

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Rapp
3. **Committee** Senate Labor and Commerce
4. **Title** Enterprise Zone Program

2. **Bill Number** HB 351
- House of Origin:**
- Introduced**
- Substitute**
- Engrossed**
- Second House:**
- X **In Committee**
- Substitute**
- Enrolled**

5. Summary/Purpose:

This bill would increase the number of enterprise zones that could be designated by the Governor from 60 to 70. The bill would also require that the next 10 enterprise zones designated after July 1, 2002, be established in localities that do not currently have an enterprise zone.

The effective date of this bill is not specified.

6. Fiscal Impact Estimates are: Not Available. (See Line 8.)

7. Budget amendment necessary: No

8. Fiscal implications:

The Department of Taxation would incur minimal administrative costs to implement this bill.

According to the Department of Housing and Community Development ("DHCD"), applications for the new zones would be filed in the fall of 2002 and designations would not be made until early 2003. Based on the anticipated application process, the earliest any business located in one of these new zones could apply for zone credits would be for the May 1, 2004 application deadline for the 2003 program year. Because approvals for these credits would not be issued until June 2004, General Fund revenues would not be impacted until Fiscal Year 2005. DHCD anticipates the total value of the credits under the current program will exceed the \$19 million cap for the 2002 program year. Because this bill would allow the designation of 10 additional enterprise zones, the total value of the enterprise zone credits approved would add to the amount by which the total value of credits exceed the \$19 cap. As such, this bill would have no impact on General Fund revenue.

9. Specific agency or political subdivisions affected:

Department of Housing and Community Development
Department of Taxation

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, there are 56 state-designated enterprise zones.

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.

In 2000, the General Assembly enacted legislation that increased the maximum number of enterprise zones from 55 to 60 and required that five zones designated after July 1, 2000 be established in a locality with an unemployment rate at least 50% higher than the statewide unemployment rate.

Proposed Legislation

Under this bill, the maximum number of enterprise zones available for designation would be increased from 60 to 70. As a result, this bill could increase the number undesignated zones from 4 to 14.

In addition, the bill would require that the next 10 state designated enterprise zones be established in localities that do not already have a zone.

Other Legislation

House Bill 466 would allow certain eligible businesses to carryover Enterprise Zone General Business and Real Property Improvement Tax Credits earned but not certified because the total amount of credits on enterprise zone applications exceed the annual \$19 million cap. The carryover would be limited to five taxable years.

House Bill 467 would make enterprise zone projects that consist of up to 80% residential usage eligible for enterprise zone incentives.

House Bill 485 would eliminate the requirement that the owner or tenant conduct a trade or business at a facility in an enterprise zone at which such owner or tenant makes qualified real property improvements.

House Bill 1064 is identical to this bill.

cc: Secretary of Finance

