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DATE: March 9, 2001

**HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
FISCAL POLICY & RESOURCES
ANALYSIS**

BILL #: HB 205

RELATING TO: Enterprise Zones

SPONSOR(S): Representative(s) Flanagan

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) ECONOMIC DEVELOPMENT AND INTERNATIONAL TRADE YEAS 11 NAYS 0
 - (2) FISCAL POLICY AND RESOURCES YEAS 12 NAYS 0
 - (3) COUNCIL FOR COMPETITIVE COMMERCE
 - (4)
 - (5)
-

I. SUMMARY:

This bill eliminates the requirement that satellite enterprise zones be created before December 31, 1999. It authorizes the refund of sales taxes paid between December 31, 1999, and the date the satellite zone is created, on purchases of building materials and business equipment used in enterprise zones, on electrical energy, and on amounts that could have been claimed as job credits against sales tax had the zone been created by December 31, 1999. The legislative intent is that the act be remedial in effect.

The bill takes effect upon becoming law.

The Revenue Impact Conference estimates a negative, insignificant impact on General Revenue.

One amendment was adopted by the Committee on Economic Development and International Trade which authorizes satellite enterprise zones to be created retroactively to December 31, 1999, and specifies due dates for resolutions for the creation of such enterprise zones and the requested boundary changes. The amendment requires a business in a satellite enterprise zone, which was eligible to receive certain tax incentives between December 31, 1999, and the date of the creation of the satellite enterprise zone, to submit an application for the tax incentives by December 1, 2001.

The Revenue Impact Conference would need to revisit this bill (with amendment) to calculate the effect of the proposed changes. However, preliminary estimates show that the fiscal impact to the state would be negative insignificant. The next scheduled meeting of the Revenue Impact Conference will be March 16, 2001.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Established in 1980, the Florida Enterprise Zone program targets areas for economic revitalization and provides incentives to businesses located in designated areas found in urban and rural communities. An enterprise zone is a specific geographic area targeted for economic revitalization. Presently, the state has 34 enterprise zones.

By the early nineties, the program had become overwhelmed with the number of zones allowed. To remedy the situation, the Legislature passed the Florida Enterprise Zone Act in 1994. As a result, the existing zones were repealed on December 31, 1994, and guidelines were established for the designation of new zones. The Act transferred administrative duties from the Department of Community Affairs to the Department of Commerce.

In 1995, 19 enterprise zones were designated throughout the state. Local governments were required to establish a community based Enterprise Zone Development Agency (EZDA). Each EZDA is responsible for overseeing the implementation of its individual plan and reducing local barriers to revitalization efforts. The agencies are required to market their zones to interested parties and assist local business owners with state and local incentives.

With the dissolution of the Department of Commerce in 1996, the Legislature amended the program and transferred the administrative responsibilities to the newly created Office of Tourism, Trade, and Economic Development (OTTED) within the Executive Office of the Governor. In addition, the revision added Work and Gain Economic Self-Sufficiency (WAGES) Program participants (residing in a zone) as eligible employees for a 15 percent jobs tax credit. The Legislature also authorized the designation of eleven additional enterprise zones.

In 1997, the Legislature authorized twelve new zones. The following year, the program was amended to include a new zone and to allow businesses located within an enterprise zone to claim jobs tax credits for hiring WAGES or Job Training Partnership Act (JTPA) program participants regardless of where they live.

During the 1999 Legislative session, legislation further amended the Enterprise Zone Program by providing four counties (Columbia, Gadsden, Liberty and Suwannee) with an opportunity to apply for a state enterprise zone. The legislature also recognized the newly federally designated Empowerment Zone (Miami-Dade County) and Enterprise Community (Immokalee/Hendry County)

as state enterprise zones. In addition, two local governments (City of Bradenton and Miami-Dade County) were provided an opportunity to create satellite enterprise zones.

The Florida Enterprise Zone Program includes the following financial incentives to businesses to encourage private investment and increase employment opportunities for enterprise zone residents:

- ! Enterprise Zone Jobs Tax Credit (Sales & Use Tax),
- ! Enterprise Zone Jobs Tax Credit (Corporate Income Tax)
- ! Enterprise Zone Property Tax Credit (Corporate Income Tax)
- ! Sales Tax Refund for Building Materials Used in an Enterprise Zone
- ! Sales Tax Refund for Business Machinery and Equipment Used in an Enterprise Zone
- ! Sales Tax Exemption for Electrical Energy Used in an Enterprise Zone
- ! Community Contribution Tax Credit Program
- ! Enterprise Zone Linked Deposit Program

Costs of the program have increased as new areas have been added. The total cost of state and local incentives was \$11.3 million in FY 1996-97 and \$13 million in FY 1997-98. In FY 1998-99, the program costs were \$24 million in state and local incentives (\$5.2 million in state tax incentives approved by the Department of Revenue and \$18.8 million in incentives provided by the local governing bodies; however, some of the local incentives provided are federal pass-through funds.) This increased activity was the result of 776 new businesses in Enterprise Zones which created 5,305 new jobs.

Section 290.00555, F.S., provides that, before December 31, 1999, any municipality which contains a designated enterprise zone with a population between 20,000 and 50,000 persons may create a satellite enterprise zone. Such zones may not exceed 1.5 square miles in an area outside of and in addition to the designated enterprise zone boundaries and must be consistent with criteria imposed by s. 290.0055, F.S. Satellite enterprise zones are not required to comply with the poverty and unemployment rates imposed by the original enterprise zone program. The Office of Tourism, Trade, and Economic Development (OTTED) advises that the City of Bradenton applied for a satellite zone pursuant to s. 290.00555, F.S. OTTED approved the application and the satellite enterprise zone became effective February 1, 2000. The satellite zone measured 1.37 square miles and was contiguous with Bradenton's existing enterprise zone.

C. EFFECT OF PROPOSED CHANGES:

The bill would delete the deadline for the creation of a satellite enterprise zone. It provides for a refund of sales and use taxes paid after December 31, 1999, that would have been eligible for certain exemptions or credits in such enterprise zones. The legislative intent is that the Act be deemed remedial in effect.

D. SECTION-BY-SECTION ANALYSIS:

This section need be completed only in the discretion of the Committee.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Impact Conference estimates that there will be a negative insignificant impact on General Revenue.

2. Expenditures:

The Office of Tourism, Trade, and Economic Development, the agency responsible for administering the Enterprise Zone Program, can accommodate the additions contemplated by the bill with existing staff and financial resources

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

N/A

2. Expenditures:

N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

This bill would allow businesses in the satellite enterprise zone in the City of Bradenton to recover taxes paid between December 31, 1999 and February 1, 2000 (the effective date of the zone) in the form of a refund.

The bill also would allow businesses located in any subsequently created satellite enterprise zone to recover the same taxes retroactive to December 31, 1999. The Office of Tourism, Trade, and Economic Development (OTTED) advises that in addition to Bradenton, the City of Ft. Pierce meets the criteria outlined in this bill and, therefore, would qualify if applying for a satellite enterprise zone. If such a zone were approved, businesses located there could qualify to recover applicable taxes.

D. FISCAL COMMENTS:

The bill does not allow a business located in the satellite enterprise zone to apply retroactively for sale tax refunds for taxes paid on electrical energy.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The effect on municipality or county revenues in the aggregate depends on the effect the boundary changes and new enterprise zones have on local option sales tax collections. Any reduction of

municipality and county revenues is expected to be insignificant. The bill does not mandate the reduction of municipally or county revenues; rather, it allows the municipality or county the option to create a satellite enterprise zone

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill is not anticipated to reduce the total aggregate percent of state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

The Committee on Economic Development and International Trade adopted one amendment during its February 21, 2001, committee meeting.

The amendment traveling with the bill authorizes satellite enterprise zones to be created retroactively to December 31, 1999, and specifies due dates for resolutions for the creation of such enterprise zones and the requested boundary changes. The amendment requires a business in a satellite enterprise zone which was eligible to receive certain tax incentives between December 31, 1999, and the date of the creation of the satellite enterprise zone to submit an application for the tax incentives by December 1, 2001.

Comments by the Fiscal Policy & Resources Committee:

The Revenue Impact Conference would need to revisit this bill (with amendment) to calculate the effect of the proposed changes. However, preliminary estimates show that the fiscal impact to the state would be negative insignificant. The next scheduled meeting of the Revenue Impact Conference will be March 16, 2001.

VII. SIGNATURES:

COMMITTEE ON FISCAL POLICY & RESOURCES:

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J. Paul Whitfield, Jr.

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