

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: SB 818

SPONSOR: Senator Smith

SUBJECT: Enterprise Zones

DATE: April 13, 2001

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Joseph</u>	<u>Maclure</u>	<u>CM</u>	<u>Fav/1 amendment</u>
2.	<u>Cooper</u>	<u>Yeatman</u>	<u>CA</u>	<u>Favorable</u>
3.	<u>Keating</u>	<u>Johansen</u>	<u>FT</u>	<u>Favorable</u>
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

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 shall approve the boundary change if the new boundaries do not increase the overall size of the enterprise zone and if the new boundaries are contiguous to the existing enterprise zone.

This bill amends section 290.0065, Florida Statutes.

II. Present Situation:

Enterprise Zone Program

Florida established one of the first enterprise zone programs in the country in 1980 to encourage economic growth and investment in distressed areas by offering tax advantages to businesses willing to make such an investment. An enterprise zone is a specific geographic area targeted for economic revitalization. Since July 1, 1995, the state has designated 34 enterprise zones.¹

In 1994, the Legislature passed significant revisions to the Enterprise Zone Program. The original program became overwhelmed with the number of zones allowed. As a result, the existing zones were repealed on December 31, 1994, and parameters were established for designation of new zones. Administrative responsibilities of the program were transferred from

¹ Office of Tourism, Trade, and Economic Development (OTTED), Executive Office of the Governor, *Florida Enterprise Zone Program: Annual Report*, March 1, 2000.

the Department of Community Affairs to the Department of Commerce. The jobs tax credit eligibility criteria were revised to require both the business and the employee to reside within an enterprise zone. (*See* ch. 94-136, L.O.F.)

In 1995, 19 enterprise zones were designated in urban and rural communities throughout the state. Local governments were required to establish a community-based Enterprise Zone Development Agency (EZDA). In 1996, 11 new enterprise zones were authorized by the Legislature, of which 10 submitted acceptable plans and applications. Administrative duties were transferred to the newly created Office of Tourism, Trade, and Economic Development (OTTED) upon the dissolution of the Department of Commerce. In 1997, OTTED designated the City of Fort Pierce as the 30th enterprise zone.

In 1998, the 31st enterprise zone was added when the Legislature further amended the Enterprise Zone Program by authorizing a new zone to be designated within a brownfield pilot project area (Clearwater). Also in 1998, the Legislature provided that new employees who are Work and Gain Economic Self-sufficiency (WAGES) program participants or Job Training Partnership Act classroom training participants may provide a basis for employers to claim the enterprise zone job tax credit under ss. 212.096 and 220.181, F.S., regardless of whether such employees reside in the zone.

In 1999 and the first two months of 2000, enterprise zones were approved for Lake Apopka (32nd), Liberty County (33rd), and Hendry County (34th). In addition, Suwannee, Columbia, and Gadsden counties have submitted applications for enterprise zone designation pending approval from OTTED.

Enterprise Zone Designation Process and Criteria

Section 290.0055, F.S., provides requirements for nominating and selecting an enterprise zone and provides size limitations depending on the community population category. This section also requires that the selected area suffer from pervasive poverty, unemployment, and general distress, as described and measured under 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 not be less than 20 percent; and (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 no more than a total of 20 zones to be placed in five population categories. Each application is to be ranked competitively within the appropriate category based on the pervasive poverty, unemployment, and general distress of the area. Areas are to develop a strategic plan and be evaluated on the following key principles:

- Economic opportunity, including job creation within the community and throughout the region, as well as entrepreneurial initiatives, small business expansion, and training for jobs that offer upward mobility;
- Sustainable community development that advances the creation of livable and vibrant communities through comprehensive approaches that coordinate economic, physical, community, and human development;
- Community-based partnerships involving the participation of all segments of the community;
- Strategic vision for change that identifies how the community will be revitalized; and
- Local incentives should induce economic revitalization, including job creation and small business expansion.

Subsection 290.0065(9), F.S., allows OTTED to amend the boundaries of any enterprise zone designated by the state pursuant to this section, consistent with the categories, criteria, and limitations imposed in this section upon the establishment of such enterprise zone and only if consistent with the determinations made in s. 290.0058(2).

Section 290.0066, F.S., provides the director of OTTED with the ability to revoke the designation of an enterprise zone if the governing bodies:

- Have failed to make progress in achieving the benchmarks set forth in the strategic plan; or
- Have not complied substantially with the strategic plan. Failure to enact and maintain the local fiscal and regulatory incentives committed to by the governing bodies for two consecutive calendar years is to result in the automatic termination of enterprise zone designation.

Section 290.00675, F.S., provides for the amendment of certain enterprise zone boundaries. Notwithstanding any other provisions of law, OTTED may amend the boundaries of an area designated as an enterprise zone in a community having a population of 235,000 persons but less than 245,000, so long as the area does not increase the overall size of the zone by greater than 25 acres and the increased area is contiguous to the existing enterprise zone. The amendment must also be consistent with the limitations imposed by s. 290.0055, F.S., upon establishment of the enterprise zone.

Section 290.00685, F.S., provides for the amendment of certain enterprise zone boundaries containing brownfield pilot projects. Notwithstanding any other provisions of law to the contrary, the governing body of a municipality or a county containing a U.S. Environmental Protection Agency brownfield pilot project that was designated as of May 1, 1997, may apply to OTTED to amend the boundaries of an enterprise zone.

Program Incentives and Costs

Costs of the Enterprise Zone Program have increased as new areas have been added. The total cost of state and local incentives was \$11.2 million in fiscal year (FY) 1996-97 and \$13 million in FY 1997-98. Costs increased by \$11 million in FY 1998-99, totaling \$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). In FY 1999-00 the total program cost dropped back down to \$15 million despite an increase of \$300,000 in state program spending. The drop was due to local government incentives declining \$8.7 million.

The financial incentives available to businesses located within a designated zone and the fiscal year 1999-00 incentive costs are as follows:²

- Enterprise Zone Jobs Tax Credit (Corporate Income Tax and Sales Tax): Businesses located in a zone are allowed a credit against their corporate income and sales taxes for 10 percent of the wages paid to new employees who have been employed for at least three months and are residents of an enterprise zone. A 15 percent enhanced credit is provided to employers if 20 percent of their employees are zone residents (s. 212.096 and s. 220.181, F.S.) - \$2,058,538.
- Enterprise Zone Property Tax Credit (Corporate Income Tax): New or expanded businesses located in a zone are allowed a credit on their Florida Corporate Income Tax equal to 96 percent of ad valorem taxes paid on the new or improved property (the assessment rate varies by county) (s. 220.182, F.S.) - \$545,409.
- Sales Tax Refund for Building Materials Used in an Enterprise Zone: A refund is available for sales taxes paid on the purchase of building materials used to rehabilitate real property located in a zone (s. 212.08(5)(g), F.S.) - \$334,668.
- Sales Tax Refund for Business Property in an Enterprise Zone: A refund is available for sales taxes paid on the purchase of certain business property, which is used exclusively in a zone for at least three years (s. 212.08(5)(h), F.S.) - \$2,188,606.
- Sales Tax Exemption for Electrical Energy Used in an Enterprise Zone: A 50-percent sales tax exemption is available to qualified businesses located in a zone on the purchase of electrical energy (s. 212.08(15), F.S.) - \$331,614.
- Community Contribution Tax Credit Program: Businesses located anywhere in Florida are allowed a 50-percent credit on Florida Corporate Income Tax or Insurance Premium Tax for donations made to approved local community development projects located in an enterprise zone (or a low income housing project located anywhere) (s. 220.183 and s. 624.5105, F.S.) - \$4,041,271.
- Enterprise Zone Linked Deposit Program: Financial institutions in certain enterprise zones are selected to receive matching funds to provide loans or lines of credit to individuals for small business startup, expansion, working capital, or inventory financing. This part of the enterprise zone program was repealed on June 30, 2000 (s. 290.0075, F.S.).

III. Effect of Proposed Changes:

Section 1 amends s. 290.0065, F.S., authorizing 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 the Office of

² Office of Tourism, Trade, and Economic Development (OTTED), Executive Office of the Governor, *Florida Enterprise Zone Program: Annual Report*, March 1, 2001.

Tourism, Trade, and Economic Development (OTTED) before June 1, 2002. 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 the new boundaries are contiguous to the existing enterprise zone. This bill appears to be designed to allow the City of Gainesville to apply to OTTED for a change in the city's existing enterprise zone boundaries; however, the bill refers to a county population figure of less than 200,000, and census figures estimate Alachua County's population to be more than 200,000.

Section 2 provides that the bill will take effect upon becoming a law.

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:

This bill authorizes a change in the boundaries of an existing zone and may have the effect of including some businesses and excluding others from the enterprise zone. The change in the mix of business activity may result in additional state and local costs through use of the tax incentives provided under the Enterprise Zone Program. The Revenue Estimating Conference estimates the fiscal impact of the bill to be insignificant.

B. Private Sector Impact:

This bill authorizes a change in the boundaries of an existing zone and may have the effect of including some businesses and excluding others from the enterprise zone.

C. Government Sector Impact:

This bill may result in increased costs for the Office of Tourism, Trade, and Economic Development to review and approve an application to change the boundaries of an existing enterprise zone.

VI. Technical Deficiencies:

This bill appears to be intended to allow the city of Gainesville to amend its zone boundaries. However, the city of Gainesville is located in a county having a population of more than

200,000, while the bill states that the population of the applicable county must be less than 200,000.

VII. Related Issues:

None.

VIII. Amendments:

#1 by Commerce & Economic Opportunities:

Corrects a reference to the population of the county in which the municipality that is eligible to apply for an amendment to its enterprise zone boundary is located, and clarifies that the new territory added will be contiguous to the remaining area of the existing enterprise zone.

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