DEPARTMENT OF TAXATION
2016 Fiscal Impact Statement

1. Patron Thomas A. Garrett

2. Bill Number SB 15

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee Senate Local Government

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

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 sited within an economic development project located within a qualified locality to such locality beginning July 1, 2016, subject to appropriation. 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. The total amount returned to a qualifying locality would be capped at $5 million for any single project.

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 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 Executive 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. Greensville

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: No.

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.

Proposal

This bill would dedicate the estimated income tax revenues and the sales and use tax revenues generated by corporations and limited liability companies sited within an economic development project located within a qualified locality to such locality beginning July 1, 2016, subject to appropriation. 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.

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.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 1/19/2016 AM
DLAS File Name: SB15F161