Department of Planning and Budget
2016 Fiscal Impact Statement

1. **Bill Number:** HB846

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** Hugo

3. **Committee:** Appropriations

4. **Title:** Virginia Collaborative Economic Development Act.

5. **Summary:** Creates the Virginia Collaborative Economic Development Performance Grant Fund. Two or more localities that collaborate and adopt a collaborative economic development plan will be eligible for grants from the fund over a period of six years if the collaboration results in the location or expansion of a company in the Commonwealth that (i) creates at least 200 new jobs with average salaries at least 25 percent higher than the average wage and (ii) makes a capital investment of at least $25 million. The total amount of the grant applied for shall not exceed the total investment of the localities in executing the collaborative economic development plan, and each annual installment of the grant may not exceed 50 percent of the total annual amount of personal income tax withheld by the certified company from the newly created jobs. Of each annual installment of the grant, 85 percent will be distributed to the participating localities in accordance with the terms of the collaborative economic development plan, and 15 percent will be retained by the Virginia Economic Development Partnership (VEDP) to be used to enhance regional and statewide economic development marketing and promotion.

6. **Budget Amendment Necessary**: No. See item 8, below.

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

8. **Fiscal Implications:** This bill creates the Virginia Collaborative Economic Development Performance Grant Fund to provide grant awards to localities participating in collaborative economic development plans that result in the location of a company that creates at least 200 new jobs with average salaries at least 25 percent higher than the average wage and makes a capital investment of at least $25 million. Grants would be paid out of the Fund, which is subject to appropriation by the legislature. This bill does not identify a dedicated funding source for the Fund; therefore, a budget amendment will be needed at some point in the future to capitalize the fund before any grants could be awarded.

   The bill caps the amount of the grants at 50 percent of the personal income tax withholdings for employees holding new jobs at qualifying companies. This bill does not specifically divert tax revenue to the Fund. It requires that income tax collected from the company be certified as a basis for making these grants after the revenue is received by the state. Thus, there is not a direct revenue impact.

The bill allows for payment of grants to qualifying localities each year for six years, provided that the qualifying company maintains the new job creation and capital investment requirements. The amount of the grants over a six-year period cannot exceed the total contributions of the participating localities to the economic development project or effort. Of the grant amount, 85 percent would be disbursed to the participating localities in accordance with the terms of the collaborative economic development plan and the remaining 15 percent would be disbursed to VEDP to be used to enhance economic development marketing and promotional activities. It is anticipated that VEDP can administer the program utilizing existing staff and resources. To the extent that grants are made from the Fund, it is anticipated that VEDP would expend any funding received. The amount of funding required is dependent on the location of qualifying companies, and therefore is indeterminate. While this bill is not expected to have a fiscal impact in the 2016-2018 Biennium, additional funding will be needed to capitalize the Fund in the 2018-2020 Biennium in order to implement the provisions of this legislation.

<u>Administrative Impact on the Department of Taxation</u>
The bill requires the Department of Taxation to certify, along with the Partnership, the amount of personal income taxes paid by the eligible companies on account of the new jobs. The Department considers the administrative impact on the agency as routine. Withholding tax is reported and collected on a state-wide company level basis. The Department may have to make modifications to its systems to allow companies to report on a segment of its total operations or require participating companies to file information returns that would capture the data needed to make a certification. It is anticipated that the agency could comply with the requirements of the bill utilizing existing staff and resources.

9. **Specific Agency or Political Subdivisions Affected:** Virginia Economic Development Partnership, Department of Taxation, localities.

10. **Technical Amendment Necessary:** Yes. Line 67, strike “subsection E.” and insert “subsection D.”

11. **Other Comments:** VEDP, established in statute as a political subdivision of the Commonwealth, is not part of the Commonwealth’s Accounting and Reporting System. As a result, VEDP will require a state agency to serve as fiscal agent to process the grant payments to eligible localities from the special fund account.

    This bill is a companion to SB459.