

## Department of Planning and Budget 2004 Fiscal Impact Statement

**1. Bill Number** HB599

<b>House of Origin</b>	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
<b>Second House</b>	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

**2. Patron** Dudley

**3. Committee** Commerce and Labor

**4. Title** Enterprise zone designations.

**5. Summary/Purpose:**

The bill adds 10 enterprise zones to the number the Governor may designate, for a total of 70. The bill also requires five of the new 10 to be designated in localities that have no enterprise zones as of July 1, 2004. Finally, it allows localities having a zone that is adjacent to another locality without a zone to expand the existing zone into the adjacent locality without any further designation from the Governor.

**6. Fiscal Impact Estimates are:** Not available. See item 8, below.

**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 2004 and designations would not be made until early 2005. 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, 2006 application deadline for the 2005 program year. Because approvals for these credits would not be issued until June 2006, general fund revenues would not likely be impacted until FY 2007.

For the 2002 program year, DHCD has approved approximately \$17.2 million in enterprise zone credits. If all 10 additional enterprise zones proposed by this bill were designated by early 2005, applications for the incentives granted under the Enterprise Zone Act would increase significantly. However, it is not known how many additional taxpayers would take advantage of the incentives. As such, the negative general fund revenue impact of this bill is unknown, but the total value of credits granted under the program could not exceed the \$19 million cap.

**9. Specific agency or political subdivisions affected:** Department of Taxation and the Department of Housing and Community Development.

**10. Technical amendment necessary:** No.

**11. Other comments:**

The Virginia Enterprise Zone Program was created 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 20 years from the date of zone designation. Virginia law permits the designation of 60 enterprise zones. Currently, there are 57 state-designated enterprise zones.

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

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 percent or more of the population with incomes below 80 percent 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 percent or more.

Four other bills related to the Enterprise Zone Act are under consideration. These bills are: HB 1067, HB 1070, SB 64, and SB 65.

**Date:** 01/21/04 / tmw

**Document:** G:\2004 Session\Legislation\Hb599.Doc Toni Walker

cc: Secretary of Commerce and Trade  
Secretary of Finance