Department of Planning and Budget
2003 Fiscal Impact Statement

1. **Bill Number** HB1592

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron** Louderback

3. **Committee** General Laws

4. **Title** Department of General Services; Virginia Distribution Center.

5. **Summary/Purpose:** This proposal would require the Department of General Services to cease operation of the Virginia Distribution Center (VDC) by July 31, 2003.

6. Fiscal Impact Estimates are:

   6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2002-03	$0	0.00	
2003-04	$15,925,975	(25.00)	0100
2003-04	$5,051,425	0.00	Various NGF sources
2004-05	$5,202,969	0.00	0100
2004-05	$5,202,968	0.00	Various NGF sources

7. **Budget amendment necessary:** Yes. If the operations of the Virginia Distribution Center (VDC) were eliminated, the Department of General Services would require an additional appropriation of $10.9 million. This additional appropriation would include $781,043 for the payment of severance benefits for the center's 25 employees and $10.1 million for repayment of a treasury loan authorized for the construction of a recently completed warehouse complex. However, if the warehouse complex were sold as a result of the VDC's elimination, this additional appropriation could be reduced by any proceeds from that sale.

8. **Fiscal implications:** According to the Department of General Services, the elimination of the Virginia Distribution Center (VDC) would require the agency to layoff the facility's 25 employees, require an additional appropriation to repay the treasury loan used to construct the agency's new warehouse complex, require Virginia Industries for the Blind to either terminate certain business lines or seek an appropriation to continue those lines, and increase the total costs of food, janitorial, and other supplies for the facility's former clients. In the face of recent budget reductions, an increase in the cost of the supplies these entities use could have a significant impact on their operations.

   As mentioned previously, eliminating VDC will result in the termination of 25 state employees. These employees are entitled to the severance benefits established in the Workforce Transition Act (WTA). The Department of General Services' human resources section has calculated that the total cost of these severance benefits is $781,043. Although

VDC currently collects revenue from both general fund and nongeneral fund sources from its sales of food, janitorial, and other supplies to general fund, nongeneral fund, and mixed-fund entities, these severance costs would be absorbed by the general fund, because, without the sales to generate revenue, DGS would have no other source of funds to support these severance costs.

The agency would also require a general fund appropriation to repay the treasury loan the General Assembly approved for the construction of its new warehouse complex. Currently, this treasury loan is to be repaid with interest from the operating balances generated by VDC's operations. However, if VDC's operations are eliminated, there would be no revenue to support the repayment of the treasury loan. Consequently, the agency would require an additional general fund appropriation to pay off the treasury loan's remaining balance, which equals $10.1 million. (This treasury loan was originally approved in Chapter 924 by the 1997 Session of the General Assembly, and subsequently amended in Chapter 899, approved by the 1998 Session of the General Assembly.) However, the need for this additional appropriation could be offset to some degree by any proceeds collected from the sale of the warehouse complex as surplus property. Although the warehouse complex has not been appraised, the agency is doubtful that its sale would recover the full $12.5 million in construction costs for it. The agency bases this belief upon its need to install many features, like a foam fire suppression system, that are not usually included in warehouse space.

Virginia Industries for the Blind (VIB) sells numerous items to state agencies and other customers through VDC. These items include: latex and other types of gloves, spices, mops, and mop handles. During FY 2002, sales of these items through VDC totaled $740,152. If VDC were eliminated, however, VIB would be required to either create its own marketing department to promote the sales of its products to former VDC customers or eliminate the jobs of 5.50 blind workers who are currently responsible for packaging items for later resale by VDC. These employees represent about 5.3 percent of the blind workers employed by this quasi-state entity. To preserve its current sales and these 5.50 positions, VIB has reported that it would need to hire a marketing assistant, at an estimated cost of $18,000, and pay $83,850 in estimated shipping costs currently absorbed by VDC. In total, these two costs represent a $101,850 annual increase in the VIB's on-going expenses. These additional on-going expenses would represent a significant detriment to this quasi-state entity's continued operation.

Another possible impact associated with VDC's elimination could be an increase in the costs of the food, janitorial, and other supplies purchased by the central warehouse's current customers. In FY 2003, DGS staff conducted a market basket analysis of those items for which VDC purchased $100,000 or more in product quantities. This analysis, which involved contacting private sector vendors who sold these goods and requesting price quotes from them for the items based upon the average volumes purchased by VDC customers, indicated that aggregating these customers' total demand produced savings of 31.65 percent when compared to the prices charged by the private sector. Consequently, if it is assumed that customers' total VDC purchases in FY 2002 remained constant for both FY 2004 and FY 2005, then the elimination of VDC's operations could cost those customers about $10.1 million in FY 2004 and $10.5 million in FY 2005. And, if it were assumed that the Commonwealth's expenditures are roughly evenly divided between general fund and nongeneral fund sources, then purchasing food, janitorial, and other supplies from sources other than the VDC would result in additional general fund costs of $5.1 million in FY 2004 and $5.2 million in FY 2005.

In summary, the impact of this legislation totals $15.9 million from the general fund (absent any proceeds from the sale of the warehouse complex as surplus property) and $5.1 million from nongeneral fund sources in FY 2004, and $5.2 million from the general fund and $5.2 million from nongeneral fund sources in FY 2005. In future fiscal years, these FY 2005 costs are likely to continue – increasing over time for the costs of inflation.

9. **Specific agency or political subdivisions affected:** This proposal would affect several state agencies, including the Departments of Correction and Mental Health, Mental Retardation, and Substance Abuse Services; numerous public institutions of higher education, including the Virginia Community College System; a number of regional jails; and numerous localities. In the Virginia Distribution Center's (VDC) absence, these entities would be required to pay more for the food, janitorial, and other supplies they formerly purchased from the central warehouse. In addition, the proposal would affect the Virginia Industries for the Blind. In VDC's absence, this agency would either lose the business lines that VDC previously supported or be forced to service those accounts itself.

10. **Technical amendment necessary:** No.

11. **Other comments:** The Joint Legislative Audit and Review Commission, in its January 2001 report, "Review of the Virginia Distribution Center," concluded, "[R]eview of comparative pricing data showed that VDC is generally able to provide products to [the State's institutional users] at lower cost than private sector vendors. Therefore, it appears reasonable to continue operation of the VDC at this time."

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cc: Secretary of Administration