Department of Planning and Budget
2010 Fiscal Impact Statement

1. **Bill Number:** HB595

   House of Origin X Introduced __ Substitute __ Engrossed

   Second House __ In Committee __ Substitute __ Enrolled

2. **Patron:** Massie

3. **Committee:** General Laws

4. **Title:** **Department of Business Assistance; Virginia Economic Development Partnership.**

5. **Summary:** Abolishes the Department of Business Assistance (DBA) and transfers its duties to the Virginia Economic Development Partnership (VEDP).

6. **Fiscal impact estimates are preliminary.** See item 8, below.

   Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2010	0	0	-
2011	181,286	(35.00)	GF
		(7.00)	NGF
2012	(256,564)	(35.00)	GF
		(7.00)	NGF
2013	(256,564)	(35.00)	GF
		(7.00)	NGF
2014	(256,564)	(35.00)	GF
		(7.00)	NGF
2015	(256,564)	(35.00)	GF
		(7.00)	NGF
2016	(256,564)	(35.00)	GF
		(7.00)	NGF

7. **Budget Amendment Necessary:** Yes. Items 98 and 114.

8. **Fiscal Implications:** In the introduced budget bill, DBA has an appropriation of $11.17 million ($9.90 million from the general fund and $1.27 million in nongeneral fund appropriation) in FY 2011 and $11.25 million in FY 2012 ($9.98 million from the general fund and $1.27 million in nongeneral fund appropriation) and 42 FTEs (35 from the general fund and seven nongeneral fund). In the introduced budget bill, VEDP has an appropriation of $15.87 million from the general fund in FY 2011, and $15.74 million in FY 2012. VEDP is not subject to an authorized position level.

   DBA is responsible for four primary functions: the Virginia Jobs Investment Program which is an incentive program supporting the creation of new jobs in the Commonwealth; programs designed to help existing businesses grow their sales by establishing new client markets, especially in state and local procurement; programs that encourage new business formation by providing technical assistance to entrepreneurs on state licensing, permitting, registration and regulatory requirements and by providing developmental opportunities for entrepreneurs, which includes the one-stop business permitting program; and the Small Business Financing Authority, which promotes Virginia businesses by increasing access to capital through the creative application of public and private financing. These functions would transfer to VEDP.

The general fund savings associated with the merger are largely due to the elimination of five positions. The elimination of these positions would generate approximately $276,350 in net savings in FY 2011 ($406,200 in salary and benefits less Workforce Transition Act and other severance costs of approximately $129,850) and $406,200 in FY 2012. Thus, 30 staff would move from DBA to VEDP in the consolidation. Four of these 30 staff are field staff and would remain so.

There also will be costs associated with the merger. VEDP does not currently have sufficient office space to accommodate 26 additional staff. It is anticipated that the cost of the physical move of furnishings would be approximately $25,000 and the costs of co-locating current DBA staff with VEDP would be approximately $163,636. This includes securing additional leased office space to accommodate the staff that would move from DBA to VEDP ($195,000) and build-out of that space ($119,000), less the amount DBA will pay for office space in FY 2011 if it remains an independent agency ($150,364).

Also, DBA is currently part of a human resources service bureau and receives its information technology services from the Virginia Information Technologies Agency (VITA). DBA currently pays $25,000 annually from the general fund to participate in the Department of Human Resources Management's (DHRM) human resources service bureau. DBA also pays VITA $120,000 in each year from the general fund, for information technology services. Also, there may be costs associated with reprinting marketing and other printed materials to reflect the new address and organizational changes. These costs are estimated at $30,000.

As an independent authority, VEDP is exempt from most state policies and procedures. VEDP does not receive its information technology services from VITA. Once DBA is merged into VEDP, VEDP will need to acquire computers and other hardware and software for employees transferred from DBA. It is anticipated that providing the additional staff with computer and telecommunication resources would require $144,000 from the general fund in the first year and $55,000 in subsequent years. VEDP will also require resources to hire an additional information technology staff person, an additional human resources staff person, and full-time support in its fiscal area to support the additional employees that would become part of VEDP. The annual personal and nonpersonal services costs of these additional staff are estimated at $240,000. It should be noted that, given the non-general and federal fund complexity of DBA's funding, additional fiscal staff may be required.

According to the Department of Human Resources Management, in the event an employee of DBA chooses not to accept a position with VEDP that employee would be eligible for severance benefits. It is not known how many employees may choose to not accept employment by VEDP.

Merging a state agency into an authority has several policy implications. This is discussed in item 11, below.

9. **Specific Agency or Political Subdivisions Affected:** Department of Business Assistance and the Virginia Economic Development Partnership.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** Under the provisions of this bill, VEDP would have most of the functions similar to the state's former Department of Economic Development, which consisted of the state's economic development and tourism programs consolidated into one state agency. Legislation enacted by the 1995 General Assembly (Chapter 638) established VEDP as an independent authority. By statute, VEDP is charged with encouraging, stimulating and supporting the development and expansion of the Commonwealth's economy by providing economic development services, conducting research, and developing a comprehensive economic development strategy. Legislation enacted by the 1996 General Assembly (Chapters 598 and 599) abolished the Department of Economic Development and transferred a portion of its functions to VEDP, and established DBA and transferred to it the Department of Economic Development's small business and financial services, existing industry development and workforce services programs.

    As an independent authority, and not a state agency, VEDP is not a part of the state's accounting system; it is required to have its own bank accounts, payroll, personnel, procurement, and travel policies. While it is subject to review by the Auditor of Public Accounts, it is not part of the state's financial system (CARS). VEDP receives its funding from the state in twelve equal monthly installments. VEDP also does not have a maximum employment level (MEL). Employees of VEDP are eligible for state benefits, such as health and related insurance and benefits, and membership in the Virginia Retirement System.

    VEDP is currently responsible for administering numerous incentive programs, including the Governor's Development Opportunity Fund, the semiconductor manufacturing performance grant programs, and the Virginia Investment Partnership and Virginia Economic Development grants, as well as incentives to SRI and Rolls-Royce. Beginning in FY 2011, state general fund support for each of these is budgeted in a new subagency to the Office of the Secretary of Commerce and Trade, Economic Development Incentive Payments, located in Item 96 in the introduced budget bill. Funds for these programs will be expensed in this new Item to maintain a record of these expenditures in the state's financial systems and to assure budget transparency.

    As a state agency, DBA is subject to the same oversight as other state agencies. All appropriation and expenditures for DBA's programs are tracked in the state's financial systems. The agency is also subject to all of the state's policies, including personnel, procurement, and travel. After DBA's responsibilities are absorbed by VEDP, its programs will no longer be reported in the state's financial systems. This reporting change will require various Code or budgetary changes before the bill can be fully implemented, as under the provisions of the bill, VEDP would assume responsibility for administering several special nonreverting funds, including the Workforce Retraining Fund and the Comprehensive Permitting Fund. These two funds are currently part of CARS.

Language in Item 105 G. of Chapter 879, 2008 Acts of Assembly (the 2008 Appropriation Act) directed the Secretary of Commerce and Trade to study the efficacy and programmatic and financial efficiencies that could be gained by consolidating DBA into another agency within the Commerce and Trade Secretariat and to issue the study report by November 1, 2008, which was accomplished. The language went on to mention potential agencies into which DBA could be merged and further directed the Secretary to develop a plan for transferring workforce related activities from DBA to VEDP as well as measurable goals and objectives for the new agency. Included in the various options studied and discussed in the study is the merger of DBA into VEDP. In this scenario, the study concluded that the merger would result in some savings. Since the study was completed, state agencies have sustained budget reductions. These reductions impact the amount of potential savings.

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cc: Secretary of Commerce and Trade