

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 2578

SPONSOR: Fiscal Resource Committee and Senator Hargrett

SUBJECT: Neighborhood Revitalization

DATE: April 13, 2000 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Fournier</u>	<u>Wood</u>	<u>FR</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>CA</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

This committee substitute exempts from sales tax materials used in the construction of a single-family home in an enterprise zone, empowerment zone, designated brownfield area, or Front Porch Florida Community if the appraised value of the home is no more than \$160,000. The exemption is granted to the owner of the home as a refund of taxes previously paid on materials and labor used in the construction of the home. The bill specifies the requirements the home owner must meet in order to receive the refund, and directs the Department of Revenue (DOR) to establish, by rule, an application form and criteria for establishing eligibility for the exemption.

This bill also exempts from sales tax materials used in the conversion of an existing manufacturing or industrial building to housing or mixed-use units in an urban high-crime area, enterprise zone, empowerment zone, Front Porch Community, designated brownfield area, or urban infill area, if the developer of such projects agrees to set aside at least 20 percent of the development for housing for low and moderate-income persons.

This bill directs the agencies involved with the Urban Infill Implementation Project, the State Apartment Incentive Loan Program, the HOME Investment Partnership Program, and the State Housing Tax Credit Program to give priority consideration to projects that would convert vacant industrial and manufacturing facilities to affordable housing units within urban high crime areas, enterprise zones, empowerment zones, Front Porch Communities, designated brownfield areas, or urban infill areas.

This bill also directs the Department of Community Affairs to recommend new economic incentives or revisions to existing incentives to promote the reuse of vacant industrial and manufacturing facilities for affordable housing and mixed-use development.

This bill reduces revenues generated by the state sales tax. The bill also reduces the amount of the Local Government Half Cent Sales Tax shared with municipalities and counties, and reduces revenues collected by local governments under local option sales taxes.

The effective date of the bill is upon becoming a law.

This bill substantially amends, creates, or repeals the following sections of the Florida Statutes: 212.08.

II. Present Situation:

Chapter 212, Florida Statutes, provides for the tax on sales, use and other transactions. Section 212.05, F.S., provides that every person who engages in the business of selling tangible personal property at retail in this state, including the business of making mail order sales, or who rents or furnishes any of the things or services taxable under chapter 212, F.S., or who stores for use or consumption any item or article of tangible personal property and who leases or rents such property is exercising a taxable privilege. Section 212.05(1)(a)1.a., F.S., provides for a six percent tax rate on the retail price of each item or article of tangible personal property when sold at retail in this state. Section 212.05(1)(b), F.S., provides for a six percent tax on the cost price of any item of tangible personal property that is not sold but is used in the state. Additionally, local governments are authorized to levy one or more of six types of Local Discretionary Sales Surtaxes, ranging from 0.5 percent to 1.0 percent each.

Section 212.08(5)(g), F.S., exempts from sales tax those building materials used in the rehabilitation of real property located in an enterprise zone. Upon affirmative showing to the satisfaction of the department, the exemption inures to the owner, lessee, or lessor of the rehabilitated property, located in an enterprise zone in the form of a refund of previously paid taxes. The refund is capped at \$5,000. DOR interprets the statute to allow a person building a new house on qualifying property to apply for the refund. The exemption is not limited to single-family residences, nor does it require the owner to reside in the home.

In an analysis of HB 245, the Office of Tourism, Trade, and Economic Development (OTTED) provided information received from the National Association of Homebuilders (NAHB) regarding estimates on building materials costs for single-family homes. The NAHB reports that 20% of the total cost of a \$60,000 home is spent on building materials costs which are subject to the rate of 6 percent sales tax, or \$720. Additionally, 30% of the total cost of a \$100,000 home is spent on building materials costs subject to the rate of 6 percent sales tax, or \$1,800. On-site labor costs are not subject to the state sales tax.

Currently, there are 34 enterprise zones, including one empowerment zone, designated in the state. On October 8, 1999, Governor Bush designated the first six Front Porch Florida Neighborhoods. The Governor's Front Porch Florida Initiative calls for 20 such designations. Section 212.097, F.S., requires the Office of Tourism to designate 15 urban high-crime areas for purposes of the Urban High-Crime Job Tax Credit Program. Chapter 99-378, L.O.F, created the Urban Infill and Redevelopment Assistance Program. The provisions relating to the program are codified in s. 163.2523, F.S. The urban infill and redevelopment areas are those areas designated in a plan, developed through a community-based planning process, to be targeted for grant funds and to receive certain tax benefits to revitalize the area. \$2.5 million was appropriated for the program in 1999. The Department of Community Affairs has nearly completed promulgating the

rule for designating urban infill areas. No areas have been designated to date. There are 30 designated brownfield areas in the state.

III. Effect of Proposed Changes:

This bill will reduce the cost of constructing a qualifying single-family home in a Front Porch Florida Community by creating a sales tax exemption on materials used in the construction of single-family homes having an appraised value of no more than \$160,000. The exemption is granted to the owner of the home as a refund of taxes previously paid on material and labor used in the construction of a qualified home. The bill specifies the requirements the home owner must meet in order to receive the refund and directs DOR to establish, by rule, an application form and criteria for establishing eligibility for the exemption. (See “Comments” section.)

The bill also reduces the cost of conversion of an existing manufacturing or industrial building to housing or mixed-use units in an urban high-crime area, Front Porch Community, or urban infill area, if the developer of such projects agrees to set aside at least 20 percent of the development for housing for low and moderate-income persons. The mixed-use projects eligible for this exemption are artists’ studios, art and entertainment services, or other compatible uses.

This bill directs the agencies involved with the Urban Infill Implementation Project, the State Apartment Incentive Loan Program, the HOME Investment Partnership Program, and the State Housing Tax Credit Program to give priority consideration to projects that would convert vacant industrial and manufacturing facilities to affordable housing units within urban high crime areas, enterprise zones, empowerment zones, Front Porch Communities, designated brownfield areas, or urban infill areas.

This bill also directs the Department of Community Affairs to recommend new economic incentives or revisions to existing incentives to promote the reuse of vacant industrial and manufacturing facilities for affordable housing and mixed-use development.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

This bill initially falls under subsection (b) of section 18 of Article VII, Florida Constitution. Subsection (b) requires a two-thirds vote of the membership of each house in order to enact a general law reducing the authority that municipalities and counties had on February 1, 1989 to raise revenues in the aggregate. By adding an exemption to the state sales tax, the bill has the effect of adding an exemption to the local option county sales surtax. The revenue estimating conference has determined that the impact of the exemption for building materials used in new housing in a Front Porch Area is insignificant for local governments, but the impact of the additional exemptions for redevelopment projects has not been addressed.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:**A. Tax/Fee Issues:**

The revenue estimating conference has determined that the impact of allowing a sales tax exemption for construction of single family homes in certain areas is \$(0.3) million in General revenue with an insignificant local impact. The impact of the sales tax exemption for redevelopment is estimated to be \$(0.4) million.

B. Private Sector Impact:

This bill provides tax exemptions for building materials in certain areas that are not eligible for such exemptions under current law, and could have the effect of encouraging building and redevelopment activity in those areas.

C. Government Sector Impact:

This bill directs the agencies involved with the Urban Infill Implementation Project, the State Apartment Incentive Loan Program, the HOME Investment Partnership Program, and the State Housing Tax Credit Program to give priority consideration to projects that would convert vacant industrial and manufacturing facilities to affordable housing units within urban high crime areas, enterprise zones, empowerment zones, Front Porch Communities, designated brownfield areas, or urban infill areas.

This bill also directs the Department of Community Affairs to recommend new economic incentives or revisions to existing incentives to promote the reuse of vacant industrial and manufacturing facilities for affordable housing and mixed-use development.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
