

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** Michael J. Webert

3. **Committee** Senate Finance

4. **Title** Local Green Development Zones

2. **Bill Number** HB 1565

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize local governing bodies to create, by ordinance, one or more green development zones, inside which localities would be permitted to grant tax incentives and provide certain regulatory flexibility for a maximum period of ten years to green development businesses and businesses operating in energy-efficient buildings located in a green development zone. "Green development business" would mean a business engaged primarily in the design, development, or production of materials, components, or equipment used to reduce negative impact on the environment.

The bill would also authorize the adoption of a local enterprise zone development taxation program for the green development zone, regardless of whether the green development zone has been designated by the Governor as an enterprise zone, and would make the laws that apply to enterprise zones also applicable to green development zones.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

To the extent that localities elect to create green development zone programs and grant tax incentives to green development businesses and businesses operating in energy-efficient buildings, this bill would result in a revenue decrease to those localities. This bill would have no impact on state revenues.

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

All localities

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

11. Other comments:

Virginia Enterprise Zone Program

The Virginia Enterprise Zone Program was created in 1982 to form a partnership between state and local governments to stimulate job creation, private investment, and revitalization of distressed Virginia localities. The act focused on state and local tax credits to assist areas designated as enterprise zones. Cities and counties that applied for, and were granted the designation, were able to receive tax credits for businesses situated in the zones.

In 2005, the General Assembly passed legislation, House Bill 2570 and Senate Bill 863 (2005 *Acts of Assembly*, Chapters 884 and 863), to phase out the existing system for enterprise zone tax credits and replaced it with the Enterprise Zone Grant Program. The Enterprise Zone Act expired on July 1, 2005; however, all enterprise zones that were in effect as of July 1, 2005 would continue until the end of their 20 year designation period. Under the Enterprise Zone Grant Program, localities are able to apply for grants from the Department of Housing and Community Development and are allowed to offer a variety of tax incentives when applying for an enterprise zone designation.

Localities applying for enterprise zone designation are required to submit local incentives to stimulate real property improvements and the creation of new jobs. These incentives include, but are not limited to i) reduction in permit fees for businesses, ii) reduction in user fees, iii) reduction in BPOL license tax, iv) partial exemption of real property taxes for rehabilitative or refurbishing real property within the Enterprise Zone, and v) adoption of local enterprise development tax programs.

Local Enterprise Zone Development Taxation Program

A local enterprise zone development taxation program allows a specified percentage of real estate and machinery and tools tax revenue resulting from the incremental increase in the assessed value of real estate and machinery and tools located within an enterprise zone to be allocated to the Local Enterprise Zone Development Fund. This fund is used for grants aimed at attracting businesses to an enterprise zone or enhancing governmental services within an enterprise zone. Localities are currently authorized to adopt a local enterprise zone development taxation program for a locally designated technology zone, regardless of whether the technology zone has been designated as an enterprise zone.

Proposal

This bill would authorize local governing bodies to create, by ordinance, one or more green development zones, inside which localities would be permitted to grant tax incentives and provide certain regulatory flexibility to green development businesses and businesses operating in energy-efficient buildings located in a green development zone. "Green development business" would mean a business engaged primarily in the design, development, or production of materials, components, or equipment used to reduce negative impact on the environment. "Energy-efficient building" would mean a building that i) exceeds the energy efficiency standards prescribed in the Virginia Uniform

Statewide Building Code by at least 30 percent; ii) is certified to meet or exceed performance standards of the Green Globes Green Building Rating System of the Green Building Initiative; iii) is certified to meet or exceed performance standards of the Leadership in Energy and Environmental Design (LEED) Green Building Rating System of the U.S. Green Building Council; or iv) is certified to meet or exceed performance standards or guidelines under the EarthCraft House Program.

The tax incentives permissible under the bill would include, but not be limited to reduction of permit fees, reduction of user fees, and reduction of any type of gross receipts tax. Localities would be authorized to provide such incentives for a maximum period of ten years. The extent and duration of the incentive proposals would need to conform to the requirements of the Constitutions of Virginia and the United States.

In addition, localities would be authorized to offer regulatory flexibility in such zones, including, but not limited to special zoning for the district, permit process reform, exemption from ordinances, and any other incentive adopted by ordinance. Under the terms of the bill, localities could offer these regulatory incentives for a maximum period of ten years.

The bill would also authorize the adoption of a local enterprise zone development taxation program for the green development zone, regardless of whether the green development zone has been designated by the Governor as an enterprise zone, and would make the laws that apply to enterprise zones also applicable to green development zones. Under the terms of the bill, the establishment of a green development zone would not preclude the area from also being designated as an enterprise zone.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1455 would reduce the minimum age of a structure in a technology zone that is rehabilitated for commercial use in order to qualify for a partial exemption from real property taxes from 20 years to 15 years.

cc : Secretary of Finance

Date: 2/3/2017 AM
DLAS File Name: HB1565FE161