

# DEPARTMENT OF TAXATION

## 2001 Fiscal Impact Statement

1. **Patron** Wright

3. **Committee** House Finance

4. **Title** Enterprise Zone Program

2. **Bill Number** HB 2635

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would automatically include any town with a population not exceeding 3,500 as part of an existing enterprise zone that is located in the same county.

The effective date of this bill is not specified.

**6. Fiscal Impact Estimates are:** Tentative. (See Line 8.)

**6b. Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2000-01	\$0	GF
2001-02	\$0	GF
2002-03	<\$700,000>	GF

**7. Budget amendment necessary:** No.

**8. Fiscal implications:**

The administrative costs for the Department of Taxation to administer this bill are minimal.

The earliest any business located in one of these new zones could apply for zone credits would be for the May 1, 2002 application deadline for the 2001 program year. Because approvals for these credits would not be issued until June 2002, General Fund revenues would not be impacted until Fiscal Year 2003. The Department of Housing and Community Development ("DHCD") anticipates the total value of the credits to reach \$18.3 for the 2001 program year. Because this bill would automatically include 73 towns into the enterprise zones of 24 counties, the total value of the enterprise zone credits would be expected to exceed the \$19 cap. As such, the maximum impact of this bill is estimated to be \$700,000 for Fiscal Year 2003.

**9. Specific agency or political subdivisions affected:**

**10. Technical amendment necessary:** None.

**11. Other comments:**

**Generally**

In 1982, the General Assembly established the Virginia Enterprise Zone program (formerly the Urban Enterprise Zone program) to stimulate business and industrial growth in designated enterprise zones. The state program stimulates revitalization by offering regulatory flexibility and a series of tax credits and grants. An enterprise zone is a distinct geographical area designated by the Governor and stays in effect for twenty years from the date of zone designation. Virginia law permits the designation of 60 enterprise zones. Currently, 52 zones have been designated.

The Enterprise Zone Program is administered by the DHCD. The incentives available under the program are the General Business Tax Credit, the Real Property Improvement Tax Credit, and the Zone Investment Tax Credit.

The maximum amount of tax credits DHCD can currently authorize is subject to an annual fiscal limitation of \$19 million. This annual limitation takes the form of two distinct credit "pools" of \$3 million and \$16 million. Large qualified business firms are granted credits from the \$3 million pool, while small qualified business firms are granted credits from the \$16 million pool.

In order for an area within a city or county to be designated as an enterprise zone it must either (i) have 25% or more of the population with incomes below 80% of the median income of the jurisdiction, (ii) have an unemployment rate 1.5 times the state average, or (iii) have a demonstrated floor area vacancy rate of industrial and/or commercial properties of 20% or more.

In 1999, the General Assembly enacted legislation that increased the maximum number of enterprise zones from 50 to 55 and required that five zones designated after July 1, 1999 be established in a locality with an unemployment rate at least 50% higher than the statewide unemployment rate or within a planning district that has an unemployment rate that is at least 1% higher than the state average.

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## **Proposed Legislation**

This bill would automatically designate any town with a population not exceeding 3,500 that is located in a county where an enterprise zone has been designated as a portion of the area of the existing enterprise zone. These towns would not have to meet the same distress criteria as the 60 authorized under current statute.

Currently, 24 counties that have state designated enterprise zones include one or more towns with a total population of 3,500 or less. There are a total of 73 towns located within these counties.

## **Other Legislation**

**House Bill 1801** and **Senate Bill 1073** would require that any enterprise zones designated on or after July 1, 2001, to be placed within urban areas with revitalization needs. The bill would also increase the maximum Real Property Improvement Tax Credit allowed to a small-qualified zone resident in any five-year period from \$125,000 to \$250,000.

**House Bill 2007** and **Senate Bill 1418** would allow the Governor to designate an enterprise zone area within each county and city that does not meet the required economic criteria.

**House Bill 2119** would increase the maximum Real Property Improvement Tax Credit allowed to a small-qualified zone resident in any five-year period from \$125,000 to \$250,000 in enterprise zone areas located within localities that rank among the top 25% of localities under fiscal stress as measured by the Commission on Local Government.

**Senate Bill 999** is identical to this bill.

**Senate Bill 1130** would increase the maximum Real Property Improvement Tax Credit allowed to a small qualified zone resident in any five-year period from \$125,000 to \$250,000 provided that at least 50% of the cost of qualified zone improvements are made in an enterprise zone area located within localities that rank among the top 25% of localities under fiscal stress as measured by the Commission on Local Government.

cc: Secretary of Finance

Date: 1/26/01/dtm

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