Department of Planning and Budget
2014 Fiscal Impact Statement

1. **Bill Number:** SB28

House of Origin	☒ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☐ Substitute	☐ Enrolled

2. **Patron:** Stanley

3. **Committee:** General Laws and Technology

4. **Title:** Virginia Economic Development Partnership Authority; export of Virginia products and services.

5. **Summary:** Authorizes the Virginia Economic Development Partnership (VEDP) Authority to undertake whatever activities the Authority deems appropriate to provide bridge loans and shipment insurance for Virginia exporters. This bill may be known as the Virginia Export Assistance Act.

6. **Budget Amendment Necessary**: Yes, Item 120 of the Introduced Budget Bill (HB30/SB30). See, item 8, below. A budget amendment of $1.13 million in FY 2015 from the general fund and $1.03 million in FY 2016 from the general fund would be necessary. Also, a budget amendment in an indeterminate amount would be necessary to capitalize the loan and insurance programs.

7. **Fiscal Impact Estimates:** Preliminary, see item 8, below.

8. **Fiscal Implications:** The bill would authorize VEDP to provide bridge loans and shipment insurance for Virginia exporters. The full fiscal impact of the proposed legislation is indeterminate. However, estimates are available for various components of the proposed export assistance program.

   VEDP anticipates that the development of an on-line application to provide a portal for interested parties to receive information and submit an application to participate in the loan and insurance programs would be required. The cost of such an application is indeterminate, but based on the costs of previous applications VEDP anticipates that it could range from $100,000 to $1.0 million, from the general fund, depending on the complexity. At this time, an assessment of the system’s requirements is unavailable.

   <u>Loan program:</u>
   It is anticipated that VEDP would incur general fund costs in establishing and staffing a loan program. VEDP estimates that staffing costs would include hiring the following staff:

   - One position will be required to market and explain the program statewide to companies who may qualify and to other stakeholders, such as trade groups and local and regional economic developers at a cost of $140,000 including salary, benefits, support, and additional marketing funds from the general fund.

- Two positions for the work of getting the loans closed, monitoring the performance and chasing after loan repayments at a total cost of $172,000 including salary, benefits, and support from the general fund.
- One additional position to serve as a credit analyst at a cost of $120,000 including salary, benefits, and support from the general fund.

Additionally, VEDP would require $100,000 from the general fund for one-time legal fees associated with establishing the loan program.

It is anticipated that funding would be required to capitalize the fund to provide for the bridge loans. The amount of funding necessary to establish a program to provide bridge loans would depend on the level of demand. However, to be seen as a credible and worthwhile program, VEDP has indicated that the loan program would need to be making loans at the level of at least 10 percent of the U.S. Export-Import Bank. Over the past four years, the U.S. Export-Import Bank has authorized $4 billion of these sorts of loans to Virginia exporters. As a result, VEDP has indicated it would require a loan fund capitalized at a level of $100 million, from the general fund.

<u>Insurance program:</u>
It is anticipated that VEDP would incur general fund costs in establishing and staffing a shipment insurance program. VEDP estimates that staffing costs would include hiring a total of four to five technical and administrative positions to manage the program at a total cost (including salary, benefits and support) of $600,000 from the general fund. VEDP would require an experienced insurance professional who knows how to run an insurance program and an experienced insurance regulatory professional who can be sure that the regulatory requirements are met and that the proper regulatory reports are filed correctly and on time. Additionally, VEDP would require at least two positions to process the paperwork for providing insurance and monitor the ongoing risks.

Additionally, VEDP would require $500,000 from the general fund for legal and other professional fees associated with establishing an insurance program. These legal costs associated with establishing the program would be used to create the insurance entity, develop effective legal documents, set up a protocol to comply with regulatory requirements, take into account the complexities of working cross-border in many other countries, assist with getting the staff properly licensed at the State Corporation Commission (SCC), and accommodate, if appropriate, any reinsurance, cosuretyship or other pledges of property to backup the risks.

VEDP estimates that up to $50.0 million, from the general fund, of capital may be needed to properly establish the insurance program and to provide it with sufficient capital to offer coverage of risks of reasonable size. Section 38.2-208, Code of Virginia, requires that no single risk is more than 10 percent of an insurer's capital. The $50.0 million figure is based on this 10 percent requirement and would allow VEDP to cover risks up to $5 million, allowing the program to serve as a credible alternative to private sector insurance. Additionally, § 38.2-1045, Code of Virginia, would require VEDP to have $50,000 to $500,000 of marketable securities on deposit with the State Treasury. VEDP would also require $25,000 each year for an annual audit for the insurance entity to SCC requirements.

9. **Specific Agency or Political Subdivisions Affected:** Virginia Economic Development Authority; Department of the Treasury.

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

11. **Other Comments:** The Department of the Treasury's Division of Risk Management (DRM) administers various risk management plans and programs that cover state government, public entities, specified not-for-profit organizations, and certain individuals serving in the public interest. This analysis assumes that the VEDP shipment insurance program would be separate from DRM's insurance. It is uncertain at this time if shipment insurance could be incorporated into the state insurance program through DRM.

    Language in Chapter 806, 2013 Acts of Assembly and HB/SB 30 directs the Partnership to investigate additional ways in which it might encourage the export of products and services from the Commonwealth to international markets, including researching potential methods through which to support broader availability of bridge loans and shipment insurance for Virginia exporters.