

DEPARTMENT OF TAXATION

2014 Fiscal Impact Statement

1. **Patron** Thomas A. Garrett

3. **Committee** Senate Local Government

4. **Title** Economic Development Funding; Revenues
Generated Within Qualified Localities

2. **Bill Number** SB 656

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would dedicate the estimated income tax revenues and the sales and use tax revenues generated by corporations and limited liability companies within an economic development project located within a qualified locality to such locality beginning July 1, 2014. A locality would qualify for the dedication if it i) has made an application to the Virginia Economic Development Authority for a Major Employment and Investment Project Site Planning Grant and been rejected, and ii) has expended local funds for the economic development purposes of prospective Major Employment and Investment Projects.

Upon request of a locality, the Department of Taxation ("Department") would determine whether the locality qualifies for the dedication, the corporations and companies whose revenues would be returned to the locality, and the total amount of economic expenditures eligible to be reimbursed. The total amount returned to a qualifying locality would be capped at \$5 million for any single project.

The Tax Commissioner would be required to certify to the Comptroller within 15 days of the close of each calendar quarter an estimate of the income tax net revenues generated during the calendar quarter by the specified corporations and companies. No later than 30 days after the close of each quarter, the Comptroller would transfer from the General Fund to the locality the amount expended for the economic development purposes of prospective Major Employment and Investment Projects, not to exceed the estimate of income tax net revenues provided by the Tax Commissioner.

The bill would also dedicate the sales and use tax revenues generated by the specified corporations and companies to the qualified locality, subject to appropriation by the General Assembly. On a quarterly basis, the Comptroller would remit sales and use tax revenues in the amount expended by the qualified locality for the economic development purposes of prospective Major Employment and Investment Projects, not to exceed the amount of sales and use tax collected.

Currently, the Major Employment and Investment Project Site Planning Grant program is not active, as no revenues have been appropriated for the program since 2010, the only

year grants were awarded. However, the introduced budget appropriates \$2 million in Fiscal Year 2016 for the program.

The effective date of this bill is not specified.

6. Budget amendment necessary: Yes.

7. Fiscal Impact Estimates are: Not available. (See Line 8.)

8. Fiscal implications:

Administrative Costs

The Department considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would require a transfer of revenues income tax and sales and use tax revenues from the General Fund to qualifying localities, the magnitude of which is unknown. To implement the transfer required by this bill, a reduction of an equal amount of General Fund support from other areas in the introduced budget would be required. The bill would cap the amount of revenues received by a qualified locality for any single economic development project at \$5 million. Currently, only one application for a Major Employment and Investment Project Site Planning Grant application has been rejected. Greenville County/Emporia applied for a \$4.35 million site improvement grant in 2010 and was rejected. The amount of local funds expended for economic development purposes for prospective Major Employment and Investment Projects is not known. However, as more localities may qualify in the future if they are rejected for a grant, the revenue impact to the General Fund could increase significantly over time.

9. Specific agency or political subdivisions affected:

Department of Taxation
All localities

10. Technical amendment necessary: Yes.

The Department assumes the intent of the bill is to transfer income tax and sales and use tax revenues generated by all corporations and limited liability companies located within the economic development project that was the subject of the Major Employment and Investment Project Site Planning Grant application. If this is not the intent of the bill, a technical amendment would be necessary.

Page 1, Line 23, After end of the line

Insert: The Department of Taxation shall use its discretion in determining the corporations and companies whose revenues are to be transferred to the qualified locality.

11. Other comments:

Major Employment and Investment Project Site Planning Grant

The Major Employment and Investment Project Site Planning Grant program is administered by the Virginia Economic Development Partnership Authority ("VEDP") and consists of funds appropriated by the General Assembly. The grants are awarded on a competitive basis to political subdivisions to assist in the performance of site and site development work for prospective Major Employment and Investment Projects, subject to approval by the Governor.

Currently, the Major Employment and Investment Project Site Planning Grant program is not active, as no revenues have been appropriated for the program since 2010, the only year grants were awarded. However, the introduced budget appropriates \$2 million in Fiscal Year 2016 for the program.

Proposal

This bill would dedicate the estimated income tax revenues and the sales and use tax revenues generated by corporations and limited liability companies within an economic development project located within a qualified locality to such locality beginning July 1, 2014. A locality would qualify for the dedication if it i) has made an application to the Virginia Economic Development Authority for a Major Employment and Investment Project Site Planning Grant and been rejected, and ii) has expended local funds for the economic development purposes of prospective Major Employment and Investment Projects. A Major Employment and Investment Project is defined as a high-impact regional 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.

Upon request of a locality, the Department of Taxation ("Department") would determine whether the locality qualifies for the dedication, the corporations and companies whose revenues would be returned to the locality, and the total amount of economic expenditures eligible to be reimbursed. The total amount returned to a qualifying locality would be capped at \$5 million for any single project.

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The bill would also dedicate the sales and use tax revenues generated by the specified corporations and companies to the qualified locality, subject to appropriation by the General Assembly. On a quarterly basis, the Comptroller would remit sales and use tax revenues in the amount expended by the qualified locality for the economic development

purposes of prospective Major Employment and Investment Projects, not to exceed the amount of sales and use tax collected.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 1/27/2014 AM
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