

Virginia Opportunities for Offshore Wind Businesses

A. The Advantages of Virginia

Virginia strives to become the “Energy Capital of the East Coast” and the Commonwealth believes that is an attainable goal—especially in the area of offshore wind power generation. Virginia also stands to succeed as a major hub, if not the East Coast epicenter, for manufacturing and assembly of wind turbine equipment and other major offshore components. A geographic advantage, a ready workforce, no height restrictions, and abundant and cost-effective “lay-down space” are among the requirements for offshore wind success, and Virginia has them all.

Virginia ranks first amongst US states as the “Top State for Business” according to a 2011 CNBC report.¹ Its advantages include its strategic Mid-Atlantic location, business-friendly environment, access to capital, integrated transportation network, and diverse economy. It has a strong and diversified manufacturing base, including the largest naval shipbuilder in the United States, 700 internationally owned businesses, 33 Fortune-100 companies, and 40 firms with annual revenue over \$1 billion. Virginia is the northernmost right-to-work state on the East Coast.

Virginia boasts a well-integrated transportation network. Fourteen railroads operate on more than 3,500 miles of railway. Six interstate highways traverse the Commonwealth. The Virginia Inland Port connects freight containers to West Virginia, Ohio, Pennsylvania, and northern Virginia. Six foreign trade zones enhance international trade by eliminating or reducing customs duties.

Virginia offers stable taxes, business incentives, affordable electricity, streamlined permitting, technology incubators, and a reliable, tech-savvy workforce. The Virginia Economic Development Partnership coordinates economic development activities within the state and helps businesses relocate or expand their services. The Partnership’s Business Development Managers guide companies through the site selection process, the regulatory environment, and international markets.

The Chesapeake Bay is the largest, natural, ice-free estuary in North America. The Port of Virginia, located in Hampton Roads, is the second largest intermodal facility on the East Coast, and due to natural harbor depth and Suez-class cranes, it is the only East Coast location capable of handling post-Panamax vessels as first port of call. Not only can the harbor’s 50-foot deep channels handle ships larger than any currently built, it has no height restrictions such as bridges and overpasses. In addition, there is abundant, cost effective lay-down space. From the

¹ “Virginia is Victorious—Again—in CNBC’s Top States for Business,” available here: <http://www.cnbc.com/id/43381920/> .

port, a company can easily export large components such as foundations, towers, and turbines up and down the East Coast.

In the Hampton Roads region, Virginia offers the premier maritime community on the East Coast. An abundant military, industrial, and educational infrastructure provides Virginia with extensive training potential for new industries. The Hampton Roads region is the home of the largest industrial military complex in the United States and has the largest capacity for shipbuilding and repair on the East Coast. Each year approximately 13,000 trained and disciplined personnel exit the military in Hampton Roads. This available workforce includes experienced maritime managers, engineers with technical and shipboard experience, and individuals with experience functioning as part of a cohesive team at sea. Local technical schools, community colleges, and four-year universities such as ECPI, Norfolk State University, Tidewater Community College, Old Dominion University, and Hampton University have capacity and programs to meet retraining needs.

Virginia ranks third in receipt of federal R&D funding. Virginia's premier wind-energy related research institutions include: the Virginia Coastal Energy Research Consortium, NASA Langley Research Center, the Center for Coastal Physical Oceanography, James Madison University Virginia Wind Energy Collaborative, the Commonwealth Center for Advanced Manufacturing, and the Ship Maintenance, Repair and Operations Institute.

A wind-energy manufacturing business can trust that it will have access to a skilled, disciplined workforce in Virginia.

B. Government Policies Pertaining to Offshore Wind Power

Voluntary Renewable Energy Portfolio Goal

In 2007, Virginia enacted a voluntary renewable energy portfolio, later expanded in 2009 to encourage investor-owned utilities to participate. Legislation in 2012 allowed the utilities to meet up to 20% of the renewable energy goal through R&D investment. The Virginia State Corporation Commission offers a performance incentive to utilities for each goal attained. Four goals are set through 2025, determined on a 2007 base year. Offshore wind energy purchases receive a triple credit towards the renewable energy portfolio goals.

Offshore Wind Planning

Virginia's Legislature created the Virginia Offshore Wind Development Authority (VOWDA) in 2010 to facilitate, coordinate, and support the development of the industry, including the supply chain. VOWDA is tasked with collecting environmental data, identifying regulatory and administrative barriers, working with government agencies to upgrade port facilities, ensuring development is compatible with wildlife and other ocean uses, and recommending ways to expedite development. In addition, VOWDA has assembled information regarding transmission possibilities and costs. In its 2011 annual report, VOWDA made several priority recommendations, including investments to offset development and site characterization costs for developers; investment in clean energy manufacturing to provide additional support for the

offshore wind supply chain; and analysis of infrastructure improvements needed to enhance the Port of Virginia's Hampton Roads as a staging area.²

The federal Bureau of Ocean Energy management (BOEM) and the Virginia Renewable Energy Task Force recently initiated a call for information and nominations to determine industry interest in commercial wind energy leases in federal waters off Virginia's coast. BOEM received eight nominations of interest wishing to obtain a commercial lease for a wind energy project. BOEM completed an environmental assessment of the area and determined that no significant impact would occur from issuing these leases.

Virginia's Northampton County is home to Poseidon Atlantic, the nation's first comprehensive testing and certification facility for offshore and onshore turbines.

C. Government Policies Pertaining to Manufacturing and Service Activities Related to Offshore Wind

Here is a summary of Virginia's business incentive programs.

Major Business Facility Job Tax Credit

- \$1,000 per job over a 25 or 50 job threshold (varies by locality); job threshold must be met within a 12 month period; taken in equal installments over a two-year period (i.e., \$500 per job, per year)

Virginia Port Tax Credit Programs

- \$1.5 million is available each year to provide a tax credit of \$25 per container unit to companies that move containers to or from Virginia Ports by barge or rail
- Up to \$250,000 is available for manufactures or distributors that increase their usage of Virginia Ports by at least 5 % over the previous year
- Up to \$250,000 is available for operations that increase units through Virginia Ports by at least 10% and hire new workers and/or make a capital investment to facilitate trade.

Research and Development Tax Credit

- Tax credits are available for 15% of the first \$167,000 for qualified research and development expenses, or 20% of the first \$175,000 qualified research and development expenses if conducted with a Virginia public or private college or university. If the total amount of approved credits is not utilized, a company can apply for credits of 15% of the second \$167,000 in qualified research expenses, or 20% of the second \$175,000 in qualified research expenses, if conducted with a Virginia public or private college or university.

² VOWDA Annual Report 2011, available here:
<http://www.dmme.virginia.gov/DE/VOWDA/VOWDA2011AnnualReport.pdf>

Green Job Creation Tax Credit

- For taxable years before January 1, 2015, a tax credit of \$500 per job per year for five years is available for each new green job with an annual salary of at least \$50,000; jobs must be filled for at least one full year to be eligible; may claim up to 350 green jobs; and cannot be combined with Major Business Facilities Job Tax Credit or a federal tax credit.

Clean Energy Manufacturing Incentive Grant

- Discretionary grant for renewable, nuclear, conservation and grid efficiency equipment manufacturers
- Requires \$50 million investment and 200 jobs at local prevailing average wage; thresholds can be reduced in localities with unemployment 25% greater than statewide average
- Wind energy suppliers require a \$10 million investment and 30 new full time jobs at the local prevailing wage in a chosen locality; must support a new or existing wind energy manufacturer located in Virginia
- Payment installments made after performance

Governor's Opportunity Fund

- Discretionary cash grant made to a locality, typically for site development
- Requires 100% match from the locality
- Requires threshold amounts of qualifying investment and job creation that vary by locality and range between \$1.5 million to \$5.0 million in investment and 15-50 jobs

Virginia Investment Partnership Program

- Discretionary cash grant available for existing Virginia manufacturers investing at least \$25 million, with total award paid out in equal, annual installments 24-36 months after agreed-upon investment and employment thresholds have been satisfied.

Virginia Economic Development Incentive Grant

- Discretionary cash grant, designed to assist and encourage companies to invest and create new employment opportunities by locating significant headquarters, administrative or service sector operations in Virginia.
- Requires \$5.0 million investment or \$6,500 per jobs (whichever is greater) and job creation thresholds ranging between 200-400 depending upon the locality

Tobacco Region Opportunity Fund

- Discretionary cash grant made to a locality in Virginia's tobacco producing regions by the Tobacco Indemnification and Community Revitalization Commission for assistance with economic development projects

VDOT Road Access Program

- Maximum of \$500,000 unmatched funds, plus additional \$150,000 available with match of \$150,000 by the locality (potentially \$800,000)

Rail Access Program

- Maximum of \$300,000 unmatched funds; additional \$150,000 available with 100% local match, not to exceed a total allocation of \$450,000 to any locality for all qualifying projects in a given year (potentially \$600,000)

Enterprise Zones

In an Enterprise Zone, a company could qualify for these additional state incentives:

Job Creation Grant (in lieu of Major Business Facility Job Tax Credit)

- Paid in equal installments over a five-year period; not to exceed a total of \$1.4 million per project
- \$4,000 per job above the threshold amount of at least four net new qualifying jobs; new jobs must have health benefits and pay an average wage at least twice the federal minimum wage rate ($\$7.25 \times 2 = \14.50 an hour)
- \$2,500 per qualifying job above the threshold amount for companies paying an average wage 1.75 times the federal minimum wage rate ($\$7.25 \times 1.75 = \12.69 an hour)
- Zones designated as “high” unemployment areas can qualify for \$500 grants using a lower wage threshold of 1.5 times the federal minimum wage ($\$7.25 \times 1.5 = \10.88 an hour)
- New jobs with wages below \$10.88 an hour are not eligible for the job grant
- Grant is subject to proration should company request exceed statewide allocation

Real Property Investment Grant

- Equal to 20% of qualified real property investments made during a five year period in excess of \$500,000 for new construction of an individual building, and in excess of \$100,000 for rehabilitation or expansion of an existing building up to a maximum \$100,000 for companies investing \$5,000,000 or less in qualified real property investments
- Up to a maximum \$200,000 for companies investing over \$5,000,000 in qualified real property investments
- Grant is payable after qualified improvements have been completed and verified
- Grant is subject to proration should company request exceed statewide allocation

Manufacturer’s exemption from Virginia sales and use tax

- Virginia's sales and use tax exemptions apply to all qualifying machinery and equipment purchases, as well as all utilities delivered through pipes, mains, and lines

- Numerous other exemptions including goods in process, inventory, research & development equipment, and goods used in production

Loans and Bonds

Virginia offers companies various long-term financing options at favorable rates.

The Virginia Capital Access Program, in partnership with Virginia’s Small Business Financing Authority, provides access to capital by encouraging banks to make loans to small businesses that may otherwise not be eligible for traditional financing. The program offers loan guarantees on a portfolio of loans through a loan loss reserve, which it establishes at each participating bank. Funds can be used for general working capital and fixed-asset financing. The maximum loan amount is \$250,000.

The Economic Development Loan Fund helps to fill the financing gap between private debt financing and private equity. Up to \$1 million is available for each project and can be used for the acquisition of land or facilities, or the purchase of machinery or equipment. Projects must create new jobs or “save” jobs in underserved or distressed areas.

Tax-Exempt Industrial Development Bonds up to \$10 million are available to manufacturers for the acquisition, construction, or expansion of manufacturing facilities. Non-manufacturing projects are eligible for taxable industrial development bonds, with no maximum size. The interest rates are based on market conditions.

The Export Financing Assistance Program provides loan guarantees for capital access or formation, in conjunction with two federal agencies.

Other Incentives

Virginia’s 26 designated **Technology Zones** offer tax relief in the form of abatements, credits, deductions, deferrals, exemptions, or rebates. Local governments may designate technology zones to promote industry growth. Qualified industries locating in these zones may receive permit waivers, special zoning treatment, and tax incentives for up to ten years. Within six **Foreign Trade Zones**, businesses engaged in international trade can eliminate or reduce customs duties.