

Commission on Local Government

Estimate of Local Fiscal Impact

2023 General Assembly Session | 01/20/23

In accordance with the provisions of 30-19.03 of the Code of Virginia, the staff of the Commission on Local Government offers the following analysis of legislation impacting local governments.

SB 1182: Banks; payment of franchise tax. (Patron: Senator Frank M. Ruff, Jr.)

Bill Summary: Bank franchise tax. Establishes a process, as of January 1, 2024, whereby banks having \$40 billion or greater in Virginia deposits based on the June 30 FDIC deposit market share report of the preceding tax year may elect to pay the bank franchise tax to the Department of Taxation and are bound by such election for 10 years absent permission from the Tax Commissioner. The bill directs the Department of Taxation, as of January 1, 2025, to apportion 80 percent of the bank franchise tax revenue from banks making such an election to localities through the newly created Local Bank Franchise Tax Fund.

Local Fiscal Impact: **Net Additional Expenditure:** X **Net Reduction of Revenues:** X

Summary Analysis:

Number of Localities Responding: 7 Cities, 6 Counties, 4 Towns, 0 Other

Localities estimated negative fiscal impacts ranging from \$0 to \$1.8 million over the biennium. Six localities offered numerical estimates ranging from \$10,000 - \$1.8 million. Several others indicated a negative, but indeterminate, fiscal impact.

Localities identified the bill's fiscal impact as the deduction of Bank Franchise tax revenue caused by the changes proposed in the bill. Some localities responded that the distribution of the tax revenue from the state Department of Taxation by population (as opposed to a direct collection by the locality from covered banks) would result in a net reduction in revenue. Others noted that they would see a revenue reduction due to the 20% of revenue that the Department of Tax would withhold pursuant to the bill. One locality noted an increase in expenditure, stemming from the increased staff time needed to comply with the bill.

Additionally, one locality indicated they may see some revenue increases given the redistribution of the tax revenue from the bill's changes.

The precise impact of the bill scales with the size of the locality; more populous localities reported greater fiscal impacts than less populous ones.

As introduced, this bill is identical to HB 1896 (Byron).

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Net Reduction in Revenues: Itemized Estimates by Responding Localities

Locality	Juris	Real Estate Revenue Reduction		Personal Property Revenue Reduction		Sales Tax Revenue Reduction	
		FY23	FY24	FY23	FY24	FY23	FY24
City of Alexandria	City						
City of Chesapeake	City						
City of Danville	City						
City of Harrisonburg	City	\$0	\$0	\$0	\$0	\$0	\$0
City of Manassas	City						
City of Norfolk	City						
City of Richmond	City						
Augusta County	County						
Chesterfield County	County						
Mecklenburg County	County						
Prince George County	County						
Prince William County	County						
Roanoke County	County						
Town of Blacksburg	Town						
Town of Leesburg	Town						
Town of Luray	Town						
Town of Marion	Town						
Town of Rocky Mount	Town						

Net Reduction in Revenues: Itemized Estimates by Responding Localities

Locality	BPOL Tax Revenue Reduction		Other Local Revenues Reduction		State Revenue Reduction		Penny Value of Decrease on Real Estate Rate*	Total Decrease in Revenues (Biennium Total)
	FY23	FY24	FY23	FY24	FY23	FY24		
City of Alexandria			\$896,000	\$896,000			0	\$1,792,000
City of Chesapeake								\$0
City of Danville								\$0
City of Harrisonburg	\$0	\$0	\$0	\$0	\$0	\$0	0	\$0
City of Manassas			\$200,000	\$200,000			0.005	\$400,000
City of Norfolk			\$260,000	\$260,000				\$520,000
City of Richmond								\$0
Augusta County								\$0
Chesterfield County								\$0
Mecklenburg County								\$0
Prince George County			\$5,000	\$5,000			0	\$10,000
Prince William County								\$0
Roanoke County								\$0
Town of Blacksburg								\$0
Town of Leesburg								\$0
Town of Luray		\$200,000					0.02	\$200,000
Town of Marion								\$0
Town of Rocky Mount			\$6,626	\$6,626				\$13,252

Locality	Revenue Narrative by Responding Localities
City of Alexandria	The City currently receives 2.5% of total local Bank Franchise tax. Utilizing population, the City would receive 1.83% for an estimated net revenue decrease of \$896K.
City of Chesapeake	
City of Danville	No impact estimated
City of Harrisonburg	It is possible that this bill would have revenue impacts on the City. However, there is currently not enough information for staff to determine how much of an impact the legislation would have.
City of Manassas	This legislation will cause the Commonwealth to create new workload, increasing its costs, while at the same time redistributing a local revenue source. The legislation language states the Commonwealth will use funds generated by the bank franchise tax to cover these new expenses, thereby decreasing the amount that would be distributed to localities. This bill usurps local long-standing local authority, decreases a revenue source, and will create additional pressure on the local real estate tax.
City of Norfolk	There are four banks in Virginia that have \$40 billion or greater in deposits (Bank of America, Capital One Bank, Truist Bank, and Wells Fargo Bank) as of June 30, 2022 FDIC data. In Norfolk, these banks make up approximately 76 percent of the deposits. These banks deposits in Norfolk represent approximately three percent of the deposits statewide. In comparison, Norfolk's July 1, 2021 population estimate represents approximately 2.6 percent of the total population of counties, cities, and towns, which is less than Norfolk's share of these banks' deposits statewide. Assuming Norfolk's bank franchise tax revenue is proportional to bank deposits, then the estimated revenue loss would be approximately \$260,000 based on FY 2022 revenue data.
City of Richmond	The fiscal impact of this bill is indeterminate at this time but anticipated. The amount of revenue lost is dependent on the number of banks located within this city that will elect to change the basis of its filing.
Augusta County	The County has one bank that will fall into the \$40 billion and over category. Deduction in revenue is for the direct costs of administering the chapter deducted by the Department of Tax. Currently, the County gets 100% of the revenue. it is hard to give a figure when you don't know what the charges will be. This is similar to the Commonwealth administering other taxes on behalf of localities, and over time the localities see less revenue due to increased costs of administration (such as Communications tax). Total bank franchise fees for Augusta County total \$350,000 annually.

Locality	Revenue Narrative by Responding Localities
Chesterfield County	As of June 30, 2022 there are four banks that would qualify for the \$40 billion deposit threshold amount according to the FDIC. Three of those banks operate out of Chesterfield and account for 66% of total deposit market share within the county which is \$6.17 billion. The four eligible banks account for 62% of deposit market share in Virginia. Assuming all eligible banks elected to participate in the local bank franchise tax fund, and were capped at the \$18 million threshold. The total amount contributed to the fund would be \$72 million. With Chesterfield making up 4.22% of Virginias population, and 80% of the fund going to localities, Chesterfield would expect to receive \$2,430,720 in FY21 monies from the fund, a resulting increase in revenue.
Mecklenburg County	No such bank exists in the County (outside of a town) and therefore would be subject to any county based tax.
Prince George County	There would likely be an impact on Bank Franchise tax revenues, but we have no way to locally compute the impact. \$5,000 was listed to demonstrate that there would be an impact.
Prince William County	Preliminary analysis suggest there will not be a decline in revenues. However, clarification regarding the annual dollar amount of administrative fees is warranted. Additionally, more detail in the calculation and application of the distribution of revenues to localities is requested.
Roanoke County	
Town of Blacksburg	No fiscal impact on town revenues.
Town of Leesburg	We have chosen the midpoint of \$162,990.50 ranging between \$325,981 and zero; we can't estimate precisely due to lack of bill info; so we've choosen the midpoint. this will be ongoing each year.
Town of Luray	Loss of 20% of Bank Franchise Fees to State with no offsetting increase of revenue or service will result in increased taxation of residents.
Town of Marion	
Town of Rocky Mount	Not sure I have the total deposits of all the banks that remit the Bank Franchise Tax to us. There was one bank that did provide total deposits and the 20% negative impact to us would be \$6,626 per year.

*Penny value is defined as the amount a locality would need to raise their real estate tax rate to cover the fiscal impacts of the bill, assuming no other changes to revenues or expenditures. It is represented in terms of dollars (e.g., 0.01 is a one cent increase in the real estate tax rate, etc.).

Net Increase in Expenditures: Itemized Estimates by Responding Localities

Locality	Juris	Recurring Expense- Personnel		Recurring Expense - Operating		Recurring Expense - Capital		Recurring Expense - Other	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
City of Alexandria	City								
City of Chesapeake	City								
City of Danville	City								
City of Harrisonburg	City								
City of Manassas	City								
City of Norfolk	City								
City of Richmond	City								
Augusta County	County								
Chesterfield County	County								
Mecklenburg County	County								
Prince George County	County								
Prince William County	County								
Roanoke County	County								
Town of Blacksburg	Town								
Town of Leesburg	Town								
Town of Luray	Town	\$0	\$25,000						
Town of Marion	Town								
Town of Rocky Mount	Town								

Net Increase in Expenditures: Itemized Estimates by Responding Localities

Locality	Nonrecurring Expense - Operating		Nonrecurring Expense - Capital		Nonrecurring Expense - Other		Penny Value of Increase on Real Estate Rate*	Total Increase in Expenses (Biennium Total)
	FY23	FY24	FY23	FY24	FY23	FY24		
City of Alexandria								\$0
City of Chesapeake								\$0
City of Danville								\$0
City of Harrisonburg								\$0
City of Manassas								\$0
City of Norfolk								\$0
City of Richmond								\$0
Augusta County								\$0
Chesterfield County								\$0
Mecklenburg County								\$0
Prince George County								\$0
Prince William County								\$0
Roanoke County								\$0
Town of Blacksburg								\$0
Town of Leesburg								\$0
Town of Luray							0.005	\$25,000
Town of Marion								\$0
Town of Rocky Mount								\$0

Locality	Expenditure Narrative by Responding Localities
City of Alexandria	
City of Chesapeake	
City of Danville	
City of Harrisonburg	
City of Manassas	
City of Norfolk	
City of Richmond	
Augusta County	
Chesterfield County	
Mecklenburg County	
Prince George County	There is no anticipated impact on expenditures.
Prince William County	
Roanoke County	We could see a delay in the payment of funds due to the corporations directly pausing the state and not the County. Could cause cash flow issues.
Town of Blacksburg	No fiscal impact on town expenditures.
Town of Leesburg	
Town of Luray	Increased staff time to track bank tax records and compare with state remittance.
Town of Marion	
Town of Rocky Mount	

* Penny value is defined as the amount a locality would need to raise their real estate tax rate to cover the fiscal impacts of the bill, assuming no other changes to revenues or expenditures. It is represented in terms of dollars (e.g., 0.01 is a one cent increase in the real estate tax rate, etc.).