

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: CS/CS/SB 158

SPONSOR: Finance and Taxation Committee and Commerce and Economic Opportunities Committee and Senator Brown-Waite

SUBJECT: Enterprise Zones

DATE: April 3, 2001

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Joseph</u>	<u>Maclure</u>	<u>CM</u>	<u>Favorable/CS</u>
2.	<u>Fournier</u>	<u>Johansen</u>	<u>FT</u>	<u>Favorable/CS</u>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

This committee substitute allows:

- Hernando County or Hernando County and the City of Brooksville jointly,
- Holmes County,
- Calhoun County,
- Okaloosa County, and
- Sarasota County or Sarasota County and the City of Sarasota, jointly

to apply to the Office of Tourism, Trade, and Economic Development for designation of one enterprise zone each. It also extends the time for a satellite enterprise zone authorized under s. 290.00555, F.S. to be created.

This committee substitute creates sections 290.00694 through 290.00698, Florida Statutes, and amends section 290.00555, Florida Statutes.

II. Present Situation:

Enterprise Zone Program

Florida established one of the first enterprise zone programs in the country in 1980 to encourage economic growth and investment in distressed areas by offering tax advantages to businesses willing to make such an investment. An enterprise zone is a specific geographic area targeted for economic revitalization. Since July 1, 1995, the state has designated 34 enterprise zones.¹

¹ Information from the March 1, 2000, *Florida Enterprise Zone Program Annual Report* by the Office of Tourism, Trade, and Economic Development.

In 1994, the Legislature passed significant revisions to the Enterprise Zone Program. The original program became overwhelmed with the number of zones allowed. As a result, the existing zones were repealed on December 31, 1994, and parameters were established for designation of new zones. Administrative responsibilities of the program were transferred from the Department of Community Affairs to the Department of Commerce. The jobs tax credit eligibility criteria were revised to require both the business and the employee to reside within an enterprise zone.

In 1995, 19 enterprise zones were designated in urban and rural communities throughout the state. Local governments were required to establish a community-based Enterprise Zone Development Agency (EZDA). In 1996, 11 new enterprise zones were authorized by the Legislature, of which 10 submitted acceptable plans and applications. Administrative duties were transferred to the newly created Office of Tourism, Trade, and Economic Development (OTTED) upon the dissolution of the Department of Commerce. In 1997, OTTED designated the City of Fort Pierce as the 30th enterprise zone.

In 1998, the 31st enterprise zone was added when the Legislature further amended the Enterprise Zone Program by authorizing a new zone to be designated within a brownfield pilot project area (Clearwater). Also in 1998, the Legislature provided that new employees who are Work and Gain Economic Self-sufficiency (WAGES) program participants or Job Training Partnership Act classroom training participants may provide a basis for employers to claim the enterprise zone job tax credit under ss. 212.096 and 220.181, F.S., regardless of whether such employees reside in the zone.

In 1999, and the first two months of 2000, enterprise zones were approved for Lake Apopka (32nd), Liberty County (33rd), and Hendry County (34th). In addition, Suwannee, Columbia, and Gadsden counties have submitted applications for enterprise zone designation pending approval from OTTED.

Section 290.00555, F.S., authorizes the creation of a satellite enterprise zone in any municipality with a population between 20,000 and 50,000, an area of which had previously received designation as an enterprise zone. The enterprise zone must have been created before December 31, 1999, and in fact such satellite enterprise zone was never created.

Enterprise Zone Designation Process and Criteria

Section 290.0055, F.S., provides requirements for nominating and selecting an enterprise zone and provides size limitations depending on the community population category. This section also requires that the selected area suffer from pervasive poverty, unemployment, and general distress, as described and measured under s. 290.0058, F.S.

Section 290.0058(2), F.S., specifies that pervasive poverty must be evidenced by a showing that poverty is widespread throughout the nominated area. The poverty rate of the nominated area shall be established using the following criteria: (a) in each census geographic block group within a nominated area, the poverty rate shall not be less than 20 percent; and (b) in at least 50

percent of the census geographic block groups within the nominated area, the poverty rate shall not be less than 30 percent.

Section 290.0065, F.S., outlines the process for designating an enterprise zone. It authorizes OTTED to designate no more than a total of 20 zones to be placed in five population categories. Each application is to be ranked competitively within the appropriate category based on the pervasive poverty, unemployment, and general distress of the area. Areas are to develop a strategic plan and be evaluated on the following key principles: 1) economic opportunity, including job creation within the community and throughout the region, as well as entrepreneurial initiatives, small business expansion, and training for jobs that offer upward mobility; 2) sustainable community development that advances the creation of livable and vibrant communities through comprehensive approaches that coordinate economic, physical, community, and human development; 3) community-based partnerships involving the participation of all segments of the community; 4) strategic vision for change that identifies how the community will be revitalized; and 5) local incentives should induce economic revitalization, including job creation and small business expansion.

Section 290.0066, F.S., provides the director of OTTED with the ability to revoke the designation of an enterprise zone if the governing bodies: 1) have failed to make progress in achieving the benchmarks set forth in the strategic plan; or 2) have not complied substantially with the strategic plan. Failure to enact and maintain the local fiscal and regulatory incentives committed to by the governing bodies for two consecutive calendar years is to result in the automatic termination of enterprise zone designation.

Program Incentives and Costs

Costs of the Enterprise Zone Program have increased as new areas have been added. The total cost of state and local incentives was \$11.2 million in fiscal year (FY) 1996-97 and \$13 million in FY 1997-98. Costs increased by \$11 million in FY 1998-99, totaling \$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). In FY 1999-00 the total program cost dropped back down to \$15 million despite an increase of \$300,000 in state program spending. The drop was due to local government incentives declining \$8.7 million.

The financial incentives available to businesses located within a designated zone and the FY 1999-00 incentive costs are as follows:²

- Enterprise Zone Jobs Tax Credit (Corporate Income Tax and Sales Tax): Businesses located in a zone are allowed a credit against their corporate income and sales taxes for 10 percent of the wages paid to new employees who have been employed for at least three months and are residents of an enterprise zone. A 15 percent enhanced credit is provided to employers if 20 percent of their employees are zone residents (s. 212.096 and s. 220.181, F.S.); \$2,058,538.

² Office of Tourism, Trade, and Economic Development (OTTED), Executive Office of the Governor, *Florida Enterprise Zone Program: Annual Report*, March 1, 2001.

- Enterprise Zone Property Tax Credit (Corporate Income Tax): New or expanded businesses located in a zone are allowed a credit on their Florida Corporate Income Tax equal to 96 percent of ad valorem taxes paid on the new or improved property (the assessment rate varies by county) (s. 220.182, F.S.); \$545,409.
- Sales Tax Refund for Building Materials Used in an Enterprise Zone: A refund is available for sales taxes paid on the purchase of building materials used to rehabilitate real property located in a zone (s. 212.08(5)(g), F.S.); \$334,668.
- Sales Tax Refund for Business Property Used in an Enterprise Zone: A refund is available for sales taxes paid on the purchase of certain business property, which is used exclusively in a zone for at least three years (s. 212.08(5)(h), F.S.); \$2,188,606.
- Sales Tax Exemption for Electrical Energy Used in an Enterprise Zone: A 50 percent sales tax exemption is available to qualified businesses located in a zone on the purchase of electrical energy (s. 212.08(15), F.S.); \$331,614.
- Community Contribution Tax Credit Program: Businesses located anywhere in Florida are allowed a 50 percent credit on Florida Corporate Income Tax or Insurance Premium Tax for donations made to approved local community development projects located in an enterprise zone (or a low income housing project located anywhere) (s. 220.183 and s. 624.5105, F.S.); \$4,041,271.
- Enterprise Zone Linked Deposit Program: Financial institutions in certain enterprise zones are selected to receive matching funds to provide loans or lines of credit to individuals for small business startup, expansion, working capital or inventory financing. This part of the Enterprise Zone Program was repealed on June 30, 2000 (s. 290.0075, F.S.).

III. Effect of Proposed Changes:

This committee substitute creates s. 290.00695, F.S., which allows Hernando County or Hernando County and the City of Brooksville jointly to apply to the Office of Tourism, Trade, and Economic Development for designation of one enterprise zone within the county, or within both the county and the city. The committee substitute provides that the enterprise zone may be up to 10 contiguous square miles, and the committee substitute specifies the area to be encompassed in the zone. The application must be submitted by December 31, 2001, and must comply with the requirements of s. 290.0055, F.S., relating to local procedures for nominating an area as a new enterprise zone. The new zone, however, can be designated notwithstanding the provisions of s. 290.0065, F.S., limiting the total number of zones, and notwithstanding the provisions of s. 290.0058, F.S., setting forth pervasive poverty, unemployment, and general distress criteria.

This committee substitute creates s. 290.00696, F.S., which allows Holmes County to apply to the Office of Tourism, Trade, and Economic Development for designation of one enterprise zone within the county. The application must be submitted by December 31, 2001, and must comply with the requirements of s. 290.0055, F.S., relating to local procedures for nominating an area as a new enterprise zone. The new zone, however, can be designated notwithstanding the provisions of s. 290.0065, F.S., limiting the total number of zones, and notwithstanding the provisions of s. 290.0058, F.S., setting forth pervasive poverty, unemployment, and general distress criteria.

This committee substitute creates s. 290.00697 which allows Calhoun County to apply to the Office of Tourism, Trade, and Economic Development for designation of one enterprise zone

within the county. The application must be submitted by December 31, 2001, and must comply with the requirements of s. 290.0055, F.S., except subsection (3) thereof. The new zone, however, can be designated notwithstanding the provisions of s. 290.0065, F.S., limiting the total number of zones.

This committee substitute creates s. 690.00698, F.S. which allows Okaloosa County to apply to the Office of Tourism, Trade, and Economic Development for designation of one enterprise zone within the county. The committee substitute provides that the enterprise zone may be up to 6 square miles . The application must be submitted by December 31, 2001, and must comply with the requirements of s. 290.0055, F.S., except subsection (3) thereof. The new zone, however, can be designated notwithstanding the provisions of s. 290.0065, F.S., limiting the total number of zones.

This committee substitute creates s. 690.00694, F.S., which allows Sarasota County or Sarasota County and the City of Sarasota jointly to apply to the Office of Tourism, Trade, and Economic Development for designation of one enterprise zone within the county, or within both the county and the city. The committee substitute specifies the area to be encompassed in the zone. The application must be submitted by December 31, 2001, and must comply with the requirements of s. 290.0055, F.S., relating to local procedures for nominating an area as a new enterprise zone. The new zone, however, can be designated notwithstanding the provisions of s. 290.0065, F.S., limiting the total number of zones.

This committee substitute amends s. 690.00555, F.S., deleting the requirement that a satellite enterprise zone be created before December 31, 1999. The committee substitute also provides that satellite enterprise zones may be created pursuant to s. 290.00555, F.S., effective retroactively to December 31, 1999. Resolutions adopted to create satellite enterprise zones under this section must be submitted to the Office of Tourism, Trade, and Economic development by August 1, 2001, and boundaries of previously designated enterprise zones must be amended to create satellite enterprise zones by September 1, 2001. A business in the satellite enterprise zone which is eligible to receive retroactive tax incentives must submit an application for these tax incentives by December 1, 2001.

This committee substitute takes effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

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 given this committee substitute's enterprise zone proposal a fiscal impact of \$100,000 in total recurring state cost to the General Revenue Fund with an insignificant local revenue loss.

B. Private Sector Impact:

This committee substitute may generate positive indeterminate effects resulting from the availability of various tax incentives provided under the Enterprise Zone Program.

C. Government Sector Impact:

This committee substitute may result in increased costs for the Office of Tourism, Trade, and Economic Development (OTTED) to review and approve a new application, and may result in increased costs for OTTED and the Department of Revenue to review and approve tax credits granted to businesses in a newly designated zone.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.