Department of Planning and Budget
2005 Fiscal Impact Statement

1. **Bill Number** HB 2570

   House of Origin ☐ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☒ Enrolled

2. **Patron** Dudley

3. **Committee** Passed Both Houses

4. **Title** Enterprise zones

5. **Summary/Purpose:** The bill would establish new processes and procedures for the enterprise zone program. The current Enterprise Zone Act expires on July 1, 2005.

   Under the provisions of the bill, the Department of Housing and Community Development would conduct periodic competitive application processes for zone designation. Any county or city could submit an application. Two or more adjacent jurisdictions could submit a joint application. Zones could consist of up to three non-contiguous geographic areas. Local incentives would be provided as a part of the application. Once a zone has been designated, a locality could apply to the Department for an amendment to the zone boundaries and/or local incentives. The Governor could designate up to 30 enterprise zones for a period of 10 years, and such zones could be renewed for up to two five-year renewal periods.

   Fifty percent of the consideration for enterprise zone designation would be based on the following distress factors: 1) the average unemployment rate for the locality over the most recent three-year period; 2) the average median adjusted gross income for the locality over the most recent three-year period; and 3) the average percentage of public school students within the locality receiving free or reduced price lunches over the most recent three-year period.

   Zones would be terminated if the local government is unable or unwilling to provide the local incentives proposed in the designation application. Zones also would be terminated if no businesses have used the enterprise zone incentives within a five-year period.

   Enterprise zone job creation grants. Enterprise zone job creation grants could be awarded for jobs created above a four-job threshold. Jobs created in retail, local service or food and beverage service would not be eligible for job creation grants. Positions that pay 200 percent of the federal minimum wage and are provided with health benefits could receive a grant of $800 per year for up to five consecutive years. Positions that pay less than 200 percent but at least 175 percent of the federal minimum wage and are provided with health benefits could receive a grant of $500 per year for up to five consecutive years. A business could receive grants for up to a maximum of 350 positions in a given year. Positions that are paid less than 175 percent of the federal minimum wage or are not provided with health benefits are not eligible for job creation grants.

Enterprise zone real property investment grants. Real property investment grants could be made to enterprise zone investors who meet minimum enterprise zone real property investment thresholds. For a rehabilitation or expansion project, the minimum investment threshold would be $50,000. For a new construction project, the minimum investment threshold would be $250,000. Projects involving up to $2 million in qualified enterprise zone investment could receive a grant equal to 30 percent of the amount of the qualified enterprise zone investment not to exceed $125,000 for any building or facility within a five-year period. Projects involving $2 million or more in qualified enterprise zone investment could receive a grant equal to 30 percent of the amount of the qualified enterprise zone investment not to exceed $250,000 for any building or facility within a five-year period.

Information provided for enterprise zone incentive grants would have to be certified and attested to by an independent certified public accountant licensed in Virginia. The location of a business or property for which a grant is requested would have to be verified by the local enterprise zone administrator. Grants that do not have adequate documentation could be subject to repayment.

The bill also would update references to enterprise zone programs within other statutes and would "grandfather" provisions for the existing enterprise zone program.

6. **Fiscal impact:** The current Enterprise Zone Act limits enterprise zone tax credits for small qualified businesses and small zone residents to $16.0 million annually and enterprise zone tax credits for large qualified businesses and large zone residents to $3.0 million annually (a total of $19.0 million annually). Chapter 4, the 2004 Appropriation Act, includes $1.96 million in each year of the current biennium for enterprise zone incentive grants. The Enterprise Zone Act does not limit the total of such grants that may be awarded in any one fiscal year. Grants are limited by the amount of the appropriation. According to the Department of Taxation, its revenue estimates include $17.6 million annually for enterprise zone tax credits.

   Under the provisions of the bill, tax credits would be "grandfathered" to those qualified business firms and large qualified zone residents that have initiated use of enterprise zone tax credits on or before July 1, 2005 and to those small and large qualified business firms and large qualified zone residents that have signed agreements with the Commonwealth regarding the use of enterprise zone tax credits on or before July 1, 2005; provided that in the case of small qualified business firms, the signed agreements must be based on proposals developed by the Commonwealth prior to November 1, 2004. These tax credits would be limited to $7.5 million annually until the end of FY 2019.

   The costs associated with the enterprise zone incentive grants would depend on the demand for the grants and on the amounts appropriated for such grants. HB 1500 as passed by the General Assembly includes a total of $13.5 million in FY 2006 for enterprise zone incentive grants.

Total costs under the bill, then, would be limited to $21.0 million in FY 2006, which is the amount of the maximum tax credits allowed under current law ($19.0 million) plus the enterprise zone incentive grant appropriation for the Department of Housing and Community Development ($2.0 million).

7. **Budget amendment necessary:** No. See Item 6.

8. **Fiscal implications:** See Item 6.

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

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

11. **Other comments:** This bill is identical to SB 983 as enrolled.

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cc: Secretary of Commerce and Trade
Secretary of Finance