

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

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

Prepared By: The Professional Staff of the Commerce Committee

BILL: CS/SB 1724

INTRODUCER: Commerce Committee and Senator Dean

SUBJECT: Rural Enterprise Zones

DATE: April 7, 2010 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Pugh</u>	<u>Cooper</u>	<u>CM</u>	<u>Fav/CS</u>
2.	_____	_____	<u>CA</u>	_____
3.	_____	_____	<u>FT</u>	_____
4.	_____	_____	<u>TA</u>	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

The Florida Legislature has created several programs to help promote economic development in rural or financially distressed communities. Among them are:

- the Florida Enterprise Zone Program created in ch. 290, F.S., which offers a myriad of state and local tax incentives to businesses that locate in the 57 existing rural or urban enterprise zones (EZs), and
- the Rural Area of Critical Economic Concern (RACEC) program, created in s. 288.0656, F.S., which provides access to technical assistance, grants, collaborative permitting and planning assistance, and potential waivers of requirements for certain state incentive programs.

State agencies are directed to use all available economic development resources to promote and develop designated business catalyst sites within each RACEC. There are four catalyst sites; the two located in Calhoun and Highlands counties are located within rural EZs, and the two located in Columbia and Suwannee counties are not.

CS/SB 1724 specifies that any catalyst site created prior to January 1, 2010, that is not located currently in a rural EZ must be designated as a rural EZ by the Governor’s Office of Tourism, Trade, and Economic Development (OTTED), upon request from the site’s host county. That request must include the catalyst site’s legal description and the contact information for the development authority that oversees the site’s activities. These new rural EZs will offer the same business incentives as those designated pursuant to ch. 290, F.S., and must adhere to the same state reporting requirements.

CS/SB 1724 creates an undesignated section of Florida law.

II. Present Situation:

Florida's rural economic development initiatives

A "rural community" is defined by s. 288.0656, F.S., as:

- A county with a population of 75,000 or less;
- A county with a population of 125,000 or less that is contiguous to a county with a population of 75,000 or less;
- A municipality within a county with a population of 75,000 or less or a county with a population of 125,000 or less that is contiguous to a county with a population of 75,000 or less; or
- A federal enterprise community or an incorporated rural city with a population of 25,000 or less and an employment base focused on traditional agricultural or resource-based industries, located in a county not defined as rural, which has at least three or more of the economic distress factors identified by statute and verified by OTTED.

Thirty-two Florida counties meet the current definitions of "rural" as outlined above.¹

In 1999, the Legislature created the Rural Economic Development Initiative (REDI)² to encourage and align critical state agency participation and investment around important rural issues and opportunities. Twenty-three state agencies or public-private entities are involved in REDI, and they meet regularly to discuss the status of their collaborative efforts to facilitate permitting and planning decisions for rural counties or rural projects.

Pursuant to an executive order of the Governor, 28 rural counties (and five small towns) have been categorized into one of three RACECs: North Central, Northwest, and South Central. These RACECs are defined by OTTED based on measures of economic interdependence among the rural counties in each of the three geographic regions. In 2007, the counties within each RACEC selected catalyst sites where regional and state business recruitment efforts will be focused. They also have chosen their targeted industries.³

Catalyst sites are defined in s. 288.0656(2)(b), F.S., as "a parcel or parcels of land within a rural area of critical economic concern that has been prioritized as a geographic site for economic development through partnerships with state, regional, and local organizations. The catalyst site must be reviewed by the Rural Economic Development Initiative (REDI) and approved by OTTED for the purposes of locating within its boundaries a catalyst project, defined as a new or expanding business expected to serve as an economic generator for the entire region.

¹ *Florida Estimates of Population- 2008*. Prepared by the University of Florida's Bureau of Economic and Business Research. Pages 30-31.

² Created in s. 288.0656, F.S. REDI's website can be accessed at <http://www.florida-redi.com/Default.aspx>. Last visited April 3, 2010.

³ More background and updated information about the RACECs is available at http://www.eflorida.com/Floridas_Future.aspx?id=8188. Color map of the three RACECs is available at http://www.eflorida.com/FloridasRegions/racec_map.html. Last visited April 2, 2010. (Free registration is required.)

The four RACEC catalyst sites are:

- In the Northwest RACEC, the site is off State Road 71, about 2 miles north of Blountstown, in the Calhoun County Industrial Park at the Airport. It is about 100 acres.
- In the Northeast RACEC, there are two sites, each about 500 acres in size: one in Suwannee County located on U.S. 90 close to the I-10 interchange, and the other is in Columbia County east of Lake City on U.S. 90, close to the airport and community college.
- In the South Central RACEC, the 100-acre site is located within the Sebring Airport Business Park.

No businesses have yet located on any rural catalyst site.⁴ All four sites require infrastructure improvements to be marketable, and the necessary design and engineering work for the proposed infrastructure is nearing completion. Construction of infrastructure on some of the catalyst sites could begin later this summer or early fall.

The catalyst site for the Northwest Rural Area of Critical Economic Concern is off of SR71, about 2 miles north of Blountstown, in the Calhoun County Industrial Park at the Airport and is about 100 acres.

The North Central Florida sites are each about 500 acres. One is in Suwannee County located on US 90 close to the I-10 interchange and is known as the Harrell Property. The Columbia County site is located east of Lake City on US 90, close to the airport and community college and is known as the Plum Creek Site.

The 100 acre South Central Florida site is located within the Sebring Airport Business Park and is known the Sebring Airport site.

No provision currently exists regarding the designation of catalyst sites not located in rural EZs. Catalyst sites and EZs are independent statutory designations of areas in need of economic development, and have different eligibility criteria. For example, a basic criterion for EZs, in general, is that within the U.S. Census blocks used to form the zone boundaries, at least 20 percent of the population must fall below the U.S. poverty rate,⁵ or in the case of rural EZs, at least 20 percent of the rural county's population must be below the poverty rate.⁶ No similar requirement exists for RACECs or catalyst sites, although RACEC designation is based on "an extraordinary economic event, severe or chronic distress, or a natural disaster..."⁷

The Florida Enterprise Zone Program

Background

The Legislature created the EZ program in 1982 to encourage economic development in economically distressed areas of the state by providing tax incentives designed to induce private investment that creates jobs and increases property values. There currently are 57 EZs, all of which were either created or reauthorized by the Legislature.

⁴ Email from Enterprise Florida, Inc., staff, dated April 5, 2010. On file with the Commerce Committee.

⁵ For example, the U.S. Poverty Rate for a family of four in 2009 was \$22,050. Information available at <http://aspe.hhs.gov/poverty/09poverty.shtml>. Site last visited April 3, 2010.

⁶ OTTED staff has confirmed that Columbia and Suwannee counties do not meet the enterprise zone criteria.

⁷ Section 288.0656(2)(d), F.S.

OTTED reports that between October 1, 2008, and September 30, 2009, new businesses numbering 3,104 moved into or were created in enterprise zones and 9,073 new jobs were created by businesses in EZs.⁸ More than \$45 million in state⁹ and nearly \$11.6 million in local-government financial incentives were approved during that same period.

Over the last 5 years, 17,325 new businesses have moved into or were created in EZs and 54,000 new jobs have been created.¹⁰

Designation process

Sections 290.001-290.016, F.S., authorize the creation of EZs and establish criteria and goals for the program. Prior to submitting an application for an EZ, a local government body must determine that an area:

- Has chronic extreme and unacceptable levels of poverty, unemployment, physical deterioration, and economic disinvestment;
- Needs rehabilitation or redevelopment for the public health, safety, and welfare of the residents in the county or municipality; and
- Can be revitalized through the inducement of the private sector.

OTTED is responsible for approving applications for the creation of EZs – when authorized by the Legislature – and also approves changes in enterprise zone boundaries, as long as the total size of the EZ is not increased. As part of the application process, the county or municipality in which the EZ will be located also is responsible for creating an Enterprise Zone Development Agency and an EZ development plan.

As outlined in s. 290.0056, F.S., an Enterprise Zone Development Agency is required to have a board of commissioners of at least eight, and no more than 13, members. The agency has the following powers and responsibilities:

- Assisting in the development, implementation and annual review of the zone and updating the strategic plan or measurable goals;
- Identifying ways to remove regulatory burdens;
- Promoting the incentives to residents and businesses;
- Recommending boundary changes;
- Working with nonprofit development organizations; and
- Ensuring the enterprise zone coordinator receives annual training and works with Enterprise Florida, Inc.

Pursuant to s. 290.0057, F.S., an EZ development plan (or strategic plan) must accompany an application. At a minimum this plan must:

- Describe the community's goal in revitalizing the area;

⁸ Florida Enterprise Zone Program Annual Report, October 1, 2008 - September 30, 2009. Published March 1, 2010. On file with the Senate Commerce Committee.

⁹ Nearly \$31 million of this amount was paid out in the form of sales and use tax refunds for the purchase of building materials in enterprise zones – nearly all of which was used to build condominiums, according to information provided by the Department of Revenue.

¹⁰ *Ibid*, page 3.

- Describe how the community's social and human resources—transportation, housing, community development, public safety, and education and environmental concerns—will be addressed in a coordinated fashion;
- Identify key community goals and barriers;
- Outline how the community is a full partner in the process of developing and implementing this plan;
- Describe the commitment from the local governing body in enacting and maintaining local fiscal and regulatory incentives;
- Identify the amount of local and private resources available and the private/public partnerships;
- Indicate how local, state, and federal resources will all be utilized;
- Identify funding requested under any state or federal program to support the proposed development; and
- Identify baselines, methods, and benchmarks for measuring success of the plan.

Available incentives

Florida's EZs qualify for various incentives from corporate income tax and sales and use tax liabilities. As noted above, OTTED reported that \$45.3 million in state incentives were approved by the Department of Revenue (DOR), between October 1, 2008, and September 30, 2009, for all the EZs.

During that same time period, \$11.5 million in incentives were provided by local governing bodies, half of the FY 07-08 total. Examples of local incentives include: utility tax abatement, reduction of occupational license fees, reduced building permit fees or land development fees, and local funds for capital projects.¹¹

Available state sales-and-use tax incentives for enterprise zones include:

- Building Materials Used in the Rehabilitation of Real Property Located in an Enterprise Zone: Provides a refund for taxes paid on the purchase of certain building materials, up to \$5,000 or 97 percent of the tax paid, whichever is less. For projects where at least 20 percent of the employees live in the enterprise zone, the refund is the lesser of \$10,000 or 97 percent of the tax paid.
- Business Equipment Used in Enterprise Zones: Provides a refund for taxes paid on the purchase of certain equipment, up to \$5,000 or 97 percent of the tax paid, whichever is less. For projects where at least 20 percent of the employees live in the enterprise zone, the refund is the lesser of \$10,000 or 97 percent of the tax paid.
- Rural Enterprise Zone Jobs Credit against Sales Tax: Provides a tax credit for either 20 percent, 30 percent, or 45 percent of wages paid to new employees, depending on where they live.
- Urban Enterprise Zone Jobs Credit against Sales Tax: Provides a tax credit for 20 percent or 30 percent of wages paid to new employees, depending on where they live.

¹¹ Ibid, page 11.

Summary of State Incentives Offered in the Florida Enterprise Zone Program¹²

TYPE	FY 08-09	FY 07-08	FY 06-07	FY 05-06	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Jobs Tax Credit (SUT)	\$5,227,245	\$5,732,605	\$6,087,843	\$6,777,250	\$4,729,834	\$2,579,512	\$1,444,543	\$970,148
Jobs Tax Credit (CIT)	\$5,072,555	\$5,507,311	\$5,919,236	\$4,253,621	\$2,080,397	\$1,086,747	\$800,029	\$1,965,920
Property Tax Credit (CIT)	\$1,910,708	\$2,184,036	\$2,291,961	\$1,267,999	\$1,668,168	\$507,022	\$272,942	\$303,542
Building Materials (SUT Refund)	\$30,994,860	\$25,665,025	\$18,855,129	\$7,415,711	\$3,878,421	\$1,356,462	\$533,673	\$456,551
Business Equipment (SUT Refund)	\$1,139,066	\$1,269,955	\$1,771,396	\$2,940,864	\$1,618,721	\$1,182,582	\$1,874,145	\$2,813,601
Electrical Energy (SUT exempt)	\$1,007,007	\$606	\$793,179	\$778,090	\$84,516	\$488,937	\$476,251	\$229,789
Total Value of State Incentives	\$45,351,441	\$40,359,538	\$35,718,744	\$23,433,535	\$14,060,057	\$7,201,262	\$5,401,583	\$6,739,551
# of EZs	56 ¹³	56	56	55	53	51	51	47

- **Business Property Used in an Enterprise Zone:** Provides a refund for sales taxes paid on the purchase of certain business property, up to \$5,000 or 97 percent of the tax paid per parcel of property, whichever is less. The property also must have been used exclusively in an enterprise zone for at least 3 years.
- **Community Contribution Tax Credit:** Provides 50-percent sales tax refund for donations made to local community development projects.
- **Electrical Energy Used in an Enterprise Zone:** Provides 50-percent sales tax exemption to qualified businesses located within an enterprise zone on the purchase of electrical energy.

Available state corporate income tax incentives for enterprise zones include:

- **Rural Enterprise Zone Jobs Credit against Corporate Income Tax:** Provides a corporate income tax credit equal to either 20 percent, 30 percent, or 45 percent of wages paid to new employees, depending on where they live.
- **Urban Enterprise Zone Jobs Credit against Corporate Income Tax:** Provides a corporate income tax credit for 20 percent or 30 percent of wages paid to new employees, depending on where they live.

¹² Information compiled from several editions of the Florida Enterprise Zone Program annual report.

¹³ Ocala’s enterprise zone designation wasn’t approved by OTTED until January 2010, so its activity will be displayed next year.

- Enterprise Zone Property Tax Credit: Provides a credit against Florida corporate income tax equal to 96 percent of ad valorem taxes paid on the new or improved property.
- Community Contribution Tax Credit: Provides a 50-percent credit on Florida corporate income tax or insurance premium tax, or a sales tax refund, for donations made to local community development projects.

For the purposes of defining “new employee” for rural EZ incentives, the workers are required only to live in the county where the EZ is located for the employing business to receive the jobs tax credits, pursuant to s. 290.00677, F.S.

III. Effect of Proposed Changes:

CS/SB 1724 directs OTTED to designate as a rural enterprise zone any catalyst site created prior to January 1, 2010, that is not already located in a rural enterprise zone, if requested by the host county. This CS impacts the catalyst sites in Suwannee and Columbia counties.

Section 1 directs OTTED to designate catalyst sites as defined in s. 288.0656, F.S., as rural enterprise zones upon request of the host county. It specifies that catalyst sites designated as rural enterprise zones pursuant to this legislation must receive the same benefits as enterprise zones designated under s. 290.0065, F.S., and that they must meet the same reporting criteria as traditionally created enterprise zones. A host county’s development authority, which is a public body, will be responsible for serving as the catalyst site/EZ’s reporting entity, and may enter into memoranda of agreement, if necessary, to implement this act.

The host county’s request must include a legal description of the site and contact information for the reporting entity. The reporting criteria for a rural catalyst site designated as a rural enterprise zone is the same as for other rural enterprise zones.

Section 2 specifies an effective date of July 1, 2010.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:**A. Tax/Fee Issues:**

At its February 24, 2010, meeting, the state Revenue Estimating Conference determined by consensus that passage of the original filed legislation creating EZs for catalyst sites in Columbia and Suwannee counties would have an “insignificant” negative impact on state revenues over the next 4 years. The calculations totaled less than \$30,000 in reductions of state revenue due to estimated tax refunds or tax credits that would be awarded businesses at the two sites through FY 13-14.

B. Private Sector Impact:

Indeterminate, but likely positive.

C. Government Sector Impact:

Indeterminate, but minimal. OTTED staff can absorb within its regular workload the administration of the expected requests from Columbia and Suwannee counties for rural enterprise zone designations for their catalyst sites.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Additional Information:**A. Committee Substitute – Statement of Substantial Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Commerce Committee on April 7, 2010:

- Specifies that only catalyst sites created prior to January 1, 2010, are eligible to be designated as rural EZs under the provisions of this legislation; and
- Specifies that the reporting entity for these hybrid catalyst sites/rural EZs must be their county’s development authority, to ensure that a public entity will be responsible for managing their EZ activities and complying with the annual reporting requirements.
- Provides for a county development authority to enter into memoranda of agreement, if necessary, to implement the provisions of this act.

B. Amendments:

None.