

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: SB 1172

SPONSOR: Commerce and Economic Opportunities Committee

SUBJECT: Infrastructure development in small communities

DATE: March 15, 2000                      REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Joseph</u>	<u>Maclure</u>	<u>CM</u>	<u>Favorable</u>
2.	_____	_____	<u>FR</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

**I. Summary:**

This bill provides funding for rural infrastructure development by making changes in corporate income tax collection authority. The bill provides for 7 percent of the corporate income tax collected each year to be deposited into the Department of Environmental Protection Grants and Donations Trust Fund in support of the Small Community Sewer Construction Assistance Act under s. 403.1838, F.S. This would provide approximately \$100 million each year for small disadvantaged community sewer construction. The bill also provides for 7 percent of the corporate income tax collected in FY 2000-2001, and 1 percent each year thereafter, to be deposited into the Rural Economic Development Trust Fund. This could provide approximately \$100 million the first year and approximately \$15 million each year thereafter in support of rural economic development activities authorized under the trust fund, which is created in SB 1166 by the Senate Committee on Commerce and Economic Opportunities.

The bill also makes changes in the Small Community Sewer Construction Assistance Act (s. 403.1838, F.S.) to allow unincorporated communities to access the grant, to increase the community population limit from 7,500 to 15,000, and to require the Department of Environmental Protection to consult with the Office of Tourism, Trade, and Economic Development (OTTED) and Enterprise Florida, Inc. (EFI), in assessing the potential economic development impact of a project and in updating rules to reflect the addition of community economic development as a criterion to determine the relative priority of grant applications.

The bill removes provisions in the sewage treatment facilities revolving loan program (s. 403.1835, F.S.) which currently fund the Small Community Sewer Construction Assistance Act.

The bill requires OTTED, EFI, and the Florida Tourism Industry Marketing Corporation, in consultation with the participating agencies and organizations of the Rural Economic Development Initiative, to develop a strategic plan for implementation of the Rural Infrastructure Fund with attention to timing and coordination of nature-based tourism infrastructure, marketing, and microenterprise creation, as well as infrastructure in support of other business activities.

This bill amends the following sections of the Florida Statutes: 220.701, 288.0655, 403.1835, and 403.1838.

## II. Present Situation:

### Rural Infrastructure Issues

During the 1999 session, the Legislature adopted Senate Bill 1566 (ch. 99-251, L.O.F.), which included a provision creating the Rural Infrastructure Fund. Although the fund was not capitalized, the program provides a statutory framework designed to address infrastructure needs associated with specific economic development projects in rural communities. Authorized infrastructure may include the following public or public-private partnership facilities: storm water systems; water; wastewater; electrical; telecommunications; natural gas; roads; and nature-based tourism facilities. Eligible projects generally must be related to specific job-creating opportunities. (*See s. 288.0655, F.S.*)

The Commerce and Economic Opportunities Committee's interim project report titled *Rural Infrastructure II: Next Steps in Infrastructure & Nature-Based Tourism* (Interim Project Report 2000-20) revealed that a lack of an extensive service industry and a lack of basic community-wide wastewater infrastructure are two primary obstacles restricting business location in rural areas and thereby raising policy implications for operation of the Rural Infrastructure Fund and for the role of nature-based tourism.

An opportunity to improve rural services and directly raise rural income was found in rural tourism. Recent research points to the rural tourism industry as creating more rural services and providing the highest personal income of any rural industry given equal economic stimuli. Rural nature-based tourism requires a coordinated implementation strategy that needs to develop rural tourism assets by improving tourist access to nature and then create hundreds of microenterprises to operate new and existing access points supported by regional marketing. If tourism causes service industries to expand, then the Rural Infrastructure Fund can more successfully refocus on completing other business location infrastructure.

The interim report noted that significant location of industry to the rural areas is not likely to occur, however, without substantial long-term investment in wastewater treatment facilities. No current funding mechanism exists to solve this obstacle to rural development. Current wastewater need is estimated to be at least \$1 billion in rural counties.

The interim report included the following recommendations:

- The Rural Infrastructure Fund should be kept separate from a broader program of community-wide wastewater treatment infrastructure.
- The Small Community Sewer Construction Assistance Act, s. 403.1838, F.S., would be the most appropriate existing program to fund for rural community wastewater treatment infrastructure. The act could be amended to revise a project ranking process to include participation by OTTED. The library construction and historic

preservation grant programs administered by the Department of State should be explored as potential models.

- If the Legislature elects to explore funding options for significant wastewater treatment infrastructure, as well as funding sources for the project-specific Rural Infrastructure Fund, consideration should be given to the feasibility of using a portion of corporate income tax revenues in light of the nexus between business location and infrastructure demand.
- For every \$100 million invested into nature-based tourism infrastructure, it would be efficient to the development of support businesses to provide \$1 million in microenterprise loans to help establish concession businesses. Coordination of microenterprise development and tourism marketing will require EFI, Visit Florida, and other agencies to work together (*Rural Infrastructure II*, pp.7-8.).

### **Corporate Income Tax**

Chapter 220, F.S., relating to the corporate income tax, levies a tax of 5.5 percent on the corporation's net income for the taxable year (s. 220.11, F.S.). The stated intent of the code is to impose a tax on all corporations and other artificial entities that derive from the state attributes not inherent in natural persons, such as perpetual life, transferable ownership, and limited liability for all owners (s. 220.02(1), F.S.). Collection authority for the corporate income tax (s. 220.701, F.S.) provides that all of the funds collected from the corporate income tax be paid into the state General Revenue Fund.

### **Wastewater Programs**

The Department of Environmental Protection's (DEP) Sewage Treatment Facilities Revolving Loan Program (s. 403.1835, F.S.) is a loan program often referred to as the State Revolving Fund (SRF). Its purpose is to accelerate construction of sewage treatment facilities by local governmental agencies. Funds in this program generally are unused by small communities because they are largely unable to pay back loans. The 20-year loans are at 3.12 percent interest, with half of the repaid loan interest going into the disadvantaged small community wastewater treatment grant program (also known as the Small Community Sewer Construction Assistance Act, s. 403.1838, F.S.).

The Small Community Sewer Construction Assistance Act (ss. 403.1835 and 403.1838, F.S.) under DEP is authorized to administer a grant program to assist "financially disadvantaged small communities" with their needs for adequate sewer facilities. The program features a ranking process to award grants for sewage treatment facilities to incorporated municipalities with populations of 7,500 or less and that have per capita annual income levels less than the state average. The program has received only enough funding to build one facility in Northwest Florida, although 191 communities are eligible for funding under the existing statutory criteria. This program was set up to receive Advanced Disposal Container fees which were later eliminated, leaving the program unfunded. Approximately \$3.8 million was raised, before the loss of funding, which was utilized to support one project in the community of Apalachicola. Interest from a revolving loan fund (SRF) currently goes into an existing sub-account in the Grants &

Donations Trust Fund, but the sub-account has received a total of less than \$1 million in the last several fiscal years. According to the committee's interim project report titled *Rural Infrastructure II: Next Steps in Infrastructure & Nature-Based Tourism*, the program's eligibility criteria could be expanded to include unincorporated communities and allow OTTED to be involved in project rankings to ensure that economic development factors are considered.

### III. Effect of Proposed Changes:

This bill:

- Makes changes in corporate income tax collection authority (s. 220.701, F.S.):
  - Provides for 7 percent of the amount collected each year to be deposited into the Department of Environmental Protection Grants and Donations Trust Fund in support of the Small Community Sewer Construction Assistance Act under s. 403.1838, F.S. This would provide approximately \$100 million each year for small disadvantaged community sewer construction.
  - Provides for 7 percent of the amount collected in FY 2000-2001, and 1 percent each year thereafter, to be deposited into the Rural Economic Development Trust Fund. This could provide approximately \$100 million in the first year and approximately \$15 million each year thereafter for rural economic development activities authorized in the trust fund. The Rural Economic Development Trust Fund is proposed for creation under a separate bill. (See SB 1166 by the Committee on Commerce and Economic Opportunities.)
- Amends ss. 288.0655(2)(d) and (4), F.S., to extend deadlines relating to implementation of the Rural Infrastructure Fund. The program calls for the Office of Tourism, Trade, and Economic Development (OTTED) to pursue execution of a memorandum of agreement with the U.S. Department of Agriculture by September 1, 1999, relating to integration of the Rural Infrastructure Fund with federal activities; however, because there was no funding provided for this program in FY 1999-2000, that date was not met. Also revised is the date for development of an application. Both dates are changed to September 1, 2000.
- Revises the Small Community Sewer Construction Assistance Act (s. 403.1838, F.S.):
  - Allows unincorporated communities with local government support to access the grant. Requires the grant to be administered under the authority of a unit of local government.
  - Increases the community population limit from 7,500 to 15,000.
  - Requires that rules be updated in consultation with OTTED and Enterprise Florida, Inc. (EFI), and that the rules reflect the addition of community economic development as a criterion to determine the relative priority of grant applications.

- Requires the Department of Environmental Protection to consult with OTTED and EFI in assessing the potential economic development impact of a project.
- Removes provisions in the sewage treatment facilities revolving loan program (s. 403.1835, F.S.) which currently fund the Small Community Sewer Construction Assistance Act (s. 403.1838, F.S.) through grant allocations under the loan program.
- Requires OTTED, EFI, and the Florida Tourism Industry Marketing Corporation, in consultation with the participating agencies and organizations of the Rural Economic Development Initiative, to develop a strategic plan for implementation of the Rural Infrastructure Fund with attention to timing and coordination of nature-based tourism infrastructure, marketing, and microenterprise creation, as well as infrastructure in support of other business activities.

This bill provides that the act shall take effect July 1, 2000.

#### **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 General Revenue Estimating Conference of November 12, 1999, increased its FY 1999-2000 corporate income tax estimate \$40.3 million to a total of \$1,517 million. One percent of corporate income tax would now be \$15.2 million, and 7 percent would be \$106.4 million. Although this bill does not reduce the level of corporate income tax collections, it proposes to change the distribution of such collections by redirecting approximately \$200 million in FY 2000-2001 and approximately \$115 million in each year thereafter away from the General Revenue fund.

##### **B. Private Sector Impact:**

None.

**C. Government Sector Impact:**

This bill directs the Department of Environmental Protection and the Environmental Regulation Commission to revise or adopt rules under the Small Community Sewer Construction Assistance Act, in consultation with OTTED and EFI, to implement the changes made by this act.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

SB 1166, by the Committee on Commerce and Economic Opportunities, is a companion measure to SB 1172. SB 1166 creates the Rural Economic Development Trust Fund in support of specified rural economic development activities, including the activities of the Rural Infrastructure Fund. Section 19 of Article III of the State Constitution prohibits the creation of a trust fund of the state by law without a three-fifths vote of the membership of each house of the Legislature in a separate bill for that purpose only.

**VIII. Amendments:**

None.