Department of Planning and Budget
2016 Fiscal Impact Statement

1. **Bill Number:** SB459

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

2. **Patron:** Ruff

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 and (ii) makes a capital investment of at least $25 million. The job creation and capital investment requirements are lowered to 25 net new jobs and $1.0 million in investment for projects in which the average unemployment rate for a majority of the participating localities exceeds the average statewide unemployment rate by at least one-half percent in the preceding year or the poverty rate for a majority of participating localities is greater than the statewide poverty rate in the preceding year. The total amount of the grant applied for shall not exceed 50 percent of the total investment of the localities executing the collaborative economic development plan, and each annual installment of the grant may not exceed 45 percent of the total annual amount of personal income tax withheld by the certified company from the newly created jobs. The bill limits total payments from the fund to $20 million per year. Grants will be distributed to the participating localities in accordance with the terms of the collaborative economic development plan.

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 and makes a capital investment of at least $25 million. The job creation and capital investment requirements are lowered to 25 net new jobs and $1.0 million in investment for projects in which the average unemployment rate for a majority of the participating localities exceeds the average statewide unemployment rate by at least one-half percent in the preceding year or the poverty rate for a majority of participating localities is greater than the statewide poverty rate in the preceding year. 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 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 may be needed to capitalize the Fund in the 2018-2020 biennium in order to implement the provisions of this legislation.

The bill caps the amount of the grants at 45 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 50 percent of the total contributions of the participating localities to the economic development project or effort. The full amount of the grant would be disbursed to the participating localities in accordance with the terms of the collaborative economic development plan

This bill provides that Virginia Growth and Opportunity Board (Board), considered by HB 834 and SB449, create guidelines for the grant program. Additionally, the Board would be tasked with reviewing projects submitted by the Virginia Economic Development Partnership (VEDP) for approval of grant awards. Item 109 of HB30/SB30 includes a general fund appropriation of $225,000 and two positions the first year and $225,000 two positions the second year under the Department of Housing and Community Development for administrative support for the Virginia Growth and Opportunity Board and the Virginia Growth and Opportunity Fund grant program. If the Board is tasked with developing guidelines and administering grants from the Virginia Collaborative Economic Development Performance Grant Fund, it is anticipated that those duties can be addressed within the appropriation provided in Item 109.

The bill provides that the Partnership, with assistance from the Department of Taxation, will approve and certify collaborative economic development plan and projects. In the event the Board is not created, the bill provides that VEDP would be responsible for assisting the Secretary of Commerce and Trade in establishing guidelines for the program as well as administering the program. If needed, it is anticipated that VEDP can assist with the creation of guidelines and administer the program utilizing existing staff and resources.

The bill requires the Department of Taxation to certify, along with the Partnership, the amount of personal income taxes paid by the eligible companies attributable to 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, Department of Housing and Community Development, localities.

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

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 would require a state agency to serve as fiscal agent to process the grant payments to eligible localities from the special fund account, if the Board does not exist.

    HB846 also creates the Virginia Collaborative Economic Development Performance Grant Fund program.