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**HOUSE OF REPRESENTATIVES
COMMITTEE ON
BUSINESS DEVELOPMENT AND INTERNATIONAL TRADE
BILL ANALYSIS & ECONOMIC IMPACT STATEMENT**

BILL #: HB 965

RELATING TO: Economic Development

SPONSOR(S): Rep. Meek

STATUTE(S) AFFECTED: 220.02 and 220.13, F. S.

COMPANION BILL(S): CS/SB 780

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

- (1) BUSINESS DEVELOPMENT AND INTERNATIONAL TRADE
- (2) LAW ENFORCEMENT AND PUBLIC SAFETY
- (3) FINANCE AND TAXATION
- (4) TRANSPORTATION AND ECONOMIC DEVELOPMENT APPROPRIATIONS
- (5)

I. SUMMARY:

This bill creates the Urban High-Crime Area Tax Credit Program and the Rural Job Tax Credit Program. These programs provide tax credits to businesses which locate in high crime areas or rural areas. This bill provides for different levels of the amount of the tax credit based on the number of employees the business employs or hires and the ranking of the area in which the business is located. The bill also provides for additional tax credits if the business employs WAGES participants.

The Revenue Estimating Conference has not yet reviewed this bill. The bill has negative recurring and nonrecurring fiscal impacts. The maximum recurring fiscal impact the bill will have is \$10 million plus administrative costs. To the extent the bill induces additional economic activity, the bill may also have a positive fiscal impact.

The bill requires the Department of Revenue to develop rules to implement the provisions of this bill.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

The State of Florida currently offers a number of financial incentives to new and expanding businesses. One such program is the Enterprise Zone Program (ch. 290, F. S.) This program encourages development in specific geographic areas by offering tax credits to companies who relocate in the zone and employ residents of the zone.

Another incentive program is the Qualified Target Industry Tax Refund Program (s. 288.106, F. S.) This program offers tax refunds for new jobs created by new or expanding businesses in targeted high value industries.

B. EFFECT OF PROPOSED CHANGES:

Urban High-Crime Area Tax Credit Program

This bill creates the Urban High-Crime Job Tax Credit Program. This program gives tax credits to specific types of businesses in the top 15 high-crime areas in the state.

The specific types of businesses which qualify for the Urban High-Crime Tax Credit Program are: agriculture, forestry, fishing, manufacturing, public warehousing and storage, hotels and other lodging places, research and development, and public golf courses and amusement parks. These types of businesses may receive tax credits for hiring employees in designated high crime areas.

Local governments that desire to designate an area as an Urban High-Crime Area must apply to the Office of Tourism, Trade, and Economic Development (OTTED) for such designation after the adoption of a resolution of certain findings specified in the bill; and if they are eligible according to the population and mileage limitations set forth in the bill.

OTTED selects the top 15 high-crime areas of the state and ranks them into three tiers according to:

1. Overall index crime rate for the geographic area;
2. Overall index crime volume for the area;
3. Percentage of reported index crimes that are violent in nature;
4. Reported crime volume and rate of specific property crimes such as business and residential burglary, motor vehicle theft, and vandalism;
5. Arrest rates within the geographic area for violent crime and for such crimes as drug sale, drug possession, prostitution, disorderly conduct, vandalism and

other

public order offenses.

Tier one areas are ranked 1 through 5 and represent the highest crime areas in the state. Tier two areas are ranked 6 through 10. Tier three areas are ranked 11 through 15. These designations are good for a three year period. At the end of each three year period, OTTED is required to begin the ranking process again.

A new company that hires 10 or more new employees in a tier one crime area receives a one time \$1,500 tax credit for the fiscal year per employee hired. A new company that

hires 20 or more new employees in a tier two crime area receives a one time \$1,000 tax credit for the fiscal year per employee hired. A new company that hires 30 or more new employees in a tier three crime area receives a one time \$500 tax credit for the fiscal year per employee hired.

An existing company that hires 5 or more new employees in a tier one crime area receives a one time \$1,500 tax credit for the fiscal year per employee hired. An existing company that hires 10 or more new employees in a tier two crime area receives a one time \$1,000 tax credit for the fiscal year per employee hired. An existing company that hires 15 or more new employees in a tier three crime area receives a one time \$500 tax credit for the fiscal year per employee hired.

An additional credit of \$500 is available for new employees who are WAGES program participants pursuant to ch. 414, F. S. This is for both new and existing businesses at all tier levels.

The bill provides that the business must file a statement with the Department of Revenue and that the Department shall review the application to determine whether it meets the criteria of this bill. The bill authorizes the Department to approve or deny applicants based on the criteria in this bill.

The bill provides that the maximum credit amount the department may approve during a calendar year is \$5 million. The bill also states that corporations may take the credit against taxes under ch. 220, F. S., regarding corporate income taxes, or ch. 212.F. S., regarding tax on sales and other transactions, but not both.

Rural Job Tax Credit Program

This bill also creates the Rural Job Tax Credit Program. This program gives tax credits to specific types of businesses in the most rural 15 counties in the state. Every three years OTTED ranks the top 15 rural counties according to:

1. Highest unemployment rate for the most recent 36 month period;
2. Lowest per capita income for the most recent 36 month period;
3. Highest percentage of residents whose incomes are below the poverty level based upon the most recent data available; and
4. Average weekly manufacturing wage based upon the most recent data available.

Tier one counties are ranked 1 through 5 and represent the state's least developed counties. Tier two counties are ranked 6 through 10, and tier three counties are those ranked 11 through 15.

A new company that hires 10 or more new employees in a tier one county receives a one time \$1,500 tax credit for the fiscal year per employee hired. A new company that hires 20 or more new employees in a tier two county receives a one time \$1,000 tax credit for the fiscal year per employee hired. A new company that hires 30 or more new employees in a tier three county receives a one time \$500 tax credit for the fiscal year per employee hired.

An existing company that hires 5 or more new employees in a tier one county receives a one time \$1,500 tax credit for the fiscal year per employee hired. An existing company

that hires 10 or more new employees in a tier two county receives a one time \$1,000 tax credit for the fiscal year per employee hired. An existing company that hires 15 or more new employees in a tier three county receives a one time \$500 tax credit for the fiscal year per employee hired.

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The bill provides that the business must file a statement with the Department of Revenue and that the Department shall review the application to determine whether it meets the criteria of this bill. The bill authorizes the Department to approve or deny applicants based on the criteria in this bill.

The bill provides that the maximum credit amount the department may approve during a calendar year is \$5 million. The bill also states that corporations may take the credit against taxes under ch. 220, F. S., regarding corporate income taxes, or ch. 212.F. S., regarding tax on sales and other transactions, but not both.

The bill amends subsection 220.02 (10), F. S., to provide the order in which both the Urban High-Crime Area Tax Credit Program and the Rural Job Tax Credit Program should be taken relative to other credits.

The bill creates subparagraph 220.13 (1)(a)9, F.S., providing for an addition to corporate income tax of amounts claimed as an Urban High-Crime Area tax credit and a Rural Job tax credit.

The bill further creates s. 220.189, F.S., to provide that the credits provided in both programs which cannot be fully used in a tax year due to an insufficient tax liability, may be carried forward for a period of up to five years.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

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

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

Ch. 213, F. S., grants to the Department of Revenue the authority to adopt rules as necessary to carry out all revenue laws administered by the Department. This bill is a new revenue law which would be administered by the Department. Therefore, the Department would have the authority to adopt rules necessary to administer these two new tax credits.

The Office of Tourism, Trade, and Economic Development (OTTED) is charged with the ranking of the high-crime areas and of the rural counties.

OTTED has no rule making authority. Therefore, there are no provisions for cities and counties to challenge the decision making process of OTTED.

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

Under the provisions of this bill, local governments would be required to determine whether or not there is a high crime area within the jurisdiction; determine whether or not the rehabilitation is necessary in the interest of the health, safety, and welfare of the residents; and determine that the revitalization of the high crime area could occur with public or private sector investments in the area. Additionally, the governing body would be required to adopt a resolution based on these findings.

Private businesses which are eligible for the two tax credit programs created in this bill must determine their own eligibility and must apply to the Department of Revenue for the tax credit. They must also provide documentation as determined by the Department of Revenue if the employees are WAGES participants, in order to receive an additional tax credit.

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

Businesses could receive a tax credit based on the amount of employees and the area in which in the business is located.

- 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. Lower Taxes:

- 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?

The bill creates new tax credits for eligible businesses in high-crime areas of the state or in rural counties. The maximum recurring impact of this bill would be \$10 million each year.

- 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. Personal Responsibility:

- 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. Individual Freedom:

- 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. Family Empowerment:

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

(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?

No.

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:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. SECTION-BY-SECTION ANALYSIS:

Section 1. Creates s. 212.097, F. S., the Urban High-Crime Area Job Tax Credit Program.

Section 2. Creates s. 212.098, F. S., the Rural Job Tax Credit Program.

Section 3. Amends subsection (10) of s. 220.02, F. S., providing the order for tax credits.

Section 4. Amends subsection (1) of s. 220.13, F. S., providing for an addition to corporate income tax of amounts claimed as an Urban High-Crime Area tax credit and a Rural Job tax credit.

Section 5. Creates s. 220.189, F. S., providing that the credits from both programs which cannot be fully utilized in a tax year may be carried forward for up to five years.

Section 6. Provides that this act take effect on July 1, 1997.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

The Revenue Estimating Conference has not yet reviewed this bill. However, the Department of Revenue reports the following expenses would be necessary to administer the provisions of this bill:

1. Non-recurring Effects:

	<u>FY 1997/98</u>	<u>FY 1998/99</u>
OPS	\$200,000	
Expenses	\$11,670	
Operating capital outlay	<u>\$9,620</u>	
Total	\$221,290	

2. Recurring Effects:

FTE	3	3
Salaries	\$75,451	\$75,451
Expenses	<u>\$13,584</u>	<u>\$13,584</u>
Total	3 FTE \$310,325	3 FTE \$89,035

Additionally, this bill would be a recurring negative fiscal impact of \$10 million. To the extent the bill induces additional economic activity, the bill may also have a positive fiscal impact.

3. Long Run Effects Other Than Normal Growth:

None.

4. Total Revenues and Expenditures:

<u>FY 1997/98</u>	<u>FY 1998/99</u>
3 FTE	3 FTE
\$531,615	\$89,035

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

The Revenue Estimating Conference has not yet reviewed this bill. The bill may reduce the amount of state revenue shared with local governments. Additionally, local governments may incur costs associated with the administration of the application process to be designated a high crime area. To the extent the bill generates additional economic activity, the bill may have a positive impact.

3. Long Run Effects Other Than Normal Growth:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

None.

2. Direct Private Sector Benefits:

Qualified businesses in high-crime areas and in rural counties may receive tax credits.

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

The tax credits could stimulate businesses to locate in high-crime areas and in rural counties, thereby improving the employment markets in those areas.

D. FISCAL COMMENTS:

The fiscal impact noted above was determined by the Department of Revenue based on the cost the Department expects to incur in administering the bill. The revenue estimating conference has not reviewed this bill yet. However, a bill last year (CS/CS/SB 958) contained identical language and was determined by the revenue estimating conference to have an annual recurring impact of \$5 million for each program.

Additionally, the Office of Tourism, Trade, and Economic Development has expressed concerns over their ability to administer these two tax credit programs, particularly the High-Crime Area tax credit program. According to the OTTED Director, the additional workload which would be generated by this bill might necessitate additional resources and staff for OTTED; although specific numbers were not mentioned.

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:

This 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:

While this bill will reduce the amount of Local Government Half Cent Sales Tax shared with municipalities and counties, it does not reduce the percentage of state tax shared with municipalities and counties. Therefore, Article VII, Section 18(b), Florida Constitution does not apply.

V. COMMENTS:

There are a number of technical concerns with this bill:

- On page 3, line 9 of this bill a reference is made to "areas nominated under subsection (6)." The reference should be to subsection (8).
- The factors with which OTTED is to rank rural counties include highest unemployment rate, lowest per capita income, highest percentage of residents with incomes below poverty level, and "average" weekly manufacturing wage. The last factor should state "lowest average weekly manufacturing wage."
- As written, municipalities may not nominate more than one high-crime area. Counties may nominate an unlimited number of high-crime areas.

- The language regarding the \$5 million limit on the credits the Department may approve needs clarification. As written, it is unclear whether the \$5 million refers to the maximum credit amount per business or for each tax credit program.
- New businesses in a rural area are defined as businesses that have operated for a period of up to 48 months, however they must apply within the first 12 months of existence to receive the tax credit as a new business.
- As written, it is unclear whether cities or counties may apply or reapply every three years for designation as a high crime area or whether the three year ranking is only applied to applications received at the beginning of the program.
- As written, It is unclear how rural counties which have been given a tier designation will be notified.

As noted in the Fiscal Comments section, the Office of Tourism, Trade, and Economic Development has communicated concerns over their ability to administer this program. According to the OTTED Director, the requirement that OTTED rank the high-crime areas is well beyond the areas of expertise of OTTED staff, as well as outside the mission of OTTED.

The ability of businesses to utilize the tax credits provided in this bill could be jeopardized by the complicated nature of the programs. The programs have different requirements for new and existing businesses, as well as businesses who employ WAGES participants. In addition, the requirements are different for businesses located in areas in the different "tiers". Additionally, the high-crime areas and rural counties are reevaluated every three years. Thus, the tiers which determine the amount of the tax credit a business can receive may change every three years. These provisions may be confusing to businesses, and may diminish the effectiveness of the programs.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

VII. SIGNATURES:

COMMITTEE ON BUSINESS DEVELOPMENT AND INTERNATIONAL TRADE:

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