# HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 1313 CS Economic Development
**SPONSOR(S):** Detert
**TIED BILLS:** **IDEN./SIM. BILLS:** SB 2212

| REFERENCE | ACTION | ANALYST | STAFF DIRECTOR |
|---|---|---|---|
| 1) Economic Development, Trade & Banking Committee | 12 Y, 0 N, w/CS | Carlson | Carlson |
| 2) Finance & Tax Committee | | | |
| 3) Commerce Council | | | |
| 4) | | | |
| 5) | | | |

## SUMMARY ANALYSIS


The bill renames the Urban High-Crime Area Job Credit Program as the Designated Urban Job Tax Credit Area Program; changes the eligibility requirements for the areas so designated; reduces available tax credits from a range of $500 to $1,500 to a credit of $1,000; and limits designations to a period of five years. The bill grandfathers the value of existing tax credits for businesses already in the program until 2010.

The bill also amends the Capital Investment Tax Credit Program to allow the Governor's Office of Tourism, Trade and Economic Development (OTTED) to waive the high impact sector eligibility requirements to induce the location or expansion of a facility that creates or retains at least 1,000 jobs, provided that 100 are new jobs, pays an annual average wage of at least 130 percent of the average private sector wage, and makes a cumulative capital investment of at least $100 million. This would allow businesses that are not designated high impact sector businesses to qualify for the program.

The bill limits the amount of capital investment tax credits to 50 percent of the increased annual corporate income or premium tax liability generated by or arising out of a qualifying project.

The bill has a fiscal impact on state and local revenue. See Fiscal Comments.

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 a designated urban job tax credit area or to a business that meets the job creation and capital investment requirements of the Capital Investment Tax Credit program.

B. EFFECT OF PROPOSED CHANGES:

Urban High-Crime Job Tax Credit Program

The Urban High-Crime Job Tax Credit program was created in ch. 97-50, L.O.F. The program provides job tax credits for businesses engaged in agriculture, forestry, fishing, manufacturing, public warehousing and storage, hotels and other lodging places, and research and development, public golf courses and amusement parks, if such businesses are located in specific high crime areas and based on the number of employees the businesses hire.

The program requires OTTED to rank areas into tiers along the following criteria:

1. Highest arrest rates within the geographic area for violent crime and for such other crimes as drug sale, drug possession, prostitution, vandalism, and civil disturbances;
2. Highest reported crime volume and rate of specific property crimes such as business and residential burglary, motor vehicle theft, and vandalism;
3. Highest percentage of reported index crimes that are violent in nature;
4. Highest overall index crime volume for the area; and
5. Highest overall index crime rate for the geographic area.

The program classifies high crime areas as "tiers" with tier-one areas ranked 1 to 5 representing the highest crime areas; tier-two areas being ranked as 6 to 10; and tier-three ranked 11 to 15.

New eligible businesses in tier-one areas which have at least 10 qualified employees on the date of application for a credit receive a $1,500 tax credit for each employee. Qualified businesses in tier-two that have at least 20 qualified employees on the date of application receive a $1,000 tax credit for each employee. Qualified businesses in tier-three that have at least 30 qualified employees on the date of application receive a $500 tax credit per employee. New eligible businesses may also qualify for an addition credit of $500 per qualified employee that is a welfare transition participant.

An existing eligible business in a tier-one area which on the date of application for a credit has at least 5 more qualified employees than it had one year prior to the date of application receives $1,500 for each additional employee. An existing eligible business in a tier-two area which on the date of application for a credit has at least 10 more qualified employees than it had one year prior to the date of application receives $1,000 for each additional employee. An existing eligible business in a tier-three area which on the date of application for a credit has at least 15 more qualified employees than it had one year prior to the date of application receives $500 for each additional employee.

The governing body of the area to be nominated is required to apply to OTTED for approval.

The program limits the size and population of high crime areas as follows:

- No area may exceed 20 square miles;
- For communities that have a population of 150,000 or more, the selected area must not exceed 20 square miles;
- For communities with populations of 50,000 to 149,999, the selected area must not exceed 10 square miles;
- For communities with populations of 20,000 to 49,999, the selected area must not exceed 5 square miles; and
- For communities having a population of less than 20,000, the selected area must not exceed 3 square miles.

The maximum credit amount that may be approved in one year is $5 million, of which $1 million is reserved for tier-one areas.

A total of $12,430,000 in tax credits have been approved for 12 of the 13 Urban High-Crime Job Tax Credit Areas since 1999.[1] The thirteenth area, Ocala, has not been approved for any credits to date. The total credits approved by area are broken down as follows:

| | |
|---|---|
| Ft. Lauderdale | $127,000 |
| Pompano Beach | $178,000 |
| Miami-Dade (1308) | $1,523,500 |
| Miami-Dade (1310) | $749,000 |
| Miami-Dade (1315) | $122,000 |
| Jacksonville | $763,500 |
| Tampa | $39,000 |
| Tallahassee | $63,000 |
| Orlando | $7,111,500 |
| Palm Beach | $1,162,500 |
| St. Petersburg | $189,000 |
| Lakeland | $402,000 |

<u>Capital Investment Tax Credit Program</u>

The Capital Investment Tax Credit Program allows eligible businesses to receive a tax credit against corporate income tax or insurance premium tax if the business creates a specific number of jobs and makes a minimum cumulative capital investment.

Under the program, a “qualifying project” is defined as a new or expanding facility in Florida that creates at least 100 new jobs in Florida and is in one of the high-impact sectors identified by Enterprise Florida, Inc., and certified by OTTED pursuant to s. 288.108(6), including, without limitation, aviation, aerospace, automotive and silicon technology industries. OTTED has designated the following high-impact sectors: Silicon Technology, Aircraft, Rocket and Automobile Manufacture; Bio-Medical; Information Technology; and Financial Services.

The program allows a business that establishes a qualifying project to be certified by OTTED, on the recommendation of Enterprise Florida, to receive tax credits against corporate income or premium tax liability arising out of the project as follows:

- 100 percent for a project resulting in a cumulative capital investment of at least $100 million;
- 75 percent for a project resulting in a cumulative capital investment of at least $50 million but less than $100 million; or

[1] Source: Office of Tourism, Trade and Economic Development data. Summary on file with Economic Development, Trade and Banking Committee.

- 50 percent for a project resulting in a cumulative capital investment of at least $25 million but less than $50 million.

The credit granted under the program operates on an annual basis in an amount equal to five percent of the eligible capital costs generated by the project for up to 20 years beginning with the commencement of operations of the project, subject to the limitations listed above. The amount of credits cannot exceed 100 percent of the eligible capital costs of the project and the credits may not be carried forward or backward.

Before receiving a tax credit, the business must meet and maintain minimum employment goals and capital investment requirements and must affirmatively demonstrate compliance with these requirements to the satisfaction of the Department of Revenue.

**Proposed Changes**

Urban High-Crime Job Tax Credit Program

The bill renames the Urban High-Crime Job Tax Credit Program the "Designated Urban Job Tax Credit Area Program" and conforms the name change throughout.

The bill includes target industry businesses eligible for a target industry tax refund under s. 288.106 F.S., as businesses eligible to participate in the job tax credit program.

The bill defines a "designated urban job tax credit area" to mean that area selected by OTTED based on a ranking of areas nominated according to the highest level of distress experienced in specific categories and requires OTTED to designate the 30 highest distress areas as eligible participants under the program every fifth year. The bill repeals the current prioritized criteria and tiers. The bill also defines a "designated urban job tax credit area" to include an area designated as a federal Empowerment Zone pursuant to the Community Tax Relief Act of 2000.

The bill defines "urban" to mean a densely populated nonrural area located within an urban county that consists of a cluster of one ore more census blocks, each of which has a population density of at least 400 people per square mile, or an area defined as urban by the most recent United States Census.

The bill defines an "urban infill and redevelopment area" to mean an area or areas designated by the local government in which:

- Public services such as water and wastewater, transportation, schools, and recreation are already available or are scheduled to be provided in an adopted 5-year schedule of capital improvements;
- The area, or one or more neighborhoods within the area, suffers from pervasive poverty, unemployment, and general distress as defined by s. 290.0058;
- The area exhibits a proportion of properties that are substandard, overcrowded, dilapidated, vacant or abandoned, or functionally obsolete which is higher than the average for the local government;
- More than 50 percent of the area is within 1/4 mile of a transit stop, or a sufficient number of such transit stops will be made available concurrent with the designation; and
- The area includes or is adjacent to community redevelopment areas, brownfields, enterprise zones, or Main Street programs, or has been designated by the state or Federal Government as an urban redevelopment, revitalization, or infill area under empowerment zone, enterprise community, or brownfield showcase community programs or similar programs.

The bill flattens the tax credits available to eligible businesses, providing only for a credit of $1,000 (as opposed to $500 to $1,500 depending on the tier classification). The bill also provides for a $1,000 tax credit for businesses existing in a designated urban job tax credit area that have at least 5 more qualified employees than they had one year prior to their date of application.

Notwithstanding the flattening of the tax credits, the bill provides that a business eligible for a specific value of tax credit (i.e., $1,500 per job) on June 30, 2005 shall retain the right to that value of credit through December 31, 2010, provided that it complies with job creation requirements.

The bill also provides a five year term for each designated area, allowing those designated as of December 31, 2005 to retain designation until December 31, 2010 and providing that at the end of the period of designation, a formerly designated area or any other eligible area may seek approval from OTTED for designation.

The bill revises the eligibility criteria for an area to be designated as a urban job tax credit area and requires the governing body of the entity including the area to demonstrate to OTTED the following:

Income characteristics:
- Forty percent of area residents are earning wages on an annual basis that are equal to or less than the annual wage of a person who is earning minimum wage; or
- More than 20 percent of residents or families live below the federal standard of poverty for individuals or a family of four;

Workforce and Employment Characteristics:
- The area has an unemployment rate at least three percentage points higher than the state's unemployment rate;

Crime Characteristics:
- The area has an arrest rate higher than the state's average rate for such crimes as drug sale, drug possession, prostitution, vandalism, and civil disturbances;

Residential and Commercial Property-Related Characteristics:
- Fifty percent or more of area residents rent; or
- Property values are within the lower 50 percent of the county's assessed property values;
- More than five percent of area commercial buildings are currently vacant or have been condemned within the previous 24 months; or
- Tax or special assessment delinquencies exceed the fair value of the land for 25 percent of such delinquencies.

The bill revises population and distance criteria by requiring the designated urban job tax credit areas to be within 10 miles of an urban infill and redevelopment area if the tax credit area has a total population of 150,000 persons or more; to be within 7.5 miles of an urban infill and redevelopment area if the tax credit area has a total population of 50,000 persons or more but fewer than 150,000; to be within 5 miles of an urban infill and redevelopment area for tax credit areas having total population of 20,000 persons or more but fewer than 50,000; and to be within three miles of an urban infill and redevelopment area for tax credit areas having a total population of fewer than 20,000 persons.

The bill excludes from a designated urban job tax credit area any portion of a central business district unless the poverty rate for each census geographic block group in the district is at least 30 percent.

<u>Capital Investment Tax Credit Program</u>

The bill allows OTTED to waive the sector requirements of the Capital Investment Tax Credit Program to induce the location or expansion of a facility that creates or retains at least 1,000 jobs, provided that 100 are new jobs, pays an annual average wage of at least 130 percent of the average private sector wage, and makes a cumulative capital investment of at least $100 million.

This would allow businesses that are not designated high impact sector businesses to qualify for the program.

The bill limits the amount of tax credits to 50 percent of the increased annual corporate income or premium tax liability generated by or arising out of a qualifying project.

C. SECTION DIRECTORY:

Section 1. Amends s. 212.08, F.S., to conform naming changes in the Designated Urban Job Tax Credit Area Program.

Section 2. Amends s. 212.097, F.S., relating to the Urban High-Crime Job Tax Credit Program, renaming it as the Designated Urban Job Tax Credit Area Program; including businesses identified as qualified target industry businesses in the program; redefining the "designated urban job tax credit;" providing definitions; limiting the amount of tax credit of $1,000; requiring designation criteria.

Section 3. Amends s. 220.1895, F.S., relating to Rural Job Tax Credits and Urban High-Crime Job Tax Credits, to conform name changes.

Section 4. Amends s. 220.191, relating to the Capital Investment Tax Credit Program to allow OTTED to waive certain sector requirements to certain businesses and to limit the credits allowable under the program.

Section 5. Amends s. 288.99, F.S., relating to the Certified Capital Company Act, to conform name changes in the Designated Urban Job Tax Credit Area Program.

Section 6. Providing an effective date.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   The Revenue Estimating Conference estimated the fiscal impact of the bill **as filed** on April 7, 2005 as follows:

   | FY 2005-06 | FY 2006-07 |
   | --- | --- |
   | ($8.4 million) | ($8.4 million) |

2. Expenditures:

   The bill appears not to have a fiscal impact on state government expenditures.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   The Revenue Estimating Conference estimated the fiscal impact of the bill **as filed** on April 7, 2005 as follows:

   | FY 2005-06 | FY 2006-07 |
   | --- | --- |
   | ($1.4 million) | ($1.4 million) |

2. Expenditures:

   The bill appears not to have a fiscal impact on local government expenditures.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

   None.

D. FISCAL COMMENTS:

   The Revenue Estimating Conference estimated the total fiscal impact of the bill **as filed** on April 7, 2005 as follows:

| FY 2005-06 | FY 2006-07 |
|---|---|
| ($9.8 million) | ($9.8 million) |

   The Conference also estimated the impact of the changes to the Capital Investment Tax Credit Program contained in the strike-all amendment and found that the impact could be $6.5 to $17 million.

   The Conference has not prepared a final estimate of the bill as amended.

## 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:

   None.

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 accomplished the following:

- Removes changes to the Enterprise Zone Act;
- Removes transfer of unused credits language in the Enterprise Zone program, the Urban High Crime Area Job Tax Credit program and the Rural Job Tax Credit Program;
- Revises definitions; revises eligibility requirements; and provides a grandfathering clause for the renamed Designated Urban Job Tax Credit Area Program; and
- Revises eligibility requirements for the Capital Investment Tax Credit Program.