$611.
- *Education*

Patterns of Educational Attainment in the 10 Virginia Regions



Source: 2000 Census of Population

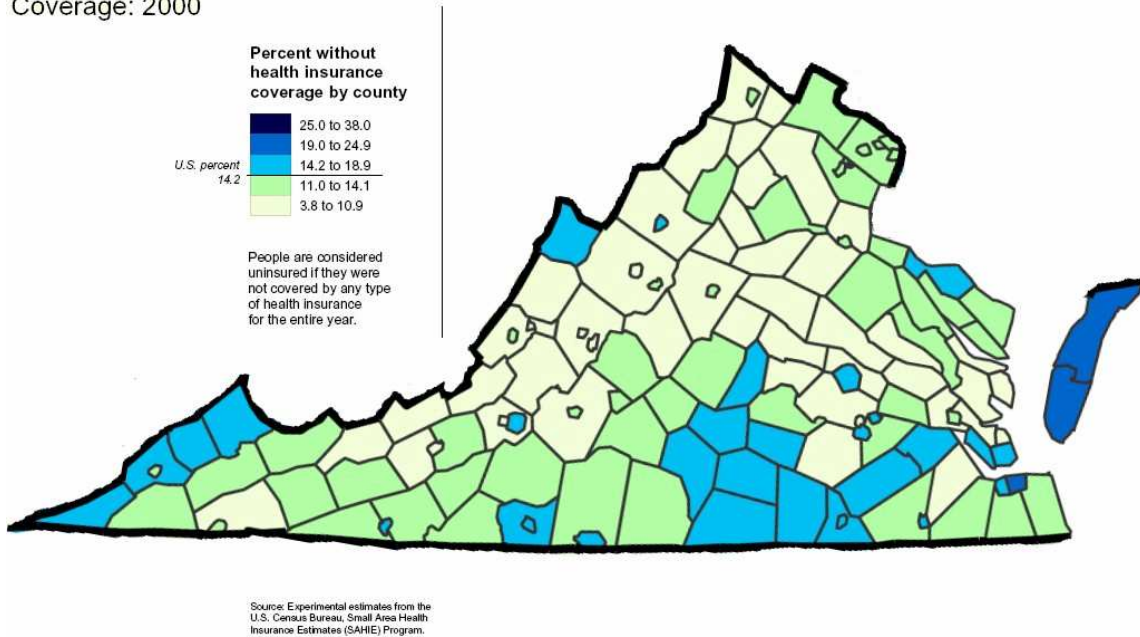
- In both Southwest and Southside over a third of all people 25 and over lack a high school diploma.

Despite Being , Challenges Remain

- *Housing*
 - Between 2000 and 2003, the median income in Virginia increased by 10.0 percent while the median price of a home shot up by 40.4 percent.
 - Even in Northern Virginia, household incomes cannot keep pace. Housing prices in Fairfax County increased 12 times as fast as household incomes over the past five years, creating a housing shortage for moderate and middle-income workers who cannot afford to live in the communities where they work.
 - Housing affordability and availability directly and significantly impact businesses' ability to attract their needed workforce.
- *Health Insurance*
 - Health insurance coverage is not universal, and there are parts of Virginia where the lack of coverage exceeds the national average.

Despite Being , Challenges Remain

Percent of Total Population
Without Health Insurance
Coverage: 2000



- *Transportation*
 - As noted earlier in the paper, Virginia has an extensive transportation network.
 - But, these assets are under strain. Nearly a third of interstate, primary, and secondary roads are considered deficient in terms of capacity. The situation is similar for ports, transit, rail, and aviation in that additional investments are needed for maintenance and expansion.
- Conclusion

Despite Being , Challenges Remain

- In a market based economy, the state's role is limited but crucial. Education, business incentives, taxes, and transportation are major issues all directly affected by General Assembly action.
- Quality of life issues are growing in importance. In some of these issues, state government's influence may be indirect but still remain salient.
- Adam Smith's "invisible hand" may guide the economy, but without the actions taken by the General Assembly in law and in the state budget, the "invisible hand" would not be steady.

Appendix A Defense Spending in Virginia

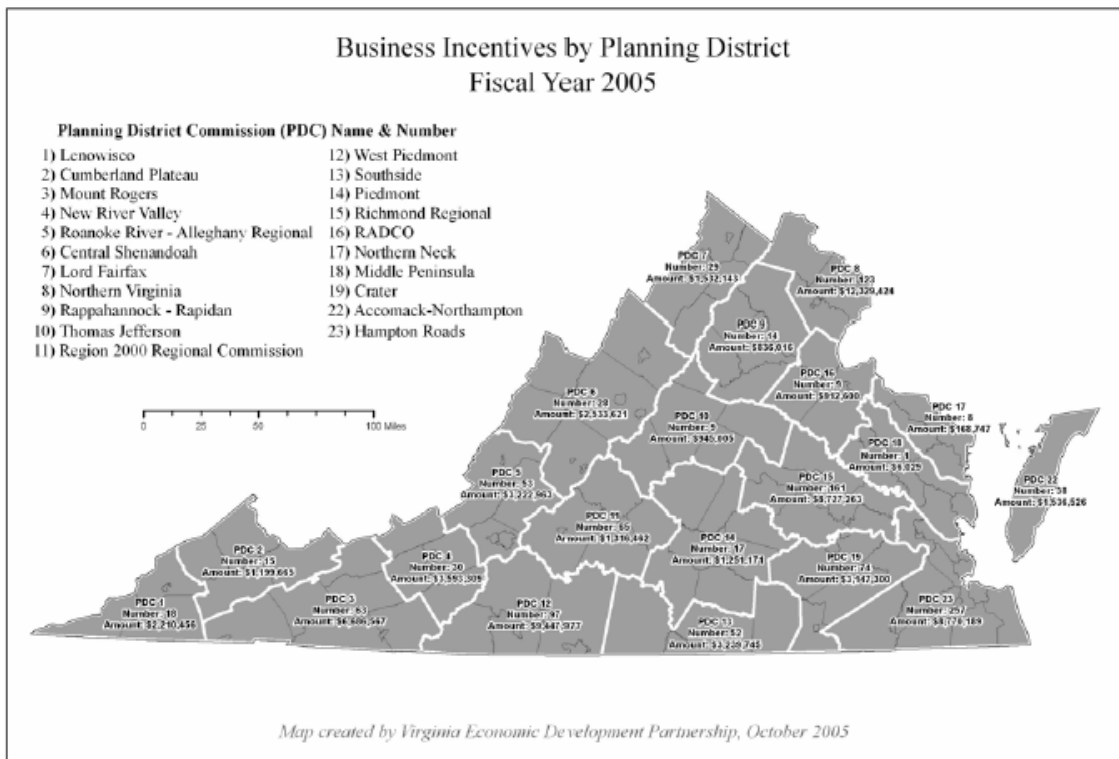
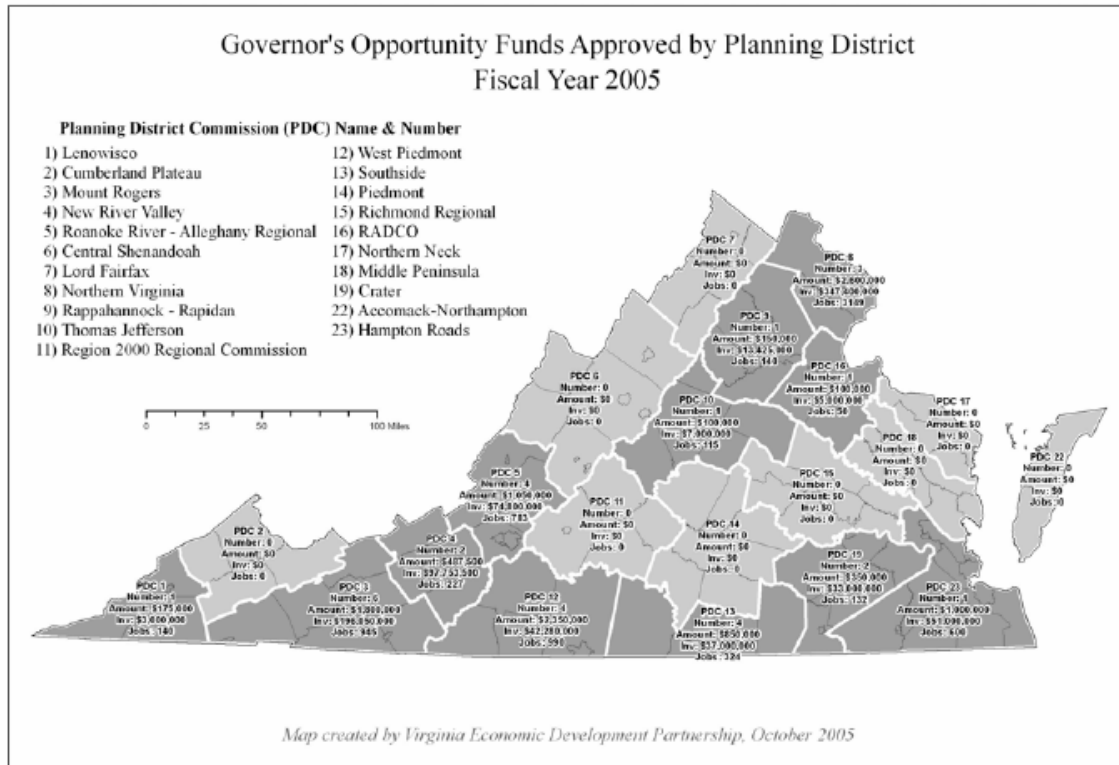
VIRGINIA								
Fiscal Year :2005		(Dollars in Thousands)						
Personnel/Expenditures		Total	Army	Navy & Marine Corps	Air Force	Other Defense Activities		
I. Personnel - Total		243,871	64,713	136,152	23,442	19,564		
Active Duty Military (incl afloat)		126,205	24,789	88,413	13,003	0		
Civilian		79,766	21,317	34,216	4,669	19,564		
Reserve and National Guard		37,900	18,607	13,523	5,770	0		
II. Expenditures - Total		43,272,201	11,014,286	17,314,908	5,231,969	9,711,037		
A. Payroll Outlays - Total		16,386,019	4,005,088	8,507,849	2,172,392	1,700,690		
Active Duty Military Pay		6,081,321	1,016,349	4,063,405	1,001,567	0		
Civilian Pay		6,479,007	1,655,940	2,753,929	368,448	1,700,690		
Reserve and National Guard Pay		309,912	262,034	32,439	15,439	0		
Retired Military Pay		3,515,779	1,070,765	1,658,076	786,938	0		
B. Contracts - Total		26,809,823	6,962,871	8,783,942	3,055,570	8,007,440		
Supply and Equipment Contracts		6,244,184	1,455,192	2,048,135	499,620	2,241,237		
RDT&E Contracts		3,231,677	938,793	1,024,971	596,808	671,105		
Service Contracts		16,790,394	4,337,333	5,563,252	1,959,064	4,930,745		
Construction Contracts		474,129	162,114	147,584	78	164,353		
Civil Function Contracts		69,439	69,439	0	0	0		
C. Grants		76,359	46,327	23,117	4,007	2,907		
EXPENDITURES (\$000)								
Major Locations		Total	Payroll Outlays	Grants/Contracts	MILITARY & CIVILIAN PERSONNEL Locations (incl afloat)	Total	Active Duty Military	Civilian
Arlington		4,693,320	2,330,309	2,363,011	Norfolk	55,210	46,757	8,453
Norfolk		4,350,652	2,957,657	1,392,995	Virginia Beach	27,210	20,097	7,113
Alexandria		2,865,142	794,131	2,071,011	Arlington	24,927	9,485	15,442
Virginia Beach		2,695,417	2,001,339	694,078	Portsmouth	13,303	3,260	10,043
McLean		2,173,156	40,927	2,132,229	Fort Belvoir	10,486	2,674	7,812
Falls Church		2,144,998	276,184	1,868,814	Langley AFB	10,451	8,469	1,982
Fairfax		1,826,670	199,459	1,627,211	Quantico	10,403	7,808	2,595
Herndon		1,587,282	59,025	1,528,257	Alexandria	9,171	5,528	3,643
Newport News		1,534,413	149,912	1,384,501	Fort Lee	7,853	5,393	2,460
Fort Belvoir		1,466,864	827,931	638,933	Fort Eustis	7,644	5,016	2,628
Prime Contract Awards (\$000)								
(Prior 7 Fiscal Years)		Total	Army	Navy & Marine Corps	Air Force	Other Defense Activities		
2004		23,542,533	6,378,526	8,317,151	2,839,706	6,007,150		
2003		19,977,993	4,767,454	6,992,802	2,891,685	5,326,051		
2002		18,128,343	3,765,873	7,824,689	2,054,499	4,483,282		
2001		18,411,792	3,086,878	10,561,396	1,346,206	3,417,312		
2000		13,636,633	3,591,755	6,180,070	1,214,845	2,649,963		
1999		12,240,574	3,555,820	5,303,956	1,269,144	2,111,654		
1998		12,670,561	3,062,025	6,291,679	1,290,746	2,026,111		
Top 10 Contractors Receiving the Largest Dollar Volume of Prime Contract Awards in this State								
			Total Amount (\$000)					
NORTHROP GRUMMAN CORPORATION			2,809,564					
ELECTRONIC DATA SYSTEMS CORPORA			1,224,582					
SCIENCE APPLICATIONS INTERNATI			1,142,377					
EVERGREEN INTERNATIONAL AIRLIN			985,088					
COMPUTER SCIENCES CORPORATION			951,637					
GENERAL DYNAMICS CORPORATION			697,833					
BOOZ ALLEN HAMILTON INC			693,224					
L-3 COMMUNICATIONS HOLDING, IN			614,435					
LOCKHEED MARTIN CORPORATION			561,901					
A P MOLLER GRUPPEN			559,215					

Appendix B
Business Incentives – Grants and Tax Credits

State Business Incentives (FY 2005)			
<i>Program</i>	<i>Cost</i>	<i>Benefit</i>	<i>Comments</i>
DBA: Workforce Services	\$7,200,000	Assisted in training 13,297 jobs for 231 companies	Average training reimbursement is \$539 per job.
VDOT: Industrial Access DRPT: Rail Access DHCD: Comm. Dev.	\$3,500,000 \$4,900,000 \$1,200,000	* 10 local projects * 13 awards * 3 grant awards	Industrial Access Road Program is state's oldest incentive.
Governor: Development Opportunity Fund	\$11,000,000	30 grant awards announcing \$908.0 million investments and 7,595 new jobs	Eleven of 21 PDCs received GOF grants. 2/3 of awards went to distressed areas
DHCD: Enterprise Zones	\$1,960,000	148 businesses received job grants	Starting in CY 2005, the program began phasing out tax credits in favor of grants. Annual total program cost is \$21 million per year
Source: "Report on Business Incentives 2004-2005"			

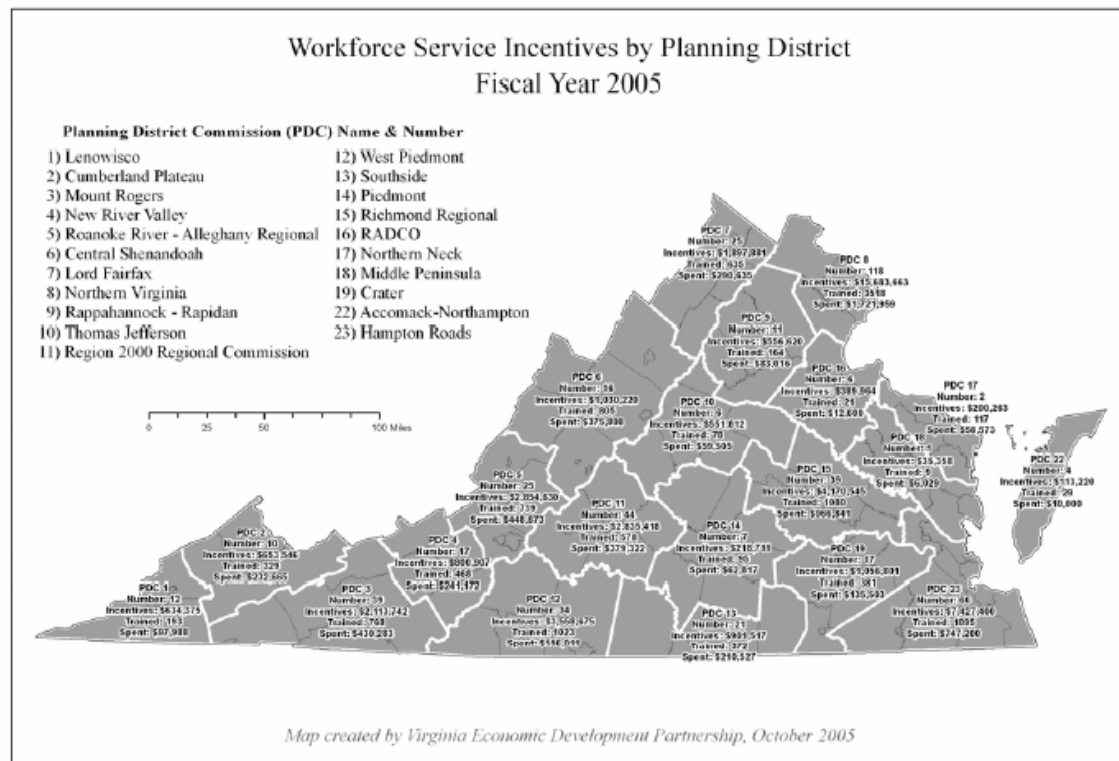
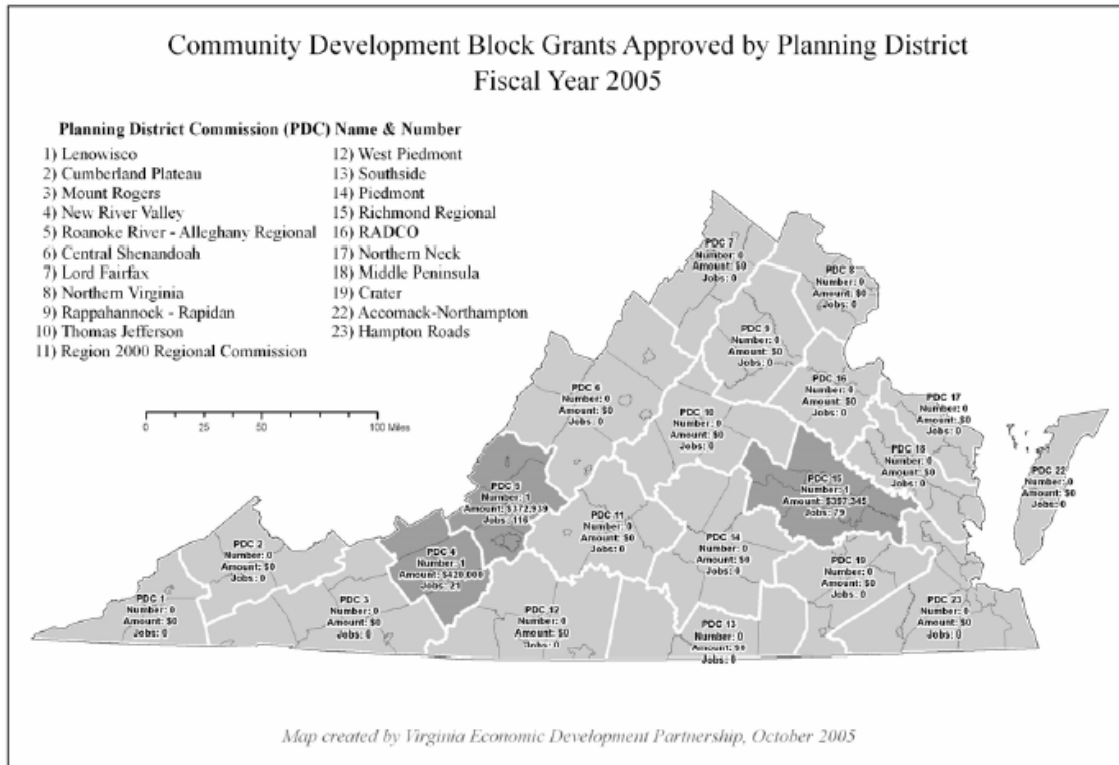
Appendix B

Business Incentives – Grants and Tax Credits



Appendix B

Business Incentives – Grants and Tax Credits



Appendix B

Business Incentives – Grants and Tax Credits

- Virginia also provides business tax incentives, including:
 - Major Business Facility Job tax credit offers \$1,000 per new job over three years. In TY 2003, 17 taxpayers claimed the corporate income tax credit for \$6.7 million.
 - Coalfield Employment Enhancement tax credit, in TY 2003, was claimed by 22 individuals for \$6.3 million in credits. Ten corporate taxpayers claimed \$21.2 million.
- Virginia also offers a number of financing programs. The Virginia Small Business Financing Authority and the Department of Housing and Community Development provide both direct and indirect lending through a Loan Guarantee Program, Economic Development Loan Fund, Virginia Capital Access Program, Virginia Community Reinvestment Program, and New Markets Tax Credits Program.

Appendix C

Virginia's Report Card on Education

- The purpose of this state report card is to provide the general public and policymakers with information they can use to assess and improve postsecondary education in each state. Measuring Up 2006 is the fourth in a series of biennial report cards prepared by the National Center on Public Policy and Higher Education
- The report card stresses Preparation, Participation, Completion, Benefits, and Affordability.
- **Preparation** addresses how well the state prepares students for education and training beyond high school.
 - According to the report, Virginia's eighth graders perform well on national assessments in math, science, and reading. Over the past nine years, 8th graders' performance on the science assessments has improved substantially, exceeding the nationwide increase on this measure.
 - Virginia is among the top performers in the proportions of 11th and 12th graders scoring well on Advanced Placement tests.

	VIRGINIA		Top States
	1992	2006	2006
PREPARATION			
<i>K-12 Student Achievement</i>			
<i>8th graders scoring at or above "proficient" on the national assessment exam:</i>			

Appendix C

Virginia's Report Card on Education

	VIRGINIA		Top States
	1992	2006	2006
PREPARATION			
In math	19%	33%	38%
In reading	33%	36%	38%
In science	27%	35%	41%
In writing	27%	32%	41%
<i>Number of scores in the top 20% nationally on SAT/ACT college entrance exam per 1,000 high school graduates</i>	116	185	237
<i>Number of scores that are 3 or higher on an Advanced Placement subject test per 1,000 high school juniors and seniors</i>	120	246	217
Source: Measuring Up 2006 - www.highereducation.org			

- **Participation** examines the opportunities residents have to enroll in education and training beyond high school.

	VIRGINIA		Top States
	1992	2006	2006
PARTICIPATION			
<i>Young Adults</i>			
Chance for college by age 19	38%	40%	53%
18 to 24-year-olds in college	31%	34%	41%
<i>Working-age Adults</i>			
25 to 49-year-olds enrolled part-time in any type of postsecondary education	4.5%	3.8%	5.1%
Source: Measuring Up 2006 - www.highereducation.org			

Appendix C

Virginia's Report Card on Education

- **Completion** measures student progress toward achieving certificates or degrees in a timely manner. Virginia has shown substantial improvement in this category.

	VIRGINIA		Top States
	1992	2006	2006
COMPLETION			
<i>Persistence</i>			
1 st year community college students returning their second year	n/a	53%	62%
1 st year students at 4-year schools returning their second year	79%	79%	82%
<i>Completion</i>			
First-time, full-time students completing bachelor's degree within 6 years	60%	62%	64%
Certificates, degrees, & diplomas awarded at all higher education institutions per 100 undergraduate students	14	16	20
Source: Measuring Up 2006 - www.highereducation.org			

- **Benefits** examine what the state receives from having a highly educated population. The 2006 report shows an increase in these benefits.

Appendix C

Virginia's Report Card on Education

	VIRGINIA		Top States 2006
	1992	2006	
BENEFITS			
<i>Educational Achievement</i>			
Population aged 25 to 65 with a bachelor's degree or higher	28%	35%	37%
<i>Economic Benefits</i>			
Increase in total personal income as a result of the percentage of population holding a bachelor's degree	11%	13%	12%
Increase in total personal income resulting in the percentage of the population with some college, but not a bachelor's degree	3%	2%	3%
<i>Civic Benefits</i>			
Residents voting in national elections	49%	47%	64%
Of those who itemize on federal income taxes, the percentage declaring charitable gifts	90%	88%	91%
Increase in the number of volunteer rate as a result of college education	n/a	19%	22%
<i>Adult Skill Levels</i>			
Adults demonstrating			

Appendix C
Virginia's Report Card on Education

		VIRGINIA		Top States
		1992	2006	2006
BENEFITS				
high-level literacy skills				
Quantitative		22%	26%	33%
Prose		21%	25%	33%
Document		18%	22%	28%
Source: Measuring Up 2006 - www.highereducation.org				

- **Affordability** looks at families ability to pay for college. In this category, Virginia earned a failing grade. Community college costs are comparable with other states. The four-year schools and universities are, according to SCHEV, comparable but on the high end of affordability.

Appendix C

Virginia's Report Card on Education

AFFORDABILITY	VIRGINIA		Top States In Early 1990s
	1992*	2006	
Family Ability to Pay (50%)			
Percent of income (average of all income groups) needed to pay for college expenses minus financial aid:			
at community colleges	19%	21%	15%
at public 4-year colleges/universities	26%	27%	16%
at private 4-year colleges/universities	44%	52%	32%
Strategies for Affordability (40%)			
State investment in need-based financial aid as compared to the federal investment	6%	38%	89%
At lowest-priced colleges, the share of income that the poorest families need to pay for tuition	13%	14%	7%
Reliance on Loans (10%)			
Average loan amount that undergraduate students borrow each year	\$3,122	\$3,836	\$2,619

*The indicators report data beginning in 1992 or the closest year for which reliable data are available. See the *Technical Guide for Measuring Up 2006*.

Note: In the affordability category, the lower the figures the better the performance for all indicators except for "State investment in need-based financial aid."

Appendix D

Government Performance Project

- In developing its scoring card, the Government Performance Project (GPP) concentrated on four major areas – Money, People, Infrastructure, and Information.
- In its review of the category of **Money**, GPP examined each state’s budget process, the structural balance of revenues and funding commitments, contracting/purchasing capacity, financial controls and reporting, and long-term outlook.
- The basis for awarding an “A” in this category includes:
 - *Long-term Outlook:* Use of consensus forecasting. Development of six-year expenditure and revenue projections. Significant funding of the state’s largest pension.
 - *Budget Process:* Multiple opportunities for public input. Quarterly public opinion survey conducted by Center for Public Policy. Enactment of the budget before the start of the fiscal year.
 - *Structural Balance:* Passage of tax reform action in 2004.
 - *Contracting/Purchasing:* Capacity to conduct procurement electronically and through the internet is among the most highly-developed of any state. The eVA system passed \$1.0 billion in

Appendix D

Government Performance Project

purchases in 2003, after only two years in operation.

- *Financial Controls and Reporting:* Compared to other states, Virginia's use of cost analysis by the legislature and executive branches is strong.
- In its review of the category of **People**, GPP reviewed states' workforce plans. The GPP rated Virginia an A- in this category for several reasons:
 - Virginia has an outstanding workforce plan, including a profile of future workforce needs, gap analyses, and action plans.
 - The state offers good employee benefits to help retain state workers. The voluntary turnover rate is moderate.
 - Virginia administers a formal statewide survey of employee workplace attitudes every five years. The state also has implemented a process for employee self-evaluation and an upward employee feedback process on supervisors' performance.
- In its review of **Infrastructure**, GPP emphasized planning and monitoring. The GPP rated Virginia A- in this category because:
 - *Capital Planning:* Virginia has a six-year prioritized statewide capital plan. Operating and

Appendix D

Government Performance Project

maintenance costs are estimated for proposed capital projects, and the vast majority of these costs are incorporated into the operating budget as the associated capital projects come online.

- *Project Monitoring:* VDOT projects require either weekly or monthly progress reports. The agency's completion and on-budget rates are steadily increasing.
 - *Maintenance:* Virginia takes a life-cycle approach to maintenance, and the Department of General Services centrally maintains records on all major assets. The state also has a maintenance reserve fund, which is included as part of the capital budget.
 - *Internal Coordination:* Virginia executes its construction program in a decentralized but coordinated manner, relying on a comprehensive Construction and Professional Services Manual. The state also uses a coordinated environmental impact review process to identify potential impacts from state projects and assess alternatives for minimizing those impacts.
- In its review of **Information**, GPP emphasized information technology, performance auditing, and use of the internet to provide state services. The GPP rated Virginia an A- in this category because:

Appendix D

Government Performance Project

- *Strategic Direction:* State agencies develop strategic plans, define goals and measures for the Virginia Results database, and the Auditor of Public Accounts reviews the measures in Virginia Results to certify the completion, validity and reliability of the reported data.
- *Budgeting for Performance:* The state budget office has made a goal to more strongly link performance information that agencies use to manage with the state budget process. Agency performance information is also collected through the executive agreements between the governor and his cabinet secretaries and agency heads.
- *Program Evaluation:* JLARC and the Auditor of Public Accounts are the two primary independent performance audit agencies. The GPP was particularly impressed by these audits, and considered them of “remarkably high quality” with “thorough recommendations concerning potential changes in either production or the use of performance information in the agency/program.”
- *Electronic Government:* Citizens are able to access a number of services on the internet, as well as obtain information about state services. Virginians can renew a vehicle or boating registration, renew a driver’s license, apply for unemployment benefits, locate unclaimed property, obtain agency

Appendix D
Government Performance Project

performance statistics, or contact their state legislator via the internet.