

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: CS/CS/SB 2578

SPONSOR: Commerce and Economic Opportunities Committee, Fiscal Resource Committee, and Senator Hargrett

SUBJECT: Neighborhood Revitalization

DATE: April 26, 2000 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Fournier</u>	<u>Wood</u>	<u>FR</u>	<u>Favorable/CS</u>
2.	<u>Schmeling</u>	<u>Maclure</u>	<u>CM</u>	<u>Favorable/CS</u>
3.	_____	_____	<u>CA</u>	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

This committee substitute exempts from sales tax building materials used in the construction of certain single-family homes, or used in the conversion of certain manufacturing or industrial buildings into housing units and mixed-used projects in distressed areas of the state.

This committee substitute directs the agencies involved with the Urban Infill Implementation Project, the State Apartment Incentive Loan Program, the HOME Investment Partnership Program, and the State Housing Tax Credit Program to give priority consideration to projects that would convert vacant industrial and manufacturing facilities to affordable housing units within urban high-crime areas, enterprise zones, empowerment zones, Front Porch Florida communities, designated brownfield areas, or urban infill areas.

This committee substitute also directs the Department of Community Affairs to recommend new economic incentives or revisions to existing incentives to promote the reuse of vacant industrial and manufacturing facilities for affordable housing and mixed-use development.

The committee substitute requires state agencies to give priority consideration to applications submitted by communities receiving HOPE VI grants for certain programs. These programs include SAIL, State Housing Tax Credit, Federal Low Income Housing Tax Credit, HOME, Urban Infill Program, Urban High Crime Tax Credits, brownfields, and state empowerment zone. The committee substitute further establishes criteria for such applications, and requires the Department of Community Affairs to annually provide the Legislature with a summary of all assistance provided to HOPE VI applicants, and the percentage of HOPE VI projects to all program awards.

This committee substitute amends section 212.08, Florida Statutes.

II. Present Situation:

Chapter 212, F.S., provides for the tax on sales, use, and other transactions. Section 212.05, F.S., provides that every person who engages in the business of selling tangible personal property at retail in this state, including the business of making mail order sales, or who rents or furnishes any of the things or services taxable under ch. 212, F.S., or who stores for use or consumption any item or article of tangible personal property and who leases or rents such property is exercising a taxable privilege. Section 212.05(1)(a)1.a., F.S., provides for a 6 percent tax rate on the retail price of each item or article of tangible personal property when sold at retail in this state. Section 212.05(1)(b), F.S., provides for a 6 percent tax on the cost price of any item of tangible personal property that is not sold but is used in the state. Additionally, local governments are authorized to levy one or more of six types of Local Discretionary Sales Surtaxes, ranging from 0.5 percent to 1.0 percent each.

Section 212.08(5)(g), F.S., exempts from sales tax those building materials used in the rehabilitation of real property located in an enterprise zone. Upon affirmative showing to the satisfaction of the Department of Revenue (DOR), the exemption inures to the owner, lessee, or lessor of the rehabilitated property, located in an enterprise zone in the form of a refund of previously paid taxes. The refund is capped at \$5,000. DOR interprets the statute to allow a person building a new house on qualifying property to apply for the refund. The exemption is not limited to single-family residences, nor does it require the owner to reside in the home. Currently, there are 34 enterprise zones, including one empowerment zone, designated in the state.

Section 14.2015(9), F.S., creates the Office of Urban Opportunity (office) within the Office of Tourism, Trade, and Economic Development (OTTED). The stated purpose of the office is to administer the Front Porch Florida initiative, “a comprehensive, community-based urban core redevelopment program that will empower urban core residents to craft solutions to the unique challenges of each designated community.” On October 8, 1999, Governor Bush designated the first six Front Porch Florida communities. The Governor’s Front Porch Florida initiative calls for 20 such designations.

Section 212.097, F.S., requires OTTED to designate 15 urban high-crime areas for purposes of the Urban High-Crime Area Job Tax Credit Program. The purpose of the program is to encourage the provision of meaningful employment opportunities that will improve the quality of life of those employed, and to encourage economic expansion of new and existing businesses in urban high-crime areas of this state.

Chapter 99-378, L.O.F., created the Urban Infill and Redevelopment Assistance Program (program). The provisions relating to the program are codified in s. 163.2523, F.S. The urban infill and redevelopment areas are those areas designated in a plan, developed through a community-based planning process, to be targeted for grant funds and to receive certain tax benefits to revitalize the area. Two and a half million dollars was appropriated for the program in 1999. The Department of Community Affairs has nearly completed promulgating the rule for designating urban infill areas, and no areas have been designated to date.

Sections 376.77-376.85, F.S., is the “Brownfields Redevelopment Act,” which provides for incentives to persons to voluntarily develop and implement cleanup plans in brownfield areas. There are 30 designated brownfield areas in the state.

In an analysis of HB 245, the similar House companion to SB 2578, OTTED provided information received from the National Association of Homebuilders (NAHB) regarding estimates on building material costs for single-family homes. The NAHB reports that 20 percent of the total cost of a \$60,000 home is spent on building material costs which are subject to the rate of 6 percent sales tax, or \$720. Additionally, 30 percent of the total cost of a \$100,000 home is spent on building materials costs subject to the rate of 6 percent sales tax, or \$1,800. On-site labor costs are not subject to the state sales tax.

HOPE VI is a federal program administered through the federal Department of Housing and Urban Development. The HOPE VI program was developed as a result of recommendations by the National Commission on Severely Distressed Public Housing (commission), which was charged with proposing a National Action Plan to eradicate severely distressed public housing by the year 2000. The commission recommended revitalization in three general areas: physical improvements, management improvements, and social and community services to address resident needs. The activities funded by HOPE VI include the capital costs of major rehabilitation, new construction, and other physical improvements; demolition of severely distressed public housing; management improvements; planning and technical assistance; and self-sufficiency programs for residents. Eligible grantees include any Public Housing Authority that operates public housing units is eligible to apply for that public housing. Eligible customers include current public housing residents, residents of the revitalized public housing units, and communities surrounding the revitalized sites.

III. Effect of Proposed Changes:

This committee substitute exempts from sales tax building materials used in the construction of a single-family home in an enterprise zone, empowerment zone, designated brownfield area, or Front Porch Florida community if the appraised value of the home is no more than \$160,000. The exemption is granted to the owner of the home as a refund of taxes previously paid on materials and labor used in the construction of the home. The committee substitute specifies the requirements the homeowner must meet in order to receive the refund, and directs the Department of Revenue (DOR) to establish, by rule, an application form and criteria for establishing eligibility for the exemption.

This committee substitute exempts from sales tax materials used in the conversion of an existing manufacturing or industrial building to housing or mixed-use units in an urban high-crime area, enterprise zone, empowerment zone, Front Porch Florida community, designated brownfield area, or urban infill area, if the developer of such projects agrees to set aside at least 20 percent of the development for housing for low and moderate-income persons. The mixed-use projects eligible for this exemption are artists’ studios, art and entertainment services, or other compatible uses.

This committee substitute directs the agencies involved with the Urban Infill Implementation Project, the State Apartment Incentive Loan Program, the HOME Investment Partnership Program, and the State Housing Tax Credit Program to give priority consideration to projects

that would convert vacant industrial and manufacturing facilities to affordable housing units within urban high-crime areas, enterprise zones, empowerment zones, Front Porch Florida communities, designated brownfield areas, or urban infill areas.

This committee substitute also directs the Department of Community Affairs to recommend new economic incentives or revisions to existing incentives to promote the reuse of vacant industrial and manufacturing facilities for affordable housing and mixed-use development.

The committee substitute requires state agencies to give priority consideration to applications submitted by communities receiving HOPE VI grants for certain programs. These programs include SAIL, State Housing Tax Credit, Federal Low Income Housing Tax Credit, HOME, Urban Infill Program, Urban High Crime Tax Credits, brownfields, and state empowerment zone. The committee substitute further establishes criteria for such applications, and requires the Department of Community Affairs to annually provide the Legislature with a summary of all assistance provided to HOPE VI applicants, and the percentage of HOPE VI projects to all program awards.

The effective date of the committee substitute is upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

This committee substitute initially falls under subsection (b) of s. 18 of Art. VII, Florida Constitution. Subsection (b) requires a two-thirds vote of the membership of each house in order to enact a general law reducing the authority that municipalities and counties had on February 1, 1989, to raise revenues in the aggregate. By adding an exemption to the state sales tax, the committee substitute has the effect of adding an exemption to the local option county sales surtax. Since the annual local revenue loss is estimated to be less than \$1.6 million, the committee substitute will be exempt from the requirements of subsection (b) due to the insignificant negative fiscal impact as permitted under subsection (d) of s. 18 of Art. VII. (See subsection (d) of s. 18, Art. VII, Florida Constitution, for various types of general laws, including those with insignificant fiscal impact.)

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 estimates the fiscal impact of this bill to be a recurring loss to the General Revenue Fund of \$0.4 million.

Issue/Fund	General Revenue		Trust		Local		Total	
	1st Year \$	Recurring \$	1st Year \$	Recurring \$	1st Year \$	Recurring \$	1st Year \$	Recurring \$
Sales Tax Exemption: Building Materials	(0.0)	(0.4)	(*)	(*)	(*)	(*)	(0.0)	(0.4)

* Insignificant
 ** Indeterminate

B. Private Sector Impact:

This committee substitute provides tax exemptions for building materials used in certain areas that are not eligible for such exemptions under current law, and could have the effect of encouraging building and redevelopment activity in those areas.

C. Government Sector Impact:

This committee substitute directs the agencies involved with the Urban Infill Implementation Project, the State Apartment Incentive Loan Program, the HOME Investment Partnership Program, and the State Housing Tax Credit Program to give priority consideration to projects that would convert vacant industrial and manufacturing facilities to affordable housing units within urban high-crime areas, enterprise zones, empowerment zones, Front Porch Florida communities, designated brownfield areas, or urban infill areas.

This committee substitute also directs the Department of Community Affairs to recommend new economic incentives or revisions to existing incentives to promote the reuse of vacant industrial and manufacturing facilities for affordable housing and mixed-use development.

The Department of Community Affairs is required by this committee substitute to annually submit to the Legislature a summary of all assistance provided to local HOPE VI applicants, and the percentage of HOPE VI projects to all program awards.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The Department of Revenue (DOR) notes that it would have difficulty establishing criteria for the exemption for materials used in “mixed-use projects,” as the committee substitute does not

specify what is included in “art and entertainment services,” or what would be “other compatible uses” for the purpose of defining a “mixed-use project.”

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
