

# Commission on Local Government

## Estimate of Local Fiscal Impact

2022 General Assembly Session

**Bill:** HB 380

**Special Session:**

**Patron:** Freitas

**Date:** 1/19/2022

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 the above-referenced legislation:

### Bill Summary:

Local license taxes; elimination of authority to impose. Prohibits any county, city, or town from imposing any license tax or fee in any taxable year beginning on or after January 1, 2023. The bill does not apply to any severance tax that is levied as a license tax.

### Executive Summary:

Localities evaluated a negative fiscal impact ranging from \$0 - \$170.0 million.; however, the locality which reported \$0 impact does not impose a business license tax.

Almost every locality reported that removing business license tax (BPOL) income would significantly reduce local revenues; localities provided different ranges, including that those revenues equaled approximated 2.5- 6% of their general fund budgets, or approximately 8 - 11 cents on their real estate tax. The reduction in revenues would either require for localities to increase their tax rates elsewhere, or reduce their budgets, as many noted the BPOL was an important section of their budgets.

Additionally, several localities noted that the bill could include the repeal on all licenses and fees, including Vehicle License Taxes, Bank Franchise taxes, among others. If included, this would increase the fiscal impact of the bill. Furthermore, one locality noted that the BPOL represents an opportunity for economic development in localities (as they use the revenue for incentives), and another indicated that the BPOL renewal process provided an important point of contact between businesses and the locality.

### Local Analysis:

**Locality:** Amherst

**Estimated Fiscal Impact:** \$1,000,000.00

Not only would the county lose substantial income from the loss of licenses. The incentive for economic development is hindered when eliminating the license tax. Localities seek economic development opportunities for jobs and businesses to locate in their jurisdiction and support these efforts with tax revenue as their incentive.

**Locality:** Augusta County

**Estimated Fiscal Impact:** \$4,400,000.00

It would eliminate the business license tax for the County, which was approximately \$4.4 million in FY2021. Business license revenue is 3.7% of the County's general fund revenue. Eliminating the authority to impose a local license tax will further push the burden of funding local government services to property taxes. To make up this revenue the County would need to increase the real estate tax rate by 10%.

**Locality:** Chesterfield County

**Estimated Fiscal Impact:** \$20,475,400.00

On an annual basis, the impact of this legislation would reach approximately \$20,475,400 in the first full fiscal year. This would pose a significant financial impact on Chesterfield County by eliminating approximately 2.5 percent of the General Fund revenues.

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**Locality:** City of Alexandria..

**Estimated Fiscal Impact:** \$34,100,000.00

This would be a devastating local revenue loss, eliminating BPOL revenue except for allowance of \$100 flat fees beginning in FY23. For the City of Alexandria, the loss would be more around \$34.1 m.

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**Locality:** City of Danville

**Estimated Fiscal Impact:** \$6,500,000.00

Repealing the authority to levy fees or taxes on licenses would create a \$6,500,000 revenue loss. This would greatly impact our ability to fund city services, including public safety.

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**Locality:** City of Harrisonburg

**Estimated Fiscal Impact:** \$7,000,000.00

The city estimates business license tax revenue for FY 2022 to be approximately \$7 million.

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**Locality:** City of Manassas

**Estimated Fiscal Impact:** \$5,000,000.00

The business license tax (BPOL) is a critical revenue source for most localities including the City of Manassas. In FY2021, BPOL generated \$5 million in revenue for the City of Manassas which helps provide critical services to our businesses and citizens, including Police, Fire, EMS, Public Schools, and Transportation, just to name a few. Manassas, like most local governments, is limited in its ability to raise revenue to provide needed services. Local governments are overly dependent on property taxes which is why additional revenue sources such as BPOL are vital to protect the health, safety, and welfare of all residents and businesses. The only way to replace such a significant loss of revenue is to either cut services or increase the real estate tax rate by 10 cents or more to make up for the revenue that will be lost should this legislation be adopted.

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**Locality:** City of Roanoke

**Estimated Fiscal Impact:** \$17,600,000.00

If we are understanding this correctly it would eliminate BPOL, Motor Vehicle license tax and perhaps a few other smaller licenses. This amount accounts for about 5.8% of our entire annual budget.

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**Locality:** City of Virginia Beach

**Estimated Fiscal Impact:** \$53,100,000.00

Using the most recently adopted revenue estimates, eliminating BPOL tax would have a \$53.1 million dollar impact on the City of Virginia Beach. This revenue source is currently shared with Virginia Beach City Public Schools through the agreed upon Revenue Sharing Formula. This would amount to a \$28.3 million loss to the City, and a \$24.9 million loss to the School Division. It is assumed that this revenue source will grow at least 2% annually.

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**Locality:** City of Winchester

**Estimated Fiscal Impact:** \$77,000.00

This number is based on our \$50 license fee amounts billed annually, across all categories of business licenses. However, eliminating the entire business license tax would cost the locality approximately \$7 million.

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**Locality:** County of Albemarle

**Estimated Fiscal Impact:** \$14,500,000.00

If this bill applies to business license tax (AKA BPOL), Albemarle would lose approximately \$14.5M annually in revenue.

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**Locality:** County of Mecklenburg

**Estimated Fiscal Impact:** \$8,700.00

The FY 2020-21 Adopted Budget estimated business and franchise licenses at \$8,700. However, only \$1,775 was actually collected during the fiscal year.

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**Locality:** County of York

**Estimated Fiscal Impact:** \$7,600,000.00

The elimination of a licenses tax or fee to business would result in a reduction of local revenue in the amount of over \$7.6 million or 5% of the General Operating Budget of the County. It could result in the loss of critical services provided by the County to the citizens including public safety and emergency services. These funds are also used to provide funding to the School Division.

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**Locality:** Fairfax County

**Estimated Fiscal Impact:** \$170,000,000.00

HB 380 would have a substantial impact on Fairfax County - in FY 2022 revenues from Business License Taxes generated more than \$170 million (nearly four percent of the County's General Fund budget). The elimination of this revenue source would likely place increased pressure on property taxes, as \$170 million would translate to between six and seven cents on the County's real estate tax rate.

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**Locality:** Hanover County

**Estimated Fiscal Impact:** \$1,350,000.00

This would adversely impact the County through a reduction in local revenues collected by several existing license taxes. The reduction in revenues would need to be offset by expenditure reductions to public services or increases in other sources of local revenues. The revenues at risk for the County are the Contractors License tax (\$900k) and the Utility Franchise Tax (\$450k).

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**Locality:** Henrico County.

**Estimated Fiscal Impact:** \$40,000,000.00

Projected collection for FY22 is \$40,000,000.

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**Locality:** Herndon

**Estimated Fiscal Impact:** \$6,000,000.00

this would dramatically cause issues for localities as BPOL is usually top 3 revenue drivers and localities would need to figure out different revenue drivers or cut expenditures dramatically.

The town of Herndon currently collects it and if it were to stop, it would reduce our revenues 5-6 million.

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**Locality:** Montgomery County

**Estimated Fiscal Impact:** \$0.00

County does not have local license taxes.

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**Locality:** Norfolk

**Estimated Fiscal Impact:** \$31,000,000.00

The BPOL tax is a significant revenue source for the City of Norfolk, it is our fifth highest revenue source each year behind real estate, personal property, sales, and the food and beverage taxes. The three year average for licenses revenue generated for the City of Norfolk is \$30,500,000. This bill would be a significant loss to the city and cause massive reduction in services and force to accommodate for loss of revenue.

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**Locality:** Nottoway County

**Estimated Fiscal Impact:** \$10,000.00

Nottoway currently imposes a nominal license fee for Business Licenses'

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**Locality:** Prince George County

**Estimated Fiscal Impact:** \$1,543,000.00

Elimination of these local license taxes would result in local revenue loss of \$1,543,000. Prince George County opposes this legislation and the state removal of this local taxing authority.

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**Locality:** Rappahannock County

**Estimated Fiscal Impact:** \$1.00

This will not affect Rappahannock County because the locality does not impose BPOL taxes due to the small business footprint in the community. In general, elimination of the authority to impose BPOL taxes will simply shift the burden to other tax sources that remain available to localities (namely real estate and personal property). The overall revenue to a locality is not likely to be reduced, but the burden will be transferred and placed directly on land and personal property owners (rather than businesses that might cater to out of locality and out of state patrons thereby subsidizing local revenue needs by taxing non-locals).

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**Locality:** Richmond County

**Estimated Fiscal Impact:** \$0.00

unknown.

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**Locality:** Rockingham County

**Estimated Fiscal Impact:** \$0.00

Rockingham County does not charge business license tax.

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**Locality:** Smyth County

**Estimated Fiscal Impact:** \$1,000,000.00

It appears as though the intention of this bill is basically to eliminate Business Licenses. Should that occur, the financial impact will be larger than the simple \$1,000,000 I put in the estimate above. There dozens and dozens of localities (Cities, Towns and Counties) who rely on this funding source. Should this be taken away, those localities will likely fall back to a Merchant's Capital (ie, inventory) tax, which is outdated in Virginia. In Smyth County, we are fortunate to not have a heavy reliance on these taxes (\$300,000/yr) but that does not include either of the 3 Towns who lie within our borders. The total cost of this bill will be near the \$1,000,000 if you combine the 4 localities. In order to make up that type of revenue loss, we will be forced to increase our already heavy reliance on personal property and real estate taxes or make severe cuts to services.

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**Locality:** Town of Amherst

**Estimated Fiscal Impact:** \$57,555.00

If this change is made, the Town is likely to simply increase the personal property tax levy to make up the difference.

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**Locality:** Town of Blacksburg

**Estimated Fiscal Impact:** \$2,232,700.00

This is the annual budget for Business Licenses for the Town so therefore an annual impact. This revenue is necessary and would cause the real estate tax rate to increase from \$.26/\$100 to \$32.5/\$100 which is a 25% increase in the rate.

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**Locality:** Town of Chincoteague, Inc

**Estimated Fiscal Impact:** \$84,000.00

The elimination of this fee would result in a direct reduction \$84,000 to the Town's annual budget.

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Locality: Town of Christiansburg

Estimated Fiscal Impact: \$3,245,800.00

The removal of the Motor Vehicle License Fee would result in a lost revenue to the Town of \$625,000 per year. In order to replace the lost income, the property tax rate would likely increase an additional 5 cents and put additional financial burden on Town property owners. Additionally, Business License receipts are estimated at an annual average estimated at 2,620,800. If this applies to the Bank Franchise tax is \$885,000 annually. If this applies to the Consumer Utility Tax it would be an annual estimate of \$571,800. If this applies to the Franchise License Tax it would be estimated at \$135,000 annually. If this applies to the Cigarette Tax it would be an annual estimate of \$450,000. This is a total of \$5,287,600.

Locality: Town of Leesburg

Estimated Fiscal Impact: \$5,148,300.00

- Based on FY 2023 numbers/projections:
- Vehicle License Tax: \$1,052,000
  - BPOL: \$4,031,300
  - Annual FBO License Fees: \$65,000

Total: \$5,148,300

Locality: Town of Luray

Estimated Fiscal Impact: \$325,000.00

Business license fees are a major portion of the Town's annual budget. Any restriction in collection would need to be offset in new, continual revenue from the Commonweath.

Locality: Town of Marion.

Estimated Fiscal Impact: \$25,000.00

This would limit optins towns have for generating revenue.

Locality: Town of Scottsville

Estimated Fiscal Impact: \$85,000.00

BPOL is a primary and anchoring revenue source for localities, and Scottsville is a good example. The Town's own-source revenues are about \$500,000 per year, and BPOL is \$85,000 in the current year. The largest payer is the grocery store, a national chain. Many small businesses pay only the \$30 minimum. The modal payment is \$30, by far.

Eliminating BPOL would create a large gap in the Town budget and make it impossible to sustain the current level of policing and parks services. The Town would likely act to replace this revenue, perhaps with a real estate tax. On current property values, it would require 11 or 12 cents of real estate tax to replace the \$85,000 of lost BPOL.

A very useful side effect of the BPOL regulations are required communications, at least annually, between Town staff and every business in town. It mandates the Town's keeping a contact list, learning about new business formation, and observing the revenues of each business. Paying taxes in never popular, of course. But the communication maintained through BPOL helps with outreach and facilitates all of the Town's economic development work. Without BPOL routines, the Town would struggle to track business activity and would be less able to work in support of the local economy.

**Locality:** Town of Warsaw

**Estimated Fiscal Impact:** \$4,500.00

This fee allows for localities to compensate their administrative staff for their time to issue said licenses. Taking away this ability ultimately creates another unfunded mandate at a time when the financial burden of running a locality is exponentially higher.

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**Locality:** Wise County

**Estimated Fiscal Impact:** \$0.00

Wise County does not have a License tax except for Severance and it clearly excludes that type.  
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