

Department of Planning and Budget 2016 Fiscal Impact Statement

1. Bill Number: HB858

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

2. Patron: Landes

3. Committee: Passed Both Houses

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 September 1, 2016, recommendations regarding the structure, duties, and staff support for the Corporation and any proposed Memorandum of Agreement between the proposed Corporation and the Virginia Economic Development Partnership under which the Partnership would provide administrative support services. The bill requires the Secretary of Agriculture and Forestry to develop recommendations regarding the structure and duties of staff supporting the Corporation which would enhance and accelerate export marketing services performed by the Virginia Department of Agriculture and Consumer Services (VDACS), with consideration given to the possible transfer of such export marketing services into the Corporation by November 1, 2017. The secretaries are to submit the recommendations to the Chairmen of the House Appropriations and Senate Finance Committees. The bill also adds the Chief Executive Officer of the Corporation as a member of the Board of Commissioners of the Virginia Port Authority.

This impact statement was revised to remove references to language in previous versions of the bill.

6. Budget Amendment Necessary: Yes. See item 8, below.

7. Fiscal Impact Estimates: Final, see item 8, below.

Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2016			
2017	\$140,323	N/A	General Fund
2018	\$464,896	N/A	General Fund
2019	\$464,896	N/A	General Fund
2020	\$464,896	N/A	General Fund
2021	\$464,896	N/A	General Fund
2022	\$464,896	N/A	General Fund

- 8. Fiscal Implications:** The adopted conference amendments provide \$100,000 in FY 2017 and \$150,000 in FY 2018 from the general fund and one position under the Secretary of Commerce and Trade to establish the Corporation. An additional \$314,896 is needed in FY 2018. However, a new item would be needed in HB30 if the intent is to provide state support to establish and operate the Corporation as a separate state agency.

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.” It is anticipated 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 his/her 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 relating to the Board and appointment of a CEO would become effective on December 1, 2016, with the remaining provisions of the bill becoming effective on April 1, 2017. If a CEO is appointed on December 1, 2016, the cost of salary and benefits for 14 pay periods in FY 2017 would be \$140,323, based on the annual salary listed above.

The seventh enactment clause of the bill provides that the Secretary of Commerce and Trade provide a proposed budget, business plan, and performance metrics that address the structure and duties of and staff support for the Corporation to the Chairmen of by the House Committee on Appropriations and the Senate Committee on Finance by November 1, 2016.

The size and scope of the Corporation is unclear. Beyond the CEO, the bill does not authorize the Corporation to hire additional staff. The eighth enactment of the bill would require the Secretary of Agriculture and Forestry to develop recommendations regarding the structure and duties of the staff and the resources needed to support the staff for the Corporation which would enhance and accelerate export marketing services performed by the Virginia Department of Agriculture and Consumer Services (VDACS). Consideration is to be given to the possible transfer of such export marketing services into the Corporation by November 1, 2017. 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) included \$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 fifth enactment provides that the Corporation and VEDP shall enter into a Memorandum of Agreement for VEDP to provide administrative and support services to the Corporation. As a part of the Secretary of Commerce and Trade's report, he is to include a copy of the Memorandum of Agreement. 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. As a result, it is anticipated that the Corporation would also need additional staff and resources in order to undertake these functions.

It is anticipated that additional resources would be needed to establish the Corporation as an independent entity. It is anticipated that the Corporation, in any size, would require at least one operations manager at a cost of \$150,000 (\$110,000 in salary and \$40,000 in benefits). Additional employees may be needed if the Corporation expands. 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, it is anticipated that the Corporation would require \$75,000 per year to support these additional services associated with operations as an independent entity.

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 for the Corporation to operate as an independent state entity, a budget amendment of at least \$314,896 in FY 2018 from the general fund in each year is required to establish the Corporation if a sufficient nongeneral fund source cannot be identified. This would allow full operations of the Corporation to commence 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: Beyond the CEO, the bill does not authorize the Corporation to hire additional staff. However, the eighth enactment clause contemplates the transfer of export marketing services from VDACS to the Corporation. However, the bill does not speak to the disposition of the CEO, employees transferred from VDACS, or other potential employees and their eligibility for participation in the Virginia Retirement System (VRS) or other health and insurance benefits provided to state employees. It is recommended that clarification on the Corporation's ability to hire additional employees and the eligibility of employees of the Corporation to participate in VRS and other state employment benefits be provided.

Currently, VEDP provides international trade and export services to companies in the Commonwealth. 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) 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.