

**INTERIM REPORT OF
THE COMMISSION**

**Studying Virginia's
Industrial
Development and
Revenue Bond Act**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



House Document No. 38

**COMMONWEALTH OF VIRGINIA
RICHMOND
1984**

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STAFF

Legal and Research

Division of Legislative Services

**Interim Report of the
Commission Studying Virginia's**

**Industrial Development and Revenue Bond Act
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
December, 1983**

To: Honorable Charles S. Robb, Governor of Virginia
and
The General Assembly of Virginia

CONCLUSION

Even though Congress has recently restricted the uses of industrial development bonds and the Commonwealth, in some aspects, has further restricted their use beyond the requirements of federal law, there still exists in the Commonwealth dissatisfaction with many of the remaining permitted uses.

RECOMMENDATIONS

1. That the study by this Commission be continued for another year to consider the question of further restrictions, and to await the outcome of pending federal legislation impacting the issuance of industrial development bonds, see Appendix A. Regardless of the federal legislation, the Commission felt that there was need for further study on the use of such bonds in the Commonwealth.

2. That the Commission continue to monitor the use, and reports of use, of industrial development bonds in Virginia.

DISCUSSION

This study commenced pursuant to the 1982 House Joint Resolution No. 23, Appendix B, and was continued in accordance to 1983 House Joint Resolution No. 99, Appendix C.

The federal "Tax Equity and Fiscal Responsibility Act of 1982" reflected in Virginia's Industrial Development and Revenue Bond Act, with additional state restrictions, prohibited the use of industrial development bonds for certain recreational facilities and limited their use for certain other types of commercial enterprises. Nevertheless the continued use of such bonds by businesses that are perceived by the public as capable of obtaining conventional financing and which result in little or no new employment creates the feeling that the bonds are not always serving the public weal.

The issuance of industrial development bonds in Virginia in 1983 is estimated to be \$708 million as compared with \$958 million in 1982, a decrease of \$250 million. How much of the decrease is due to changes in the law as opposed to the downturn in the economy is an unknown factor. Regardless, the dollar volume of the bonds is probably of little concern to the general public. Their concern appears to center on two points, who is obtaining the bonds and for what purpose.

The Commission believes that the shift in the nation's economy over the past forty years from heavy industries to service industries has caused the purpose of Virginia's industrial development bond act to become blurred. It is with the primary objective of realining the purpose of the Act that the Commission requests it be authorized to continue its deliberations another year. The Commission will also continue to monitor the actions of Congress in this area and propose such changes as may be required.

Respectfully submitted,

Richard M. Bagley, Chairman

William F. Parkerson, Jr., Vice-Chairman

Raymond R. Guest, Jr.

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Wiley F. Mitchell, Jr.

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APPENDIX A

HOUSE JOINT RESOLUTION NO.....

Continuing the Industrial Development and Revenue Bond Act Study Commission.

WHEREAS, House Joint Resolution No. 23 of the 1982 General Assembly established the Industrial Development and Revenue Bond Act Study Commission; and

WHEREAS, such study was continued by House Joint Resolution No. 99 of the 1983 General Assembly; and

WHEREAS, following establishment of the study by the 1982 General Assembly, the U. S. Congress passed the Tax Equity and Fiscal Responsibility Act of 1982, which made substantial changes in the tax treatment of interest paid on industrial development bonds; and

WHEREAS, following passage of the 1982 federal act the U. S. Congress is considering even more extensive changes affecting industrial development bonds; and

WHEREAS, the Commission should have the opportunity to study the federal law, if passed, and recommend changes in Virginia law; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Industrial Development and Revenue Bond Act Study Commission is authorized to continue its study of industrial development financing in Virginia.

The unspent balance of the funds appropriated to the Commission by the 1983 House Joint Resolution No. 99 shall be transferred to the Commission under this resolution.

There is hereby allocated to the Commission from funds appropriated to the General Assembly the sum of \$5,000 to continue the study, which sum is in addition to the unspent balance appropriated under 1983 House Joint Resolution No. 99.

Membership of the Commission may be retained as originally appointed under the 1982 resolution.

The Commission shall complete its work and make its recommendations by the 1985 Session of the General Assembly.

The direct and indirect costs of this study are estimated to be \$12,300.

HOUSE JOINT RESOLUTION NO. 23

Establishing the Industrial Development and Revenue Bond Act Study Commission.

Agreed to by the House of Delegates, March 12, 1982

Agreed to by the Senate, March 11, 1982

WHEREAS, in 1966 the General Assembly enacted the Industrial Development and Revenue Bond Act because the Commonwealth was falling behind several surrounding states in the development of its industrial economic base; and

WHEREAS, it was determined that such a financial incentive was necessary for the Commonwealth to remain competitive in inducing industry to locate in Virginia; and

WHEREAS, since 1966 the Industrial Development and Revenue Bond Act has been expanded to include under its provisions such facilities as medical facilities, facilities for the residence and care of the aged, regional and national headquarter offices and operation centers, certain private schools and certain parking facilities; and

WHEREAS, for years numerous local industrial development authorities have been using the Act for providing financial assistance to service-oriented businesses, including, but not limited to, grocery stores, shopping centers, fast-food restaurants, new and used car sales showrooms and bank buildings; and

WHEREAS, this approach to financing through the sale of tax exempt bonds has been under close scrutiny and criticism by the Department of the Treasury, other agencies of the federal government, the Congress and the President, because of the resultant loss of anticipated federal income tax revenues; and

WHEREAS, much concern has arisen at the state and local levels of government that the proliferation of Industrial Development Revenue Bonds has caused increases in interest rates and the cost of borrowing by local and state governments; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That there is hereby created the Industrial Development and Revenue Bond Act Study Commission. The Commission shall be composed of eleven members: five shall be members of the House of Delegates, to be appointed by the Speaker of the House of Delegates; three shall be members of the Senate, to be appointed by the Committee on Privileges and Elections of the Senate; and three shall be appointed by the Governor from the State at large.

The study shall analyze the present provisions of the Industrial Development and Revenue Bond Act and examine legal precedents that have evolved since its enactment to determine:

1. Whether the Act has had a favorable impact on industrial and economic growth in this State;

2. Whether the Act is serving the purposes for which it was originally intended and whether the original intent has been explicitly expanded by subsequent General Assemblies;

3. Whether the Act has adversely impacted or will in the future adversely impact the cost of borrowing for local and state governments;

4. Whether the Act has resulted in inequitable competitive advantages for certain private businesses;

5. Whether the facilities being financed under the Act promote industry and develop trade so as to be of economic benefit to citizens of the Commonwealth, while not adversely affecting their safety, health, welfare, convenience or prosperity; and

6. Whether more stringent restrictions should be placed by the State on the type of facilities financed under the Act.

The Commission shall also examine any other issues pertinent to the Act as it deems necessary.

Members of the Commission shall receive compensation as provided in § 14.1-18 of the Code of Virginia and their actual expenses incurred in the performance of their duties.

There is hereby allocated to the Commission from funds appropriated to the General Assembly the sum of \$8,000 for performing this study.

The Commission shall complete its work in time to submit recommendations to the 1983 Session of the General Assembly.

APPENDIX C

HOUSE JOINT RESOLUTION NO. 99

Continuing the Industrial Development and Revenue Bond Act Study Commission.

Agreed to by the House of Delegates, February 11, 1983
Agreed to by the Senate, February 23, 1983

WHEREAS, House Joint Resolution No. 23 of the 1982 General Assembly established the Industrial Development and Revenue Bond Act Study Commission; and

WHEREAS, such Commission is directed to submit its recommendations to the 1983 General Assembly; and

WHEREAS, following establishment of the study by the 1982 General Assembly, the U.S. Congress passed the Tax Equity and Fiscal Responsibility Act of 1982, which made substantial changes in the tax treatment of interest paid on industrial development bonds; and

WHEREAS, many regulations implementing the federal act remain to be issued; and

WHEREAS, the Commission should have the opportunity to study the federal regulations when issued and recommend changes in Virginia law if required; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Industrial Development and Revenue Bond Act Study Commission is authorized to continue its study of industrial development financing in Virginia.

The unspent balance of the funds appropriated to the Commission by the 1982 House Joint Resolution No. 23 shall be transferred to the Commission under this resolution.

There is hereby allocated to the Commission from funds appropriated to the General Assembly the sum of \$5,000 to continue the study which sum is in addition to the unspent balance appropriated under 1982 House Joint Resolution No. 23.

Membership of the Commission may be retained as originally appointed under the 1982 resolution.

The Commission shall complete its work and make its recommendations to the 1984 Session of the General Assembly.

