

Department of Planning and Budget 2017 Fiscal Impact Statement

1. Bill Number: SB1130

House of Origin	<input checked="" type="checkbox"/>	Introduced	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Engrossed
Second House	<input type="checkbox"/>	In Committee	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Enrolled

2. Patron: Ruff

3. Committee: General Laws and Technology

4. Title: Department of Small Business and Supplier Diversity; implementation of certification programs.

5. Summary: This bill changes the definition of small business, beginning July 1, 2018, to meet the small business size standards established by the regulations of the U.S. Small Business Administration. The bill provides that any business entity that the Department of Small Business and Supplier Diversity (the Department) has certified as a small business prior to July 1, 2018, shall have such certification extended for a three-year period. The bill also provides that the Director of the Department adopt regulations that will, beginning July 1, 2018, establish a three-year certification period for small businesses to be based on the dominant business activity of each small business entity. The bill (i) includes a definition of 'dominant business activity'; (ii) provides for the Department to enter into a memorandum of understanding with appropriate agencies establishing provisions for the sharing of information, consistent with the requirements of state and federal law; (iii) authorizes the Director to terminate a contract with any independent certifying entities to assist in the certification of small, women-owned, and minority-owned businesses based on performance or a written determination by the Director that continuing the contract is not practicable, and (iv) requires the Secretary of Commerce and Trade to evaluate the effect of the implementation of the new definition at three-year intervals, reporting to the Governor and General Assembly by December 1, 2021, and December 1, 2024.

6. Budget Amendment Necessary: No, not in the current biennium. See item 8.

7. Fiscal Impact Estimates: Indeterminate. See item 8.

8. Fiscal Implications: This bill has an effective date of July 1, 2018. It is anticipated that this bill will have a fiscal impact on various state agencies; the extent of the impact is indeterminate at this time.

This bill changes the Virginia definition of a small business to meet the small business size standards established by the regulations of the U.S. Small Business Administration. Currently in Virginia, a business is considered a small business if it has 250 or fewer employees or \$10 million or less in gross receipts averaged over a three-year period. The federal definition establishes small business size standards on an industry-by-industry basis. The North American Industry Classification System (NAICS) is the standard used by federal statistical

agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data. There are approximately 1,170 different NAICS codes that specify individual size definition for number of employees and gross receipts. To certify small businesses under the provisions of this bill, the Department of Small Business and Supplier Diversity (DSBSD) would have to verify that each company applying for certification meets the size standard for each NAICS code identified by the applicant. The agency currently allows vendors to select up to ten codes. The department anticipates that this verification process would require additional time and resources to complete, as each NAICS code would need to be checked for appropriate size limits for employees and gross receipts and cross-referenced with the vendor's application documentation. DSBSD anticipates potential delays in the certification process, and will require additional staff to maintain 60 business day processing times; the number of staff and associated fiscal resources cannot be determined at this time. In addition, updates to the agency's certification portal will be necessary to comply with the new definition and to utilize the NAICS codes. DSBSD received an estimate of \$54,000 from its current system vendor.

The Department of Accounts (DOA) also estimates that this bill will require changes to the Commonwealth's accounting system, Cardinal. The Cardinal system classifies a small business based on size and gross receipts, not by commodity. The provisions in this bill will require changes to Cardinal to account for this classification by commodity. DOA estimates a one-time cost of \$1.2 million to implement these changes. Expenses related to Cardinal are charged to a nongeneral fund account supported with revenue from charges to state agencies based on usage. If a nongeneral fund budget amendment is provided to DOA for this bill, other state agencies will be impacted as the cost will be spread to those agencies in the rates assessed for usage. At this time, the general fund/nongeneral fund split is approximately 21 percent general fund or \$252,000. Alternatively, a direct general fund budget amendment of \$1.2 million in FY 2019 could be provided to DOA for the costs associated with this bill. In addition to the one-time cost impact of \$1.2 million, DOA has also indicated that this change to Cardinal, effective July 1, 2018, would likely impede DOA's efforts to complete the replacement of the Commonwealth Integrated Payroll/Personnel System (CIPPS) scheduled for completion by October 2018. DOA stated that the agency is not staffed to complete both system changes simultaneously prior to the required effective dates.

According to the Department of General Services, the bill will not require additional resources.

9. Specific Agency or Political Subdivisions Affected: Department of Small Business and Supplier Diversity; Department of General Services; Department of Accounts; state agencies.

10. Technical Amendment Necessary: No.

11. Other Comments: None.