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# Prince William County, Virginia Internal Audit Report: Department of Economic Development

May 31, 2018



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# TRANSMITTAL LETTER



May 31, 2018

The Board Audit Committee of  
Prince William County, Virginia  
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Prince William, Virginia 22192

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Pursuant to the internal audit plan for calendar year ending (“CY”) December 31, 2018, for Prince William County, Virginia (“County” / “PWC”), approved by the Board of County Supervisors (“BOCS”), we hereby present the internal audit of the Department of Economic Development, including the Industrial Development Authority (“IDA”) and the Flory Small Business Center (“Flory Center”). We have incorporated the internal audit of IDA into this report due to the overlap of observations and mission. We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on June 26, 2018.

Our report is organized into the following sections:

<b>Executive Summary</b>	This provides a high-level overview and summary of the observations noted in our internal audit of the County’s Department of Economic Development, IDA and Flory Center.
<b>Background</b>	This provides an overview of the Department of Economic Development, IDA and Flory Center, as well as relevant background information.
<b>Objectives and Approach</b>	The objectives of this internal audit are expanded upon in this section, as well as a review of our approach.
<b>Observations Matrix</b>	This section includes a description of the observations noted during our internal audit and recommended actions, as well as Management’s response including responsible party, and estimated completion date.
<b>Process Maps</b>	This section illustrates process maps, which identifies data flow, key control points and any identified gaps.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

*RSM US LLP*

**Internal Auditors**



## EXECUTIVE SUMMARY

### Background

Economic development is a practice that seeks to improve a community's economic health and well-being by attracting new businesses, encouraging capital investments, and providing support to sustain business growth and productivity.

The Prince William County Department of Economic Development's ("Department," "DED") mission is *"to improve the County's economic base by encouraging new businesses to locate in Prince William County, retain and encourage basic existing businesses to expand, and encourage new basic business formation."* Activities exercised to accomplish this mission are deployed through three core business units; Marketing and Research, Business Development, and the Existing Business Program. Key metrics used to measure success of the Department's efforts are primarily driven by how much capital investment and jobs are brought to Prince William County in five (5) target areas established in the County's Strategic Plan. The DED utilizes the Industrial Development Authority ("IDA") to facilitate grant awards provided by Prince William County.

The DED is one (1) of eight (8) departments and agencies (excluding the Transit Subsidy) that make up the County's Community Development operating budget. The FY 2018 adopted budget allotted approximately \$2.6 million to the DED. Sixty-one (61) percent of those funds were allocated to investment attraction activities, 21 percent was allocated to marketing and research activities and 18 percent was allocated to existing basic business activities. The percentage change in total FY 2018 budgeted expenditures from FY 2017 was 3.2%.

The Flory Center is a non-profit, tax-exempt organization with the mission of business development, retention and expansion. The Flory Center was established in 1991 by the IDA, for the purpose of serving the needs of the region's existing small businesses and start-up entrepreneurs. The Flory Center is served by an active volunteer board of directors.

### Objectives and Scope

The objective of this internal audit was to evaluate the effectiveness of the County's economic development activities, including the DED, the IDA and the Flory Center and the alignment of business missions with the strategic plan. As well as to perform a high-level analysis of Prince William's, DED as compared to a relevant County peer group; and assess the ROI. Areas of focus included:

- Understand the business purpose, mission and objectives, and the business relationship between the DED, IDA, and Flory Center;
- Gained an understanding of the current functions, stakeholders, and interaction(s) with the County for the DED, IDA, and Flory Center;
- Review the return on investment ("ROI") realized as a result of the DED, IDA and Flory Center efforts, initiatives, and incentives;
- Gained an understanding of periodic reporting processes to key stakeholders and identified development opportunities;
- Performed high-level analysis and benchmarked the DED as compared to economic development with relevant and comparative peer groups;
- Assessed the DED's ability to achieve the County's strategic outcomes; and
- Developed process maps and summarized the key processes performed.

### Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or 'brand' risk'.

#### Summary of Observations Ratings

(See page 3 for risk rating definitions)

	High	Moderate	Low
Department of Economic Opportunity	2	1	-

Fieldwork was performed April 2018 through May 2018.



## EXECUTIVE SUMMARY – CONTINUED

### Observations Summary

Following is a summary of the observations noted in the areas reviewed. The detailed observation is included in the observations matrix section of the report. Definitions of the rating scale are included below.

Summary of Observations	
Observations	Rating
1. Strategic Plan Desired Outcome	High
2. Agreements Between the County, IDA and Flory Center	High
3. Verification of Key Metrics	Moderate

Provided below is the observation risk rating definitions for the detailed observations.

Observation Risk Rating Definitions	
Rating	Explanation
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately.

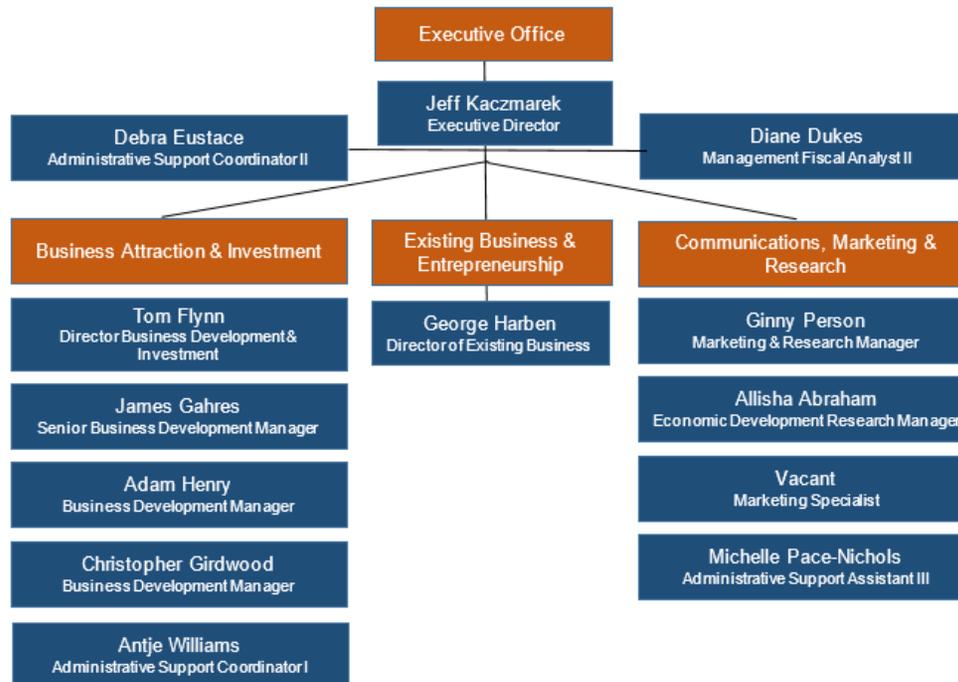


## BACKGROUND

### Organizational Chart

The Prince William County Department of Economic Development's mission is "to improve the County's economic base by encouraging new businesses to locate in Prince William County, retain and encourage existing basic (targeted) businesses to expand, and encourage new business formation." A number of activities are exercised to accomplish this mission and are deployed throughout three core business units: [1] Marketing & Research, [2] Existing Business & Entrepreneurship, and [3] Business Development & Investment Attraction. The BOCS outlines the County goals in the four year Strategic Plan that drive the Department's efforts to market Prince William County in a highly competitive environment. These efforts include leveraging internal and external partnerships to attract investment from new businesses and promote expansion projects for basic existing businesses that create high paying jobs and capital investment in the community in a highly competitive market environment. The DED also performs and assists with other activities that promote economic development such as collaborating with other County departments' economic development initiatives and partnering with local universities to stimulate business and workforce growth. See the following organizational chart below. The proposed fiscal year ("FY") 2019 budget included a request for a new "Small Business Manager" and some additional operating funds to assist the Director of Existing Business, particularly in the eastern side of the County. The position was approved in May 2018 and the first to be added in approximately eight years.

Organization Chart  
Prince William County – Department of Economic Development – February 2018





## BACKGROUND – CONTINUED

### Financial Overview

The DED is one of eight departments and agencies (excluding the Transit Subsidy) that make up the County’s Community Development operating budget. The FY 2018 adopted budget allotted approximately \$2.6 million to the DED. Sixty-one percent of those funds were allocated to investment attraction activities, 21 percent was allocated to marketing and research activities and 18 percent was allocated to existing basic business activities. The percentage change in total FY 2018 budgeted expenditures from FY 2017 was 3.2%. Refer to the table below for the breakdown of expenditures by program.

Expenditure by Program*	FY 2017 Adopted	FY 2018 Adopted	FY 2018 Allocation
Investment Attraction	\$1,578,141	\$1,630,775	61%
Existing Business	\$483,534	\$493,168	18%
Marketing & Research	\$549,489	\$570,780	21%
	<u>\$2,611,164</u>	<u>\$2,694,723</u>	100%

\*The DED is a highly cross-collaborative function which distorts the expenditure allocation above, but is the best approximation of use of time and resources.

Source: Community Development Operating Budget

### Metrics and ROI

The County’s primary ROI for DED activity is capital investment and number of jobs in target sector industries. The Department communicates results to the BOCS on a periodic basis. Each month, information is shared with the BOCS in the form of a newsletter. The newsletters include some month to date (“MTD”) and year to date (“YTD”) statistical data as well as news and articles about program initiatives and the County’s business environment, in general. Additionally, a similar newsletter is posted to the PWC Economic Development website that summarizes the results and happenings at each quarter end. An annual report is published at the end of each fiscal year that provides a year in review of the Department and the activities that helped attract and retain new capital investment and jobs. Refer to the following table for an overview of key information reported in the annual reports for the last three consecutive calendar years.

Annual Reporting Overview			
Key Metrics	CY 2015 Actual	CY 2016 Actual	CY 2017 Actual
New Jobs	530	463	747
Retained Jobs	125	218	231
Total Projects	13	23	19
Intended Capital Investment	\$660 Million	\$1.3 Billion	\$817 Million

Source: DED Annual Report



## BACKGROUND – CONTINUED

### Business Unit Summary

#### The Economic Development Process

Although there are standardized approaches and policies that govern how the DED does business, every economic development project the Department undertakes is unique to some extent, allowing them to provide value-added assistance tailored to the customer's needs.

The Department engages on projects from a variety of sources including: referrals from commercial / industrial brokers, local attorneys, real estate & tax / accounting / management consulting firms, national site selection consultants, Chambers of Commerce, the Virginia Economic Development Partnership ("VEDP") as well as other external entities. The Department tracks their project pipeline using Salesforce and as of the date of this report, the top three referral sources for leads are: direct company inquires (47%); commercial / industrial brokers (16%); and the VEDP (14%).

#### Marketing & Research

Per the FY 2018 Community Development Operating Expenditure Budget, *"the Marketing & Research program is responsible for the coordination and execution of the Economic Development's marketing and communication strategy, as well as the provision of economic intelligence to support the business attraction, expansion and retention efforts of Economic Development."* Marketing activities include website marketing, outreach, public relations and special events to help attract investment from new businesses and basic existing businesses. Such efforts are designed to raise awareness about the opportunities in Prince William County as the second largest county in the Commonwealth of Virginia with access to over 1.5 million workers in Northern Virginia. Key measures of marketing efforts include the number of press releases disseminated, media calls for information, statements fielded, unique views of marketing communications, website visits, and social media impact.

The program also provides research for the benefit of all projects regardless of size tailored to individual project needs. Such market research aides with critical business decisions such as site selection, labor availability and cost, demographics, incentives, and social and cultural factors such as education, housing, and quality of life. Key measures of market research include the number of sites and building inventory maintained and updated and the number of economic development research conducted for, or presented to clients.

#### Existing Business & Entrepreneurship

Per the FY 2018 Community Development Operating Expenditure Budget, the Existing Business Program, *"retains basic existing businesses, identifies, and secures company expansion projects, and acts as a strategic advisor to company leaders, assisting them to grow their operations in Prince William County."* Three core services include 1) resolving barriers, 2) providing expansion assistance, and 3) connecting businesses with valuable resources. An important aspect of the program focuses on building and maintaining strong relationships with these businesses to sustain and retain growth and productivity. This requires ongoing outreach, consultations and site visitations. Barriers are resolved by holding confidential consultations and serving as a liaison with other stakeholders to assist with regulatory and business challenges. Expansion services may include site and/or building selection assistance, real estate market analysis, permitting assistance, and guidance through municipal and state incentives. Additionally, to benefit businesses, staff leverage resources such as seminars, publications, events, social media, and networks to help solve problems, perform analyses, and promote basic existing businesses. Key measures include the number of consultations completed, targeted jobs associated with basic existing businesses, jobs saved / retained, jobs created, and the number of local companies assisted with expansion projects. The Existing Business and Entrepreneurship efforts are different than the Business Development & Investment Attraction efforts in that the value of the interaction with customers is typically to solve problems related to permitting, finding buildings and sites, recruiting workforce, answering market opportunity / demographic questions and informing them of new and changed local, state and national business assistance programs. Businesses requesting assistance but who are not in one of the five target industry clusters are referred to the Flory Center or one of the many small business assistance enterprises in the region for service.



## BACKGROUND – CONTINUED

### Business Unit Summary – continued

#### Existing Business & Entrepreneurship – continued

Existing Business & Entrepreneurship example: A government cybersecurity contractor headquartered in PWC had been in communication for a number of years with the Department and ultimately had a question regarding the County's Business, Professional, and Occupational License ("BPOL") tax. Through a series of business retention visits with the company, the DED was informed that the company had won a major new government contract and needed to expand. After an internal database search, a number of building options were presented to the company which they ultimately toured in conjunction with the representing commercial / industrial broker. The company selected their preferred building and executed a lease. Department staff issued a target industry memo to obtain fast track processing status. The company will move into their new space in mid-2018.

#### Business Development & Investment Attraction

Per the FY 2018 Community Development Operating Expenditure Budget, the investment attraction program's purpose is to *"increase awareness of Prince William County's advantages as a business location, identify and pursue target market opportunities, develop relationships with investors, and package prospect proposals resulting in the attraction of new and the expansion of basic existing businesses."* The Business Development team supports companies considering Prince William County by providing professional location information and the facilitation of meetings with other workforce and economic partners such as federal, state, and local leaders that can help with relocation and expansion related efforts. The team performs specialized market research tailored to each businesses' needs such as an overview of the community, business and economic condition, transportation infrastructure, quality of life, and customized sector advantages in the County. Detailed and comprehensive information about business sites specific to each business are provided as well as customized site and building tours. DED meets with state and local officials to discuss available tax and business incentive programs and assist throughout the building permitting and inspection process, when necessary. Key metrics used to measure success of investment attraction marketing activities include the number of events attended, contacted leads, qualified leads, projects managed and project wins. Key performance measures of overall program success include the number of jobs created in the community, county at-place employment and capital investment associated with economic development projects.

Importantly, the DED has a proactive marketing outreach effort which includes: attendance at trade shows and industry technical conferences; attendance at real estate and site selectors conferences / events; participation in local and / or regional workshops or events hosted by the National Association for Industrial and Office Parks ("NAIOP"), Virginia Bio, George Mason University, Northern Virginia Community College and other institutions or agencies. Further, collateral marketing material is produced in hard copy format, hosted on the DED website and distributed via social media. The Department also hosts their own tailored events, often in conjunction with the Washington Business Journal, Virginia Business Magazine BisNow and local / regional Chambers of Commerce. DED also regularly sends press releases to local, national and international media outlets with business news about companies as well as projects which have been "won".

Business Development & Investment example: DED staff were introduced to a major data center company at a national real estate and data center conference. Later that year, the company requested information on available sites in PWC. Department staff provided several appropriate sites and then worked with the property owners to determine whether they were willing to sell. With a competitive site situation arising, Department staff developed an incentive package and worked with the electric power provider to ensure sufficient power delivery. Once the company selected PWC as its location, staff worked through numerous site and building permit issues and ultimately assisted the company on its high profile grand opening event.



## BACKGROUND – CONTINUED

### Desired Outcomes

Performance measurement of the DED by the BOCS is focused on strategic outcomes as they relate to the Strategic Plan. The current plan for CY 2017-2020 includes the following strategic outcomes.

#### Strategic Plan Desired Outcomes - Calendar Year 2017 – 2020

Increase commercial tax base	Increase the commercial tax base as a percentage of overall tax revenue to from 14% to 35%. Increase capital investment from ninety-two (\$92) million per year.
Expand commercial tax base in redevelopment areas	Increase the annual commercial investment in redevelopment areas generated by the community development program from three (\$3) million per year.
Increase number of jobs in existing small businesses	Increase annual growth of jobs in small businesses (1-99 employees) from 1,000 jobs per year
Increase existing businesses retention rate	Increase outreach to existing businesses by contacting existing businesses more than 3,450 times per year
Increase at place employment	Increase growth in at-place employment by more than 3,300 jobs per year
Increase number of targeted jobs	Increase growth in targeted jobs as a result of the DED's efforts with new and expanding businesses to more than 544 jobs per year



## BACKGROUND – CONTINUED

### Target Industries

The County's marketing initiatives reflect the changing economy of Northern Virginia, the Metropolitan Washington area and emerging new technologies. Targeted industries are defined by the BOCS as industries for which Prince William County offers businesses strategic advantages that support growth and retention in the community. The County on some occasions will provide an economic incentive to assist businesses that operate within these targeted industries. These target industries reflect the investment and employment goals of the County's economic development program. Refer to table below for a brief description of each.

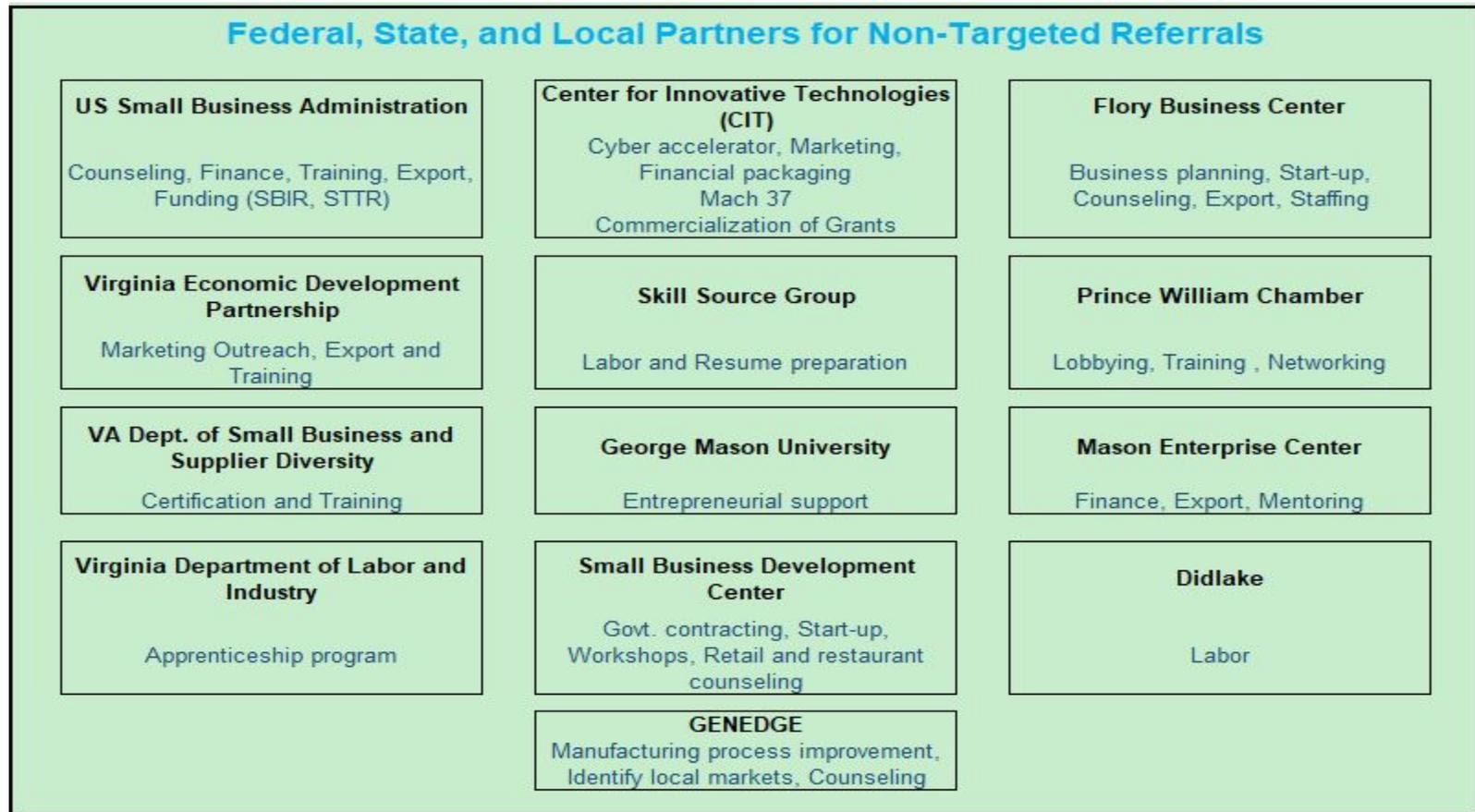
Target Industry	Description
<b>Information Technology</b>	The demand for cloud computing and data centers continues to grow across many industries as the need for high-speed processing and secure data continues to be critical to operational success. Since 2000, 3.6 million square feet of data centers have been constructed in PWC. The County has one of the largest data center markets in North America with pre-certified sites available and the necessary infrastructure available to accommodate new projects. PWC has the lowest Business Personal Property Tax rate in Northern Virginia and the state of Virginia has extended the VA Data Center Sales & Use Tax Exemption by 15 years from 2020 to 2035 for qualifying businesses. Data centers can have a positive impact on the growth of the commercial tax base because of the taxable real estate and significant computer infrastructure. In addition, the fields of modeling, simulation, and visualization tools have grown in popularity. Programs at George Mason University ("GMU") such as the Virginia Serious Game Institute continue to help grow game design companies in the areas of education, health care, and public safety.
<b>Life Sciences</b>	George Mason University is Virginia's largest public research university and Prince William County continues to collaborate with the University to grow the life sciences sector. By leveraging their Center for Proteomics and Molecular Medicine and the Institute for Advanced Biomedical Research, PWC can attract new businesses, capital investment and highly skilled jobs to the community. The Prince William Science Accelerator opened in 2014 with investment assistance from the County. As a result, PWC is now home to the only commercially available wet lab spaces in Northern Virginia. Professional positions in the life sciences industry require highly skilled and diverse workers and above average annual salaries that benefit the County, both economically and socially.
<b>Logistics, Distribution, and Supply Chain</b>	Industries in the logistics sector include short haul distribution, cold chain, customer support operations, e-commerce fulfillment centers, and private aircraft services. These industries increasingly utilize "just in time" delivery strategies and e-commerce solutions. As a result, solid transportation infrastructure is necessary for these smaller centers operating closer to consumers which are required to carry out these strategies and solutions. The County is within a day's drive of five of the top ten US Metropolitan Areas. Two major interstate highways, four lane arterials, two major rail lines and fast access to national and international airports make the County an ideal site for companies in this industry.
<b>Federal Agencies and Contractors</b>	Federal funding is a major contributor toward the County's growth in biosecurity, cybersecurity, forensics, and federal contracting. The Defense Technology Corridor consists of over 200 federal contractors in the County. This "corridor" from the Marine Corps Base Quantico, to Fort Belvoir, and on to the Pentagon, create many opportunities for these specialties. The County seeks to increase the number of contractors working in the area through collaboration with those entities, other federal agencies, and the General Services Administration that promotes new opportunities within government contracting in the local market.
<b>Advanced Manufacturing</b>	Advanced manufacturing is the use of innovative technology to improve products or processes. Areas within this industry that may benefit from the competitive advantages offered by the County include photonics and optics, nanotechnology, biotechnology, manufacturing, engineering services, and research and development.



## BACKGROUND – CONTINUED

### Non-Target Industries

Approximately five years have passed since the market analysis conducted by Angelou Economics was performed. As such, the DED has contracted with Camoin Associates to perform an updated market analysis. Once completed, the final report will be presented to the BOCS in July 2018. Furthermore, it is important to note that while the DED exclusively focuses on new and basic existing businesses within these five target sectors, they partner with a number of federal, state, and local entities that service businesses outside of these sectors. See the chart below for a list of partners and the services they provide in non-target sectors.





## BACKGROUND – CONTINUED

### State and County Incentives

Together with the Commonwealth of Virginia, Prince William County offers business incentives that make operating a business in the County more attractive. Incentives such as low business tangible personal property tax rates, competitive real estate taxes, simplified permitting options, favorable tax depreciation schedules and a handful of potential financing opportunities are designed to promote a strong business environment and incentivize businesses to join PWC. The only cash incentive directly offered by the DED is the Economic Development Opportunity Fund (“EDOF”). When appropriate, this grant may be offered to a business operating in one of the county’s target industries. However, the DED has the ability to offer Service Authority Availability Fee credits in the form of cash to companies to help offset Service Authority fees. For target industries, the DED can also waive up to 50% of the County’s land development fees when warranted. See below for a description of this EDOF incentive program.

#### Economic Development Opportunity Fund

The Board maintains an opportunity fund to help attract and retain targeted industries. The BOCS may authorize the use of these funds upon the recommendation of the DED. For competitive projects within Virginia or another state, requirements at a minimum include, the business operate in a target industry, an executed performance agreement between the Company and the IDA, and an agreement to formally announce the project after public approval of the EDOF grant. Funds may be used for infrastructure improvements, site preparation, work force services, and/or capital equipment purchases. A tax projection analysis is performed by the County Finance department to determine the size of the grant. The grant calculation is based on a payback within three to five years through new property taxes generated by the Company’s facility, and grants made historically to similar types of companies or projects with similar investments.

#### DED Due Diligence Prior to Staff Report Requesting EDOF Approval

The Business Development (“BD”) Manager at the DED performs the following in terms of due diligence prior to requesting a grant approval.

1. Meets with appropriate Company representative
2. Visits the existing facility or headquarters if within a reasonable distance
3. Verifies the Company’s incorporation in Virginia
4. Performs a due diligence search using the Hoover’s database
5. Reviews latest annual report or SEC filings, if applicable

#### EDOF Approval Process

After consultation with the company in regard to the need for a grant (i.e. competition from other areas or funding gap), an EDOF application is provided. The DED staff reviews the completed EDOF application and other supporting documentation. A review of EDOF support with regard to cost per job and public/private leverage ratio is performed. The County Finance Department staff will run an ROI analysis on several grant scenarios to determine payback from taxes in less than three years as well as a ten year net present value analysis of ROI. The ROI analysis includes the following:

- New investment value (land, building, and machinery/equipment);
- Lease term and cost;
- Number of employees; and
- Average wage rate.



## BACKGROUND – CONTINUED

### State and County Incentives – continued

#### EDOF Approval Process – continued

The DED staff then makes a preliminary grant determination and reviews it with the County Executive and Deputy County Executive. The company is contacted and a conditional EDOF grant offer is made. The company must accept the offer to proceed further. Once the conditional offer is accepted, a summary staff report is prepared and internally circulated. An internal review of the summary staff report is conducted by Finance, the County Executive's Office and County Attorney's Office and comments and/or edits are incorporated, where necessary. A closed session meeting of the BOCS is held to review the summary report and make a recommendation to offer the grant. Next, the BOCS moves to open session to make a formal resolution approving the grant along with the accompanying Performance Agreement with the IDA. After the formal BOCS approval, the DED staff sends its staff report to the IDA and presents the project to the IDA Board for approval of the Performance Agreement. The DED staff are charged with the responsibility of monitoring the Performance Agreement and the grant flow between the company and IDA utilizing a formal request and payment process.

#### Process for Certifying Performance Agreement Prior to Grant Payment

A signed letter on Company letterhead is required certifying the employment and/or investment and any other goals met. This signed letter is then sent to the DED Financial Analyst. The BD Manager reviews the supporting documentation provided by the Company. This can include real property tax records if the Company is required to invest in the purchase or construction of property, personal property tax records, sales receipts if purchase of equipment is a grant requirement, Company inventory of on-site equipment with fair values, and a payroll list for PWC location showing positions and salary, if required by the grant. After reviewing all applicable supporting documentation, the BD Manager prepares a memo for the Executive Director describing the documentation reviewed and attaches the Company's certification letter. This package must also include a letter prepared by the DED Financial Analyst that is sent by the DED Executive Director to the County Finance Director requesting transfer of funds to the IDA.

#### Process for Annual Review to Confirm Compliance with Performance Agreements

The Director of Existing Business or each of the BD Managers develop a schedule for EDOF grants that they managed during the year. At the annual anniversary date, the Director of Existing Business or the BD Manager contacts and visits the Company to request appropriate documentation such as the information described in the *Process for Certifying Performance Agreement Prior to Grant Payment* section, above. The supporting information is reviewed for compliance with the terms of the performance agreement. The Director of Existing Business or the BD Manager prepares a memo from the Executive Director to the IDA confirming the Company complied with the terms of the grant. If all terms are met, the IDA transfers the funds to the Company. If the Company is not in compliance, the Director of Existing Business or the BD Manager notifies the Company and requests an explanation and remediation plan to bring the grant into compliance. At this time, the Director of Existing Business and the BD Manager consult with the Director of Business Investment, and Executive Director to discuss the action to be taken to bring the company into compliance. The DED then notifies the Company of proposed next steps. The Director of Existing Business or the BD Manager prepares a memo from the Executive Director to the IDA confirming compliance or non-compliance and the appropriate action to be taken. If non-compliance continues, the Executive Director of DED engages the County Attorney to initiate claw back proceedings.



## BACKGROUND – CONTINUED

### State and County Incentives – continued

#### EDOF Funding

Funding for EDOF deals are sourced from the County General Fund Revenues which are segregated in an EDOF account. The capital fund at its peak was as high as \$7 million dollars in FY 2011. During the subsequent recessionary period, much of the fund was depleted to help balance other areas of the County budget. The current EDOF balance is approximately \$787,500. There is a current request for an increase in the FY 2019 adopted budget as well as the modified Principles of Sound Financial Management. The BOCS authorized transferring \$2.4 million from the Capital Reserve to the EDOF to bring the balance up to \$3 million and to transfer such funds necessary at the end of each fiscal year to maintain the EDOF balance at that amount.

#### EDOF Metrics and ROI

Since 1998, thirty projects have been offered an EDOF grant with twenty-five of these meeting the terms of the performance agreement with the IDA and earning the total grant payout. The other five projects were noncompliant with the terms of their respective performance agreements and were subsequently clawed back. The following statistics are calculated based on these twenty-five incentivized projects.

- The DED has completed 490 projects since inception and the 25 EDOF grants represent only 5% of these.
- The average EDOF grant has been \$119,912 (the majority are within the range of 10-100 thousand dollars).
- Total amount of EDOF grants awarded to date is \$2,997,800.
- Total estimated amount of private sector investment for the 25 EDOF projects is \$1,160,481,000.
- Capital leverage ratio for EDOF grants is \$387 private dollars for every \$1 of EDOF funds.
- Total number of jobs created for the 25 EDOF projects is 1,781.
- EDOF cost per job is \$1,683

### Economic Barriers of Prince William County

Barriers to entry, or economic barriers are obstacles that make it difficult for new businesses to enter into a given market. Specific to economic development, most barriers come in the form of restrictions on what can be provided from one locality to the next. Prince William County experiences a variety of these barriers that may not be present for the comparable jurisdictions included in this benchmarking analysis. These barriers include, but are not limited to the following:

- **Distance from the Metropolitan D.C area** - Prince William is significantly further from the greater D.C. area than its comparable jurisdictions. Businesses that wish to have ease of access to the D.C. economy may find Prince William does not suit their needs and seek to invest elsewhere.
- **No immediate Metro access** - Prince William experiences a transportation barrier that comparable jurisdictions do not. Currently, there are no metro stops within the County which further constrains the limited access to the greater D.C area. Specifically, all general services administration (“GSA”) projects are required to be within close proximity to a metro stop resulting in the non-consideration of virtually all GSA projects.
- **Lack of suitable real estate** - Prince William has experienced difficulty in the past related to a limited product base. Specifically, the County has a lack of M1, M2 and MT zoned properties that many new businesses are seeking, as well as a lack of new or renovated office space.
- **Ageing or unsuitable infrastructure** - Currently the roads within Prince William do not provide the ease of transportation that prospective businesses seek. Businesses are often looking for areas that can be easily navigated and provide employees with an easy commute to and from work.
- **Conservative incentive program** - Compared to other jurisdictions, Prince William County is very conservative regarding the economic incentive program. As businesses seek to expand into Prince William County, the option of granting an economic incentive can be a powerful tool when competing for highly desired projects.



## BACKGROUND – CONTINUED

### Industrial Development Authority

The Prince William Industrial Development Authority was created by the BOCS, resolution September 4, 1973, pursuant to the Industrial Development and Revenue Bond Act, Title 15.2, Chapter 49, *Code of Virginia*. The IDA is empowered to, among other things, acquire, construct, improve, maintain, equip, own, lease and dispose of parking and other facilities in the Commonwealth and to finance the same by the issuance of its revenue bonds. The IDA has no taxing authority, and is a political sub-division of the Commonwealth of Virginia. The BOCS provides the final approval of whom will receive incentives and applicable financing. The IDA has an individual website, [www.pwcida.org](http://www.pwcida.org), which includes IDA details, applications, clients, and frequently asked questions (“FAQs”).

The IDA does not have full-time employees, but is governed by seven (7) Board Members who are appointed by the BOCS. Appointments take place every four years. As of the date of this report, the current IDA Board Members are as follows:

- Patrick O’ Leary, Chairman of the Board
- Brian Gordon, Vice Chairman of the Board
- Laurie Wieder, Secretary / Treasurer
- Frank J. Mejia, Assistant Secretary/Treasurer
- Lorna Wallen
- Paul O’ Meara
- J. Andrew Taylor

There are two (2) main functions of the IDA: 1) Issuing private activity bonds on behalf of private business/entities, and 2) acting as a conduit for grants / funding incentives provided by the DED and the VEDP to recipients.

Private activity bonds are an alternative financing arrangement to conventional borrowing. This type of bond is distinct because instead of signing a promissory note for a loan, the borrower applies for the IDA to issue private activity bonds. The financing for IDA bond issuances is generally a bank, which purchases the bonds. The IDA bonds are backed by a letter of credit from a bank and are sold to one or more investors. The IDA, County, and the Commonwealth of Virginia are not responsible for making any payments on the bond and the County does not pledge its taxing power or provide assets as collateral. The companies benefiting from the lower interest rates associated with the financings are solely responsible for payment. Bond purchasers are willing to accept a lower interest rate because the purchasers do not have to include the interest payments, received from the borrower, in calculating their United States and Virginia taxable income.

Projects that qualify for private activity bond financing, under IRC § 141, include:

- 1) Projects for organizations, which have obtained tax-exempt status under IRC § 501(c)(3), such as hospitals, private schools, and multiple-unit housing facilities;
- 2) Certain manufacturing projects;
- 3) Certain “for-profit” housing projects;
- 4) Local government projects; and
- 5) Certain air, water, and wastewater facilities related to pollution control.



## BACKGROUND – CONTINUED

### Industrial Development Authority – continued

#### Bond issuance

The bond issuance process begins when an interested business/entity (Client) performs a financial analysis with their financial advisors to determine if the bond is advantageous. The difference in this type of bond, as explained on the IDA website is that, *“Instead of signing a promissory note for a loan, the borrower applies for the IDA to issue “private activity” bonds to the lender. The lender for an IDA bonds issue may be a bank, which purchases the bonds. Alternatively, in many cases, the IDA bonds are backed by a letter of credit from a bank and are sold to multiple investors.”* The primary benefit for the business is that IDA Bonds have a lower interest rate because investors (bond holders) are not paying Federal or State income tax on the interest received. As per the *Code of Virginia § 15.2-4912 (2016): “The authority is hereby declared to be performing a public function on behalf of the locality with respect to which the authority is created and to be the public instrumentality of such locality. Accordingly, the income, including, any profit made on the sale thereof from all bonds issued by the authority, shall at all times be exempt from all taxation by the Commonwealth or any political subdivision thereof”.* The interest paid on private activity bonds is exempt from Federal and Virginia income tax, lenders pay less tax which reduces the interest rate. This interest is then charged to the borrower.

Once the business or entity determines it would like to participate in the IDA private activity bond program, an application, statement of fiscal impact, and an application fee must be submitted. Once the IDA has received this documentation it publishes a notice of public hearing within specified newspapers. This notice of public hearing must be published for two consecutive weeks and no more than 21 days prior to the IDA Board meeting. During the IDA Board Meeting the private activity bond application and supporting documentation are reviewed and discussed as necessary. Approval is captured within certified board minutes and a resolution is signed by the IDA’s Bond Counsel, McGuire Woods LLP, and the Board Chairman. Next an ‘unqualified approving opinion’ is obtained from a recognized bond counsel licensed to practice law in Virginia and the issuance is approved by the IDA stating, among other things, *“that the Bonds have been duly authorized, executed, issued and delivered that the interest thereon is exempt from Federal income taxation under IRC Section 103 (or other applicable provision of law) and taxation by the Commonwealth of Virginia (unless the Bonds are being issued as taxable Bonds), and that the Bonds are exempt from registration requirements under applicable state and Federal securities laws.”* The IDA then validates all applicable documentation and actions have been completed appropriately. The IDA utilizes a bank as the ‘Bond Trustee’ which is responsible for the registration, transfer, and payment of bonds. The Bond Trustee will validate that interest payments are made as scheduled, and protects the interest of the bondholders if the issuer defaults. The bank will create the ‘Bond Trust Indenture’ which acts as an agreement between the IDA and bank (Bond Trustee) pertaining to all elements of the bond issuance as well as facilitation thereafter. The IDA bonds are backed by a letter of credit from a bank and are sold to multiple investors.

The IDA Board Chairman or Vice Chairman provides his / her signature as approval of the Bond / ‘Bond Trust Indenture’ and applies the corporate seal. The IDA Bookkeeper updates the system of record with applicable bond information. The bonds are issued by the bank. Scheduled interest payments are collected by the bank and provided to the bond holder as required.



## BACKGROUND – CONTINUED

### Industrial Development Authority – continued

One disadvantage is that entities need to cover administrative (legal, underwriting, and accounting) fees. If the cost of fees is greater than the financial advantage being offered, clients may look for other methods of funding or other Counties. Current Industrial Development Authority fees include:

- **Amount of Issuance:**

\$0-\$4999, 999	<b>Application Fee:</b> \$250.00
\$5,000,000-\$9,999,999	\$500.00
\$10,000,000-\$19,999,999	\$750.00
\$20,000,000 and higher	\$1,000.00
- **Publication Fees:** \$200 for each publication in each newspaper
- **Administration Fee:** The IDA charges an annual administrative fee for all projects financed by the IDA. The administrative fee is initially payable in advance at closing, and thereafter is payable annually and due on the anniversary date of the issuance of the bonds. The rate of such bonds is 1/10 of 1% of the outstanding principal amount of the bonds on such anniversary date.

The fees depicted above do not include the legal and other administrative costs incurred by the client which account for the majority of costs in the process.

#### Pass-Through Entities

The IDA entered into agreements with the BOCS on July 28, 1998 and November 3, 2003, through which the IDA acts, from time to time, as an agent of the BOCS in the processing and payment of certain economic development incentives to targeted businesses or industries as discussed in the economic incentives section above. In such transactions, the County provides funding, property, or other assets to the IDA to permit the IDA to accomplish the specified economic development incentive programs in accordance with instruction from the BOCS. Funds that are provided to the IDA under this agreement are maintained in a segregated, interest bearing checking account. Any earnings on these funds are available to the IDA to defray related costs, unless otherwise prohibited by the BOCS. These transactions are pass-through transactions, and are not reflected in the IDA's financial statements as either revenues or expenses.

The BOCS reviews the applications for incentive grants presented by the DED and approves the issuance of grants for the companies selected, in which an approval letter is submitted to the IDA. The IDA sends approval notifications to the selected applicants within 30 days. After the DED verifies the applicant has met the terms of the performance agreement, the funds are transferred from the segregated DED incentive account to the segregated IDA incentive account. Within twenty-four hours after receiving the funds, the IDA Bookkeeper completes a wire transfer form provided by the bank. The completed form is delivered to the bank physically or by fax. The bank contacts any of the four IDA Board Members, who provide their own private pin number to the bank to validate identity, and confirm the wire transfer amount and approval for disbursement. The bank provides confirmation by mail once funds have been disbursed to the recipient. The IDA is responsible for notifying the County, via email, of the distribution of funds. The DED records the information received from IDA as supporting documentation, and monitors the incentive recipient to validate compliance with additional agreement terms, if necessary. The IDA does not perform any monitoring functions.



## BACKGROUND – CONTINUED

### Industrial Development Authority – continued

#### Pass-Through Entities – continued

As part of their documentation, the IDA bookkeeper retains all the Economic Development applications, acceptance letters, approval letters, wires transfer forms, and bank confirmations. Funds are provided on a case by case basis. The IDA utilizes a “County Incentive Account” for all pass-through transactions which is monitored in QuickBooks by the IDA bookkeeper. As part of the segregation of duties, the IDA Bookkeeper does not have access / authority to perform changes to the “County Incentive Account”. Changes require at least two signatures of the four Board Members. Financial statements and reports extracted from QuickBooks are provided to the IDA Board before scheduled board meetings for review. External audits are performed annually on IDA accounts and results are reported to the BOCS. Financial records are maintained in both electronic and hard copy. Bank statements are reconciled and filed monthly by the IDA Bookkeeper.

#### Financial Overview

The following financial data is per the IDA’s financial statements as of June 30, 2016:

- Total assets amounted to \$909,776;
- Expenses account amounted to \$330,411; and
- The IDA collected \$312,355 between administrative fees, interest earned, and application fees. These are the main source of revenue for the IDA.

During FY 2016-17, July 1, 2016 to June 30, 2017, the IDA authorized the issuance of private activity bonds, with a do not exceed limit totaling \$171,050,000, as follows:

Project / Entity Name	Amount Not To Exceed	Date Approved
Westminster Presbyterian Retirement Community, Inc.	\$55,000,000	10/03/2016
George Mason University Foundation Prince William Life Sciences Lab, LLC	\$38,000,000	10/03/2016
BWF Glen Arbor, LP (Bonaventure Realty Group)	\$21,550,000	12/05/2016
BWF Glen Arbor, LLC	\$23,000,000	01/09/2017
Freestate Farms, LLC	\$33,500,000	02/06/2017

During FY 2016-17, the Department of Economic Development utilized the IDA to pass through \$566,132 of funding, as follows:

Project / Entity Name	Amount	Date of Wire Transfer
BerkelyNet	\$100,000	05/05/2017
Caerus Discovery LLC	\$50,000	03/21/2017
Flory	\$231,132	07/22/2017
Scryb	\$100,000	12/26/2016
Serpin Pharma	\$20,000	10/04/2017
Southland Concrete	\$40,000	11/17/2017
Ventech Solutions	\$25,000	10/12/2016



## BACKGROUND – CONTINUED

### The Flory Center

#### Background

The Flory Center is a non-profit, tax-exempt organization with the mission of business development, retention and expansion. The Flory Center was established in 1991 by the IDA, for the purpose of serving the needs of the region's existing small businesses and start-up entrepreneurs. Their tax-exempt status was granted on the basis of "lessening the burdens of government." The Flory Center is served by an active volunteer board of directors. The geographic regions served are PWC, Manassas and Manassas Park. They offer the following services to small businesses and entrepreneurs in PWC.

- Referrals
- Counseling
- Business Planning
- Financing
- Promotion
- Training
- Hiring Staff
- Networking
- General Technical Assistance
- Market Research

#### Financial Overview

Funding is provided by PWC, the IDA, and the Cities of Manassas and Manassas Park. The following table summarizes Flory Center's annual funding based on the approved FY 2018 Cash Budget. The Flory Center receives \$23,700 in fees for administrative and bookkeeping services to the IDA under a contractual agreement dated May 9, 2013. The IDA also has a Memorandum of Understanding ("MOU") with the Flory Center, dated June 6, 2000, that outlines principles and commitments. An external audit is performed on an annual basis as a result of that MOU and the report is provided to the BOCS, IDA and applicable stakeholders.

Funding per FY 2018 Budget		
Source	Amount	Percentage of Budget
IDA	\$235,000	44%
PWC	\$231,132	43%
Manassas	\$35,000	7%
IDA (Admin/Bookkeeper)	\$23,700	4%
Manassas Park	\$8,000	1%
Manassas Park IDA	\$2,000	.4%



## BACKGROUND – CONTINUED

### The Flory Center – continued

The following table summarizes the top five expenditures, or approximately 88% of all expenditures for the year ended December 31, 2016.

Top Five (5) Expenditures as of December 31, 2016		
Expenditure	Amount	Percentage of Total Expenditures
Salaries and Wages	\$299,678	52%
Payroll taxes and fringe benefits	\$83,133	15%
In-kind expenses	\$21,025	9%
Operating expenses	\$50,041	9%
Contract labor	\$17,305	3%

### Economic Milestones and ROI

The Flory Center measures the results of its services by annually tabulating the economic achievements of clients exclusively in the year in which they worked with them. The Flory annual report for FY 2016, published June 2017, reports cumulative economic impact milestones (1991-2016). The following table is an excerpt of the milestones reported from 2013-2016 and has not been audited.

Economic Impact Milestones				
Year	Jobs Created	Jobs Saved	Increased Sales	Capital Investment
2013	94	72	(7,008,012)	3,689,463
2014	105	34	3,362,870	3,393,300
2015	131	106	11,755,762	3,842,688
2016	142	169	18,074,956	19,494,488

The annual report for FY 2016 also reports cumulative ROI metrics (1991-2016). The following table summarizes the cumulative ROI metrics reported. These results are measured and provided to the Flory Center by their consulting clients and have not been audited.

ROI Metrics	
Metric	Amount
State tax revenue	\$58,397,258
Federal tax revenue	\$67,597,151
New jobs	5,934
Saved jobs	1,814
Capital investment	\$324,711,107
Increased sales	\$383,727,008



## BACKGROUND – CONTINUED

### Small Business Matrix

Small business and entrepreneurial services in PWC are offered by a handful of other entities in addition to the DED and the Flory Center. See the below matrix that illustrates the commonalities and differences in services provided among these entities. Although these entities provide services to small businesses, they do not necessarily offer the same services.

Service	Prince William County DED	Flory Center	Mason Enterprise Center/SBDC	Prince William Chamber
Primary Customer(s)	Existing and targeted businesses	Start-ups, existing businesses	Start-ups, existing businesses	Start-ups, Existing businesses
Service Territory	County	County, Manassas, Manassas Park	Region	County, Manassas, Manassas Park
Permitting	X			
Referrals	X	X	X	X
Counseling	X	X	X	X
Business Planning		X		
Financing		X	X	
Export			X	X
Promotion	X	X	X	X
Training		X	X	X
Hiring Staff		X		
Networking		X	X	X
Commercialization Assistance			X	
Technical Assistance - General		X	X	X
Technical Assistance - Govt. Contracting			X	X
Technical Assistance - Veterans			X	
Technical Assistance - Retail and Restaurants			X	
Market Research	X	X	X	X
Targeted Initiatives	X			
Offer Incentives	X			

For example, there are three major differences between the Flory Center and the DED Existing Business program.

1. Primary Customers – The Flory Center primarily focuses on companies in the rudimentary stage of business such as startups, whereas the DED focuses on established companies with the exception of the work with the Science Accelerator or Game Design Institute. A typical DED client is small to mid-size and even large established businesses that are looking to either expand or that the Department is recruiting from somewhere else in the US.
2. Industry Sectors – The DED focuses exclusively on businesses operating in the County's five target industries. For businesses operating in non-sector industries, the DED makes referrals to other federal, state, and local entities such as the Flory Center. See the chart in the *Non-Target Industries* section of this report that lists these partners and their services.
3. Geography – The Flory Center serves the County, Manassas, and Manassas Park whereas the DED exclusively serves the County.



## DED BENCHMARKING

### Comparable Entities and Economic Development

Organizations of all types and sizes recognize the value of comparing themselves to other like organizations. This process of benchmarking yields valuable information to leaders and decision makers. Identifying comparable peer groups can be extremely challenging, as no two jurisdictions are exactly alike. There are, however, risks inherent in the benchmarking process. Organizations could account for data differently; thus, there are limitations to the comparisons to Prince William County and the efforts of the Department of Economic Development.

We selected seven jurisdictions located in the Northern Virginia/Metro DC/Maryland area, including those recommended by the Prince William County Department of Economic Development. The Prince William County Department of Economic Development does not receive private funding and is fully funded by tax revenue received from County residents, which we also took into consideration when selecting comparables, as most of the selected jurisdictions fund Economic Development efforts utilizing tax revenue, similar to Prince William.

- Prince William County Department of Economic Development
- Stafford County Economic Development
- Montgomery County (MD) Department of Economic Development
- Fairfax County Economic Development Authority
- Loudoun County Economic Development Department
- Arlington Economic Development (Business Investment Group)
- Prince George's County (MD) Economic Development Corporation

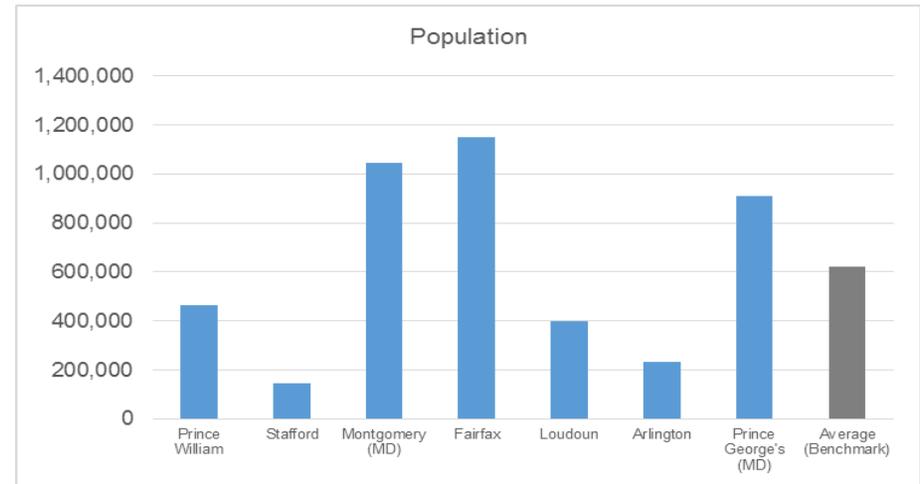
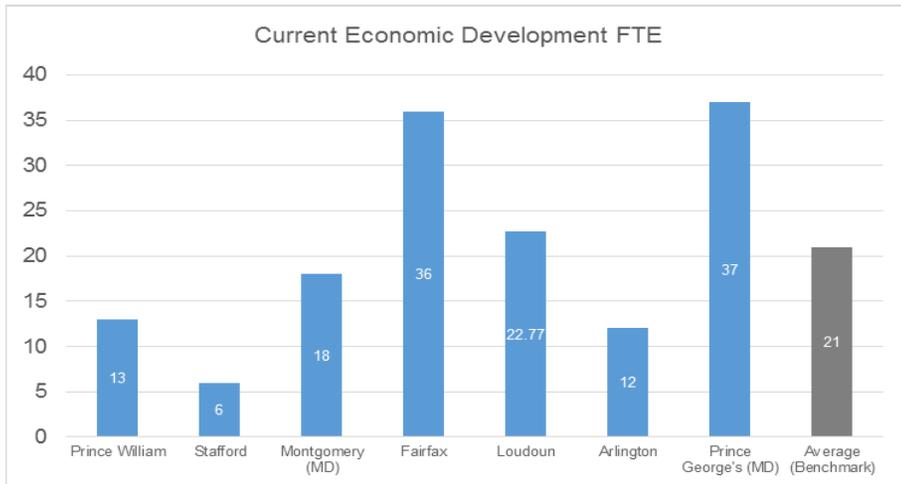
While varying in population, these seven jurisdictions each experience a similar economic environment due to their geography and strategic alignment due to their proximity to D.C.



## DED BENCHMARKING – CONTINUED

### Comparable Entities and Economic Development – continued

On average, these jurisdictions employ twenty-one full-time equivalents for Economic Development, with Prince William currently having thirteen positions within the DED. Even with its small size, Prince William employs three Certified Economic Developers (“CECD”) with a fourth expected to receive the certification during 2018. Additionally, one member has a Certified Planner (“AICP”) designation. The senior leadership team of four, has over one hundred years of professional economic development experience at the local, county, regional and state levels, which is the most of any comparable jurisdiction.

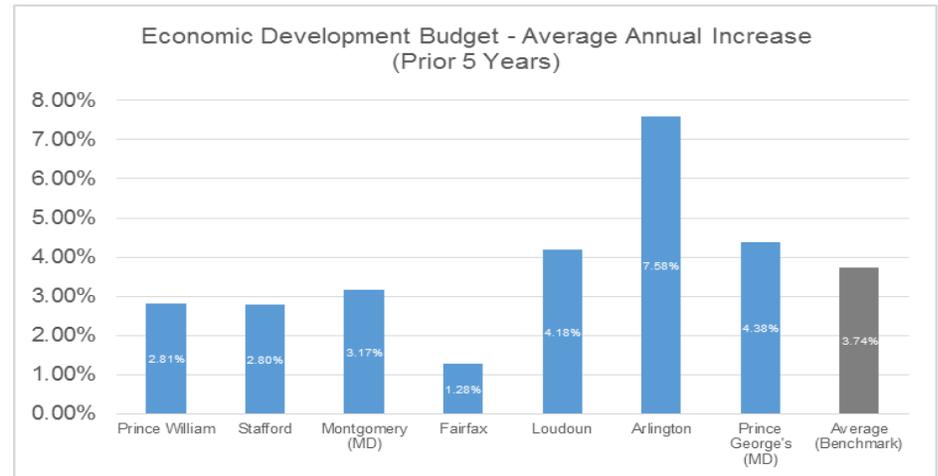
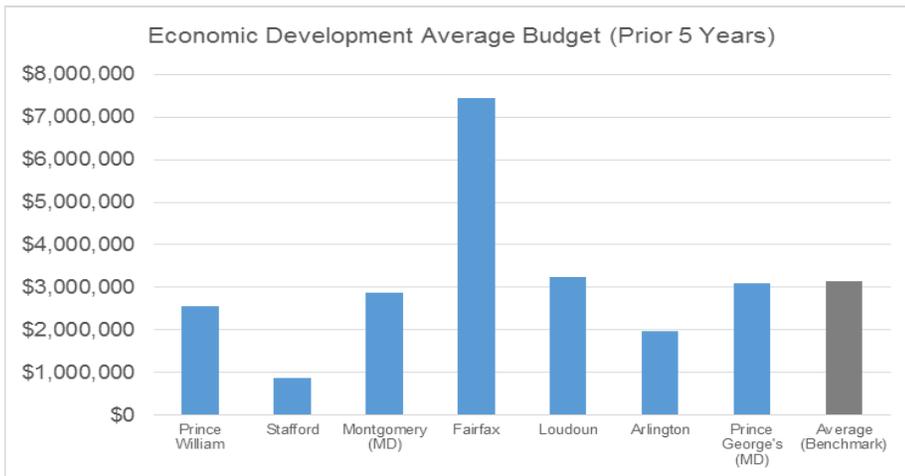




## DED BENCHMARKING – CONTINUED

### Comparable Entities and Economic Development – continued

A significant differentiating factor from one jurisdiction to another is the funds allocated annually for Economic Development efforts. The PWC DED was ranked eighth (8<sup>th</sup>) in terms of annual budget for FY 2017. The approved budgets from FY 2014 through FY 2018 for the seven selected jurisdictions yielded an average of \$3,151,736 of funds provided to Economic Development. Over these five fiscal years, the Prince William Economic Development Department had an average budget of \$2,559,644. Additionally, year-over-year the majority of the comparable entities have seen larger percentage increases in Economic Development budgets, with an average of a 3.7% increase each year. Prince William has experienced a below average year-over-year increase of 2.8%.



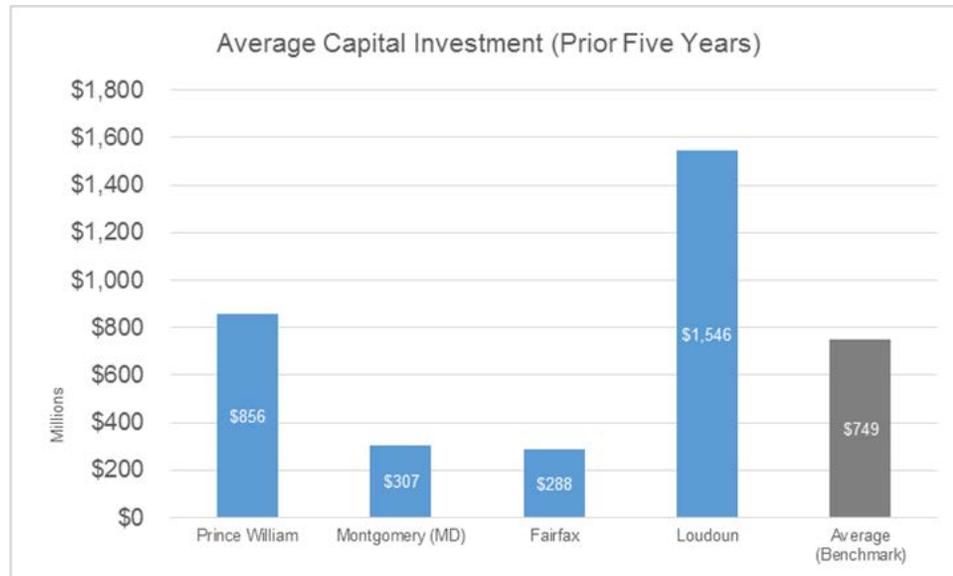


## DED BENCHMARKING – CONTINUED

### Comparable Entities and Economic Development – continued

Economic Development is measured utilizing two key “return on investment” metrics, jobs (new and retained) as well as total capital investment by incoming businesses. New and retained jobs provide residents more options and additional security in employment, as well as an opportunity for the jurisdiction to collect additional tax revenue. Capital investment represents the current and future commitment of business investment in the PWC economy, and contributes to the commercial tax base.

We were able to obtain data from four of the seven selected jurisdictions related to capital investment, which is represented below. Even with the limited full-time equivalents comparable to other Economic Development departments, Prince William is able to generate significant capital investment on an annual basis, even exceeding some of the larger departments, as well as the average of roughly \$749 million. Additionally, in each of the past five years, the capital investment total for Prince William has exceeded half a million dollars. This has been primarily due to the growth in the data center market.



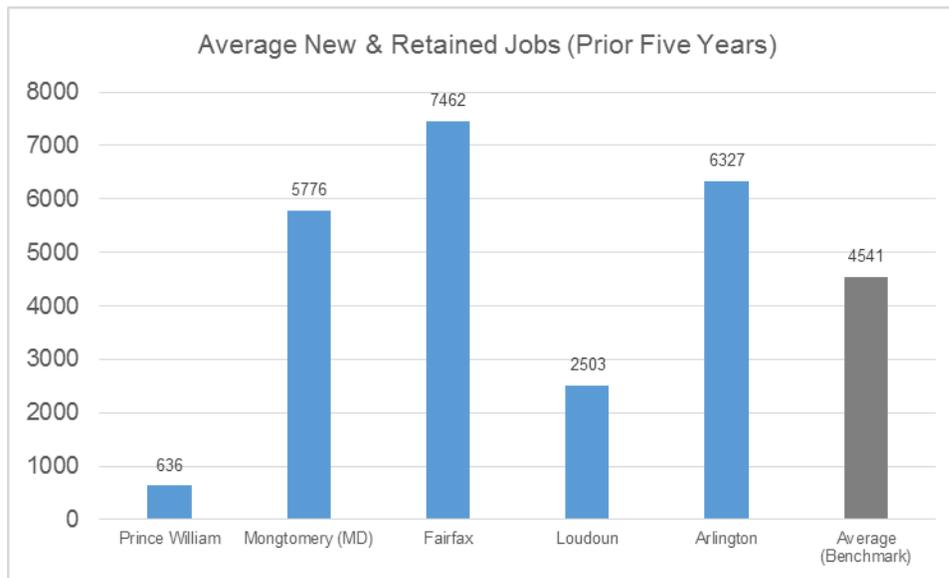
Prince William County - Capital Investment by Incoming Business	
FY	Total - unaudited
2013	\$1,004,000,000
2014	\$513,000,000
2015	\$666,000,000
2016	\$1,280,000,000
2017	\$817,000,000



## DED BENCHMARKING – CONTINUED

### Comparable Entities and Economic Development – continued

Regarding new and retained job measurables, we were able to obtain data from five of seven selected jurisdictions. Prince William lags behind the comparable jurisdictions, however total jobs have been steadily increasing since FY 2013. Total jobs data is provided from the incoming businesses and are a reflection of their expectation of investment in residents. Population and demographics are major factors that businesses consider when making relocation and expansion decisions.



Prince William County - New and Retained Jobs	
FY	Total - unaudited
2013	359
2014	569
2015	600
2016	676
2017	978

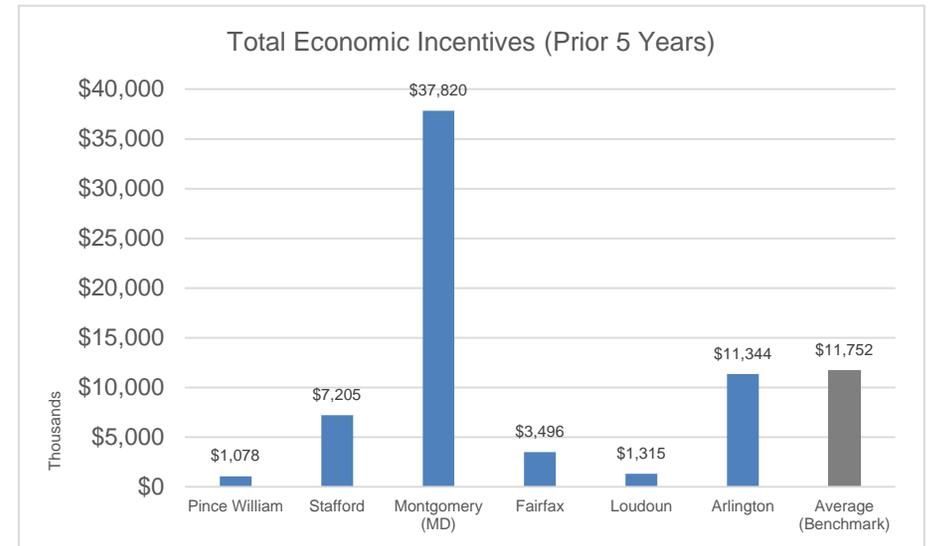
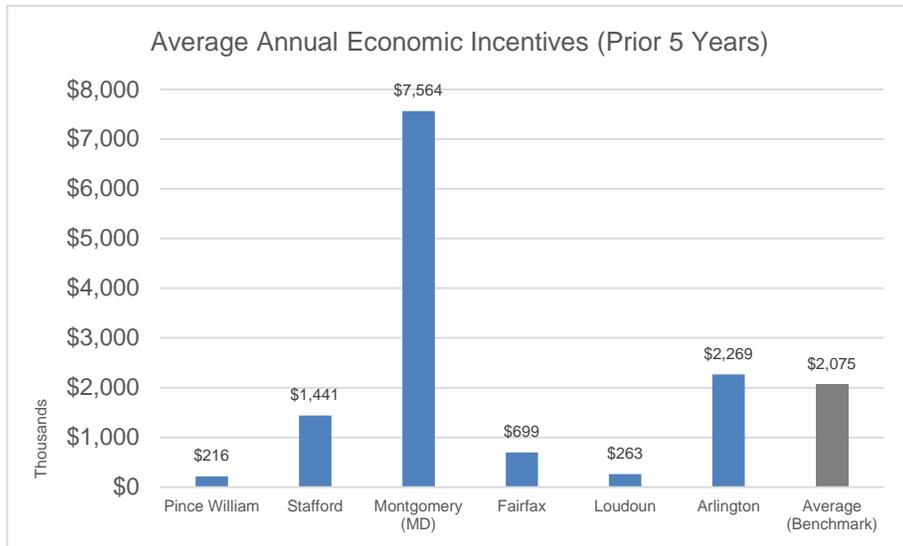


## DED BENCHMARKING – CONTINUED

### Comparable Entities and Economic Incentive Programs

Economic incentive programs remain a core aspect of local economic development policy and can provide Economic Development Departments an advantage in attracting prospective businesses. Economic development incentives are direct financial benefits that incentivize a prospective businesses opening, expansion, or retention. New business ventures come at a significant cost and financial incentives can help ease this burden. The expectation of financial incentives is that jurisdictions are able to re-coup the incentive over a period of time as a direct result of the new business operations. The risk of not realizing this return on investment causes many jurisdictions to be wary of providing these incentives.

Comparative to other jurisdictions, Prince William County is very conservative in providing economic incentives to prospective businesses. Since FY 2013, PWC has provided the least of the six jurisdiction included in this analysis.





## IDA BENCHMARKING

### IDA and EDA Functional Benchmarking Analysis

We performed a benchmarking analysis to gather information and compare Prince William's Industrial Development Authority to fourteen IDAs and Economic Development Authorities ("EDA") in neighboring counties, as well as, two counties within Pennsylvania. The results of this analysis are meant to illustrate ways in which IDA/EDA functions operate elsewhere, but in no way means that PWC needs to take action to adjust the PWC IDA. See Appendix A for citations and additional detail.

*Note: Elements identified in the table below as part of the benchmarking of EDAs did not include any EDAs that were established as part of Chapter 643 of the 1964 Acts of the Assembly (un-codified). Each activity identified below related to EDAs enabled as part of Article 15.2 Section 4900 of the Code of Virginia. Therefore, the associated EDAs are synonymous with IDAs and derive their Power of Authority from the same Code of Virginia.*

IDA and EDA functions included in neighboring counties:

- Publicly owned industrial parks
- Projects and objectives focused on improving utilization & development of local infrastructure
  - Local airports
  - Loans for farmland
  - Providing loans to local businesses for energy-efficient upgrades
- Small business loan program
- Provide low-interest financial assistance to businesses to create jobs for lower income persons with limited job skill requirements
- Mortgage financing for manufacturing companies and non-profits
- Buy, sell or develop property for economic development purposes
- Build facilities and lease or sell them to private companies
- Infrastructure projects including toll road extension lane, new interchanges, and interchange improvements
- Portion of operating budget funded by the Warren County Board of Supervisors
- Land is available for purchase for businesses



## IDA BENCHMARKING – CONTINUED

### IDA and EDA Functional Benchmarking Analysis – continued

Note: Elements identified in the table below as part of the benchmarking of EDAs did not include any EDAs that were established as part of Chapter 643 of the 1964 Acts of the Assembly (un-codified). Each activity identified below related to EDAs enabled as part of Article 15.2 Section 4900 of the Code of Virginia. Therefore, the associated EDAs are synonymous with IDAs and derive their Power of Authority from the same Code of Virginia.

Notable Project Types	County	Website
Publicly owned industrial parks	Washington County, VA	<a href="https://www.washcova.com/government/industrial-development-authority/">https://www.washcova.com/government/industrial-development-authority/</a>
Projects and objectives focused on improving utilization & development of local infrastructure <ul style="list-style-type: none"> <li>Local airports</li> <li>Loans for farmland</li> <li>Providing loans to local businesses for energy-efficient upgrades</li> </ul>	Cumberland County, PA	<a href="https://cumberlandbusiness.com/about-us/industrial-development-authority/">https://cumberlandbusiness.com/about-us/industrial-development-authority/</a>
Small business loan program <ul style="list-style-type: none"> <li>Provide low-interest financial assistance to businesses to create jobs for lower income persons with limited job skill requirements</li> </ul>	Dauphin County, PA	<a href="http://www.dauphincounty.org/government/Community-Economic-Development/Industrial-Development-Authority/Pages/default.aspx">http://www.dauphincounty.org/government/Community-Economic-Development/Industrial-Development-Authority/Pages/default.aspx</a>
Mortgage financing for manufacturing companies and non-profits	Dauphin County, PA	<a href="http://www.dauphincounty.org/government/Community-Economic-Development/Industrial-Development-Authority/Pages/default.aspx">http://www.dauphincounty.org/government/Community-Economic-Development/Industrial-Development-Authority/Pages/default.aspx</a>
Buy, sell or develop property for economic development purposes	Stafford County, VA	<a href="https://www.gostaffordva.com/stafford-eda/">https://www.gostaffordva.com/stafford-eda/</a>
Build facilities and lease or sell them to private companies	Stafford County, VA	<a href="https://www.gostaffordva.com/stafford-eda/">https://www.gostaffordva.com/stafford-eda/</a>
Infrastructure projects including, toll road extension lane, new interchanges, and interchange improvements	Stafford County, VA	<a href="https://www.gostaffordva.com/stafford-eda/">https://www.gostaffordva.com/stafford-eda/</a>
Portion of operating budget funded by the Warren County Board of Supervisors	Warren County, VA	<a href="http://wceda.com/about-eda/">http://wceda.com/about-eda/</a>
Land is available for purchase for businesses	Frederick County, VA	<a href="http://www.yesfrederickva.com/home.aspx">http://www.yesfrederickva.com/home.aspx</a>
Virginia Counties researched (14): Norton County, Arlington County, Loudon County (EDA), Washington County, Fairfax County (EDA), Stafford County (EDA), Clarke County, King George County (EDA), Culpeper County, Spotsylvania County (EDA), Warren County (EDA), Frederick County (EDA), Caroline County (EDA), and Westmoreland County.		



## OBJECTIVES AND APPROACH

### Objectives

The objective of this internal audit was to evaluate the effectiveness of the County's economic development activities, including the DED, the IDA and the Flory Center and the alignment of business missions with the strategic plan. As well as to perform a high-level analysis of Prince William's, DED as compared to a relevant County peer group; and assess the ROI.

### Approach

Our audit approach consisted of the following two phases:

#### Understanding and Assessment of the Process and Benchmarking

During this phase, we performed the following:

- Understand the business relationship between the DED, IDA, and Flory Center;
- Gained an understanding of the business purpose, mission and objectives of the DED, IDA, and Flory Center;
- Gained an understanding of the current functions, stakeholders, and interaction(s) with the County for the DED, IDA, and Flory Center;
- Review the return on investment realized as a result of the DED, IDA and Flory Center efforts, initiatives, and incentives;
- Gained an understanding of periodic reporting processes to key stakeholders and identified development opportunities;
- Performed high-level analysis and benchmarked the DED as compared to economic development with relevant and comparative peer groups;
- Assessed the DED's ability to achieve the County's strategic outcomes; and
- Developed process maps and summarized the key processes performed.

#### Reporting

At the conclusion of this audit, we summarized our findings into this report. We conducted an exit meeting with the Executive Director of the DED and the County Executive to review the results and draft report, and have incorporated Management's response into this report.



## OBSERVATIONS MATRIX

Observation	1. Strategic Plan Desired Outcome		
<b>High</b>	<p>The 2017-2020 Strategic Plan includes goals which directly and indirectly include Economic Development. We noted the following strategic plan outcome:</p>		
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; padding: 5px;"><b>Increase commercial tax base</b></td> <td style="padding: 5px;">           Increase the commercial tax base as a percentage of overall tax revenue from 14% to 35%.            Increase capital investment from ninety-two (\$92) million per year         </td> </tr> </table> <p>The desire for this outcome is derived from the need to increase the County's investment in the community without raising residential tax rates. Based on the current organizational structure and resources allocated it will be extremely challenging for the County to meet this goal.</p>	<b>Increase commercial tax base</b>	Increase the commercial tax base as a percentage of overall tax revenue from 14% to 35%. Increase capital investment from ninety-two (\$92) million per year
<b>Increase commercial tax base</b>	Increase the commercial tax base as a percentage of overall tax revenue from 14% to 35%. Increase capital investment from ninety-two (\$92) million per year		
<b>Recommendation</b>	<p>To meet the goals outlined in the strategic plan the County should consider the following:</p> <ol style="list-style-type: none"> <li>1. <b>Strategic Plan 2020 - Implementation of a Robust Economy Report</b> - The County should consider the recommendations as presented to the BOCS by the Director of Economic Development – in the Strategic Plan 2020 - Implementation of a Robust Economy Presentation. A copy of this presentation is included in Appendix A. This report details issues, recommendations and budget impact for driving economic development to achieve the County's current goals. The report details the following six objectives.             <ul style="list-style-type: none"> <li>• Evaluating the County's Competitive Position</li> <li>• Raising the County's Awareness</li> <li>• Improving the County's Product</li> <li>• Upgrading the County's Services &amp; Tools</li> <li>• Engaging the County's Partners</li> <li>• Launching New Ventures</li> </ul> </li> <li>2. <b>Evaluate and Coordinate Partnership Missions and Goals</b> – Many entities in Virginia contribute to economic development in PWC. However, the services, clients, regions, sectors, missions and objectives for each entity can vary widely. The County should understand the many nuances, overlaps and potential gaps of each to properly leverage these resources to achieve the County's desired economic outcomes. As noted in Observation #2 the agreements with the Flory Center and the IDA should support the goals and missions of the County.</li> <li>3. <b>Resource Allocations and ROI</b> – Based on the benchmarking of the County's peer group, the BOCS should consider the level of resources allocated to the DED and its sufficiency to achieve desired outcomes.</li> </ol>		



## OBSERVATIONS MATRIX – CONTINUED

Observation	1. Strategic Plan Desired Outcome – continued
<p><b>Recommendation</b></p>	<p>4. <b>Industrial Development Authority vs. Economic Development Authority</b> – The governance of the economic development should be evaluated to determine whether there might be differences in the benefits, capabilities, or operations if PWC were to have an EDA, rather than the current IDA. Based on research performed by RSM and validated with the APA, as well as the County Attorney, there are two enabling statutes in Virginia for IDAs and EDAs:</p> <ol style="list-style-type: none"> <li>1) Article 15.2 Section 4900 of the Code of Virginia enables IDAs (although they can be called EDAs)</li> <li>2) The un-codified Chapter 643 of the 1964 Acts of the Assembly related to EDAs, which is not part of the Code of Virginia because it relates to specific cities and counties.</li> </ol> <p>An EDA has the authority and ability to issue bonds, make loans (and forgive such loans), accept public and private funds and property, lease property for fees, and convey property as appropriate. Other differences between an EDA created by the General Assembly and an IDA established by a local jurisdiction include:</p> <ul style="list-style-type: none"> <li>• The EDA statute explicitly states that an EDA may accept private funds for any purpose related to economic development activities.</li> <li>• An IDA has certain requirements for the BOCS to approve bonds that will be federally tax exempt. In contrast, an EDA does not have the requirement that these type of bonds be approved by the governing body.</li> <li>• A member of the BOCS may serve on the Board of Commissioners of an EDA. On the other hand, members of the Board of Supervisors are explicitly prohibited from serving on the Board of Directors of an IDA.</li> </ul> <p>The differences between the two in terms of authority and structure present various advantages and disadvantages. However, to seriously consider a possible change from one statute to the other, a thorough assessment of all the differences should be performed by the Office of the County Executive.</p>
<p><b>Management’s Action Plan</b></p>	<p><b>Response:</b> Revisions are currently underway to the County’s Comprehensive Plan and Target Industry Study/Competitiveness Analysis. The Department of Economic Development is working with the Department of Finance and the Planning Office to better integrate our planning, economic development, and revenue policies and strategies. We intend to present the results of our work to the Board of County Supervisors in September 2018. Upon completion, we will work with the County Executive and the Board of County Supervisors to identify the structure best suited to achieving the County’s desired economic development outcomes.</p> <p><b>Responsible Party:</b> Joint effort of the Departments of Economic Development, Planning and Finance</p> <p><b>Estimated Completion Date:</b> December 31, 2019</p>



## OBSERVATIONS MATRIX – CONTINUED

Observation	2. Agreements Between the County, IDA and Flory Center
High	<p>As noted in the background section, the principals and commitments of the IDA, Flory Center and County have certain overlap. Currently the relevant MOU's and agreements between the parties are not aligned with the County's strategic plan and goals and in some cases have expired as noted below.</p> <p><b>Agreement between the County and IDA</b> The County and IDA executed an Agreement on November 3, 2003 nearly fifteen (15) years ago. The Agreement has not been formally reviewed and revised since execution. Although the Agreement outlines the responsibilities of both parties, this information may not be in alignment with the current practice and needs of the County.</p> <p><b>Memorandum of Understanding between the County and Flory Center</b> The County and Flory Center executed a Memorandum of Understanding on October 7, 1999, over seventeen (17) years ago. The MOU has not been formally reviewed and revised since execution. Although the MOU outlines principles and commitments of the Flory Center and the County, this information may not be in alignment with the current practice and needs of the County.</p> <p><b>Memorandum of Understanding between IDA and Flory Center</b> The IDA and Flory Center executed a Memorandum of Understanding on June 19, 2000, over seventeen (17) years ago. The MOU has not been formally reviewed and revised since execution. Although the MOU outlines principles and commitments of the Flory Center and the IDA, this information may not be in alignment with the current practice and needs of the County.</p> <p><b>Contractual Agreement between IDA and Flory Center</b> The current contractual agreement between the IDA and Flory Center, dated May 19, 2013, is month-to-month without an expiration date. Scope of services are for Corporate Secretary support and financial services support.</p> <p>Inadequate and outdated MOU's /agreements could create gaps in expectations regarding roles and responsibilities. Contract expirations force review and evaluation of contracted relationships and services performed.</p>
Recommendation	<p>We recommend that all memorandums of understanding and agreements be reviewed and updated, where necessary, in order to make sure roles and responsibilities are in alignment with the current and future practices and the County's Strategic Plan. The MOU review process should include individuals from the IDA, Flory Center and the County. The County representatives should include Economic Development and the County Attorney's office, at a minimum. Elements to consider should include:</p> <ul style="list-style-type: none"> <li>• Alignment with PWC Strategic Plan</li> <li>• Audit Requirements</li> <li>• Expiration date of five years or less</li> <li>• Accountability / Oversight outline</li> <li>• Performance monitoring</li> <li>• Responsibilities and roles of each party</li> <li>• Key Performance Indicators where applicable and Return on Investment</li> <li>• Reporting – including recipient, timing and content</li> <li>• Termination protocol</li> </ul>



## OBSERVATIONS MATRIX – CONTINUED

Observation	2. Agreements Between IDA and Flory Center – continued
<b>Management's Action Plan</b>	<p><b>Response:</b> We are working with the IDA and Flory Small Business Center to establish them as a formal Community Partner and to create a new MOU with specific performance benchmarks.</p> <p><b>Responsible Party:</b> Joint effort of the Departments of Economic Development, Planning and Finance</p> <p><b>Estimated Completion Date:</b> September 1, 2018</p>



## OBSERVATIONS MATRIX – CONTINUED

Observation	3. Verification of Key Metrics
<p><b>Moderate</b></p>	<p><b>DED</b>  Monthly, quarterly, and annual project data reported to the Board in terms of key metrics such as job numbers and capital investment are obtained and monitored differently for incentivized projects versus non-incentivized projects. An incentivized project is a project that was awarded a grant from the EDOF. These projects account for approximately 5% of all projects completed since the Department's inception. Because these projects include an executed performance agreement with the IDA, the DED monitors and verifies the targets outlined in the agreement before payment is made by the IDA. For all other projects which are non-incentivized, the DED relies on information reported by the companies due to limited resources. The Business Development Managers meet with appropriate representatives and perform site visits to the new facilities, but there is no verification function of the numbers submitted by non-incentivized companies / projects. However, the DED requires submission of the project numbers for all projects. The information is provided in various nonverbal forms such as supporting documents, formal letters, and even email.</p> <p><b>Flory Center</b>  Results of services provided are measured by annually tabulating economic achievements by Flory Center clients that receive one-on-one consulting. All of the Flory Center's economic impact numbers are tied to specific consulting cases and provided by the clients. As such, the Flory Center is relying on information provided in the absence of a verification function.</p>
<p><b>Recommendation</b></p>	<p><b>DED</b>  The County should consider implementing a verification function for key metrics reported to the BOCS regarding non-incentivized projects. At a minimum, the DED should meet with the BOCS in-person on a periodic basis to discuss key YTD metrics for non-incentivized projects.</p> <p><b>Flory Center</b>  The County should consider implementing a verification function for key metrics reported to the Board regarding Flory Center services.</p>
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> The Department of Economic Development will send a brief survey form to non-incentivized projects logged one year after the completion of the project (in whatever form that completion takes). This survey will be done under the aegis of our Business Retention Program and will focus on the company's satisfaction with the services provided by the Department and ask if there is any further assistance that can be provided to ensure the company's growth. The survey will request that the company provide information on jobs and capital investment but this will not be a requirement of completing the survey. All results will be held confidential and will be aggregated. Results of the annual survey will be included in the Department's Annual Report to the BOCS.</p> <p><b>Responsible Party:</b> DED staff</p> <p><b>Estimated Completion Date:</b> Annually as part of the Department's Annual Report to the BOCS</p>



## OPPORTUNITY FOR IMPROVEMENT

### Website Improvements

#### IDA Website Improvements:

The Prince William County Industrial Development Authority (IDA) has a website (<http://www.pwcida.org/>) which includes information related to IDA projects, services, FAQ's, Clients, and general information (About Us). This information is available to the public and the site can also be utilized to start the bond application process. To identify applicable improvements to the PWC IDA website, we performed a benchmarking analysis.

Based on review of over 30 IDA / EDA websites, the PWC IDA website has various opportunities to be improved. Other IDA sites include some of the following features:

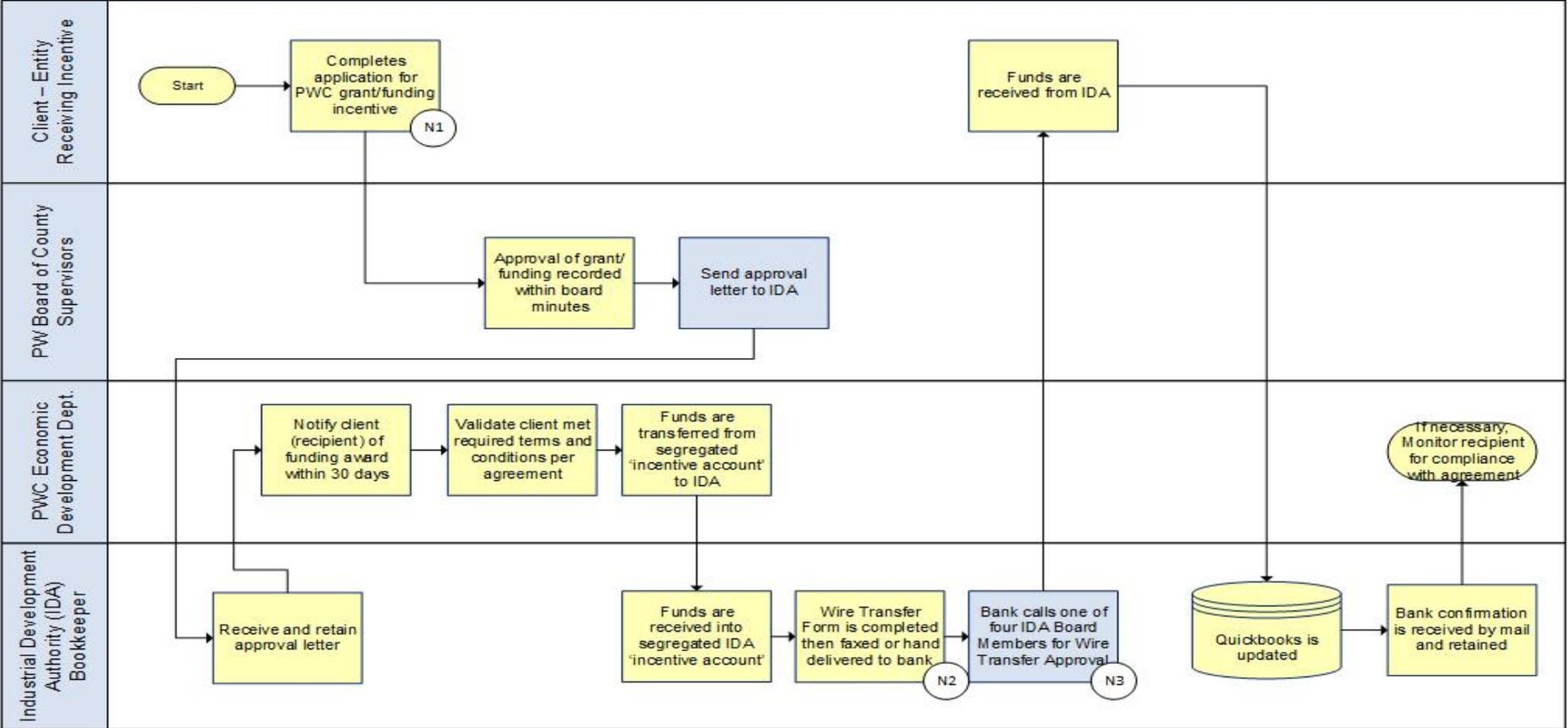
- Links to the Department of Economic Development website and incentives
- Videos explaining IDA financing opportunities
- Improved aesthetics and web-page flow
- Similar to a County Economic Development site, the IDA website will explain why an entity should be motivated to do business within PWC
- Success stories updated frequently
- IDA site embedded within the County's Economic Development Department website

Because economic development is hyper competitive, resources should be properly leveraged to assist in achieving the County's goals and objectives. We recommend consideration of website improvements based on the IDA website benchmarking performed. To remain competitive, all websites should be routinely maintained for functionality with relevant up-to-date information.



# PROCESS MAPS

Pass-Through Funding



**Notes:**  
 N1: Prince William County provides incentives to stimulate business and the local economy.  
 N2: IDA Bookkeeper utilizes information obtained from Economic Development Department to complete the Wire Transfer form.  
 N3: Each of the four assigned IDA Board members receive a unique PIN number by mail which is utilized by the bank to verify identity.

**Legend:**

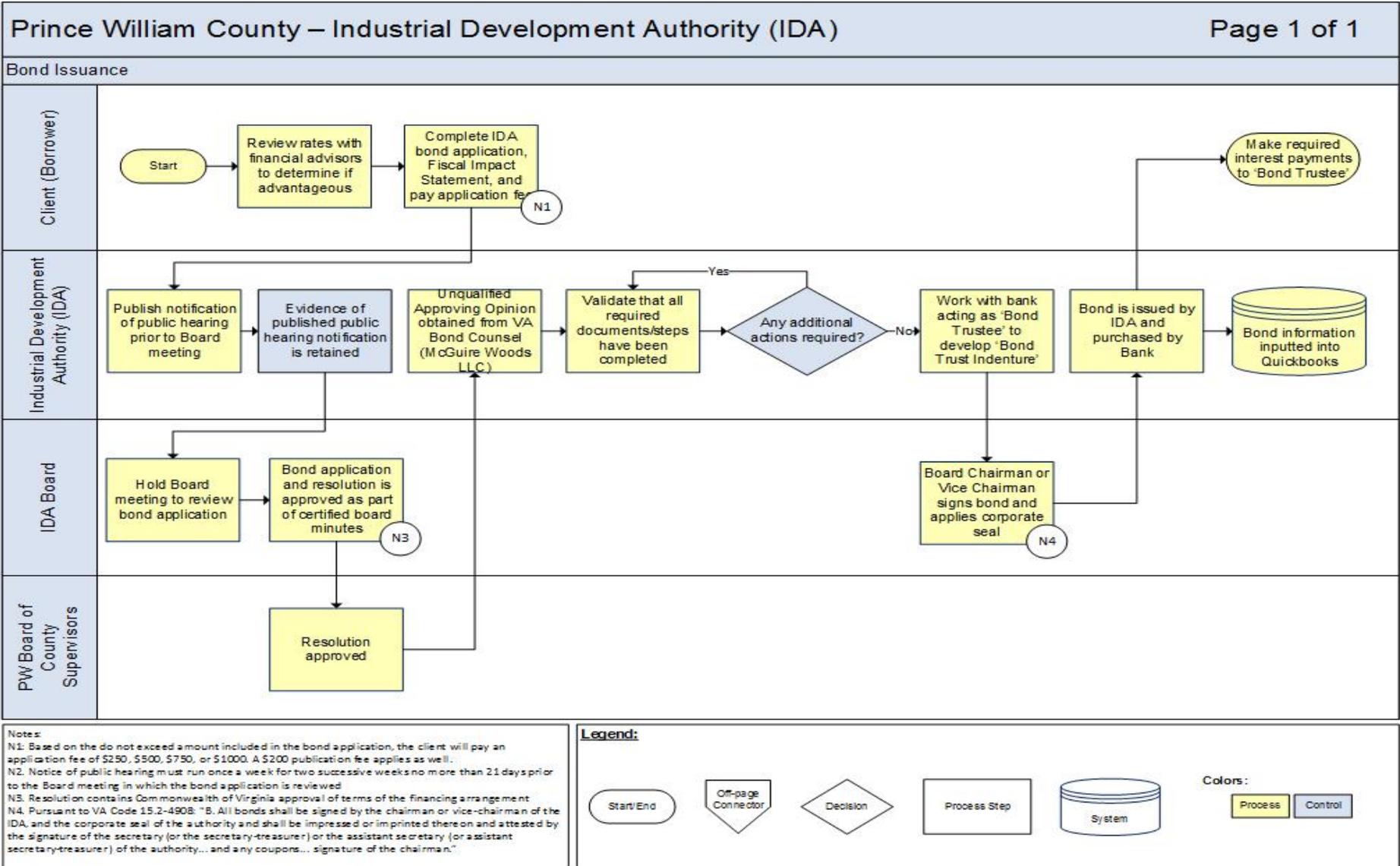
- Start/End
- Off-page Connector
- Decision
- Process Step
- System

**Colors:**

- Process
- Control



## PROCESS MAPS – CONTINUED





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## APPENDIX A



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