

DEPARTMENT OF TAXATION

2019 Fiscal Impact Statement

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| 1. Patron Daniel W. Marshall, III | 2. Bill Number <u>HB 1838</u> |
| 3. Committee House Counties, Cities and Towns | House of Origin:
<u> X </u> Introduced
<u> </u> Substitute
<u> </u> Engrossed |
| 4. Title Virginia Regional Industrial Act;
Revenue Sharing; Composite Index | Second House:
<u> </u> In Committee
<u> </u> Substitute
<u> </u> Enrolled |

5. Summary/Purpose:

This bill would require that the Department of Taxation's calculation of the true values of real estate and public service company property component of the Commonwealth's educational composite index of local ability-to-pay take into account arrangements by localities entered into pursuant to the Virginia Regional Industrial Facilities Act, whereby a portion of tax revenue is initially paid to one locality and redistributed to another locality. The bill requires such calculation to properly apportion the percentage of tax revenue ultimately received by each locality.

This bill would be effective July 1, 2021.

- 6. Budget amendment necessary:** No.
- 7. Fiscal Impact Estimates are:** Not available. (See Line 8.)
- 8. Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine and does not require additional funding.

Fiscal Impact

To the extent that this bill would alter the composite index of local ability-to-pay distributions, there could be an unknown impact to local revenues. This bill would have no impact on state revenues.

9. Specific agency or political subdivisions affected:

Department of Taxation
All localities affected by the Commonwealth's composite index of local ability-to-pay

10. Technical amendment necessary: No

11. Other comments:

Composite Index of Local Ability to Pay

The true values of real estate and public service company property component of the composite index of ability to pay is calculated by the Department and is a factor in determining a school division's ability to pay education costs. The composite index is calculated using three indicators of a locality's ability-to-pay:

- True value of real estate and public service company property
- Adjusted gross income
- Taxable retail sales

Virginia Regional Industrial Facility Act

Legislation passed by the General Assembly in 1997 permits localities within a region to cooperate in the development of facilities intended to assist the region in overcoming barriers to economic growth.

The economies of many localities in certain regions have not kept pace with those of the rest of the Commonwealth. Individual localities in the region often lack the financial resources to assist in the development of economic development projects. An additional stated goal of such economic development initiatives is to assist these regions of the Commonwealth in achieving a greater degree of economic stability.

In order to establish such cooperative arrangement, the governing bodies of any two or more localities within the region, at least two of which are required to be cities or counties or a combination thereof, may create a regional industrial facility authority through local ordinances. The member localities may agree to a revenue and economic growth-sharing arrangement with respect to tax revenues and other income and revenues generated by any facility owned by an authority.

Proposal

This bill would require the Department's calculation of true values as applied to the Commonwealth's composite index of local ability-to-pay to take into account arrangements by localities entered into pursuant to the Virginia Regional Industrial Facilities Act whereby a portion of tax revenue is initially paid to one locality and distributed to another locality. The bill requires such calculation to properly apportion the percentage of tax revenue ultimately received by each locality.

Each participating locality would be required to include in reports to the Department of its taxable real estate the apportioned fair market value of the property upon which such revenue sharing is based. The Department would be required to collect annually, from each participating locality, the taxable real estate value used to determine and apportion the fair market value of the property adjustments upon which such revenue sharing is based.

This bill would be effective July 1, 2021.

cc : Secretary of Finance

Date: 1/13/2019 SK
DLAS File Name: HB1838F161