

Department of Planning and Budget 2009 Fiscal Impact Statement

1. Bill Number: HB2550

House of Origin	<u> X </u>	Introduced	<u> </u>	Substitute	<u> </u>	Engrossed
Second House	<u> </u>	In Committee	<u> </u>	Substitute	<u> </u>	Enrolled

2. Patron: Cox

3. Committee: General Laws

4. Title: **Economic development; incentive financing for major employment and investment projects.**

- 5. Summary:** This legislative proposal would: establish the Major Employment and Investment (MEI) Project Approval Commission; authorize the Virginia Public Building Authority (VPBA) to finance MEI projects; and, authorize the Virginia Resources Authority (VRA) to finance site acquisition and site development work for the benefit of economic development projects. The proposal defines a MEI project as "an economic development project in which a private entity is expected to make a capital investment in real and tangible personal property exceeding \$250 million and create more than 400 new full-time jobs, and is expected to have a substantial direct and indirect economic impact on surrounding communities."

The proposed legislation establishes the Major Employment and Investment Project Approval Commission in the legislative branch of state government. This commission would be comprised of the chair and two members of the House Appropriations Committee, the chair and two members of the Senate Finance Committee, the Governor, and the Secretaries of Finance and Commerce and Trade. The Secretaries would serve as ex officio, nonvoting members. When the General Assembly is not in session, this commission would review individual incentive packages for large economic development (or) MEI projects that are proposed to be funded with bonds issued by VPBA. It would issue a report to the General Assembly of its recommended projects. This report would include job creation and capital investment expectations, a timeframe for which the Commonwealth would see a return on its investment, details of the incentive package, and draft legislation or budget amendments for the financing of the incentive package. An affirmative vote of four of the seven voting members of the commission is required to recommend the approval of any incentive package and the Governor must be one of the four. Staff support for the commission is to be provided by the Office of the Clerk of the Senate or the Office of the Clerk of the House of Delegates and additional support may be provided by the staffs of the House Appropriations Committee, the Senate Finance Committee, and the Auditor of Public Accounts.

Finally, the proposed legislation would authorize VPBA to finance MEI projects and VRA to finance site acquisition and site development work for the benefit of all types of economic development projects. VPBA would be used to finance state obligations, including land, buildings, infrastructure, improvements, and economic development incentives, and VRA

would be used to finance local efforts, such as site acquisition and grading. The legislation does not authorize the issuance of bonds by VPBA.

6. **Fiscal Impact Estimates:** Preliminary, see item 8, below.
7. **Budget Amendment Necessary:** No.
8. **Fiscal Implications:** Depending upon the number of commission meetings and incentive packages endorsed by the commission, there may be a fiscal impact. Similarly, once VPBA bonds are issued for a MEI project, funding for debt service on those bonds will be required.

This proposal does not actually authorize the issuance of bonds. Once bonds are authorized for a MEI project those bonds will constitute tax-supported debt of the Commonwealth and as such, have an impact on the Commonwealth's debt capacity. General fund dollars will need to be appropriated to pay the debt service on any bonds issued for an MEI project.

While the bill would impact the types of projects that could be financed through VRA, it would not affect the total dollar amount of projects that could be financed. The bill would have no general fund or nongeneral fund fiscal impact because VRA, as established, is "off the books of the Commonwealth." The Authority is totally self-sufficient and covers its expenses with administrative fees from the various programs it administers. If localities choose to finance an economic development project through VRA, they could benefit from reduced borrowing costs, thereby decreasing the financial burden to borrowers and local taxpayers.

According to the Partnership, this type of funding mechanism would be used to pursue large-scale economic development projects and those projects for which existing incentive programs are not suited. These large economic development projects have the potential to have a positive revenue impact to the Commonwealth, both in job creation and tax revenue. Assuming current interest rates and a 20-year debt, annual debt service on bonds issued through VPBA would be approximately \$85,000 for every \$1 million borrowed.

9. **Specific Agency or Political Subdivisions Affected:** Office of the Clerk of the Senate, Office of the Clerk of the House of Delegates, House Appropriations Committee, Senate Finance Committee, Auditor of Public Accounts, Virginia Economic Development Partnership, Treasury Board, Virginia Public Building Authority, Virginia Resources Authority.
10. **Technical Amendment Necessary:** Yes. Page 6, line 366, after "Accounts", insert "and the Virginia Economic Development Partnership, and the Virginia Public Building Authority"
11. **Other Comments:** This legislative proposal is a recommendation of the Governor's Advisory Committee on Mega Projects.

SB 1119 is the companion to this bill, and is currently in the Senate Finance Committee.

Date: 1/23/2009 tmw

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cc: Secretary of Commerce and Trade
Secretary of Finance