

## Department of Planning and Budget 2016 Fiscal Impact Statement

**1. Bill Number:** HB858

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

**2. Patron:** Landes

**3. Committee:** Finance

**4. Title:** Virginia International Trade Authority.

**5. Summary:** Establishes the Virginia International Trade Corporation as an agency in the Commerce and Trade secretariat to promote international trade in the Commonwealth. The bill also requires the Secretary of Commerce and Trade to provide to the General Assembly by November 1, 2016, recommendations regarding the structure, duties, and staff support for the Corporation. The bill requires the Secretary of Agriculture and Forestry to develop a proposal for the transfer of export and marketing services currently performed by the Department of Agriculture and Consumer Services (VDACS) to the Corporation by November 1, 2016. The bill also requires that the Virginia Economic Development Partnership Authority (VEDP) transfer, all programs, resources, personnel, and appropriations, grants, and assets that are controlled or administered by VEDP and used to encourage, stimulate, and support the development and growth of international trade, consistent with the recommendations developed by the Secretary of Commerce and Trade, to the Corporation by July 1, 2017. The bill also adds the Chief Executive Officer of the Corporation as a member of the Board of Commissioners of the Virginia Port Authority.

**6. Budget Amendment Necessary:** Yes. A new item would be needed in HB30/SB30 if the intent is to provide state support to establish and operate the Corporation as a separate state agency. The amendments adopted by the House provide \$150,000 in each year from the general fund and one position under the Secretary of Commerce and Trade to establish the Corporation.

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

**Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2016			
2017	\$60,140	N/A	General Fund
2018	\$589,896	N/A	General Fund
2019	\$589,896	N/A	General Fund
2020	\$589,896	N/A	General Fund
2021	\$589,896	N/A	General Fund
2022	\$589,896	N/A	General Fund

- 8. Fiscal Implications:** This bill creates the Virginia International Trade Corporation within the executive branch of the state government reporting to the Secretary of Commerce and Trade. The Corporation has the stated purpose to “promote international trade in the Commonwealth.” While the legislation requires the transfer of existing resources from the related programs in the Virginia Economic Development Partnership Authority (VEDP), and the potential transfer from the Department of Agriculture and Consumer Services (VDACS), some new resources will be needed to establish a separate agency.

The bill provides that the Governor, in consultation of the Board of the Corporation, shall appoint a Chief Executive Officer (CEO) for the Corporation charged with carrying out the duties of the Corporation. Line 53 specifies that the CEO of the Corporation shall be paid a salary for their services. The bill provides that the Governor shall approve the salary of the CEO. Based on the midpoint of Level I salaries for state agency heads in Chapter 665, 2015 Acts of Assembly (2015 Appropriation Act), it is anticipated that the cost of the salary and benefits for the Executive Director would be \$236,824; \$178,691 of which would be for salary and \$58,133 would be for benefits based on current state benefit rates. The bill’s second enactment clause provides that the provisions of the bill would become effective on April 1, 2017. The impact of the CEO’s salary for the final six pay periods of FY 2017 would be \$60,140; \$44,673 for salary and \$15,467 would be for benefits based on current state benefit rates.

The fourth enactment clause of the bill provides that the Secretary of Commerce and Trade develop recommendations regarding the structure, duties, and staff support for the Virginia International Trade Corporation and report them to the Chairmen of by the House Committee on Appropriations and the Senate Committee on Finance by November 1, 2016. It also provides that the Governor may appoint an interim CEO to assist in the creation of these recommendations. The impact of appointing an interim CEO prior to April 1, 2017, the effective date of the bill’s provisions establishing the Corporation, is indeterminate.

The fifth enactment of the bill would require the Secretary of Agriculture and Forestry to develop a proposal for the transfer of export and marketing services currently performed by the Department of Agriculture and Consumer Services (VDACS) to the Virginia International Trade Corporation by November 1, 2016. VDACS currently has \$1.37 million and four positions budgeted in FY 2016 for international marketing activities. Of that amount, \$870,226, from the general fund, is for international contracted consultants in five countries as well as other international activities such as trade missions. Additionally, VDACS dedicates \$335,000 per year and three positions for international marketing in the agency’s Richmond office and \$160,000 and one position in its Hong Kong office. The Introduced Budget Bill (HB30/SB30) includes \$300,000 in additional funding for VDACS to open new offices in Southeast Asia and North Africa/Middle East and for reverse trade missions.

The sixth enactment requires that the Virginia Economic Development Partnership Authority (VEDP) transfer, by July 1, 2017, all programs, resources, personnel, and appropriations, grants, and assets that are controlled or administered by VEDP and used to encourage, stimulate, and support the development and growth of international trade, consistent with the

recommendations developed by the Secretary of Commerce and Trade, to the Corporation. In FY 2016, the International Trade division of VEDP has a base budget of \$3.13 million, including \$2.77 million in general fund appropriation and \$359,000 in participation fees associated with its international marketing programs, supporting a staff of 17 personnel. The Introduced Budget Bill (HB30/SB30) includes an additional \$3.65 million in general fund appropriation and one position for the International Trade division of VEDP. In addition to marketing Virginia to domestic companies, VEDP's Business Attraction division markets Virginia to international companies. The focus of this division is on generating new projects for Virginia.

Between VDACS and VEDP, the total budget from general and nongeneral fund sources for international trade related services, including appropriations, funds, and staff, and the amounts proposed in HB30/SB30, is \$8.44 million and 22 staff.

The seventh enactment provides that the Corporation and VEDP can enter into a Memorandum of Agreement for VEDP to provide administrative and support services to the Corporation. VEDP and the Virginia Tourism Authority (VTA) currently have such an agreement. There are some functions that VEDP could provide to the new Corporation, similar to those services provided to VTA, at no additional cost, such as information technology, financial systems management, payroll processing, fleet management, rent and office space.

However, there are functions needed beyond those that can be provided to the new Corporation by VEDP. These include the development and administration of a strategic plan, budget requests and development, procurement, accounting, audit services, approval of travel vouchers, and other day to day support and administrative functions. The resources and staff transferred to the Corporation would not support the full administration of this separate entity. As a result, it is anticipated that the Corporation would need to hire additional staff in order to undertake these functions. Given the potential annual budget and staffing level of the Corporation, it is anticipated that the Corporation would require three additional employees in order to maintain operations of the Corporation, one operations manager and two additional employees. It is anticipated that the cost of the operations manager would be \$150,000 (\$110,000 in salary and \$40,000 in benefits) and the each other employee would be \$100,000 (\$70,000 for salary and \$30,000 for benefits). The total cost for the three additional employees would be \$350,000 per year. It is anticipated that these employees would be hired in FY 2018.

It is anticipated that additional resources would be needed to establish the Corporation as an independent entity. In addition to the need for additional operations staff, the Corporation would require funding to procure insurance, legal, and other professional services required as a separate organization. At this point, these costs are indeterminate.

Lines 47-49 of the bill provide that members of the board of the Corporation will not be compensated for their services, but they will be reimbursed for reasonable expenses incurred in attendance at meetings. The current Department of Accounts per diem rate for the City of Richmond is \$64 per day for meals and incidental travel expenses. Excluding ex officio

members, the bill provides for a 12 member board and that the board shall meet at least four times annually. At \$64 per meeting day, for four meetings and 12 board members, it is anticipated that at least \$3,072 will be required to reimburse board members for reasonable expenditures.

This bill does not specify a fund source to support the Corporation but does authorize the Commonwealth to make grants of money or property to the Corporation. If the intent is to provide state support and for the Corporation to operate as an independent state entity, a budget amendment of at least \$60,140 in FY 2017 and \$589,896 in FY 2018 from the general fund in each year is required to establish the Corporation. This would allow the Governor to appoint the CEO in FY 2017 with full operations of the Corporation commencing in FY 2018. Additional funding may be needed if additional staff are hired to support the Corporation.

- 9. Specific Agency or Political Subdivisions Affected:** Virginia Economic Development Partnership, Department of Agriculture and Consumer Services, Virginia Port Authority.

- 10. Technical Amendment Necessary:** No.

- 11. Other Comments:** The second enactment states that the provisions of the bill would not become effective until April 1, 2017. However, the fourth enactment provides that the Governor may appoint an interim CEO to assist in the creation of recommendations for establishing the organization and moving employees and appropriation from VEDP to the Corporation due by November 1, 2016. The enactment clauses appear to be in inconsistent with each other.

The sixth enactment clause provides for the transfer of personnel from VEDP to the new Corporation. However, the bill does not speak to the disposition of such employees or their eligibility for participation in the Virginia Retirement System (VRS) or other health and insurance benefits provided to state employees and for which employees of VEDP are eligible per § 2.2-2236, Code of Virginia. It is recommended that clarification on the eligibility of employees of the Corporation to participate in VRS and other state employment benefits be provided.