



# Office of the City Auditor

*Committed to increasing government efficiency, effectiveness,  
accountability and transparency.*

Department of Economic & Community Development

## ECONOMIC DEVELOPMENT STRATEGY

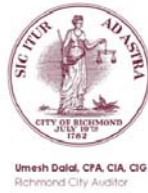
Report#: 2016-07



Issue Date: March 8, 2016

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# Richmond City Council

The Voice of the People

Richmond, Virginia

## Office of the City Auditor

### Executive Summary

March 8, 2016

The Honorable Members of Richmond City Council  
Honorable Mayor Dwight Jones,

The City Auditor's Office has completed an audit of the City's Economic Development function. This audit focused on the City's strategy for business attraction and retention. An effective economic development program would increase the resources available to the government, which can be invested in community development activities, infrastructure enhancements and maintenance, and the delivery of timely and effective services that are expected by residents.

The following are salient findings:

- Internal controls over the economic development program need improvement. The auditors observed that the project files were unorganized and it was difficult to locate important documents, such as performance agreements and lease agreements to determine the agreed-upon terms and conditions.
- The Economic and Community Development Department (ECD) was expected to follow the City's official economic development strategy. However, without the appropriate authority, the Department has adopted practices that are not completely consistent with the City's strategy.

According to the project managers, the City pursues any and all businesses that show an interest in Richmond. The project managers spend their efforts to evaluate if there is a match between the prospective business' needs and the City's site (real estate "product") availability, regardless of industry. ECD would also extend all available incentives to non-target industries.

In the three-year audit period, the City had seven new or retained businesses that were expected to bring in a private investment of greater than \$5 million. ECD provided substantial services to four of the seven businesses by assisting them to either relocate or stay in Richmond. ECD minimally assisted the remaining three businesses prior to making the announcement of opening a location in Richmond. According to ECD, these seven businesses collectively made an investment of \$300 million, attracted 997 additional jobs, and retained 1,160 jobs. However, unless the company has a performance agreement for local incentive grant monies that specifically includes jobs numbers, ECD does not verify the jobs created/retained consistently with normal economic development practices.

- Generally, a sound economic development strategy is based on the strengths of the area to attract businesses. These strengths are identified by a cluster analysis. The auditors'

work identified likely clusters where the City's efforts need to be focused. This work was validated by a firm of consultants that have experience in economic development.

The analysis included in this report indicates that by focusing on the following clusters, the City of Richmond can create better paying jobs and expand the economy. Appendix II includes a list of industries within the clusters below, relevant to Richmond.

- ❖ Education and Knowledge Creation
- ❖ Financial Services
- ❖ Marketing, Design, and Publishing
- ❖ Local Health Services

The following clusters in the Richmond Metropolitan Statistical Area (MSA) provide opportunity for leveraging:

- ❖ Communications Equipment and Services
- ❖ Local Financial Services
- ❖ Insurance Services
- ❖ Local Utilities

In addition, the following clusters in the City may provide value:

- ❖ Performing Arts
- ❖ Local Community and Civic Organizations

A change in the City's economic development strategy to include the above clusters that are not currently targeted could yield comprehensive economic growth that:

- ✓ Ensures a sound quality of life for local residents,
- ✓ Creates and retains jobs,
- ✓ Stimulates investment in neighborhoods and businesses, and
- ✓ Generates the revenues necessary to fund vital municipal services.

- The Greater Richmond Partnership, Inc. (GRP) is an organization established jointly by the Counties of Chesterfield, Hanover, Henrico, and the City of Richmond, for the purpose of regional economic development activities. GRP serves as a single point of contact for the network of private sector and state and local government professionals serving Central Virginia. Although regional efforts are important, attracting new businesses by solely relying on joint efforts with regional competitors may not be in the best interest of the City as it has several competitive disadvantages.

To be competitive, Richmond needs to make more real estate available for economic development. According to Article X, Section 10 of the Virginia Constitution, a city or county cannot incur indebtedness for any internal improvements or construction of site for economic development purposes. According to the City Attorney's Office, the above provision prohibits a locality from appropriating its resources to private enterprises, but expressly allows for the Commonwealth to create authorities through which a locality may

act. The Richmond Economic Development Authority (EDA) is an authority that has been established for this purpose.

The City Auditor's Office appreciates the cooperation of ECD staff during this audit. The responses to the report are attached. The Department has concurred with all recommendations. Legislative approval will be necessary to reorganize economic development efforts as recommended. Please contact me if you have any questions or comments.

Sincerely,

*Umesh Dalal*

Umesh Dalal, CPA, CIA, CIG  
City Auditor

cc: Selena Cuffee-Glenn, Chief Administrative Officer  
The Richmond City Audit Committee  
Lee Downey, Deputy Chief Administrative Officer of Economic/Community Development  
Douglas Dunlap, Interim Director of Economic/Community Development

## COMPREHENSIVE LIST OF RECOMMENDATIONS

#		PAGE
1	The City Council, the Mayor, and the CAO need to consider assigning the City’s economic development responsibilities to the Richmond EDA along with appropriate measures to verify accountability, transparency, and compliance with laws and regulations, including procurement regulations, applicable to the City. Also, consider including Mayoral and City Council participation in the EDA.	37
2	The CAO needs to develop a comprehensive plan covering the next five years and addresses the issues and findings included in this report with City Council’s approval. The CAO needs to consider obtaining guidance from VEDA and CCAP to develop the strategy. The five year plan should include: <ul style="list-style-type: none"> <li>a. Establishing a structured process for business retention in the City</li> <li>b. Focusing on independent marketing and lead-generating efforts for the City in addition to participating in GRP efforts</li> </ul>	37
3	The City Council and the Mayor need to require ECD to demonstrate the actual, verified accomplishments of the following objectives through the economic development process that would ensure a sound quality of life: <ul style="list-style-type: none"> <li>a. Creating and retaining jobs</li> <li>b. Stimulating investments in neighborhoods and businesses</li> <li>c. Generating revenues to fund vital municipal services</li> </ul>	38
4	The DCAO over ECD needs to develop and implement a policy for organized record keeping of the economic development project files.	38
5	The CAO needs to establish performance measures similar to the GFOA recommendations to periodically evaluate the effectiveness of the economic development projects.	38
6	The City Council needs to adopt incentive guidelines for economic development purposes and require the CAO to enforce compliance. If on a specific case, deviation from the adopted policy is desired, the City Council approval to such deviation must be sought.	38

## INTRODUCTION

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The City Auditor's Office has completed an audit of the City's Economic Development function. The objectives of this audit were to evaluate the effectiveness of the Economic Development function, existence and effectiveness of internal controls, and compliance procedures. This audit focused on the City's effort in business attraction and retention. The scope of this audit included an evaluation of the economic development strategy through a review of projects initiated during the period from FY2013 to FY2015.

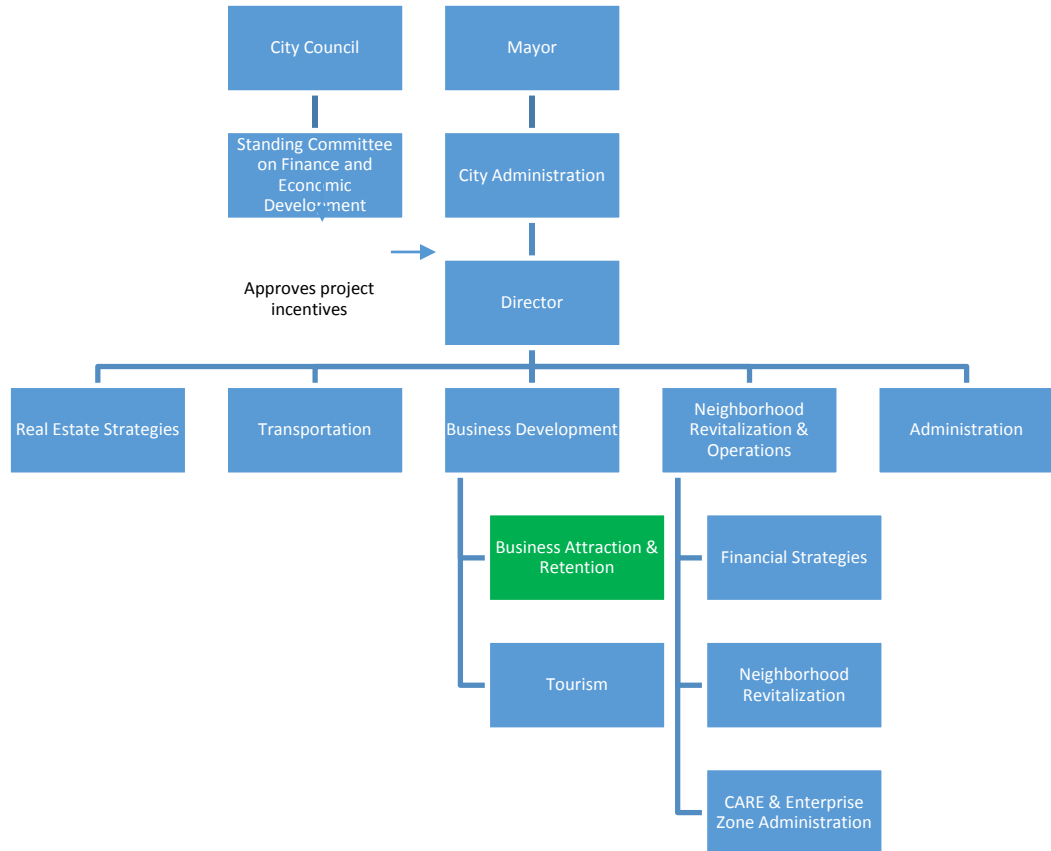
The audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

## BACKGROUND

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The current structure of the Department of Economic and Community Development (ECD) was established through a reorganization of several departments by the City Administration in 2010. Prior to the reorganization, economic development programs in the City were carried out by the Department of Economic Development with oversight from the City Administration and approvals provided by Richmond City Council.

ECD is structured according to the following organizational chart (with an emphasis on Business Attraction & Retention, see below):



Source: Auditor Prepared

The Department's current mission statement is, "The mission of Economic and Community Development is to promote and stimulate economic growth by implementing strategies that create and retain jobs, stimulate investments in neighborhoods and businesses, generate revenues to fund vital municipal services and ensure a sound quality of life for City residents."

Based on the above mission statement, the City is focusing on the following broad goals:

1. Creating and retaining jobs



2. Stimulating investments in neighborhoods and businesses
3. Generating revenues to fund vital municipal services
4. Ensuring a sound quality of life

ECD submits an ordinance proposed by the Mayor to the City Council when assistance is recommended for a new project. In April 2015, the City Council began to require ECD to submit fiscal and economic development statements including specified information for each project involving City expenditures or grant funding of at least \$5 million, for their consideration.

During the audit period, the City announced 31 economic development projects which were expected to generate or retain 2,906 jobs and \$317.99 million in private investment. This information was analyzed and evaluated during this audit.

## **ECONOMIC DEVELOPMENT IS CRITICAL FOR COMMUNITY PROSPERITY**

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Over the past decade, local governments have experienced difficulties in meeting the expectations of their residents. The residents desire a better quality of life, a vibrant economy that leads to job growth, and enhanced public services and facilities to enjoy. However, the recent economic downturn has adversely impacted discretionary funding. One of the ways to achieve community prosperity and meet their expectations is through economic development activities, which increases wealth in the community. An effective economic development program would improve the resources available to the government, which can be invested in community development activities, infrastructure enhancements and maintenance, and the delivery of timely and effective services that residents expect.

Economic growth is essential to improve prosperity, which leads to the availability of high paying jobs and reinvestment in the community. This concept can be demonstrated using the following diagram:



Some benefits of a successful economic development program are:

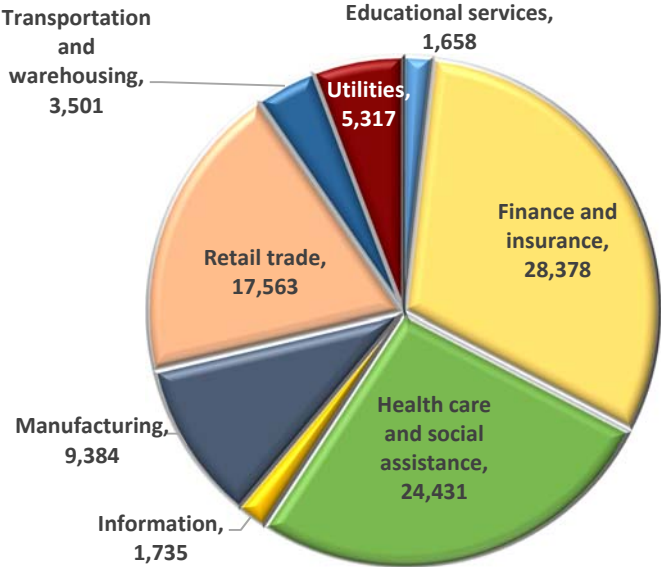
- Increased Employment – The addition of major businesses to the local economy increases opportunities for residents to gain more lucrative employment. In the case of Richmond, increased employment opportunities is a critical step in addressing poverty.
- Enhanced Standard of Living – Higher paying jobs spur additional spending and, therefore, additional business growth in supporting industries. This helps lower the poverty rate and allows residents to enjoy the conveniences of an enhanced economy.
- Increased Tax Base – Additional taxes and charges for services allow the government to serve its constituency better.

- Economic Diversification – A diversified economic base reduces the community's vulnerability of relying on a limited number of businesses. In tougher economic times, a diversified economy is more sustainable.
- Self-sufficiency – A stronger economic base means public services are less dependent on intergovernmental influences and alliances, which can change with each election. For example, State and Federal grants can materially change with the election of a new governor or new president. In this event, if the locality is able to generate sufficient tax revenue to sustain its operations the change in funding from other governments may not have significant impact.
- Quality of life – Additional local tax dollars and jobs raise the economic tide for the entire community, including the overall standard of living of the residents. Quality of life can be measured by the public's perception of the City as a place to live, raise children, work, and retire, a low crime rate, easy commutes, recreational opportunities, and affordable housing.

### **Existing Businesses in the Region**

The *Richmond Times-Dispatch* annually publishes a list of the top 50 private employers in the Richmond area. As of January 1, 2015, 27 of the top 50 employers had more than 1,000 full-time equivalent employees in the Richmond region. The following chart depicts the number of employees by North American Industry Classification System (NAICS) sector for these 27 companies.

Number of Employees by NAICS Sector



Source: Richmond Times-Dispatch

Existing industries in the region may provide synergy for economic development efforts in Richmond. See Appendix I for a summary of select industries in Richmond from the chart above.

**COLLABORATIVE EFFORTS**

The Greater Richmond Partnership, Inc. (GRP) is an organization established jointly by the counties of Chesterfield, Hanover, Henrico, and the City of Richmond, Virginia for the purposes of regional economic development activities. The Partnership serves as a single point of contact for the network of private sector and state and local government professionals serving Central Virginia. One of the Partnership's main work activities is business attraction and regional marketing. Direct marketing activities include trade shows, professional conferences, marketing missions, seminars, special events, and individual sales calls to qualified

prospects. Business location assistance is focused on domestic and international companies planning to relocate or expand facilities.

Periodically, ECD representatives along with representatives from the participating counties and GRP target a region to visit potential industry consultants and site selectors in that area. The purpose of these visits is to market the Greater Richmond area. During these trips, ECD gets an opportunity to promote the City and provide appropriate marketing material. If companies are interested, the industry consultant would contact the respective counties or the City.

The City's contract with the GRP provides a performance goal of at least 25% of the overall qualified leads generated by GRP to be disseminated to the City during the contract period. In FY15, GRP did not meet the performance goal for the City. ECD only received 21% (45/214) of the total leads generated by GRP. The City was successful in attracting two of those businesses. These two businesses are expected to bring an additional investment of \$1.7 million and an additional 60 jobs that will be compensated with livable wages.

In addition to the GRP, the Virginia Economic Developers Association offers their Cardinal Community Assistance Program (CCAP) to help communities with economic needs, review their options for economic development, and establish a development strategy. This is a tremendous resource that the City of Richmond has yet to tap into, but that can further serve the economic development interests of Virginia and its localities. The program provides communities with an unbiased review of its current economic development situation from the perspective of seasoned economic development practitioners with experience at the state, regional, and local level.

## METHODOLOGY

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- Auditors researched best practices for economic development and economic development strategy from the following professional organizations that provide authoritative guidance on such matters:
  - Government Finance Officers Association (GFOA)
  - International City/County Management Association (ICMA)
- Compared economic development best practices to the City's ECD operations.
- Auditors received a listing of 31 project announcements from FY13 to FY15. Auditors selected the seven projects from the listing that were expected to invest at least \$5 million in the City of Richmond and conducted the following tasks:
  - Tested ECD staff's adherence to their own internal policies and procedures related to offering financial incentives to prospective businesses.
  - Met with ECD project managers for each of the selected projects and reviewed their project files for information on leads, incentives, approvals, analysis, and performance agreements.
- Interviewed ECD management personnel using a questionnaire to specifically address risks identified during the planning process.
- Researched the Internet for economic development strategies from cities across the United States to get a baseline for how these documents are structured and presented.

- Reviewed 6 different localities' (Portland, OR; San Jose, CA; San Diego, CA; Norfolk, VA; Virginia Beach, VA; Atlanta, GA) strategies and economic development function on their respective websites.
- Surveyed the above localities using a questionnaire.

The auditors also performed a cluster analysis using the U.S. Cluster Mapping Project. This project is a national economic initiative that provides open data on regional clusters and business environments to support business, innovation and policy in the United States. It is led by Harvard Business School's Institute for Strategy and Competitiveness in partnership with the U.S. Department of Commerce and U.S. Economic Development Administration.

The underlying data source for the clusters is the U.S. Census Bureau's County Business Patterns which provide employment levels, establishment counts, and payroll totals in NAICS codes for every state, economic area, metropolitan and micropolitan statistical area (MSA), and county in the U.S. annually from 1998 to 2013. The traded cluster categories and local cluster categories consist of 6-digit NAICS industries, each exclusively assigned to one cluster category.

The auditors used the Cluster Mapping Project (CMP) to identify strong traded clusters in the City of Richmond. In addition, the auditors analyzed local clusters in the City. For these clusters, the auditors calculated the ten year employment growth (2004-2013) and location quotient<sup>1</sup> (2013) using available employment data. In addition, the auditors used the CMP to compare wages and employment

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<sup>1</sup> Location Quotients (LQs) are ratios that allow an area's distribution of employment by industry to be compared to a reference or base area's distribution. The reference area is usually the U.S., but it can also be a state or a metropolitan area.

growth in the City of Richmond's clusters to their respective clusters at the national level.

Also, the Auditor's Office hired a consultant with expertise in economic development to review the draft report. Upon the completion of his review, changes were incorporated to strengthen the value of the report.



## Findings and Recommendations

### INTERNAL CONTROLS OVER ECONOMIC DEVELOPMENT PROGRAM NEED IMPROVEMENT

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According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

***Internal Controls over economic development program need improvement***

- Efficiency and effectiveness of operations
- Accurate financial reporting
- Compliance with laws and regulations

Overall, internal controls in this area need improvement, specifically in the following areas:

- In order to monitor the performance of the Department or the Business Attraction and Retention Division, ECD must be able to evaluate their work. However, the auditors observed that the project files were unorganized and it was difficult to locate important documents such as performance agreements, lease agreements, etc. to determine the agreed-upon terms and conditions.
- As discussed below, ECD does not strictly follow the City's official strategy and has adopted inconsistent practices without the appropriate authority.

## THE ECONOMIC DEVELOPMENT DEPARTMENT DOES NOT STRICTLY ADHERE TO THE ESTABLISHED ECONOMIC DEVELOPMENT STRATEGY

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The City's 1994 economic development strategy was replaced by a 2010 Comprehensive Economic Development Strategy developed by TIP Strategies, a consultant hired for this purpose. The study was paid for by a federal grant and was approved by the City Council as the City's official economic development strategy. TIP Strategies began with clusters, or target industries, identified by the GRP and added two more target industries. They considered the following to be priority target industries (clusters) for the City:

- Corporate Headquarters (Business Services cluster)
- Creative and knowledge based services (Business Services; Marketing, Design, and Publishing clusters)
- Finance and insurance (Financial Services; Insurance Services clusters)
- Information and communication technology (Communications Equipment and Services; Marketing, Design, and Publishing clusters)
- Life sciences (Biopharmaceuticals; Medical Devices clusters)
- Research and development (Education and Knowledge Creation cluster)
- Retail food stores (Local Food and Beverage Processing and Distribution cluster)
- Professional Services (Business Services; Marketing, Design, and Publishing clusters)

Additionally, the following industries would require business retention as needed, but recruiting would be more competitive in the suburbs:

- Advanced manufacturing (Tobacco; Biopharmaceuticals; Paper and Packaging clusters)

- Clean tech (Electric Power Generation and Transmission; Environmental Services clusters)
- Food processing (Food Processing and Manufacturing cluster)
- Logistics (Transportation and Logistics; Distribution and Electronic Commerce clusters)

ECD was expected to follow the above City's official economic development strategy. However, the Department's current practices are not completely consistent with the above strategy, as discussed subsequently in this report.

Generally, a sound economic development strategy is based on the strengths of the area to attract businesses. These strengths are identified by a cluster analysis. According to the ICMA, "clusters are geographic concentrations of competing and

***Cluster analysis is a tool used for determining an area's strengths for economic development***

collaborating firms that tend to produce innovation and higher than average wages. Cluster-based economic development strategies are interventions designed to

improve a cluster's performance by addressing the common needs of businesses within the cluster. ... The cluster-based approach has influenced local, regional, state, and national economic development policy worldwide. It has also added significant value as a method of understanding regional economies, as a tool for engaging industries in collective problem solving, and as a tool for organizing service delivery across public sector departments, services, and functions."

Clusters are important in economic development activity as they could:

1. Generate wealth in a region,
2. Give a region a competitive advantage, and
3. Provide the basis for cost-effective economic development strategies.

The clusters, once identified, could be used to target specific industry sectors within the favorable clusters and focus economic development activity to improve its efficiency and effectiveness. This report discusses the industry clusters within the Richmond area and their relevance to the City's efforts.

The City Auditor's Office independently conducted a cluster analysis using guidelines from Harvard Business School's Institute for Strategy and Competitiveness as follows:

### THE CLUSTER ANALYSIS FOUND MORE SUITABLE TARGET INDUSTRIES FOR ECONOMIC DEVELOPMENT FOR THE CITY

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The City Auditor's Office reviewed the studies by TIP Strategies, the City's consultant, and Market Street, a consultant hired by GRP, and conducted an independent cluster analysis. The auditors' work identified likely clusters where the City's efforts need to be focused.

According to Dr. Michael Porter, a leading authority on competitive strategy and the competitiveness and economic development of nations, states, and regions, the traded cluster is likely to be a city's most important engine for economic

***Two types of clusters exist:***

- 1. Local Clusters***
- 2. Traded Clusters***

success. Traded clusters produce goods and services that are consumed nationally and globally. They exist in less than half of all regions nationwide and are highly concentrated in just

a few regions. Local clusters serve regional populations with essential goods and services. Traded clusters often have smaller employment shares than non-traded, locally consumed business clusters. These clusters have a disproportionate impact on wealth generation for the area. The following table depicts the shares of employment and respective wages for traded and local clusters in the City of Richmond:

	<b>Traded Clusters</b>	<b>Local Clusters</b>
<b>Share of employment 2013</b>	32%	68%
<b>Average wage 2013</b>	\$58,178	\$40,536
<b>Average wage 2004</b>	\$51,096	\$30,455
<b>Change in wage (2004-2013)</b>	14%	33%

Source: U.S. Cluster Mapping Project

According to a report from the Chicago Metropolitan Agency for Planning (CMAP), clusters that have high concentration (location quotient<sup>2</sup> greater than 1.25) and low employment growth are known as mature clusters. They represent clusters that have a stronghold but have not recently experienced any significant employment growth.

The clusters with high concentration and high employment growth (greater than U.S. growth rate) are important growth clusters. They represent clusters for which the products and services are also consumed by customers from outside the area. In addition, these clusters may have a competitive advantage because they are more concentrated in the region than in other areas.

Emerging clusters are characterized by positive and sometimes strong employment growth, but have a low concentration (LQ lower than 1.00). Employment growth indicates that the cluster's products or services are in demand and the demand is met with increased labor.

### **Cluster Analysis**

According to the U.S. Cluster Mapping Project, a strong cluster is a cluster that has high employment specialization in a region (ranking in the top 25% of all regions by

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<sup>2</sup> Many studies done on economic development use 1.25 LQ as a rule of thumb for demonstrating high concentration of employment.

specialization and also meeting minimum criteria for employment and establishment). This project identified seven strong traded clusters in the City of Richmond as follows:

- Performing Arts
- Marketing, Design, and Publishing
- Education and Knowledge Creation
- Financial Services
- Paper and Packaging
- Biopharmaceuticals
- Apparel

The auditors calculated the location quotient of these strong traded clusters and select local clusters in 2013 as well as each cluster's employment growth from 2004 to 2013. The auditors used the information presented in the following table to identify target clusters:

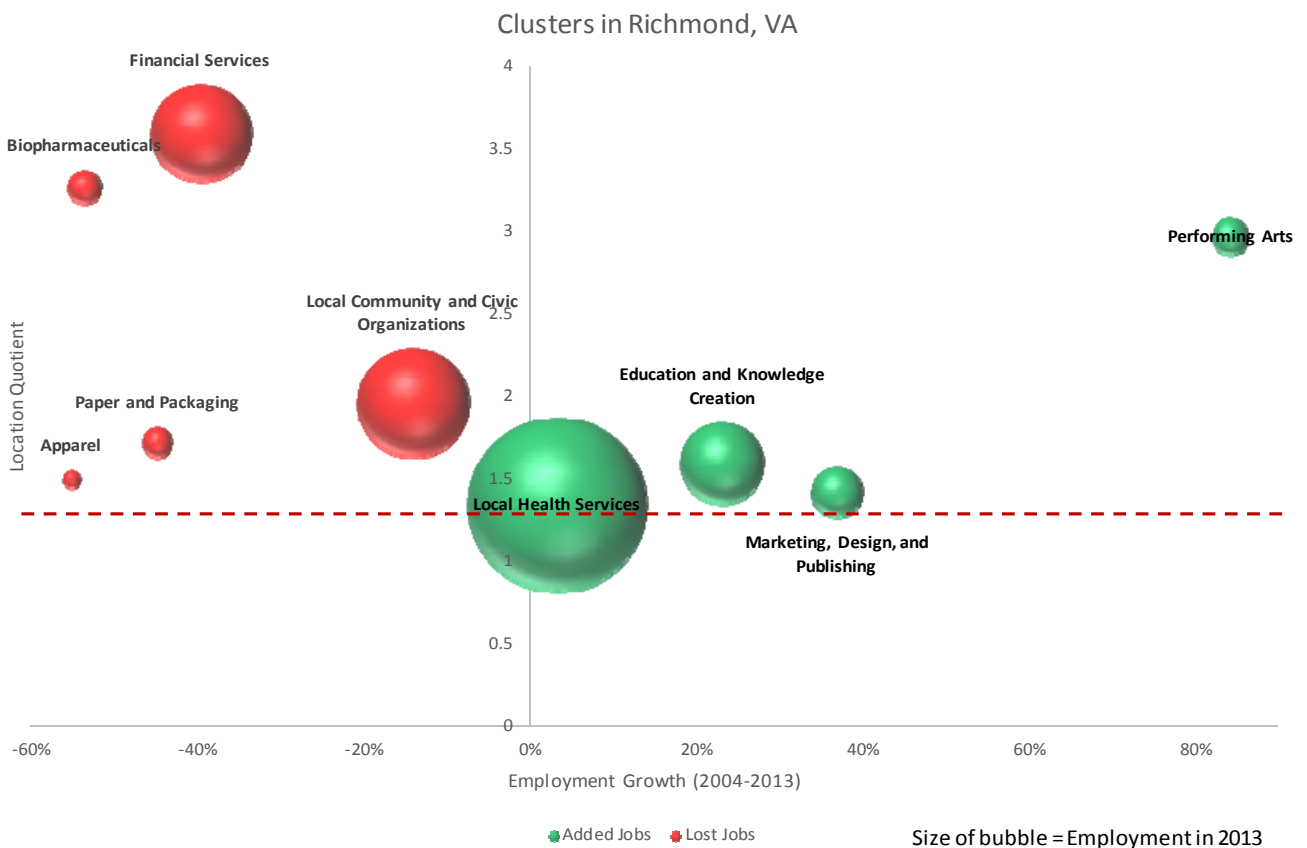
<b>Cluster Name</b>	<b>Richmond Growth 2004-2013</b>	<b>U.S. Growth 2004-2013</b>	<b>Location Quotient</b>	<b>Richmond Employment 2013</b>
Performing Arts	84%	15%	2.97	1,042
Marketing, Design, and Publishing	37%	9%	1.42	1,923
Education and Knowledge Creation	23%	15%	1.60	5,077
Local Health Services	3%	14%	1.34	23,874
Local Community and Civic Organizations	-14%	13%	1.96	9,072
Financial Services	-40%	-17%	3.59	7,277
Paper and Packaging	-45%	-24%	1.72	655
Biopharmaceuticals	-54%	-6%	3.27	810
Apparel	-55%	-53%	1.50	215

Note: Environmental Services and Tobacco clusters were considered outliers and not included in the analysis.

Source: U.S. Cluster Mapping Project

Bubble charts are often used for identifying priority clusters as they allow visual comparisons of economic measures. The below chart illustrates cluster relationships for the mature, important growth, and emerging clusters. The following three variables are plotted:

- 10-year employment growth, 2004 to 2013; on the x-axis (horizontal);
- The cluster's location quotient, 2013; on the y-axis (vertical); and
- Employment size of the cluster, 2013; indicated by the size of the bubble.



Source: Auditor Prepared

Based on the chart above, the following are identified as mature clusters in Richmond:

- Local Health Services

- Local Community and Civic Organizations
- Financial Services

An analysis of wages identified that the City has a competitive advantage in the above clusters as follows:

Cluster	Average Wages 2013	
	City of Richmond	United States
Local Health Services	\$56,302	\$48,427
Local Community and Civic Organizations	\$31,307	\$25,538
Financial Services	\$143,722	\$128,237

In addition, the following are mature clusters, but the overall employment related to these clusters in Richmond is not significant:

- Paper and Packaging
- Biopharmaceuticals
- Apparel

The chart indicates the following are important growth clusters in Richmond:

*The analysis found six favorable clusters where economic development efforts will pay highest returns*

- Performing Arts
- Education and Knowledge Creation
- Marketing, Design, and Publishing

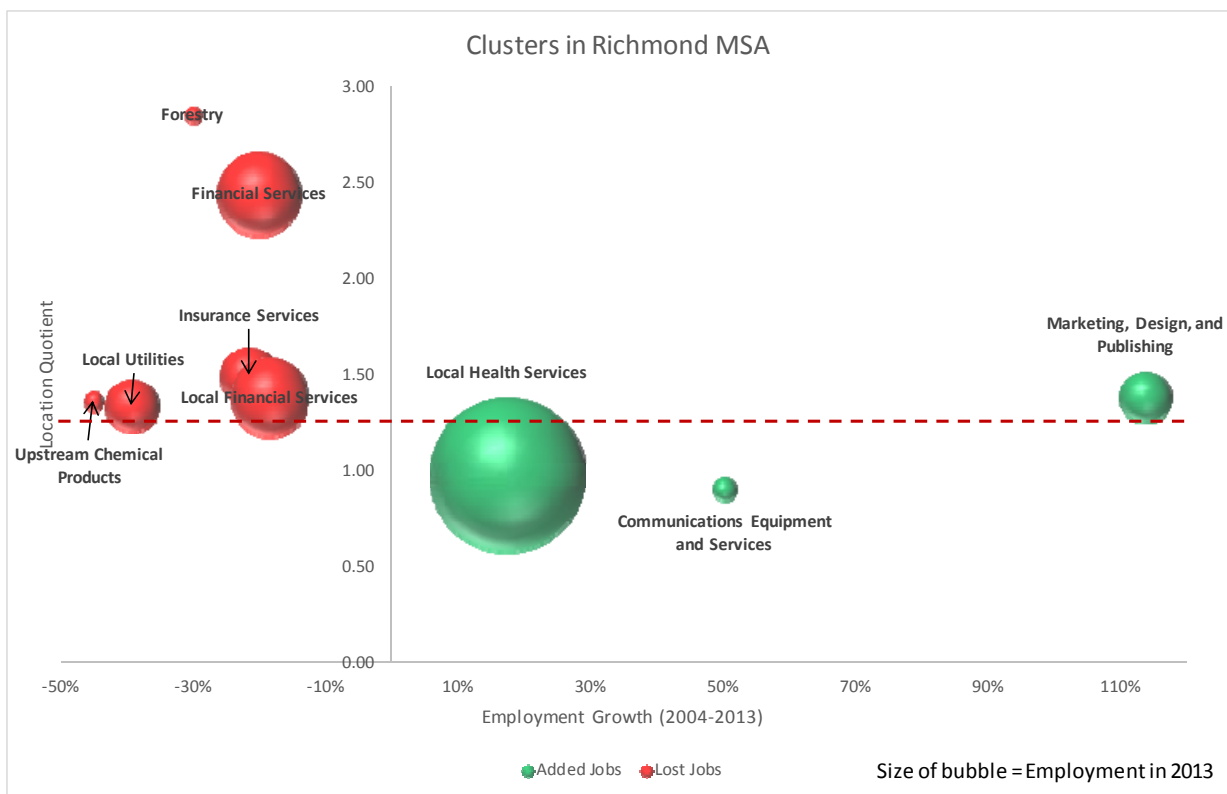
Based on the above information, the auditors did not identify any emerging clusters in Richmond.

The above analysis was conducted for the City of Richmond only. Focusing on the mature and important growth clusters in Richmond would be the most rewarding to the City’s economic development efforts. According to the consultant hired by the Auditor’s Office, “isolating an analysis just within the limits of the City may not capture all of the best opportunities available. Being in a region with three key



localities and a mobile workforce in a fairly small geographic area allows some overlapping of clusters and targets between the City and the counties.”

Therefore, the auditors expanded the cluster analysis to the Richmond MSA and created the following chart:



Note: Certain strong traded clusters in Richmond MSA are not included as they do not meet the criteria for a mature, important growth, or emerging cluster. In addition, Textile Manufacturing and Tobacco clusters are outliers and excluded from the chart.

Source: Auditor Prepared

The above chart indicates Local Health Services; Marketing, Design, and Publishing; and Financial Services are overlapping clusters with the City of Richmond. This analysis also identifies Communications Equipment and Services as an emerging cluster and Local Financial Services, Insurance Services, and Local Utilities as mature clusters. Although Forestry and Upstream Chemical Products are also classified as mature clusters, they are not considered target clusters since the

overall employment in Richmond MSA is not significant. The City can leverage these additional clusters in Richmond MSA by attracting complementary or supplementary businesses.

## THE ECD'S PRACTICES ARE NOT CONSISTENT WITH THE CITY'S STRATEGY

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In 2010, the ECD adopted the following five major clusters for business attraction:

- Life Science and health related services
- Professional and knowledge-based services
- Corporate headquarters
- Advanced manufacturing
- Transportation and logistics

The Department has modified the officially approved economic development strategy for the City. According to ECD management, the above target industries are evaluated annually, but have not changed for several years. Based on the auditors' research, it appears that the Department selected the above target industries using the City's official strategy and another study done for the Greater Richmond region.

***ECD deviated from the City Council's approved strategy***

Related to the transportation and logistics cluster, TIP Strategies indicated, "The City's limited supply of greenfield sites may pose difficulties for logistics firms, which need plenty of space for new development and future expansion. The City may find it difficult to compete with Richmond's suburban areas for these types of firms." The consultant considered this to be a very unlikely target industry. Also, the regional study found this industry to be more suitable for the counties in the area. For similar reasons and more expensive redevelopment costs of existing

***ECD's adopted strategy could be improved to better serve the City***

brownfield<sup>3</sup> sites, the consultant identified the advanced manufacturing cluster as having limited attraction for the City. It should be noted that several other industries identified by the consultant as beneficial to the City were not selected by ECD. The manufacturing industry has lost the most jobs in Richmond and the presence of a transportation and logistics industry in Richmond is not significant. Therefore, targeting transportation and logistics and advanced manufacturing may not be in the best interest of the City.

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## CURRENTLY, ECD IS NOT FOLLOWING ANY SPECIFIC STRATEGY FOR ECONOMIC DEVELOPMENT PURPOSES

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The auditors interviewed ECD's project managers to understand the focus of their efforts. According to the project managers, the City pursues any and all businesses that show an interest in Richmond. The project managers spend their efforts to evaluate if there is a match between the prospective business' needs and the City's site (real estate "product") availability, regardless of their industry. ECD would also extend all available incentives to non-target industries. Five localities that responded to the auditors' survey focus their economic development efforts on

***ECD attempts to target any business for economic development although it may not be supported by its adopted or City's approved strategy***

jobs addition, capital investment by the company in the locality, target business industries, urban revitalization, or any combination of these factors. Four of the five responders did have a formal strategy document that they utilize and follow in their operations.

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<sup>3</sup> The Environmental Protection Agency (EPA) defines a brownfield as "real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant."

Portland's strategy was based on a five year plan with goals listed for each target cluster. This is a good practice to use because it shows the efforts made towards each cluster's goals and offers feedback on what is working and what is not in a relevant time frame.

### THE CITY'S EFFORTS MUST BE FOCUSED ON MORE DESIRABLE CLUSTERS

The analysis included in this report indicates that if Richmond focuses on the following clusters, it would be more beneficial for the City in creating better paying jobs and expanding the economy. Appendix II includes a list of industries within the clusters below, relevant to Richmond.

- Education and Knowledge Creation
- Financial Services
- Marketing, Design, and Publishing
- Local Health Services

The following clusters in the Richmond MSA provide opportunity for leveraging:

- Communications Equipment and Services
- Local Financial Services
- Insurance Services
- Local Utilities

In addition, the following clusters in the City may provide value:

- Performing Arts
- Local Community and Civic Organizations

A change in the City's economic development strategy to include the above clusters that are not currently targeted could yield comprehensive economic growth that:

- Ensures a sound quality of life for local residents,
- Creates and retains jobs,
- Stimulates investment in neighborhoods and businesses, and
- Generates the revenues necessary to fund vital municipal services.

In addition, focusing on the education and knowledge creation cluster would provide a well-educated, well-trained workforce that supports and stimulates a vibrant local economy, which in turn enables workers to earn a living wage and enjoy a high quality of life. While the Performing Arts cluster may not add high paying jobs, it may enhance tourism and quality of life. Similarly, Local Community and Civic Organizations cluster may be necessary for Richmond's low income population. This would align economic development with the City's Focus Areas for governing.

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## CURRENT ECONOMIC DEVELOPMENT PRACTICES CAN BE MORE EFFECTIVE

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### Business Attraction

***ECD's claim for additional jobs and investment created by their efforts is not verifiable***

During the audit period, the ECD made 31 business announcements (including both attracted and retained businesses). Of those announcements, only seven projects were expected to bring in a private investment to the City of greater than \$5 million. ECD provided substantial services to four of the seven businesses by assisting them to either relocate or stay in Richmond. ECD minimally assisted the remaining three businesses prior to making the announcement of opening a location in Richmond. According to ECD, these seven businesses collectively made an investment of \$300 million, attracted 997 additional jobs, and retained 1,160 jobs. However, unless the company has a performance agreement for local incentive grant monies that specifically includes jobs numbers, ECD does

not verify the jobs created/retained consistent with normal economic development practices. Periodically, ECD makes new business announcements regardless of whether they have made a substantial effort to attract the business or not.

The City used outside consultants to verify the cost effectiveness of the proposals for two of the seven projects, Gateway Plaza and Stone Brewery. The consultants relied on audited financial information provided by the businesses. However, the basis for projections of future revenues and expenditures is not clear.

From the auditors' observations, a significant amount of time is spent by the ECD project managers working with smaller companies that bring minimal private investments and very few jobs. In contrast, San Jose prioritizes their projects that come through their Office of Economic Development, and, with their focus on job creation, concentrate on businesses with 15-20 employees and up. They also clearly define a major project as one that will employ 50 people or more. Likewise, San Diego defines its small businesses as those with less than 13 employees. These types of practices could be utilized in Richmond to allow projects to be prioritized in an efficient and effective manner, and allow the project managers to focus on major projects that are more clearly defined.

It is recognized that the City may want to provide assistance to encourage smaller businesses to locate in Richmond to provide services to neighborhoods. However,

***A separate mechanism apart from the Economic Development function for assisting small businesses could be more efficient***

ECD should have a mechanism separate from the project managers to provide this assistance. Virginia Beach has a dedicated Small Business Development Manager that helps small companies in relocating to their

city. Reducing the workload may enable the ECD project managers to devote their efforts to promoting the City and attracting new businesses to improve the City's

economy. Companies that can make a big impact on the City in terms of jobs created and capital investment made should be the primary focus of the department and that should be reflected in the amount of time spent working on those projects.

### **Business Retention**

ECD had a dedicated retention manager that retired from the City in 2014 and the position remained vacant until FY2016. Meanwhile, ECD used BusinessFirst, a

***More efforts are needed for business retention in Richmond***

program that uses ECD staff and trained volunteers from the business community, as its primary vehicle for retention efforts. These volunteers conduct one-on-one surveys with

business leaders to get a feel for the needs of the Richmond business community. ECD does not provide any targets to measure this program's achievements. ECD staff informed the auditors that the feedback resulting from the volunteers' efforts is dealt with on an as-needed basis. However, relevant records were not available to assess this program's effectiveness. It is not clear how many businesses were contacted and what business retention efforts were made.

In Virginia Beach, staff members are responsible for retention calls to businesses as they relate to their assigned target industries. In Atlanta, they have a goal of 300 business surveys to be sent out each year with a focus on manufacturers and high employment businesses. Portland keeps track of their staff's one-on-one visits with businesses and found that they meet with an average of 400-450 businesses each year. These types of efforts are useful in assessing the business retention operation.

### **Conformity with Best Practices**

According to the best practice approved by GFOA, "For the purposes of consistency, transparency, and accountability, a clearly defined monitoring process should be a part of every economic development policy." The performance of each project should be evaluated and a cost/benefit analysis should be conducted periodically. These analyses should be used to evaluate if the organization achieved its overall economic development goal.

According to GFOA, some examples of specific project measures include:

- Comparison of actual to estimated investment,
- Numbers, type of jobs created, and residency requirements,
- Average wage, and
- Net increase in property tax base.

In addition, measures such as the following would enhance the citizens' quality of life:

- Providing desirable amenities for citizens and
- Bringing the type of businesses desired by the population (e.g. major grocery store in East Richmond), etc.

GFOA also recommends evaluating the impact on the jurisdiction by including items such as:

- Tax base changes,
- Economic activity changes (e.g., employment, property valuations, average wages and income levels),
- Redeveloped activities in blighted areas, and
- Housing opportunities.



In addition, other elements to consider include:

- Cumulative use of incentives on ability to fund operations and other programs
- Risk, and if necessary quantification, of accessing general revenues or other jurisdictional credit support in the event of project underperformance, and
- Credit rating impacts.

Project evaluations that reveal unfavorable variances should trigger further review and possible implementation of remedies as outlined in the performance agreement.

ECD does not have formal guidelines or rules for ensuring conformity with industry best practices. Their current practices for offering incentives include stipulations

***ECD needs guidelines for conformity with industry best practices***

such as breaking even with the incentives provided by the project's third year. However, with City Council approval, ECD deviated from

their practices when they offered incentives to Stone Brewing Company. The break even for this project was extended to ten years instead of three years as the current practices require.

ECD does require a performance agreement when incentives are offered. ECD's performance agreements include:

- Provision to recover incentives paid out in the event the business does not meet their conditions of the agreement.
- Limit financial incentives to not exceed 5% of the company's total capital investment.
- Specific measures like the livable wage, private investment, and understanding the number and type of jobs created by an incoming business in receipt of incentive money.

ECD validates the addition/retention of jobs and additional investment projections by the business relocating to Richmond if the City has a performance agreement with the business. However, ECD does not report the results of periodic examinations of the business' compliance with the performance agreement and resulting community impact.

***ECD should do a better job verifying compliance by businesses that received incentives with performance agreement***

The auditors reviewed 23 different economic development projects during FY13 through FY15. Of these 23, only three had performance agreements that stipulated desired performance by the businesses. The remaining projects did not seek incentives, were not qualified for incentives, and some of these projects did not materialize. The auditors focused their efforts on these three major projects where the City had performance agreements. The agreements for these projects are described as follows:

- Health Diagnostic Laboratory, Inc. was receiving \$1.35 million in incentive grant money and had a performance agreement in place for those funds. The performance agreement required them to add 653 new jobs during the grant period. Also, they were required to generate additional tax revenue for the City of \$225,000 annually by FY15 and \$405,000 annually by FY17. The ECD verified additional revenues generated. However, they did not document verification of additional jobs created by this company in Richmond.

The company filed for bankruptcy in June 2015. The claw back provision written into the agreement allowed the City of Richmond to stake a claim for the money provided to HDL in the bankruptcy proceedings.

The City has performance agreements for the remaining two projects, however, these projects have not reached a stage where performance can be measured at this time. ECD will have to obtain pertinent records and verify accomplishments of the following measures included in their respective performance agreements:

- Stone Brewing Company's expansion in Richmond has a performance agreement that begins in FY2017. The City has offered \$2 million in discretionary incentives for Stone's expansion in Richmond as a match for the Governor's Opportunity Fund. The agreement has specific measures that Stone must meet:
  - Capital investment targets of \$73.7 million,
  - Targets for 90 full-time and 198 part-time jobs with livable wage minimums, and
  - Annual beer production targets of 120,000 barrels in FY2017 to 300,000 barrels in FY2020.

Remedies for failure to meet these measures are also written into the agreement. The company is entitled to keep all the incentives if they meet 90% of the investment target and 80% of the job addition target. If they fail to meet these targets, the incentives will be reduced. ECD has not been able to verify their performance as the project is still under construction.

The agreement does not specifically stipulate the project's impact on the City's revenue. The additional capital investment will result in some additional property tax revenue. However, the City will not experience a net positive impact on the City's revenue until the project breaks even in the tenth year.

- Bon Secours has a performance agreement entered into on July 8, 2013 that details two planned facility expansion projects in the City. The agreement requires:

- o Minimum construction costs of \$32.5 million and
- o 195 additional full-time employees to be hired and maintained for a 10 year period.

However, the agreement is not specific as to when these targets are expected to be achieved. The City does not have any recourse against the company if it does not comply with the agreement. The company has not initiated the above construction. Therefore, ECD has not been able to monitor the company's compliance with the above performance targets.

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#### ATTRACTING NEW BUSINESSES BY SOLELY RELYING ON JOINT EFFORTS WITH REGIONAL COMPETITORS MAY NOT BE IN THE BEST INTEREST OF THE CITY

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As described before, GRP also represents two of the City's biggest regional competitors, Chesterfield and Henrico Counties. The following are the City's competitive disadvantages for economic development compared to those counties:

#### Local Taxes

The City has the highest real estate taxes as presented below:

Jurisdiction	Rate/\$100 Assessed Valuation
Richmond	\$1.20
Chesterfield	\$0.95
Henrico	\$0.87

Source: Greater Richmond Partnership

The above information shows that the City's tax rate is about 26% higher than the tax rate in Chesterfield and 38% higher than the rate in Henrico. Higher taxes can present a deterrent for prospective businesses to relocate to the City.

**Schools**

The quality of Henrico and Chesterfield schools is considered to be better than Richmond Public Schools. According to Niche's<sup>4</sup> 2016 Best School Districts in Richmond Metro area, the following rankings were issued out of 25 school divisions:

Rank	School System
1	Henrico County Public Schools
6	Chesterfield County Public Schools
22	Richmond City Public Schools

Source: Niche’s 2016 Best School Districts in Richmond Metro

According to the 2014 City of Richmond Community Survey, only 11% of Richmond residents are satisfied with the quality of public schools. The quality of schools could be a concern for a company considering relocating to Richmond.

**Perceived Stability of Government**

Local government’s stability is important for a business considering relocation as it may be concerned about government regulations. Significant changes on the governing board or City leadership may spur a change in direction and regulations that may not be suitable for the business. Chesterfield and Henrico Counties have long-term chief administrators and stable governing boards compared to Richmond. Both counties also have better bond ratings (Aaa) compared to Richmond (Aa2).

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<sup>4</sup> Niche was founded by Carnegie Mellon University students in 2002 to provide reviews and insights on K-12 schools among other things. Niche also rates schools’ performance.

In addition to the above reasons, the City has a limited supply of available real estate product to offer to prospective businesses for expansion or relocation as described below:

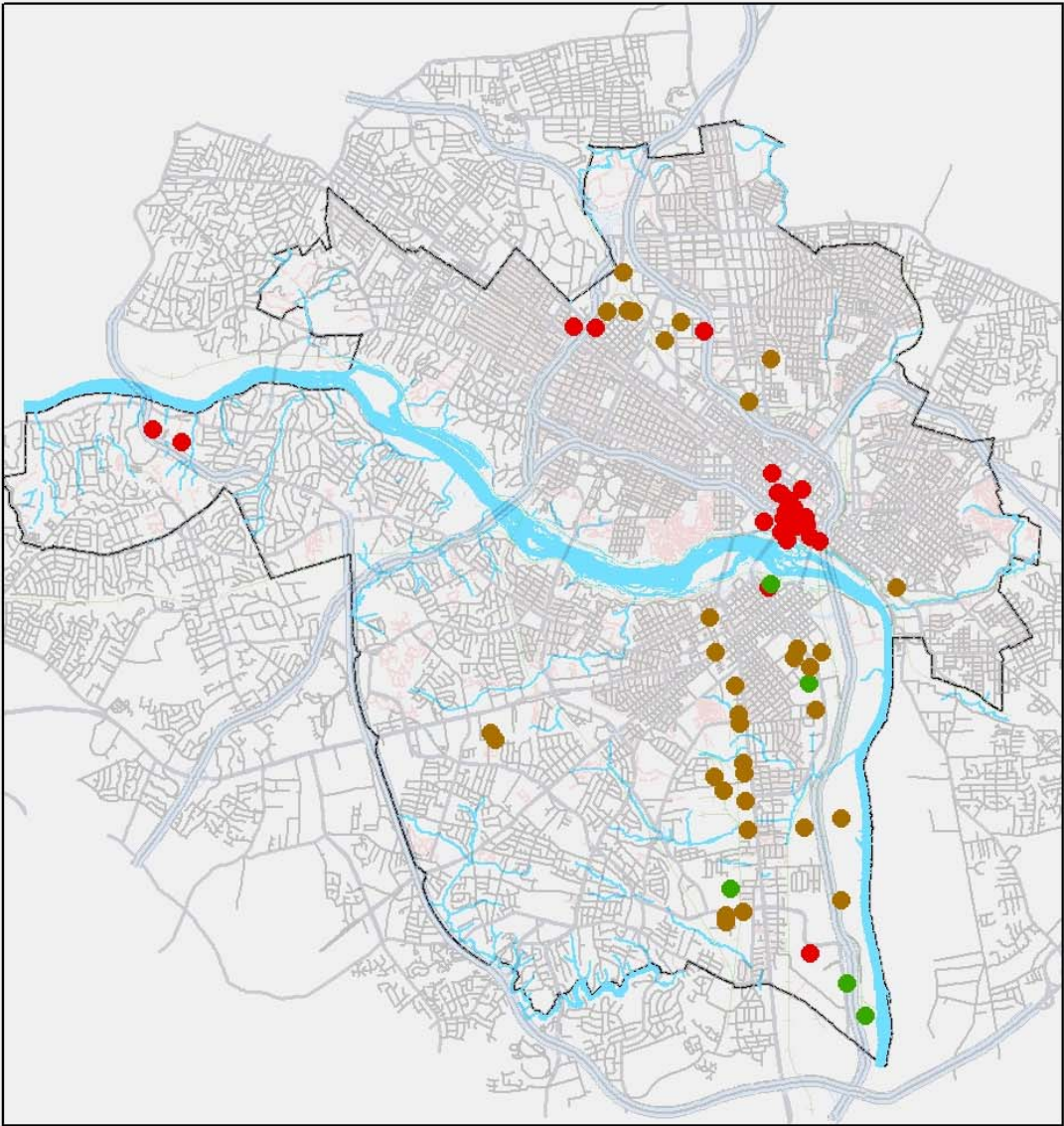
**RICHMOND HAS A LIMITED SUPPLY OF INDUSTRIAL AND OFFICE SPACE AND DEVELOPABLE LAND**

The following data shows that the City has limited available office space, industrial building space, and land for development purposes. Therefore, the City needs to exercise caution in selecting target industries in order to make the most impact on the City's economy with what is available.

	Chesterfield County		Henrico County		Richmond City	
	<i>Number</i>	<i>Total Size</i>	<i>Number</i>	<i>Total Size</i>	<i>Number</i>	<i>Total Size</i>
<b>Industrial Buildings</b>	64	2,130,438 sq ft	119	3,616,984 sq ft	38	6,074,350 sq ft
<b>Office Buildings</b>	118	1,627,212 sq ft	159	2,552,017 sq ft	32	2,228,318 sq ft
<b>Land</b>	53	5,512 acres	35	5,144 acres	5	108 acres
<b>Note: Green highlights represent the largest quantity of real estate product available</b>						

Source: Auditor Prepared from respective localities' economic development websites

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*Department of Economic and Community Development*  
*Economic Development Strategy*  
*March 2016*



January 6, 2016

● Land ● Industrial Bldgs ● Office Bldgs

1 inch = 8,318 feet



Source: Prepared by the Office of the Assessor of Real Estate

As depicted above, most of the real estate product in Richmond is located either in the downtown area or along the Jefferson Davis corridor. The counties may have the ability to offer larger amounts and sizes of land parcels for business relocation,

***To be competitive, Richmond needs to make more real estate available for economic development***

which Richmond cannot offer. During an interview, the DCAO over Economic and Community Development indicated that since Richmond does not have large pieces of

developable land available within its boundaries, major businesses would eliminate Richmond as a potential site for expansion or relocation.

It should be noted that Richmond has larger office and industrial spaces per location that may be useful to lure some businesses to the City. The target industries identified in this report mostly require office or commercial spaces. Therefore, if efforts are focused on those target industries to attract the appropriate sized businesses, Richmond could use their available real estate product more effectively.

In Richmond, the manufacturing industry has a low concentration and is losing jobs. Therefore, attracting manufacturing business to the City may be an unrealistic goal. An attempt may be made to rezone and repurpose industrial sites and use them for attracting viable businesses within the desired target industries.

Because of the limitations described above, the City may have a competitive disadvantage when evaluated along with the other partners in GRP. In addition, as described before the City may need to focus on additional clusters compared to the counties where GRP's efforts may not be focused significantly. Although the City's participation in regional efforts to attract businesses is important, it may be beneficial if the City independently focuses its efforts to attract industries within City-specific target clusters.



## THE ORGANIZATIONAL STRUCTURE FOR ECONOMIC DEVELOPMENT IN RICHMOND IS NOT APPROPRIATE

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According to Article X, Section 10 of the Virginia Constitution, a city or county cannot incur indebtedness for any internal improvements or construction of site for economic development purposes. According to the City Attorney's Office, the above provision prohibits a locality from appropriating its resources to private enterprises, but expressly allows for the Commonwealth to create authorities through which a locality may act. One such authority, or political subdivision, is an Industrial Development Authority or Economic Development Authority (EDA).

The above situation hinders the City's efforts to attract major businesses, which is a major issue preventing effective economic development. Other jurisdictions in

***Richmond's ability for effective economic development is hindered by the way its function is organized***

Virginia have used economic development authorities to overcome this limitation such as the City of Virginia Beach, and Henrico and Fairfax Counties.

Virginia Beach provides their economic development authority, VBDA, with annual funding and allows the VBDA to operate under the direction of a Board that is represented by the Mayor, members of City Council, and the School Board. The VBDA is responsible for carrying out the goals and objectives of the economic development strategy in the City. They provide prospective businesses with incentives and other services as approved by the City.

Henrico County does not have an economic development department. The County has delegated this function to their EDA. The EDA in Henrico County performs the following business assistance functions:

- Reports on current market, economic and demographic conditions
- Tailored research of suitable land and buildings

- Detailed assessments of the labor market
- Operating costs and tax rate information
- Utility costs analysis: water, sewer, natural gas, telecommunications, electric
- Assistance with creating incentive packages
- Cost of living and quality of life information
- Coordination of field visits, real estate tours, and meetings with appropriate local business executives and government officials
- Help with fast-tracking permit processes
- Assistance with facility occupancy
- Promotion of new companies and expansions through announcements and press releases

At the City of Richmond, all of the above tasks are performed by ECD and the Richmond EDA is used on an as-needed basis. The Richmond EDA helps the City's Department facilitate deals with businesses only after negotiations have been

***With additional funding, the EDA may be in the best position to deal with limitations imposed by the State Constitution.***

completed. The City does not appropriate annual funding to the EDA. The City's methods may not be the most beneficial for the success of economic development efforts due to limitations imposed by the State Constitution. It appears that the EDA

is under-utilized and can be more effectively used to improve economic development in the City. As described before, the City has very limited real estate products to offer for new business relocation or for existing business expansion. The Constitution prohibits the City to play any role in acquiring properties, combining parcels, or assisting in construction efforts. However, it appears that an EDA can successfully do so.

In Richmond, there is an opportunity to empower the EDA to play an enhanced role in economic development activities. If the City were to attract major businesses, it needs to offer larger pieces of greenfield sites and other infrastructure. In addition, the EDA can help in dealing with brownfield site issues. The debt issued by the EDA may not impact the City's debt limit. The EDA can successfully acquire appropriate types of properties, which can help in the City's marketing efforts. However, if the City decides on extended use of the EDA, it should exercise due care to build adequate measures in ensuring accountability over and transparency of the use of public funds.

#### **RECOMMENDATIONS:**

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1. The City Council, the Mayor, and the CAO need to consider assigning the City's economic development responsibilities to the Richmond EDA along with appropriate measures to verify accountability, transparency, and compliance with laws and regulations, including procurement regulations, applicable to the City. Also, consider including Mayoral and City Council participation in the EDA.
2. The CAO needs to develop a comprehensive plan covering the next five years and addresses the issues and findings included in this report with City Council's approval. The CAO needs to consider obtaining guidance from VEDA and CCAP to develop the strategy. The five year plan should include:
  - a. Establishing a structured process for business retention in the City
  - b. Focusing on independent marketing and lead-generating efforts for the City in addition to participating in GRP efforts

3. The City Council and the Mayor need to require ECD to demonstrate the actual, verified accomplishments of the following objectives through the economic development process that would ensure a sound quality of life:
  - a. Creating and retaining jobs
  - b. Stimulating investments in neighborhoods and businesses
  - c. Generating revenues to fund vital municipal services
4. The DCAO over ECD needs to develop and implement a policy for organized record keeping of the economic development project files.
5. The CAO needs to establish performance measures similar to the GFOA recommendations to periodically evaluate the effectiveness of the economic development projects.
6. The City Council needs to adopt incentive guidelines for economic development purposes and require the CAO to enforce compliance. If on a specific case, deviation from the adopted policy is desired, the City Council approval to such deviation must be sought.

## APPENDIX I

### Health Care and Social Assistance:

- Richmond has four hospitals – VCU Medical Center, Vernon J. Harris Medical Center, Bon Secours Health System, and HCA Virginia Health System.
- United Network for Organ Sharing (UNOS) – The private, non-profit organization that manages the nation's organ transplant system under contract with the federal government.
- Virginia IVF & Andrology Center specializes in assisted reproductive technology and offers infertility testing services and options for cryopreservation of reproductive tissue.
- The Department of Forensic Science provides forensic laboratory services to the Commonwealth's state and local law enforcement agencies, medical examiners, Commonwealth's Attorneys, fire departments, and state agencies in the investigation of any criminal matter.

### Professional, Scientific, and Technical Services:



- Virginia Biotechnology Research Park located in the downtown area is home to nearly 60 life science companies, research institutes, and state/federal laboratories.
- Inger and Walter Rice Center for Environmental Life Sciences has a variety of aquatic and terrestrial habitats that provide many research and educational opportunities.

A primary focus of research at the site is on the science and policy of large rivers and their wetland landscapes. The center also is very active in undergraduate and graduate

educational activities, providing field-based instruction for a number of courses taught at VCU.

- Center for the Study of Biological Complexity, which supports research in investigative molecular, cellular, and developmental biology. The center's primary research area is microbial molecular biology and infectious disease. In addition, the center offers undergraduate and graduate degrees in bioinformatics, a new integrative discipline that combines 21st century high-throughput life sciences technologies such as genomics and proteomics with computer science and information technology.
- Center for Environmental Studies offers active, funded research programs in a wide range of disciplines such as
  - Environmental policy, law, and economics
  - Conservation biology and ecosystem restoration
  - Biogeochemistry and earth science
  - Environmental applications of geospatial technology

#### **Management of Companies and Enterprises:**

This sector covers offices engaged in providing resources to other parts of the same multinational enterprise to administer, direct, or coordinate a range of day-to-day business operations, such as financial planning; personnel; physical distribution and logistics; and long-term strategic and organization planning. These include:

- Central administrative offices
- Corporate headquarters
- Holding companies that manage Regional offices

Richmond has several of the Fortune 500 and other large companies in its boundaries as follows:

Name	Annual Revenue
Carpenter Company	\$1.6 Billion
Dominion Resources	\$13 Billion
Estes Express Lines	\$1.9 Billion
MeadWestvaco (West Rock)	\$5.4 Billion
NewMarket Corporation	\$2.3 Billion
Universal Corporation	\$2.5 Billion

Source: Virginia Economic Development Partnership

These companies can provide higher paying jobs that can contribute to the City's economy. Currently, the City does have corporate headquarters as one of their target clusters. However, only companies that can be classified as such can contribute significantly to the economy. During the observations, the auditor found that a small clothier with a total investment of \$150,000 was classified as corporate headquarters. Small businesses that may need the City's assistance can be accommodated by other appropriate City functions. Devoting economic development resources to these types of businesses diverts the resources that can be used for marketing and promotion efforts.

**Finance and Insurance:**

The Finance and Insurance sector comprises establishments engaged in banking, brokerage and investment banking, specialty finance, and insurance (both conventional and specialized). Richmond is a proven and successful location for firms in these fields.

- Richmond is the headquarters for the Fifth District of the Federal Reserve Bank and provides financial services for a region that consists of Maryland, Virginia, West Virginia, North Carolina, South Carolina, and the District of Columbia. It employs more than 1,800 people.

- Many of the nation's most significant banks are located in Richmond, including Wells Fargo, Bank of America, SunTrust, BB&T, and Capital One. These companies combined employ over 20,000 people.
- Brokerage and investment services are offered in Richmond through companies like BB&T Capital Markets, Scott and Stringfellow, and Davenport & Co.
- According to Accounting Principals, a company that helps recruit and place finance professionals, Richmond is a Top 10 city for finding a job in accounting or finance.
- Insurance is also a strong, steady growth industry in the Richmond area. Headquarters for Genworth Financial, Markel Corporation, Anthem Blue Cross and Blue Shield, Allianz Global Assistance, and Elephant Auto Insurance are located in the Richmond metro area.

**Educational Services:**

- The Richmond area offers a full range of undergraduate, graduate, and professional degree programs at more than 10 colleges and universities, including the University of Richmond, Virginia Commonwealth University, and Virginia Union University.
- The University of Richmond was founded in 1830 with over 4,000 students currently enrolled and more than 300 full-time faculty, and offering more than 60 undergraduate majors.
  - Ranked No. 1 in 2011 for international business education in Bloomberg Businessweek's specialty rankings
  - *U.S. News & World Report* ranked the University of Richmond:
    - No. 23 for "Best Value" among national liberal arts colleges
    - No. 32 among the nation's "Best Liberal Arts Colleges"
    - No. 8 for faculty resources



- Among the nation's "50 Best Value Private Colleges" according to The Princeton Review and USA TODAY.
- Virginia Commonwealth University was established in 1838 and currently enrolls more than 31,000 students while employing over 2,200 full-time and 1,000 part-time faculty members.
  - Top 100 for Public Schools (#84) by U.S. News & World Report
  - #1 public graduate arts program in the U.S.
  - \$270 million in sponsored research in FY15
  - #1 hospital in Virginia (VCU Medical Center)
- All of these higher education institutions ensure that Richmond will have a plethora of well-educated, highly skilled employees, making up a workforce that is developed right in its own area.

**APPENDIX II**

<b>Cluster Name</b>	<b>Industries</b>
Education and Knowledge Creation	<ul style="list-style-type: none"> <li>▪ Colleges, Universities, and Professional Schools</li> <li>▪ Research Organizations</li> </ul>
Financial Services	<ul style="list-style-type: none"> <li>▪ Mortgage Companies</li> <li>▪ Securities Brokerage</li> <li>▪ Portfolio Management</li> <li>▪ Investment Banking and Securities Dealing</li> </ul>
Marketing, Design, and Publishing	<ul style="list-style-type: none"> <li>▪ Advertising Agencies</li> <li>▪ Internet Publishing and Broadcasting and Web Search Portals</li> <li>▪ Public Relations Agencies</li> <li>▪ Marketing Consulting Services</li> </ul>
Local Health Services	<ul style="list-style-type: none"> <li>▪ General Medical and Surgical Hospitals</li> <li>▪ Offices of Physicians (except Mental Health Specialists)</li> <li>▪ Offices of Physical, Occupational and Speech Therapists, and Audiologists</li> <li>▪ Offices of Dentists</li> <li>▪ Nursing Care Facilities</li> <li>▪ Home Health Care Services</li> <li>▪ Homes for the Elderly</li> <li>▪ Residential Intellectual Disability Facilities</li> <li>▪ Medical Laboratories</li> <li>▪ Pharmacies and Drug Stores</li> </ul>
Communications Equipment and Services	<ul style="list-style-type: none"> <li>▪ Wireless Telecommunications Carriers</li> <li>▪ Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing</li> </ul>
Local Financial Services	<ul style="list-style-type: none"> <li>▪ Commercial Banking</li> <li>▪ Credit Unions</li> <li>▪ Insurance Agencies and Brokerages</li> <li>▪ Third Party Administration of Insurance and Pension Funds</li> <li>▪ Tax Preparation Services</li> <li>▪ Collection Agencies</li> </ul>

Insurance Services	<ul style="list-style-type: none"> <li>▪ Direct Health and Medical Insurance Carriers</li> <li>▪ Direct Property and Casualty Insurance Carriers</li> <li>▪ Direct Life Insurance Carriers</li> <li>▪ Direct Title Insurance Carriers</li> <li>▪ Claims Adjusting</li> <li>▪ Reinsurance Carriers</li> </ul>
Local Utilities	<ul style="list-style-type: none"> <li>▪ Electric Power Distribution</li> <li>▪ Wired Telecommunications Carriers</li> <li>▪ Telecommunications Resellers</li> <li>▪ Remediation Services</li> <li>▪ Fuel Dealers</li> <li>▪ Natural Gas Distribution</li> </ul>
Performing Arts	<ul style="list-style-type: none"> <li>▪ Promoters of Performing Arts, Sports, and Similar Events</li> <li>▪ Dance Companies</li> <li>▪ Musical Groups and Artists</li> </ul>
Local Community and Civic Organizations	<ul style="list-style-type: none"> <li>▪ Religious Organizations</li> <li>▪ Services for the Elderly and Persons with Disabilities</li> <li>▪ Child and Youth Services</li> </ul>

**MANAGEMENT RESPONSE FORM**  
**2016-07 ECD - Economic Development Strategy**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	The City Council, the Mayor, and the CAO need to consider assigning the City's economic development responsibilities to the Richmond EDA along with appropriate measures to verify accountability, transparency, and compliance with laws and regulations, including procurement regulations, applicable to the City. Also, consider including Mayoral and City Council participation in the EDA.	Y	<i>The DCAO will work with the Administration and City council to evaluate the feasibility and ramifications of assigning ED responsibilities to the EDA. The EDA currently has ex-officio representation by Council on its Board.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Lee Downey		1-Nov-16
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	The CAO needs to develop a comprehensive plan covering the next five years and addresses the issues and findings included in this report with City Council's approval. The CAO needs to consider obtaining guidance from VEDA and CCAP to develop the strategy. The five year plan should include: a. Establishing a structured process for business retention in the City b. Focusing on independent marketing and lead-generating efforts for the City in addition to participating in GRP efforts	Y	<i>ECD staff is currently working with City Council staff to identify a funding source and timeline for the development of such a plan. The deadline for the plan will be determined through this collaborative effort.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Jane Ferrara		1-Sep-17
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	Currently in planning stage		
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	The City Council and the Mayor need to require ECD to demonstrate the actual, verified accomplishments of the following objectives through the economic development process that would ensure a sound quality of life: a. Creating and retaining jobs b. Stimulating investments in neighborhoods and businesses c. Generating revenues to fund vital municipal services	Y	<i>ECD currently provides an annual report identifying accomplishments in these areas. A report for FY16 will be completed in September 2016.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Jane Ferrara		30-Sep-16
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**MANAGEMENT RESPONSE FORM**  
**2016-07 ECD - Economic Development Strategy**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	The DCAO over ECD needs to develop and implement a policy for organized record keeping of the economic development project files.	Y	<i>ECD will develop a policy to create a more centralized filing system for projects by August 2016.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Jane Ferrara		1-Aug-16
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	The CAO needs to establish performance measures similar to the GFOA recommendations to periodically evaluate the effectiveness of the economic development projects.	Y	<i>These performance measures would be included as a part of the plan developed under Recommendation 2.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Jane Ferrara		1-Sep-17
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	The City Council needs to adopt incentive guidelines for economic development purposes and require the CAO to enforce compliance. If on a specific case, deviation from the adopted policy is desired, the City Council approval to such deviation must be sought.	Y	<i>Guidelines for incentives would be included as a part of the plan developed under Recommendation 2.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Jane Ferrara		1-Sep-17
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION