

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 1003 CS Enterprise Zones
SPONSOR(S): Stargel
TIED BILLS: **IDEN./SIM. BILLS:** SB 1598

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Economic Development, Trade & Banking Committee</u>	<u>12 Y, 0 N, w/CS</u>	<u>Carlson</u>	<u>Carlson</u>
2) <u>Finance & Tax Committee</u>	<u>(W/D)</u>	<u></u>	<u></u>
3) <u>Commerce Council</u>	<u>9 Y, 0 N, w/CS</u>	<u>Carlson</u>	<u>Bohannon</u>
4) <u></u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

The bill authorizes the following new enterprise zones:

- The City of Lakeland;
- Indian River County, the City of Vero Beach and the City of Sebastian;
- Sumter County;
- Columbia County or Columbia County and Lake City;
- Suwannee County or Suwannee County and Live Oak; and
- Orange County.

The bill limits the size of the zones that may be designated for the City of Lakeland, Indian River County, the City of Vero Beach and the City of Sebastian and Sumter County to an area of up to 10 square miles.

The bill requires application by December 31, 2005 and requires that applications for all but Suwannee and Columbia counties comply with s. 290.0055, F.S. As appropriate, it authorizes OTTED to designate one enterprise zone for each applicant notwithstanding the limitation on the number of zones in s. 290.0065, F.S., and requires OTTED to establish the initial effective date of the enterprise zones.

The bill also requires OPPAGA to conduct an evaluation of the tax incentives available in rural enterprise zones and the effectiveness of these zones in creating jobs. The evaluation shall include an estimation of the costs of new tax incentives such as the transfer of unused enterprise zone tax credits and shall identify obstacles faced by rural enterprise zones. OPPAGA's report and recommendations are due December 1, 2005.

The bill has an effective date of July 1, 2005.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Lower Taxes – The bill will provide tax incentives for businesses that relocate to or expand in an Enterprise Zone.

Empower Families – The bill will incentivize job creation by offering tax incentives to businesses that relocate to or expand in an Enterprise Zone.

B. EFFECT OF PROPOSED CHANGES:

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 55 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 27 rural enterprise zones statewide encompassing 1,214 square miles and 111,638 residents.

The Enterprise Zone Act expires on December 31, 2005.

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. This section expires June 30, 2005]

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. This section expires June 30, 2005]

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. This section expires December 31, 2005]

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. This section expires December 31, 2005]

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. This exemption expires December 31, 2005]

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. This section expires December 31, 2005]

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. This section expires December 31, 2005]

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 Zones and Sales Tax Exemption

An incentive 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 Designation Process and Criteria

Section 290.0055, F.S., prescribes the local procedures for the nomination of an enterprise zone. The 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.

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.

Amendments of Enterprise Zone Boundaries

Section 290.00675, F.S., authorizes the OTTED 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 amendment must meet the local nominating requirements of s. 290.0055, F.S.

OTTED may also amend the boundary of an enterprise zone in a community having a population of 50,000 but less than 60,000 so long as the area does not increase the overall size of the zone by greater than 400 acres and the increased area is contiguous to the existing zone. An amendment must meet the local nominating requirements of s. 290.0055, F.S.

Sections 290.00676 and 290.00679, F.S., provided authority for amendments to rural enterprise zone boundaries, but local enterprise zone development agencies had to apply by the end of 2003 for such amendments. There is no current provision allowing boundary amendments to rural enterprise zones.

Effect of Proposed Changes

The bill authorizes the following new enterprise zones:

- The City of Lakeland;
- Indian River County, the City of Vero Beach and the City of Sebastian;
- Sumter County;
- Columbia County or Columbia County and Lake City;
- Suwannee County or Suwannee County and Live Oak; and
- Orange County.

The bill limits the size of zones that may be designated for the City of Lakeland, Indian River County, the City of Vero Beach and the City of Sebastian and Sumter County to up to 10 square miles.

The bill requires application by December 31, 2005 and requires that applications for all but Suwannee, Columbia and Sumter counties¹ to comply with s. 290.0055, F.S. As appropriate, it authorizes OTTED to designate one enterprise zone for each applicant notwithstanding the limitation on the number of zones in s. 290.0065, F.S., and requires OTTED to establish the initial effective date of the enterprise zones.

The bill also requires OPPAGA to conduct an evaluation of the tax incentives available in rural enterprise zones and the effectiveness of these zones in creating jobs. The evaluation shall include an estimation of the costs of new tax incentives such as the transfer of unused enterprise zone tax credits and shall identify obstacles faced by rural enterprise zones. OPPAGA's report and recommendations are due December 1, 2005.

C. SECTION DIRECTORY:

Section 1. Creates s. 290.00710, F.S., authorizing the creation of a new enterprise zone in the City of Lakeland.

Section 2. Creates s. 290.0073, F.S., authorizing the creation of a new enterprise zone for Indian River County, the City of Vero Beach, and the City of Sebastian.

Section 3. Creates s. 290.0074, F.S., authorizing the creation of a new enterprise zone for Sumter County.

¹ These counties are rural counties.

Section 4. Creates s. 290.0075, F.S., authorizing the creation of a new enterprise zone for Columbia County or Columbia County and Lake City.

Section 5. Creates s. 290.0076, F.S., authorizing the creation of a new enterprise zone for Suwannee County or Suwannee County and Live Oak.

Section 6. Creates s. 290.0077, F.S., authorizing the creation of a new enterprise zone for Orange County and the municipality of Apopka.

Section 7. Requires OPPAGA to conduct a study of rural enterprise zones.

Section 8. Provides an effective date of July 1, 2005.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Estimating Conference has not estimated the impact of the CS as amended. The Conference's most recent estimation, adopted on April 22 but not considering the CS as amended, was that the impact would be insignificant.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The Revenue Estimating Conference has not estimated the impact of the CS as amended. The Conference's most recent estimation, adopted on April 22 but not considering the CS as amended, was that the impact would be insignificant.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill may incentivize the expansion of existing business or the relocation of business to the new enterprise zone. It may also have a positive effect on job creation within the enterprise zone. The bill may also have an incidental positive effect on state and local government revenue to the extent that it increases sales tax revenues and other economic activity by employees of affected businesses.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not require a municipality or county to expend funds or to take any action requiring the

expenditure of funds. The bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate. The bill does not reduce the percentage of state tax shared with municipalities or counties.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

The bill does not require or affect any rulemaking authority.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

The Economic Development, Trade and Banking Committee adopted a strike-everything amendment to the bill on March 31, 2005. The amendment provides for the following:

- Authorizes creation of a new enterprise zone in Columbia County and/or Lake City;
- Authorizes creation of a new enterprise zone in Suwannee County and/or Live Oak;
- Authorizes creation of a new enterprise zone for Indian River County, the City of Vero Beach, and the City of Sebastian; and
- Authorizes a boundary change to the enterprise zone located in the City of Palmetto, Manatee County.

The Commerce Council adopted a strike-everything amendment to the bill on April 21, 2005. The amendment makes technical corrections, authorizes the designation of new enterprise zones in Apopka, Orange County and in Sumter County, requires the Office of Program Policy Analysis and Government Accountability to conduct a study of rural enterprise zones and removes the boundary amendment provisions that related to the City of Palmetto, Manatee County.