

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 395 w/CS Enterprise Zones
SPONSOR(S): A. Gibson, D. Davis and others
TIED BILLS: **IDEN./SIM. BILLS:** SB 1860

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Commerce</u>	<u>15 Y, 0 N w/CS</u>	<u>Winker</u>	<u>Billmeier</u>
2) <u>Finance and Tax</u>	<u></u>	<u></u>	<u></u>
3) <u></u>	<u></u>	<u></u>	<u></u>
4) <u></u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

The bill creates an unnumbered section of statute which authorizes the Office of Tourism, Trade, and Economic Development (OTTED) to amend the boundaries of a state enterprise zone in a community within the boundaries of a consolidated government (i.e., City of Jacksonville). The bill requires the amendment of a current state designated enterprise zone and also authorizes the expansion of the zone to include noncontiguous existing federal empowerment zones.

The bill authorizes OTTED to amend the boundaries of a current enterprise zone in the City of Brooksville in Hernando County. The bill requires that the increased area of the zone must be contiguous to the existing zone and must not increase the overall size of the zone by more than 5 square miles.

The bill authorizes an inland county with a population greater than 500,000 and an existing enterprise zone to apply to OTTED for an amendment to the zone not to exceed 5 square miles.

The Revenue Impact Conference has not reviewed this bill. In previous years, the Revenue Impact Conference has estimated between \$100,000 and \$200,000 negative fiscal impact on General Revenue and an insignificant fiscal impact on local revenues for legislation creating an enterprise zone.

The bill takes effect on July 1, 2004

This document does not reflect the intent or official position of the bill sponsor or House of Representatives.

STORAGE NAME: h0395a.com.doc
DATE: February 10, 2004

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

- | | | | |
|--------------------------------------|---|-----------------------------|---|
| 1. Reduce government? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. Lower taxes? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 3. Expand individual freedom? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. Increase personal responsibility? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. Empower families? | 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. EFFECT OF PROPOSED CHANGES:

The bill creates an unnumbered section of statute which authorizes the Office of Tourism, Trade, and Economic Development to amend the boundaries of a state enterprise zone in a community within the boundaries of a consolidated government (i.e., City of Jacksonville). Section 290.00675, F.S., authorizes the Office of Tourism, Trade, and Economic Development to amend the boundaries of an area designated as an enterprise zone in a community having a population of at least 235,000 persons but no less than 245,000 persons as long as the area so designated does not increase the overall size of the enterprise zone by greater than 25 acres and the increased area is contiguous to the existing enterprise zone. The bill permits the boundaries of an enterprise zone to be changed without following the current process.

The bill authorizes OTTED to amend the boundaries of a current enterprise zone in the City of Brooksville in Hernando County. The bill requires that the increased area of the zone must be contiguous to the existing zone and must not increase the overall size of the zone by more than 5 square miles.

The bill requires the amendment of a current state designated enterprise zone and also authorizes the expansion of the zone to include noncontiguous existing federal empowerment zones.

The Revenue Impact Conference has not reviewed this bill. In previous years, the Revenue Impact Conference has estimated between \$100,000 and \$200,000 negative fiscal impact on General Revenue and an insignificant fiscal impact on local revenues for legislation creating an enterprise zone.

The bill takes effect on July 1, 2004.

Florida Enterprise Zone Program

In 1980, Florida established one of the first enterprise zone programs in the country to encourage economic growth and investment in distressed areas. An enterprise zone is a specific geographic area targeted for economic revitalization.

The purpose of enterprise zones is to assist local communities, their residents, and the private sector in creating the environment to induce the investment of private resources in business enterprises located in severely distressed areas and to provide jobs for residents in the area. Under the Enterprise Zone Act of 1994 [ss.290.001-290.016, F.S.], areas of the state meeting specified criteria have been designated as enterprise zones.

According to the Office of Tourism, Trade, and Economic Development, since July 1, 1995, the state has designated 47 enterprise zones. State and local incentives are authorized to induce businesses to invest in enterprise zone which, in turn, offers a number of tax advantages to such businesses willing to make such an investment. Based on data from the Office of Tourism, Trade, and Economic Development, there are currently 26 rural enterprise zones statewide encompassing 1,208 square miles and 111,574 residents.

State and Local Incentives Available to Businesses in Enterprise Zones

Below are incentives provided to encourage the revitalization of enterprise zones:

- Enterprise zone jobs credit provided in s. 220.181, F.S.
- Enterprise zone property tax credit provided in s. 220.182, F.S.
- Sales tax exemption for building materials used in the rehabilitation of real property in enterprise zones provided in s. 212.08(5)(g), F.S.
- Sales tax exemption for business property used in an enterprise zone provided in 212.08(5)(h), F.S.
- Sales tax exemption for electrical energy used in an enterprise zone provided in s. 212.08(15), F.S.
- Enterprise zone jobs credit against the sales tax provided in s. 212.096, F.S.
- Occupational license tax exemption in s. 205.054, F.S.
- Economic development ad valorem tax exemption in s. 196.1995, F.S.

Enterprise Zone Jobs Credit – Corporate Income Tax

Businesses located in an enterprise zone that pay Florida corporate income taxes are authorized to receive a tax credit against their corporate income tax based on the amount of wages paid to new employees who are either residents of an enterprise zone or participants in a welfare transition program. [Section 220.181, F.S.]

Enterprise Zone Property Tax Credit - Corporate Income Tax

New, expanded, or rebuilt businesses located within an enterprise zone are allowed a credit on their Florida corporate income tax based on the amount of property taxes paid. [Section 220.181, F.S.]

Exemption for Building Materials Used in an Enterprise Zone – Sales Tax

A refund is available for sales taxes paid on the purchase of building materials used in the rehabilitation of real property used in an enterprise zone. The amount of the refund is the lesser of 97 percent of the sales taxes paid or \$5,000, or, if 20 percent or more of the business's employees reside in an enterprise zone, the lesser of 97 percent of the sales taxes paid or \$10,000. [Section 212.08(5)(g), F.S.]

Exemption for Business Property Used in an Enterprise Zone – Sales Tax

A refund is available for sales taxes paid on the purchase of business property with a purchase price of \$5,000 or more purchased by and for use in a business located in an enterprise zone. The amount of the refund is the lesser of 97 percent of the sales taxes paid or \$5,000, or, if 20 percent or more of the business's employees reside in an enterprise zone, the lesser of 97 percent of the sales taxes paid or \$10,000. [Section 212.08(5)(h), F.S.]

Exemption for Electrical Energy Used in an Enterprise Zone – Sales Tax

A sales tax exemption is available to qualified businesses located in an enterprise zone on the purchase of electrical energy. The amount of the exemption is equal to 50 percent of the sales taxes otherwise due or 100 percent of the sales taxes otherwise due if 20 percent or more of the business's employees reside in an enterprise zone. This exemption is only available if the municipality in which the business is located has passed an ordinance to exempt the municipal utility taxes on such business. [Sections 212.08(15) and 166.231(8), F.S.]

Enterprise Zone Jobs Credit – Sales Tax

Businesses located within an enterprise zone that collect and pay Florida sales and use tax are allowed a credit against their sales tax due based on the amount of wages paid to new employees who are either residents of an enterprise zone or participants in a welfare transition program. [Section 212.096, F.S.]

Occupational License Tax Exemption

By ordinance, the governing body of a municipality may exempt 50 percent of the occupational license tax for businesses located in an enterprise zone. [Section 205.054, F.S.]

Economic Development Ad Valorem Tax Exemption

Up to 100 percent of the assessed value of improvements to real or tangible property of a new or expanded business located in an enterprise zone may be exempted from property taxes if the voters of a municipality authorize the governing body of the municipality to grant such exemptions. [Section 196.1995, F.S.]

Enterprise Zone Designation Process and Criteria

Section 290.0055, F.S., prescribes the local procedures for the nomination of an enterprise zone. Governing bodies or body of a county and/or a municipality must adopt a resolution which:

1. Finds that an area exists in such a county or municipality, or in both the county and one or more municipalities, which chronically exhibit extreme and unacceptable levels of poverty, unemployment, and economic disinvestment;
2. Determines that the rehabilitation, conservation, or redevelopment of the area is necessary in the interest of the public health, safety, and welfare of the residents of the county or municipality, or the county and one or more municipalities; and
3. Determines that the revitalization of the area can occur only if the private sector can be induced to invest its own resources in productive enterprises that build or rebuild the economic viability of the area.

The governing body or bodies of a nominated area must also create an enterprise zone development agency and create and adopt an enterprise zone strategic plan prior to the submission of an application to the Office of Tourism, Trade, and Economic Development.

The enterprise zone development agency created is responsible for assisting with the development and implementation of the enterprise zone strategic plan. The enterprise zone strategic plan is the community's plan for revitalizing the nominated area and contains commitments to enact and maintain local fiscal and regulatory incentives if the nominated area receives an enterprise zone designation.

Section 290.00675, F.S., authorizes the Office of Tourism, Trade, and Economic Development to amend the boundaries of an area designated as an enterprise zone in a community having a

population of at least 235,000 persons but no less than 245,000 persons as long as the area so designated does not increase the overall size of the enterprise zone by greater than 25 acres and the increased area is contiguous to the existing enterprise zone.

Determination of Poverty, Unemployment, and General Distress

The Office of Tourism, Trade, and Economic Development may designate the nominated area as an enterprise zone if the selected area suffers from pervasive poverty, unemployment, and general distress. To determine whether an area suffers from pervasive poverty, census data must show that the poverty rate for each census block within the nominated area is at least 20 percent. The poverty rate must also exceed 30 percent in at least 50 percent of the census geographic block groups within the nominated area.

If a census block group within a nominated area has no population, it is considered to have a 20-percent poverty rate. Unemployment is evidenced by data indicating that the unemployment rate is equal to or greater than the state's unemployment rate or by evidence indicating severe economic conditions for the area. General distress is evidenced by such factors as a high crime rate, abandoned structures, and deteriorated infrastructure or substantial population decline.

Enterprise Zones and Sales Tax Exemption

An incentive [see above for all incentives] for all designated enterprise zones is a sales tax for building equipment used in an enterprise zone. Currently, businesses located within any enterprise zone are eligible for a sales tax refund if the unit value of the equipment is \$5,000 or more [section 212.08(5)(h)].

According to Enterprise Florida, Inc., small businesses make up the majority of businesses located in all enterprise zones. The sales tax refund as currently structured cannot be assessed by the majority of businesses considering locating to or expanding in an enterprise zone.

Enterprise Zone Program Costs

Based on data from the Office of Tourism, Trade, and Economic Development, the impact of the Enterprise Zone Program is summarized in the table below.

YEAR	NEW OR RELOCATED BUSINESSES	JOB'S CREATED	NUMBER OF ZONES	STATE INCENTIVES	LOCAL INCENTIVES
2001-2002	1,244	5,630	47	\$6,739,551	\$ 5,847,694
2000-2001	654	6,394	34	\$4,746,396	\$16,202,894
1999-2000	766	5,141	34	\$5,458,835	\$10,135,657
1998-1999	776	5,305	32	\$5,170,899	\$18,839,076
1997-1998	151	3,572	31	\$4,495,218	\$ 8,853,197
1996-1997	434	4,573		\$4,449,941	\$ 6,803,474
1996-1996	128	2,188		\$ 817,422	\$ 4,252,766

Source: Compilation of data from the Office of Tourism, Trade, and Economic Development, *Florida Enterprise Zone Program Annual Report October 1, 2001 - September 30, 2002*, pp. 5 and 6, March 1, 2003.

The Florida Enterprise Zone Act of 1994 is scheduled for repeal on December 31, 2005, as provided by s. 37, ch. 94-136, L.O.F.

Federal Empowerment Zones

The Federal Empowerment Zone program was established in 1993 under the Federal Omnibus Reconciliation Act as part of a federal-initiated community revitalization strategy. In January 1994, through a nation-wide competition for the initial designation of federal enterprise zones/enterprise communities, six urban enterprise zones (and sixty-five urban enterprise communities) were designated by the U.S. Department of Housing and Urban Development. In December 1994, 72 additional urban areas and 33 rural communities were designated enterprise zones or enterprise communities.

In 2002, an area in the City of Jacksonville was designated an enterprise zone. The designated area consists of 18 census tracts with poverty rates ranging from 30% to 77.5%. Forty-one percent of the persons living in the designated area are at the federal poverty rate compared to 12.8% countywide. Fifteen of the area's census tracts are in the urban core of Jacksonville, which has experienced a substantial loss of population over the past decade. The unemployment rate in the designated area is over double what the county unemployment rate is.

Federal empowerment zones receive regulatory relief and tax incentives intended to help local businesses provide more jobs and promote community revitalization. Federal enterprise zones are entitled to wage credits, tax deductions, bond financing, and capital gains to stimulate economic development and job growth. Federal enterprise zone tax credits include wage credits, work opportunity credits, and welfare to work credits. Bond financing includes, tax-exempt facility bonds and qualified zone academy bonds. Businesses in federal zones can postpone or partially recognize the gain on the sale of certain assets. Business in federal zones also can claim certain tax deductions related to the depreciation of equipment and machinery. Federal enterprise zones also receive technical assistance from federal agencies to assist local businesses in securing enterprise zone benefits.

C. SECTION DIRECTORY:

Section 1: Creates an unnumbered statute; authorizes the Office of Tourism, Trade, and Economic Development to amend the boundaries of a state enterprise zone in a community within the boundaries of a consolidated government; requires the amendment of the enterprise zone and authorizes the expansion of the zone to include noncontiguous federal empowerment zones.

Section 2: Creates an unnumbered section of statute; authorizes OTTED to amend the boundaries of a current enterprise zone in the City of Brooksville in Hernando County; requires that the increased area of the zone must be contiguous to the existing zone and must not increase the overall size of the zone by more than 5 square miles.

Section 3: Creates an unnumbered section of statute; authorizes an inland county with a population greater than 500,000 and an existing enterprise zone to apply to OTTED for an amendment to the zone not to exceed 5 square miles.

Section 4: The bill takes effect on July 1, 2004.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Impact Conference has not reviewed this bill. In previous years, the Revenue Impact Conference has estimated between \$100,000 and \$200,000 negative fiscal impact on General Revenue and an insignificant fiscal impact on local revenues for legislation creating an enterprise zone.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Businesses located within the designated enterprise zone will be eligible to claim tax incentives when hiring residents of the zone or making capital investments within the zone.

D. FISCAL COMMENTS:

The Office of Tourism, Trade, and Economic Development and the Department of Revenue do not anticipate any additional costs for administering the provisions of this bill.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not require counties or municipalities to take an action requiring the expenditure of funds, does not reduce the authority that counties or municipalities have to raise revenues in the aggregate, and does not reduce the percentage of state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

Following discussions between the Office of Tourism, Trade, and Economic Development staff and staff in Economic Development Office of Jacksonville, the sponsor of the bill will be offering a strike-all amendment to the bill which will clarify its provisions and also provide that the application for the amendment to the enterprise zone must be submitted to OTTED by December 31, 2004.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

In the Commerce Committee meeting on February 16, 2004, the bill was adopted with a strike-all amendment and two amendments to the strike-all amendment. The strike-all amendment by Rep. Gibson removed the reference in the bill where OTTED may not increase the expansion of the enterprise zone by no more than 2 square miles. The first amendment to the strike-all amendment adopted by the committee authorizes OTTED to amend the boundaries of a current enterprise zone in the City of Brooksville in Hernando County. The increased area of the zone must be contiguous to the existing zone and must not increase the overall size of the zone by more than 5 square miles. The second amendment adopted by the committee authorizes an inland county with a population greater

than 500,000 and an existing enterprise zone to apply to OTTED for an amendment to the zone not to exceed 5 square miles.