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HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
TRANSPORTATION & ECONOMIC DEVELOPMENT APPROPRIATIONS
BILL RESEARCH & ECONOMIC IMPACT STATEMENT

BILL #: HB 1997 (PCB BDIT 97-02)

RELATING TO: Economic Development

SPONSOR(S): Committee on Business Development and International Trade

STATUTE(S) AFFECTED: Amending s. 114, chapter 96-320, sections 14.2015, 212.08, 288.047, 288.012, 288.1045, 288.106, 288.9015, 288.903, 288.905, 288.906, 290.0411, 290.044, 290.047, 290.048, 311.11, and 320.20; creating sections 220.190, 290.0455, and new language

COMPANION BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) BUSINESS DEVELOPMENT AND INTERNATIONAL TRADE YEAS 7 NAYS 0
(2) TRANSPORTATION & ECON. DEV. APPROPRIATIONS
(3)

I. SUMMARY:

This bill contains the following provisions that modify the duties and requirements of Enterprise Florida, Inc.:

- Amends the definition of “matching private funds” received by Enterprise Florida, Inc.
- Requires Enterprise Florida, Inc., to develop a business guide and checklist.
- Requires Enterprise Florida, Inc., to update and modify their strategic plan by January 1, 1998, and update such plan annually. Requires specific issues be included in the plan.
- Revises Enterprise Florida, Inc.’s annual report.

The bill also contains the following economic development incentives:

- Sales tax exemption for the purchase of pollution control machinery.
- Florida Work Opportunity Tax Credit.
- The Employing and Training our Youths (ENTRY) tax refund program.
- Small Cities Community Development Block Grant Loan Guarantee Program.
- Deposits $10 million of motor vehicle license tax moneys in the State Transportation Trust Fund Solely for seaport intermodal development projects.

The departments of Revenue and Banking and Finance, and the Office of Tourism, Trade and Economic Development will have to develop rules and forms to implement the programs contained in this bill.

The Revenue Estimating Conference has not yet reviewed this bill. This bill contains a number of economic development incentives that will have recurring negative impacts on state and local revenues. To the extent this bill induces additional economic activity, this bill may also have a positive impact on state and local revenues. Please see the fiscal research section for further details.

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

Enterprise Florida, Inc.,

In 1992, the Legislature created Enterprise Florida, Inc. (EFI). EFI assists in the coordination of the state's economic development efforts and develops a strategic plan for economic development for Florida. In 1993, the Legislature created two additional Enterprise Florida Partnerships -- The Enterprise Florida Innovation Partnership and the Enterprise Florida Capital Partnership. The Enterprise Florida Innovation Partnership fosters the growth of high technology and value-added industries, and assists in the commercialization of technological products. The Enterprise Florida Capital Partnership fosters access to capital for Florida firms. In 1994, the Legislature created the Enterprise Florida Jobs and Education Partnership. The Enterprise Florida Jobs and Education Partnership coordinates state training programs to promote the availability of a skilled work force. The Legislature created all of these entities as separate corporations, with EFI serving as the "umbrella" organization.

The Legislature directed EFI and each partnership to develop performance measures to measure the effectiveness of their individual programs and services. The Legislature directed the Office of Program Policy Analysis and Governmental Accountability (OPPAGA) to review EFI and its partnerships prior to the 1996 Regular Session. OPPAGA provided individual reports to the Legislature in October 1995 (see, OPPAGA reports 95-07, 95-08, 95-09, 95-15, and 95-16). These reports found that existing performance measures did not contain adequate review criteria, but noted that not enough time had elapsed to determine whether EFI and its partnerships were accomplishing their statutory missions.

In 1996, the Legislature restructured the management and control over most state domestic and international economic development operations from two state entities -- the Florida Department of Commerce (FDC) and the Florida International Affairs Commission (FIAC) into two public/private entities -- EFI and the Florida Tourism Commission (FTC). The partnerships were redesignated as boards, and the Enterprise Florida International Trade and Economic Development Board was created. Administrative oversight over these entities and other fundamentally public-sector programs and responsibilities, are placed within the Office of Tourism, Trade, and Economic Development (OTTED) of the Executive Office of the Governor. The FDC and FIAC were dissolved effective December 31, 1996.

EFI and affiliated boards were specifically required to address the issue of performance and accountability. The EFI was required to develop a strategic plan with recommended performance measures by January 1, 1997. These measurable performance objectives and outcomes are required to be finalized by July 1, 1997. OPPAGA is required to review EFI and its boards prior to the 1999 Regular Session.

OTTED is required to submit a unified legislative budget request for economic development and trade for the FTC, EFI, and other public-private partnerships. The FTC, EFI, and other public-private partnerships would be subject to performance based programs budgeting review during FY 1998-99, when the Executive Office of the Governor is scheduled to be reviewed.

Enterprise Florida, Inc., was also directed to obtain "matching private funds." An increasing amount of funds appropriated to Enterprise Florida are to be set aside each year, and released upon a matching amount of private funds being received by Enterprise Florida. In FY 1996-97, 10 percent of such funds have been set aside -- $1.5 million. The amount is increased by 10 percent each year, to a maximum of 50 percent in FY 2000-01.

Tax Incentives

Part I of Chapter 212, F.S., provides for the imposition of a 6 percent state sales and use tax on sales, uses, consumptions, distributions, and storage occurring in this state. Florida currently offers a number of sales tax incentives to businesses located in Florida in addition to other types of job-created incentives. These include exemptions for new and expanding businesses, enterprise zone exemptions and refunds, raw materials, research and development, co-generation of electricity, boiler fuels, packaging and industrial materials, as well as industry specific exemptions for agriculture, commercial space activities, motion picture and recording industry, and funds for new professional sports franchises and new spring training franchises.

Section 212.08(5)(b), F.S., currently provides a sales tax exemption for the purchase of machinery and equipment used to increase productive output. New businesses may receive this exemption regardless of the amount of equipment purchased, but expanding businesses may only receive this exemption for purchases that exceed $50,000 in sales tax.

Chapter 220, Florida Statutes, provides for the taxation of corporations conducting business, deriving income, or existing within the state of Florida. The tax is levied at 5.5 percent of a corporation's net income, less a $5,000 exemption. "Net income" is defined as that share of a corporation's adjusted federal income which is apportioned to Florida for any taxable year. Chapter 220, Florida Statutes, currently allows for the following exemptions, credits, or deductions:

- Deduction for Child Care Facility Start-Up Costs (220.12(1))
- Gasohol Development Tax Incentive Credit (220.18)
- Enterprise Zone Jobs Credit (220.181)
- Enterprise Zone Property Tax Credit (220.182)
- Community Contribution Tax Credit (220.183)
- Hazardous Waste Facility Tax Credit (220.184)
- Credit for Florida Alternative Minimum Tax (220.186)
- Export Finance Corporation Investment Credit (220.188)
- Deduction for International Banking Facility Income (220.63(5))

Small Cities Community Development Block Grant Program

Title I of the federal Housing and Community Development Act of 1974, authorizes the distribution of Community Development Block Grant (CDBG) funds to local governments in order to help redevelop distressed urban communities. Grant funds may be expended on activities that primarily benefit low and moderate income persons, include housing, infrastructure, and other projects that expand economic opportunities. 85% of the federal CDBG funds are dispersed directly to large urban cities and counties that are designated as "entitlement communities." The remaining portion is dispersed to the states to distribute in the form of competitive grants to smaller cities and counties, (counties with populations less than 200,000 persons, and cities with populations less than 50,000 persons). The Department of Community Affairs administers the state's small counties and cities CDBG fund pursuant to the Florida Small Cities Community Development Block Grant Program Act (ss. 290.0401--290.049).

As a component of the CDBG program, Congress authorized a "Section 108 Loan Guarantee " program, under which CDBG funds may be used to guarantee notes or other obligations issued by public entities or agencies designated by public entities in order to finance a variety of economic and community Development projects. Entitlement communities may use the funds to make guarantees without any state activity or responsibility.

Port Development

There are fourteen deepwater ports located in Florida: Port Canaveral, Port Everglades, Port of Fernandina, Port of Fort Pierce, Port of Jacksonville, Port of Key West, Port Manatee, Port of Miami, Port of Palm Beach, Port of Panama City, Port of Pensacola, Port St. Joe, Port of St. Petersburg, and Port of Tampa. According to the Florida Seaport Transportation and Economic Development Council, these ports account for nearly 250,000 seaport-related jobs and $600 million in governmental revenues statewide.

Section 311.07, F.S., authorizes the creation of the Florida Seaport Transportation and Economic Development Program to finance port transportation or port facilities projects. The program allows for a minimum of $8 million per year to fund port development projects on a 50-50 match.

B. EFFECT OF PROPOSED CHANGES:

Enterprise Florida, Inc.

The bill provides the following modifications to the duties and responsibilities of Enterprise Florida:

- Amends the definition of "matching private funds" received by Enterprise Florida. Removes provisions relating to wages paid by employers, and states that funds may not include funds received from entities seeking to qualify for an incentive, grant, or loan.

- Requires Enterprise Florida, Inc,. to develop a business guide and checklist that contains basic information on starting and operating a business in Florida.

- Requires Enterprise Florida, Inc., to update or modify the strategic plan for economic development for the State of Florida by January 1, 1998, and update such plan biennially. Provides specific requirements that must be included in the plan. Delineates specific types of performance measures that should be included in the plan.

- Revises Enterprise Florida, Inc's annual report to include specific descriptions of their operations, as well as an annual compliance and financial audit.

The bill also requires the Office of Tourism, Trade, and Economic Development (OTTED) to develop a plan for the disposition and/or development of State of Florida Foreign offices by September 1, 1997. Each foreign office must have an operational plan by June 1, 1998, that includes specific requirements. OTTED has the authority to enter into agreements with state, local, and private entities to operate such offices.

<u>Tax Incentives</u>

The bill creates the following tax incentives:

- Sales tax exemption for the purchase of pollution control equipment. In order to receive the exemption, the equipment must be required by a federal, state, or local agency, and only taxes in excess of $50,000 per calendar year are exempt.

- Florida Work Opportunity Tax Credit. Florida business may receive a credit against their corporate income tax for hiring a WAGES Program Participant. The credit is computed as 10% of the actual wages paid to such employee, not to exceed $2,400.

- The Employing and Training our Youths (ENTRY) tax refund program. Businesses may receive a tax refund voucher of up to $1,600 for hiring a youth employee between the ages of 15 and 18. The youth must be employed for a year to receive the full amount of tax refunds, and must be employed for at least 12 hours per week at the federal minimum wage. Business can receive refund payments for a number of taxes and fees paid to the state and local governments.

The Quick-response Training, Qualified Targeted Industry Tax Refund, and Qualified Defense Contractor Tax Refund programs are amended so that program funds may not be expended in connection with the relocation of a business from one community to another community in Florida, unless Enterprise Florida, Inc., determines that such funds are necessary to keep the business in Florida.

<u>Small Cities Community Development Block Grant Program</u>

The bill creates the Small Cities Community Development Block Grant Guarantee Program. The Department of Community Affairs must administer the loan program pursuant to federal law. The maximum amount of loan guarantees that may be issued to any local government is $7 million, and the maximum amount of commitments that may be issued statewide may not exceed five times the amount of the total CDBG funds received under the program that year. Loans issued pursuant to this program must be repaid within 20 years.

<u>Port Development</u>

The bill makes some technical changes to the Seaport Employment Training Grant Program, specifically requiring program funds be expended to stimulate and support seaport training and employment programs.

The bill directs $10 million of motor vehicle license tax moneys to be deposited in the State Transportation Trust Fund solely for seaport intermodal development projects. The bill provides specific requirements for the use and expenditure of these funds, including a 50-50 match and the development of an intermodal development plan.

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

Yes, the departments of Revenue and Banking and Finance, and the Office of Tourism, Trade, and Economic Development will have to develop rules and forms to implement the programs contained in this bill.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

Yes, local schools will have to interact with businesses seeking to apply for the ENTRY tax refund program.

(3) any entitlement to a government service or benefit?

Yes, the bill contains a number of tax incentives for businesses that qualify for the specific tax incentive program.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. <u>Lower Taxes:</u>

   a. Does the bill increase anyone's taxes?

      No.

   b. Does the bill require or authorize an increase in any fees?

      No.

   c. Does the bill reduce total taxes, both rates and revenues?

      Yes, the bill provides a number of tax incentives. The overall impact of these incentives has not been determined by the Revenue Estimating Conference yet.

   d. Does the bill reduce total fees, both rates and revenues?

      No.

   e. Does the bill authorize any fee or tax increase by any local government?

      No.

3. <u>Personal Responsibility:</u>

   a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

      N/A

   b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

      N/A

4. <u>Individual Freedom:</u>

   a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

      N/A

   b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

      N/A

5. <u>Family Empowerment:</u>

a. If the bill purports to provide services to families or children:

N/A

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

N/A

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. SECTION-BY-SECTION RESEARCH:

Section 1 amends s. 114, chapter 96-320, Laws of Florida, relating to matching private funds received by Enterprise Florida, Inc. Amends the definition of “matching private funds” received by Enterprise Florida, Inc. Requires that such funds must be solicited by Enterprise Florida, Inc., and used exclusively in their operations or programs. Removes provisions that had allowed for wages paid by employers receiving benefits under the Quick-response Training Program and other similar training programs to be defined as matching funds. Provides that funds received from an entity to qualify for incentives, grants, or loans do not qualify as matching funds.

Section 2 amends s. 14.2015, F.S., relating to the Office of Tourism, Trade, and Economic Development. Removes redundant language related to contracts with EFI and FTC. Removes provisions allowing OTTED to use 1% of funds appropriated for specific programs to contract with entities to help administer OTTED’s programs.

Section 3 amends s. 212.08(5)(b), F.S., relating to the sales tax exemption for the purchase of machinery and equipment used to increase productive output. Creates a sales tax exemption for the purchase of pollution control equipment. Delineates that only equipment required by a federal, state, or local agency can be used to qualify for such exemption, and only taxes in excess of $50,000 per calendar are exempt.

Section 4 creates s. 220.190, F.S., relating to the Florida Work Opportunity Tax Credit. Creates a credit against the corporate income tax for any business which employs a WAGES program participant. Provides that the credit is computed as 10% of the actual wages paid to such employee, not to exceed $2,400.

Section 5 amends s. 288.047, F.S., relating to the Quick-response training program. States that training funds under this program may not be expended in connection with the relocation of a business from one community to another community in Florida, unless OTTED determines that such funds are necessary to keep the business in Florida.

Section 6 amends s. 288.012, F.S., relating to Florida foreign offices. Provides legislative findings and intent. Requires OTTED to develop a plan for the disposition and/or development of these offices by September 1, 1997. Requires each office to have an operational plan by June 1, 1998, that includes specific requirements. Directs OTTED to enter into agreements with state, local, and private entities to operate such offices.

Section 7 amends s. 288.1045, F.S., relating to the qualified defense contractor tax refund program. States that program funds may not be expended in connection with the relocation of a business from one community to another community in Florida, unless OTTED determines that such funds are necessary to keep the business in Florida.

Section 8 amends s. 288.106, F.S., relating to the qualified target industry business tax refund program. States that program funds may not be expended in connection with the relocation of a business from one community to another community in Florida, unless OTTED determines that such funds are necessary to keep the business in Florida.

Section 9 amends s. 288.9015, F.S., relating to the purpose and duties of EFI. Requires EFI to develop a business guide and checklist that contains basic information on starting and operating a business in Florida.

Section 10 amends s. 288.903, F.S., relating to the president of EFI. Requires the president to coordinate all activities and responsibilities of EFI with respect to participants in the WAGES Program.

Section 11 amends s. 288.905, F.S., relating to the duties of the board of directors of EFI. Requires the board to update or modify the strategic plan for economic development for the State of Florida by January 1, 1998, and update such plan annually thereafter. Requires the plan be approved by the board prior to submission to the Governor and Legislature. Provides that the plan should include specific requirements. Delineates what type of measurable objectives and performance outcomes should be included in the strategic plan.

Section 12 amends s. 288.906, F.S., relating to the annual report of EFI. Revises the requirements of the annual report to include specific requirements.

Section 13-17 amends s. 290.0411, 290.044, and 290.048, F.S., and creates s. 290.045, F.S., relating to the Florida Small Cities CDBG Program. Creates the Small Cities Community Development Block Grant Loan Guarantee Program. States that the Department of Community Affairs shall administer the loan program pursuant to federal law. Limits the maximum amount of loan guarantees that any local government may receive to $7 million, and the maximum amount of commitments that may be issued statewide may not exceed five times the amount of the total CDBG funds received under the program that year. Requires loans to be repaid within 20 years.

Section 18 amends s. 311.11, F.S., relating to the Seaport Employment Training Grant Program. Requires funds be expended to stimulate and support seaport training and employment programs. Provides technical changes.

Section 19 amends s. 320.20, F.S., relating to the disposition of motor vehicle license tax moneys. Directs that $10 million of the moneys be deposited in the State Transportation Trust Fund solely for seaport intermodal development projects. Provides specific requirements for the use and expenditure of these funds.

Section 20 creates the Employing and Training our Youths (ENTRY) program. Provides a tax refund of up to $1,600 per eligible business for hiring a youth employee between the ages of 15 and 18. Provides that an eligible business may not receive refund payments for more than five eligible youth employees in any single fiscal year. Directs that a business may receive payments at the end of each quarter the youth employee works at such business ($400 per quarter, per employee). Provides a list of taxes and fees a business may receive refunds for. States that a business must fine an employment/tax agreement form at the school where the youth employee attends.

Section 21 provides an appropriation of $500,000 from the General Revenue Fund for fiscal year 1997-1998 to fund the Seaport Employment Training Grant program contained in s. 311.11, F.S. Provides an appropriation of $10 million from the State Transportation Trust Fund for fiscal year 1997-1998 to fund the seaport intermodal development program contained in section 19 of this bill. Provides an appropriation of $2 million from the General Revenue Fund for fiscal year 1997-1998 to fund the ENTRY tax refund program contained in section 20 of this bill.

Section 22 provides that this act shall take effect July 1, 1997.

III. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

This bill will have non-recurring effects associated with administration of programs contained in this bill on the departments of Revenue and Banking and Finance, and the Office of Tourism, Trade, and Economic Development.

The bill provides a $500,000 appropriation from the General Revenue Fund to fund the Seaport Employment Training Grant program.

The bill provides a $2 million appropriation from the General Revenue Fund to fund the tax refund vouchers contained in the ENTRY tax refund program.

2. Recurring Effects:

This bill will have an indeterminate negative fiscal impact associated with the tax credits authorized in this bill. The Revenue Estimating Conference has estimated the sales tax exemption for pollution control will have a negative fiscal impact on the General Revenue Fund of ($5.7 million) in FY 1997/98 and ($6.2 million) in FY 1998/99. The other tax incentives contained in this bill have not been reviewed by the Conference yet.

The bill deposits $10 million of license tax moneys in the State Transportation Trust Fund solely for use for seaport intermodal projects.

To the extent this bill induces additional economic activity, the bill may also have a positive impact on state revenues.

3. Long Run Effects Other Than Normal Growth:

Indeterminate at this time.

4. Total Revenues and Expenditures:

See A1. and A2. above

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

   None.

2. Recurring Effects:

   This bill will have indeterminate negative fiscal impacts associated with the tax credits authorized in this bill. The Revenue Estimating Conference has estimated the sales tax exemption for pollution control will have a negative fiscal impact on local government revenues of $0.9 million in FY 1997/98 and $1.02 million in FY 1998/99. The other tax incentives contained in this bill have not been reviewed by the Conference yet.

   To the extent this bill induces additional economic activity, the bill may also have a positive impact on local government revenues.

3. Long Run Effects Other Than Normal Growth:

   Indeterminate at this time.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   None.

2. Direct Private Sector Benefits:

   Eligible businesses will be able to benefit from the tax credits contained in this bill.

3. Effects on Competition, Private Enterprise and Employment Markets:

   To the extent this bill induces additional economic activity, this bill should have a positive impact on employment and private enterprise in Florida.

D. FISCAL COMMENTS:

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

A. APPLICABILITY OF THE MANDATES PROVISION:

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

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

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

Although the bill may reduce the base amount of state tax shared with municipalities and counties, the bill does not reduce the percentage of a state tax shared with municipalities and counties. Therefore, Article VII, Section 18(b), Florida Constitution does not apply.

V. COMMENTS:

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

VII. SIGNATURES:

COMMITTEE ON BUSINESS DEVELOPMENT AND INTERNATIONAL TRADE:

Prepared by:	Legislative Research Director:
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AS REVISED BY THE COMMITTEE ON TRANSPORTATION & ECONOMIC DEVELOPMENT APPROPRIATIONS:

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