

Department of Planning and Budget 2013 Fiscal Impact Statement

1. Bill Number: HB1936

House of Origin	<input checked="" type="checkbox"/>	Introduced	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Engrossed
Second House	<input type="checkbox"/>	In Committee	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Enrolled

2. Patron: Lopez

3. Committee: General Laws

4. Title: Department of Minority Business Enterprises; definition of small business.

5. Summary: The bill changes the definition of "small business" to be a business located in Virginia that meets the definition of a small business concern as defined in the federal Small Business Act (15 U.S.C. § 631 et seq.).

6. Budget Amendment Necessary: No

7. Fiscal Impact Estimates: Indeterminate.

8. Fiscal Implications: The bill is expected to have an indeterminate fiscal impact to the Commonwealth.

According to the Department of General Services (DGS), the bill presents a fiscal impact in that it creates an in-state certification preference for Virginia small businesses which, in turn, will create a disparity and foster reciprocity from other states. If reciprocity is imposed on Virginia small businesses by other states, it will likely reduce out of state sales for Virginia small businesses conducting business in other states.

The Department of Minority Business (DMBE) expects the bill to require additional funding and positions within their agency. In their estimation, the impact of the bill approaches between \$150,000 and \$300,000 annually and up to 4 additional positions. DMBE processes more than 10,000 certification applications annually. The current definition of "small business" is quite simple and the review process takes less than one day to complete a small business certification. The federal definition of Small business is much more complex and requires the reviewers to understand not only the Federal documents of size standard eligibility but also the applicant's industry for detailed analysis prior to making a determination of whether the firm can be certified. Significantly more review and process time will be required for DMBE to handle the volume of applications and the changes that would be required. DMBE would have to review all existing applications in order to convert them to a new standard. The agency will also require more staff training time to update the current employees' knowledge and would require a specialist designated to keep up with the Federal regulation revisions and keep our certification code updated. From a technical standpoint, the DMBE certification database and website will require modification.

DGS further states that there will be small businesses currently certified that no longer will be eligible for certification and this could result in push back from these businesses. The loss of the previously certified small businesses will reduce competition and likely increase prices for state agencies. Currently all state agencies that fall under the purview of DGS's Division of Procurement Services have set aside procurements up to \$50,000 to DMBE-Certified Small Businesses. Based on the proposed language, Virginia small businesses will be reciprocated against by other states with similar restrictions. Allowing public bodies to award contracts with a preference to in-state small businesses will result in reduced competition. Small business vendors outside of the state may refuse to participate knowing the in-state preference exists. In-state vendors may not offer their best pricing knowing they have a preference. This will result in public bodies paying higher prices.

9. Specific Agency or Political Subdivisions Affected: All public bodies.

10. Technical Amendment Necessary:

11. Other Comments: It should be noted that the bill will require a change to section 7 VAC 10-21-100 of the Regulations to Govern the Certification of Small, Women, and Minority-Owned Businesses.

Date: 1/15/2013