

STORAGE NAME: h0699s1a.ft

DATE: April 24, 2000

**HOUSE OF REPRESENTATIVES
AS FURTHER REVISED BY THE COMMITTEE ON
FINANCE AND TAXATION
ANALYSIS**

BILL #: CS/HB 699

RELATING TO: Enterprise Zones

SPONSOR(S): Committee on Community Affairs and Representative Brown

TIED BILL(S): None

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

- (1) BUSINESS DEVELOPMENT & INTERNATIONAL TRADE (EDC) YEAS 9 NAYS 0
 - (2) COMMUNITY AFFAIRS (PRC) YEAS 8 NAYS 0
 - (3) FINANCE AND TAXATION (FRC) YEAS 14 NAYS 1
 - (4) TRANSPORTATION & ECONOMIC DEVELOPMENT APPROPRIATIONS (FRC)
 - (5)
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I. SUMMARY:

This bill authorizes a municipality that is located within a county having a population of less than 200,000 to change the boundaries of an existing enterprise zone in which the enterprise zone community has a total population between 50,000 and 150,000. The Office of Tourism, Trade, and Economic Development (OTTED) must approve the application for the boundary change provided the new boundaries do not increase the overall size of the enterprise zone and any territory added to the enterprise zone as a result of the boundary change is contiguous to the remaining area of the existing enterprise zone.

The bill exempts enterprise zones in Columbia County and Suwannee County from a requirement that the areas suffer from pervasive poverty, unemployment, and general distress. This bill also allows businesses located in such enterprise zones to claim tax credits for hiring persons outside of the zone, but within the jurisdiction of the counties, and revises qualifications for businesses in such zones to claim certain maximum tax exemptions or credits.

The also bill allows Sarasota County, or Sarasota County and the City of Sarasota jointly, Calhoun County, and Holmes County to each apply for the designation of one enterprise zone.

The bill has an insignificant impact on state and local revenues for FY 2000-01 and FY 2001-02. **See Amendment section for changes to the bill.**

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Established in 1980, the Florida Enterprise Zone program targets areas for economic revitalization and provides incentives to businesses located in designated areas found in urban and rural communities. An "enterprise zone" is a specific geographic area targeted for economic revitalization. Presently, the state has thirty-four enterprise zones.

By the early nineties, the program had become overwhelmed with the number of zones allowed. To remedy the situation, the Legislature passed the Florida Enterprise Zone Act in 1994. As a result, the existing zones were repealed on December 31, 1994, and guidelines were established for the designation of new zones. The Act transferred administrative duties from the Department of Community Affairs to the Department of Commerce.

In 1995, nineteen enterprise zones were designated throughout the state. Local governments were required to establish a community based Enterprise Zone Development Agency (EZDA). Each EZDA is responsible for overseeing the implementation of its individual plan and reducing local barriers to revitalization efforts. The agencies are required to market their zones to interested parties and assist local business owners with state and local incentives.

With the dissolution of the Department of Commerce in 1996, the Legislature amended the program and transferred the administrative responsibilities to the newly created Office of Tourism, Trade, and Economic Development (OTTED) within the Executive Office of the Governor. In addition, the revision added Work and Gain Economic Self-Sufficiency (WAGES) Program participants (residing in a zone) as eligible employees for a 15 percent jobs tax credit. The Legislature also authorized the designation of eleven additional enterprise zones.

In 1997, the Legislature authorized twelve new zones. The following year, the program was amended to include a new zone and to allow businesses located within an enterprise zone to claim jobs tax credits for hiring WAGES or Job Training Partnership Act (JTPA) program participants regardless of where they live.

As part of the "Florida Empowerment Zone Act," the 1999 Legislature provided for any area designated as a federal empowerment zone or enterprise community to be designated as a

state enterprise zone. The 1999 Legislature also amended the "Florida Enterprise Zone Act" to allow Liberty County, Columbia County or Columbia County and Lake City, Suwannee County or Suwannee County and Live Oak, and Gadsen County to apply to OTTED for designation of specified areas as enterprise zones.

The Florida Enterprise Zone Program includes the following financial incentives to businesses to encourage private investment and increase employment opportunities for enterprise zone residents:

- Enterprise Zone Jobs Tax Credit (Sales & Use Tax)
- Enterprise Zone Jobs Tax Credit (Corporate Income Tax)
- Enterprise Zone Property Tax Credit (Corporate Income Tax)
- Sales Tax Refund for Building Materials Used in an Enterprise Zone
- Sales Tax Refund for Business Machinery and Equipment Used in an Enterprise Zone
- Sales Tax Exemption for Electrical Energy Used in an Enterprise Zone
- Community Contribution Tax Credit Program
- Enterprise Zone Linked Deposit Program

Costs of the program have increased as new areas have been added. The total cost of state and local incentives was \$11.2 million in FY 1996-97 and \$13 million in FY 1997-98. During the fourth full year of the revised Enterprise Zone Program, costs have increased by \$11 million such that FY 1998-99 totals \$24 million in state and local incentives (\$5.2 million in state tax incentives approved by the Department of Revenue, and \$18.8 million in incentives provided by the local governing bodies; however, some of the local incentives provided are federal pass-through funds.). This increased activity was the result of 776 new businesses moving into enterprise zones creating 5,305 new jobs.

Section 290.0055, F.S., provides requirements for nominating and selecting an enterprise zone. It provides size limitations depending on the community population category and requires that the selected area suffer from pervasive poverty, unemployment, and general distress, as described and measured pursuant to s. 290.0058, F.S. Section 290.0058(2), F.S., specifies that pervasive poverty "shall be evidenced by a showing that poverty is widespread throughout the nominated area. The poverty rate of the nominated area shall be established using the following criteria: (a) In each census geographic block group within a nominated area, the poverty rate shall be not less than 20 percent. (b) In at least 50 percent of the census geographic block groups within the nominated area, the poverty rate shall not be less than 30 percent."

Section 290.0065, F.S., outlines the process for designating an enterprise zone. It authorizes OTTED to designate a total of 20 areas as enterprise zones ranked competitively, based on pervasive poverty, unemployment, and general distress of the area. Subsection (3)(a) provides five population categories within which areas designated as an enterprise zone shall be placed.

There are currently a number of provisions in the enterprise zone statutes which relate to boundary changes. For example, s. 290.0065(9), F.S., provides for amending the boundaries of any previously designated enterprise zone if pervasive poverty, unemployment and distress are still present within the new borders. Subsection (10) provides for amending the boundaries of certain zones for the purpose of replacing areas not suitable for development if the application for such amendment is received before December 31, 1998. This subsection requires OTTED to approve the application if it does not increase the overall size of the enterprise zone and the added area is consistent with previous categories, criteria, and limitations.

Sections 290.00691 and 290.00692, F.S., provide for Columbia County, or Columbia County and the municipality of Lake City jointly, and for Suwannee County, or Suwannee County and the municipality of Live Oak jointly, to apply for designation of one enterprise zone in each county. Both counties are to maximize the strategic economic development advantages resulting from the intersection of Interstate 75 and Interstate 10. The enterprise zone applications were submitted before December 31, 1999, as required in both sections, and the OTTED is to establish the initial effective date of each enterprise zone.

Section 370.28, F.S., relating to enterprise zones designated in communities affected by the net limitations, provides that if at least 20 percent of the employees of a business located in a net ban enterprise zone are residents of the county in which the zone is located, the business may claim the maximum amount of: 1) the sales tax exemption for building materials used in the rehabilitation of real property in an enterprise zone; 2) the sales tax exemption for business property used in an enterprise zone; 3) the sales tax exemption for electrical energy used in an enterprise zone; and 4) the corporate income tax credit for property taxes paid on new or improved property in an enterprise zone. This authority is provided notwithstanding the requirement in statute that at least 20 percent of the employees of a business must be residents of the enterprise zone for the business to claim the maximum exemption or credit amounts. This statute further specifies that a business located in a net ban enterprise zone may claim the job-creation tax credit based upon the employment of a person who lives within the jurisdiction of the entire county in which the enterprise zone is located, rather than living within the enterprise zone.

C. EFFECT OF PROPOSED CHANGES:

This bill authorizes a municipality that is located within a county having a population of less than 200,000 to change the boundaries of an existing enterprise zone in which the enterprise zone community has a total population between 50,000 and 150,000. The bill authorizes the governing body of a municipality within the county to apply to OTTED before June 1, 2001. The bill requires OTTED to approve the boundary change if the new boundaries do not increase the overall size of the enterprise zone and if any territory added to the enterprise zone as a result of the boundary change is contiguous to the remaining area of the existing enterprise zone. The bill has the effect of allowing the City of Gainesville to apply to OTTED for a change in the city's existing enterprise zone boundaries.

The bill provides that businesses located in the Columbia County or Suwannee County enterprise zones may claim the job tax credit for hiring persons who reside within the jurisdiction of the county in which the zone is located, rather than prescribing that such individuals must reside in the zone. In addition, the bill provides that if at least 20 percent of the employees of a business located in Columbia or Suwannee counties' enterprise zones are residents of the county, the business may claim the maximum amount of: 1) the sales tax exemption for building materials used in the rehabilitation of real property in an enterprise zone; 2) the sales tax exemption for business property used in an enterprise zone; 3) the sales tax exemption for electrical energy used in an enterprise zone; and 4) the corporate income tax credit for property taxes paid on new or improved property in an enterprise zone. This authority is provided notwithstanding the requirement in statute that at least 20 percent of the employees of a business must be residents of the enterprise zone for the business to claim the maximum exemption or credit amounts. The bill also provides the Columbia County and Suwannee County enterprise zones with an exemption from s. 290.0055(4)(d), F.S., requiring that the selected area suffers from pervasive poverty, unemployment, and general distress.

The bill allows Sarasota County, or Sarasota County and the City of Sarasota jointly, Calhoun County, and Holmes County to apply for the designation of one enterprise zone.

D. SECTION-BY-SECTION ANALYSIS:

Section 1. A new subsection (12) is added to s. 290.0065, F.S., to provide that the governing body of a municipality located in a county with a population of less than 200,000, in which an enterprise zone designated under the category of communities consisting of census tract areas having a total population of 50,000 persons or more but less than 150,000 persons is located, may apply to OTTED to amend the boundaries of an enterprise zone located in that county. The change will be approved if the overall size of the enterprise zone does not increase and is contiguous to the existing zone. A municipality must submit its request before June 1, 2001.

Section 2. Section 290.00691, F.S., is amended to provide that businesses located in the Columbia County enterprise zone may claim the job tax credit for hiring persons who reside within the jurisdiction of the county in which the zone is located, rather than prescribing that such individuals must reside in the zone. In addition, the section provides that if at least 20 percent of the employees of a business located in Columbia County's enterprise zone are residents of the county, the business may claim the maximum amount of:

- 1) the sales tax exemption for building materials used in the rehabilitation of real property in an enterprise zone;
- 2) the sales tax exemption for business property used in an enterprise zone;
- 3) the sales tax exemption for electrical energy used in an enterprise zone; and
- 4) the corporate income tax credit for property taxes paid on new or improved property in an enterprise zone. This authority is provided notwithstanding the requirement in statute that at least 20 percent of the employees of a business must be residents of the enterprise zone for the business to claim the maximum exemption or credit amounts.

The section provides Columbia County's enterprise zone with an exemption from s. 290.0055(4)(d), F.S., which requires that the selected area suffers from pervasive poverty, unemployment, and general distress.

Section 3. Section 290.00692, F.S., is amended to provide that businesses located in the Suwannee County enterprise zone may claim the job tax credit for hiring persons who reside within the jurisdiction of the county in which the zone is located, rather than prescribing that such individuals must reside in the zone. In addition, the section provides that if at least 20 percent of the employees of a business located in Suwannee County's enterprise zone are residents of the county, the business may claim the maximum amount of:

- 1) the sales tax exemption for building materials used in the rehabilitation of real property in an enterprise zone;
- 2) the sales tax exemption for business property used in an enterprise zone;
- 3) the sales tax exemption for electrical energy used in an enterprise zone; and
- 4) the corporate income tax credit for property taxes paid on new or improved property in an enterprise zone.

This authority is provided notwithstanding the requirement in statute that at least 20 percent of the employees of a business must be residents of the enterprise zone for the business to claim the maximum exemption or credit amounts. The section provides Suwannee County's enterprise zone with an exemption from s. 290.0055(4)(d), F.S., requiring that the selected area suffers from pervasive poverty, unemployment, and general distress.

Section 4. Section 290.00694, F.S., is created to authorize Sarasota County, or the county and the City of Sarasota jointly, to apply to OTTED for designation of one enterprise zone encompassing a specified area. The application must be submitted by December 31, 2000, and must comply with the requirements of s. 290.0055, F.S., which governs nominating procedures local governments must follow in applying for designation of an area as an enterprise zone. The section authorizes OTTED to designate one enterprise zone pursuant to this bill, notwithstanding the provisions of s. 290.0065, F.S., limiting the total number of enterprise zones designated and the number of enterprise zones within a population category.

Section 5. Section 290.00695, F.S., is created to authorize Calhoun County to apply to OTTED for designation of one enterprise zone. The application must be submitted by December 31, 2000, and must comply with the requirements of s. 290.0055, F.S., which governs nominating procedures local governments must follow in applying for designation of an area as an enterprise zone. The section authorizes OTTED to designate one enterprise zone pursuant to this bill, notwithstanding the provisions of s. 290.0065, F.S., limiting the total number of enterprise zones designated and the number of enterprise zones within a population category.

Section 6. Section 290.00696, F.S., is created to authorize Holmes County to apply to OTTED for designation of one enterprise zone. The application must be submitted by December 31, 2000, and must comply with the requirements of s. 290.0055, F.S., which governs nominating procedures local governments must follow in applying for designation of an area as an enterprise zone. The section authorizes OTTED to designate one enterprise zone pursuant to this bill, notwithstanding the provisions of s. 290.0065, F.S., limiting the total number of enterprise zones designated and the number of enterprise zones within a population category.

Section 7. Provides an effective date of upon becoming a law.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

	<u>FY 2000-01</u>	<u>FY 2001-02</u>
General Revenue Fund	(Insig.)	(Insig.)
Solid Waste Management TF	(Insig.)	(Insig.)

2. Expenditures:

OTTED is required to process the boundary change application and the applications for new enterprise zones.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

Local governments will have a negative but insignificant fiscal impact.

2. Expenditures:

The City of Gainesville may incur some costs in preparing the application for the allowed boundary changes. Local governments authorized to apply for enterprise zone designations may incur costs in preparing these applications.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Businesses and residents located in areas affected by the boundary changes may be affected. Businesses located in an area added to an enterprise zone could benefit from the enterprise zone incentives. Residents of areas added to an enterprise zone could benefit from new employment opportunities. Businesses located in areas removed from an enterprise zone would no longer be able to benefit from the incentives. Similarly, residents of areas removed from an enterprise zone would no longer enjoy the benefits provided by the enterprise zone. The allowance of maximum incentives and the new enterprise zones authorized by the bill may generate positive economic effects resulting from the availability of various tax incentives.

D. FISCAL COMMENTS:

According to OTTED, the local economy would expand by a factor greater than the specific investment due to a multiplier effect if the enterprise zone is successful in attracting new jobs and investment.

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:

The effect this bill has on the authority that municipalities or counties have to raise revenues in the aggregate depends on the effect the boundary change and new enterprise zones have on local option sales tax collections. Although the bill may reduce the authority of municipalities and counties to raise revenues, the impact is expected to be insignificant.

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

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

This bill does not necessitate additional rulemaking authority.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On March 30, 2000, the Committee on Community Affairs adopted one amendment to HB 699 and approved the bill as a committee substitute. As originally filed, HB 699 authorizes Sarasota County, or the county and the City of Sarasota jointly, to apply to OTTED for designation of one enterprise zone encompassing a specified area. This provision is retained in CS/HB 699. As described in detail in the "Effects of Proposed Changes" section, CS/HB 699 also addresses a variety of additional enterprise zone issues.

On April 24, 2000, the Committee on Finance and Taxation adopted two amendments to CS/HB 699:

Amendment 1: Currently, municipalities that had previously received designation as an enterprise zone that have a minimum population of 20,000 but less than 50,000 had until December 31, 1999 to create a satellite enterprise zone that does not exceed 1.5 square miles. The amendment changes the date to December 31, 2000.

Amendment 2: Allows Okaloosa County to apply to OTTED for an enterprise zone.

VII. SIGNATURES:

COMMITTEE ON BUSINESS DEVELOPMENT & INTERNATIONAL TRADE:

Prepared by:

Staff Director:

James Marshall Cox

J. Paul Whitfield, Jr.

AS REVISED BY THE COMMITTEE ON COMMUNITY AFFAIRS:

Prepared by:

Staff Director:

Thomas L. Hamby

Joan Highsmith-Smith

AS FURTHER REVISED BY THE COMMITTEE ON Finance and Taxation:

Prepared by:

Staff Director:

Carol Dickson-Carr

Alan Johansen