

Department of Planning and Budget 2008 Fiscal Impact Statement

1. **Bill Number:** HB1522

House of Origin Introduced ___ Substitute ___ Engrossed
Second House ___ In Committee ___ Substitute ___ Enrolled

2. **Patron:** Massie

3. **Committee:** Appropriations

4. **Title:** **Department of Business Assistance; Virginia Economic Development Partnership.**

5. **Summary:** Abolishes the Department of Business Assistance (DBA) and transfers its duties to the Virginia Economic Development Partnership (VEDP).

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

7. **Budget Amendment Necessary:** Yes. Items 108 and 124.

8. **Fiscal Implications:** In the introduced budget, DBA has an appropriation of \$12.5 million in FY 2009 (\$11.2 million from the general fund and \$1.2 million in nongeneral fund appropriation) and 48 FTEs (41 from the general fund and seven nongeneral fund), and \$14.5 million in FY 2010 (\$13.2 million from the general fund and \$1.2 million in nongeneral fund appropriation) and 48 FTEs (41 general fund and seven nongeneral fund). In the introduced budget, VEDP has an appropriation of \$17.4 million, from the general fund, in both fiscal year 2009 and 2010.

It is anticipated that the merger of the two agencies could have a net general fund cost of approximately \$30,000 in the first full year of implementation and a net general fund savings of approximately \$196,000 each year thereafter, based on the assumptions discussed below. However, there could be additional unidentified severance costs and moving costs.

DBA is responsible for four primary functions: the Virginia Jobs Investment Program which is an incentive program supporting the creation of new jobs in the Commonwealth; programs designed to help existing businesses grow their sales by establishing new client markets, especially in state and local procurement; programs that encourage new business formation by providing technical assistance to entrepreneurs on state licensing, permitting, registration and regulatory requirements and by providing developmental opportunities for entrepreneurs, this includes the one-stop business permitting program; and the Small Business Financing Authority, which promotes Virginia businesses by increasing access to capital through the creative application of public and private financing. These functions would transfer to VEDP.

DBA has an administration budget of \$1.4 million and 10 positions, from the general fund, in each year. The administrative services staff consists of an agency director, deputy director,

the fiscal office, agency receptionist, legislative and community affairs liaison and a marketing/research staff person. The assistant to the agency director is a wage employee. DBA and VEDP would need to develop a transition plan to determine which positions would transfer. However, it is anticipated that the elimination of duplicative functions could result in annual savings after the first year of approximately \$225,000. During the first year, these would be reduced by approximately \$114,000 in severance payments.

There will also be costs associated with the merger. VEDP does not currently have sufficient office space to accommodate 48 additional staff. It is anticipated that DBA, while organizationally a part of VEDP, would remain in its current physical location. But, if DBA were to move and co-locate with VEDP there would be moving costs, such as the move itself, purchasing furniture depending upon the configuration of the space, and wiring and cabling. DBA estimates such one-time costs could be as much as \$285,000; these costs would reduce any savings in the first year. In addition, the rental amount may increase or decrease, depending upon the cost per square foot of office space.

In addition, DBA is currently part of a human resources service bureau and receives its information technology services from the Virginia Information Technologies Agency (VITA). DBA currently pays \$25,000 annually from the general fund to participate in the human resources service bureau. DBA also pays VITA \$160,000 in each year from the general fund, for information technology services.

As an independent authority, VEDP is exempt from most state policies and procedures. VEDP does not receive its information technology services from VITA; its human resources function is also performed in-house. Once DBA is merged into VEDP, VEDP will need to acquire computers and other hardware and software for employees transferred from DBA. It is anticipated that providing the additional staff with computer resources would require \$113,000 from the general fund in the first year and each year of a refresh, which is typically every four years. VEDP has indicated that it will also require resources to hire an additional information technology staff person and an additional human resources staff person to support the additional 48 employees. It is anticipated that VEDP will require an additional \$114,000 from the general fund in each year to support an additional information technology staff person, and \$100,000 in each year from the general fund to support an additional human resources person. VEDP currently has two human resources positions and nine information technology positions supporting 200 people (VEDP provides these services for its staff, as well as the Virginia Tourism Authority and the Virginia National Defense Industrial Authority). VEDP also maintains information technology systems used by localities across the state.

According to the Department of Human Resources Management, in the event an employee of DBA chooses not to accept a position with VEDP that employee would be eligible for severance benefits. It is not known how many employees may choose to not accept employment by VEDP.

Merging a state agency into an authority has several policy implications. This is discussed in item 11, below.

9. Specific Agency or Political Subdivisions Affected: Department of Business Assistance and the Virginia Economic Development Partnership.

10. Technical Amendment Necessary: No.

11. Other Comments: Under the provisions of this bill, VEDP would have most of the functions similar to the state's former Department of Economic Development, which consisted of the state's economic development and tourism programs consolidated into one state agency. Legislation enacted by the 1995 General Assembly (Chapter 638) established VEDP as an independent authority. By statute, VEDP is charged with encouraging, stimulating and supporting the development and expansion of the Commonwealth's economy by providing economic development services, conducting research, and developing a comprehensive economic development strategy. Legislation enacted by the 1996 General Assembly (Chapters 598 and 599) abolished the Department of Economic Development and transferred a portion of its functions to VEDP, and established DBA and transferred to it the Department of Economic Development's small business and financial services, existing industry development and workforce services programs.

As an independent authority, and not a state agency, VEDP is not a part of the state's accounting system; it is required to have its own bank accounts, payroll, personnel, procurement, and travel policies. While it is subject to review by the Auditor of Public Accounts, it is not part of the state's financial system (CARS). VEDP receives its funding from the state in twelve equal monthly installments. VEDP also does not have a maximum employment level (MEL). Employees of VEDP are eligible for state benefits, such as health and related insurance and benefits, and membership in the Virginia Retirement System.

VEDP is currently responsible for administering numerous incentive programs, including the Governor's Development Opportunity Fund, the semiconductor manufacturing performance grant programs, and the Virginia Investment Partnership and Virginia Economic Development grants, as well as incentives to SRI and Rolls-Royce. In the upcoming biennium, state general fund support for each of these is budgeted in either the Office of Secretary of Commerce and Trade or Central Appropriations. Funds for these programs are expensed in the Office of the Secretary of Commerce and Trade to maintain a record of these expenditures in the state's financial systems and budget transparency.

As a state agency, DBA is subject to the same oversight as other state agencies. All appropriation and expenditures for DBA's programs are tracked in the state's financial systems. The agency is also subject to all of the state's policies, including personnel, procurement, and travel. After DBA's responsibilities are absorbed by VEDP, its programs will no longer be reported in the state's financial systems.

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cc: Secretary of Commerce and Trade