

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.)

Prepared By: Government Efficiency Appropriations Committee

BILL: CS/SB 1092

INTRODUCER: Government Efficiency Appropriations Committee, Senators Constantine, Crist and others

SUBJECT: Redevelopment of Brownfields

DATE: April 4, 2006

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Branning</u>	<u>Kiger</u>	<u>EP</u>	<u>Favorable</u>
2.	<u>Barrett</u>	<u>Cooper</u>	<u>CM</u>	<u>Favorable</u>
3.	<u>Fournier</u>	<u>Johansen</u>	<u>GE</u>	<u>Fav/CS</u>
4.	_____	_____	<u>GA</u>	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

This bill amends various provisions of the Florida Brownfield Redevelopment Act.

Specifically, the bill:

- Increases the total amount of tax credits that may be granted for brownfield cleanup costs from \$2 million to \$5 million;
- Increases the amount of credit, from 35 percent to 50 percent, that may be applied against intangible personal property tax and corporate income tax for the voluntary cleanup costs of a contaminated brownfield or dry-cleaning site, and increases the amount of tax credit that may be granted to a tax credit applicant per year from \$250,000 to \$500,000;
- Increases the percentage and amount of tax credit that may be received by the taxpayer in the final year of the cleanup as an incentive to complete the cleanup. The percentage is increased from 10 percent to 25 percent and the amount is increased from \$50,000 to \$500,000;
- Encourages the construction of affordable housing by providing an additional 25 percent tax credit if the recovered brownfield or dry-cleaning site is used for affordable housing.
- Allows tax credits for the year in which site rehabilitation occurs, even if the rehabilitation is conducted before the execution of the designation of the brownfield area.
- Adds a new business located in a brownfield area to the list of businesses eligible for the economic development tax exemption provided by s. 196.1995, F.S.
- Requires Enterprise Florida, Inc., to aggressively market brownfields;
- Reduces the job creation requirement for brownfield designations, and removes the job-creation requirement from brownfield rehabilitation tax credits for sites that are used for affordable housing or the creation of recreational areas, conservation areas, or parks.

- Increases the amount of the brownfields loan guarantee from 10 to 50 percent;
- Provides that if the redevelopment project is for affordable housing in a brownfield area, the limited state loan guaranty applies to 75 percent of the primary lender's loan; and
- Repeals the Brownfield Property Ownership Clearance Assistance Program and the Brownfield Property Ownership Clearance Assistance Revolving Loan Trust Fund.

This bill amends the following sections of the Florida Statutes: 199.1055, 220.1845, 376.30781, 196.012, 196.1995, 288.9015, 376.80, and 376.86.

This bill repeals the following sections of the Florida Statutes: 376.87 and 376.875.

II. Present Situation:

In 1995, the U.S. Environmental Protection Agency (EPA) initiated a program to empower states, communities, and other stakeholders in economic redevelopment to work together in a timely manner to prevent, assess, safely clean up, and reuse brownfields. Florida followed suit in 1997 and enacted the Brownfields Redevelopment Act to provide incentives for the private sector to redevelop abandoned or underused real property, the development of which was complicated by real or perceived environmental contamination.

The federal brownfields program was significantly expanded on January 11, 2002, when President Bush signed into law the Small Business Relief and Liability and Brownfields Revitalization Act, also known as the "Brownfields Amendments." The main purpose of this new law was to create incentives for the redevelopment of brownfield properties and Superfund sites and provide grants to assess or cleanup a brownfields property.

The Florida Brownfield Redevelopment Act, consisting of ss. 376.77-376.85, F.S., provides legislative intent, a brownfield area designation process, environmental cleanup criteria, program eligibility and liability protections; and economic and financial incentives. Furthermore, s. 376.86, F.S., provides for a Brownfield Areas Loan Guarantee Program, and ss. 376.87 and 376.875, F.S., provide for brownfield property ownership clearance assistance and the creation of the Brownfield Property Ownership Clearance Assistance Revolving Loan Trust Fund.

Legislative intent—As provided in s. 376.78, F.S., the Legislature declared that the reduction of public health and environmental hazards on existing commercial and industrial sites is vital to their use and reuse as sources of employment. There should be incentives to encourage voluntary cleanup.

Designation and administration—Designation of a brownfield area must come from the local government through the passage of a local resolution. Once a brownfield area has been designated, the local government must notify the Department of Environmental Protection (DEP) and attach a map or a detailed legal description of the brownfield area. The designation of a brownfield area may be initiated in one of two ways:

- By a local government to encourage redevelopment of an area of specific interest to the community; or
- By an individual with a redevelopment plan.

In determining the area to be designated, the local government must consider:

- Whether the brownfield area warrants economic development and has a reasonable potential for such activities;
- Whether the proposed area to be designated represents a reasonable focused approach and is not overly large in geographic coverage;
- Whether the area has potential to interest the private sector in participating in rehabilitation; and
- Whether the area contains sites or parts of sites suitable for limited recreational open space, cultural, or historical preservation purposes.¹

A local government shall designate a brownfield area if:

- The person who owns or controls a potential brownfield site is requesting the designation and has agreed to rehabilitate the site;
- The redevelopment and rehabilitation of the proposed brownfield site will result in economic productivity of the area and will create at least 10 new permanent jobs at the brownfield site²;
- The redevelopment of the proposed brownfield site is consistent with the local comprehensive plan and is a permissible use under the applicable local land development regulations;
- Notice has been provided to neighbors and nearby residents of the proposed area to be designated; and
- The person proposing the area for designation has provided reasonable assurance that there are sufficient financial resources to implement and complete the rehabilitation agreement and redevelopment plan.

The designation of a brownfield area and the identification of a person responsible for brownfield site rehabilitation simply entitle the identified person to negotiate a brownfield site rehabilitation agreement with the DEP or an approved local program. The person responsible for rehabilitation must enter into a brownfield site rehabilitation agreement with the DEP or an approved local program to be eligible for certain benefits associated with the brownfields redevelopment program.

As of February 1, 2006, there were 125 designated brownfield areas in Florida. According to information reported by the Governor's Office of Tourism, Trade, and Economic Development to the DEP in January 2006, the cumulative totals for new job creation and capital investment attributable to the Brownfields Redevelopment program from inception of the program until December 31, 2005, are: 6,656 new direct jobs, 5,935 new indirect jobs, and \$546,913,933 of capital investment in designated brownfields areas.

Cleanup criteria—Risk-based corrective-action principles apply, to the maximum extent feasible, to the cleanup activities on a brownfield site within a designated brownfield area. These principles are designed to achieve protection of human health and safety and the environment in a cost-effective manner by taking into account natural attenuation, individual site characteristics, and the use of engineering and institutional controls.

¹ s. 376.80(2), F.S.

² As specified in s. 376.80(2)(b), F.S., the 10 new permanent jobs may be full- or part-time and cannot be associated with the rehabilitation agreement or redevelopment project demolition or construction activities.

Eligibility and liability protection—A person who has not caused or contributed to the contamination of a brownfield site on or after July 1, 1997, is eligible to participate in the brownfield program. Certain specified sites are not eligible for the program. Those sites include brownfield sites that are subject to an ongoing formal judicial or administrative enforcement action or corrective action pursuant to federal authority, or sites that have obtained or are required to obtain a hazardous waste operation, storage, or disposal facility permit, unless specifically exempted by a memorandum of agreement with the EPA.

After July 1, 1997, petroleum and drycleaning contamination sites in a brownfield area cannot receive both funding assistance for the cleanup of the discharge that is available under the underground storage tank cleanup program or the drycleaning cleanup program and any state assistance available under s. 288.107, F.S., relating to brownfield redevelopment bonus refunds.

If a state or local government has involuntarily acquired a contaminated site within a brownfield area, it is not liable for implementing site rehabilitation corrective actions, unless the state or local government has caused or contributed to a release of contaminants at the brownfield site. Also, nonprofit conservation organizations, acting for the public interest, who purchase contaminated sites and who did not contribute to the release of contamination on the site also warrant protection from liability.

Lenders are afforded certain liability protections to encourage financing of real property in brownfield areas. Essentially, the same liability protections apply to lenders if they have not caused or contributed to a release of a contaminant at the brownfield site.

Economic and financial incentives—Since the Brownfields Redevelopment Act was envisioned to emphasize economic redevelopment, local governments were expected to play a significant role in the process. As a result, state and local governments are encouraged to offer redevelopment incentives which may include financial, regulatory, and technical assistance.

Other economic and financial incentives available to brownfield sites are tax refunds for qualified target industries located in a brownfield area, brownfield redevelopment bonus refunds, and partial voluntary cleanup tax credits.

The tax refunds available as a qualified target industry may be for corporate income taxes, insurance premium taxes, sales and use taxes, intangible personal property taxes, emergency excise taxes, documentary stamp taxes, and ad valorem taxes.

The brownfield redevelopment bonus refunds of \$2,500 are available to any qualified target industry business for each new Florida job created in a brownfield area which is claimed on the qualified target industry's annual refund claim. Section 288.107, F.S., provides the minimum criteria for participation in the brownfield redevelopment bonus refund program.

Voluntary cleanup tax credit—The voluntary cleanup tax credit, or VCTC, is a tax credit available for site rehabilitation conducted at eligible drycleaning sites and brownfield sites in designated brownfield areas. To be eligible, the responsible party must execute a Brownfield Site Rehabilitation Agreement with the DEP.

The VCTC can apply toward either the intangible personal property tax or the corporate income tax. The amount of the credit is 35 percent of the costs of the voluntary cleanup activity that is integral to site rehabilitation. The maximum amount for a tax credit applicant is \$250,000 per year. If the credit is not fully used in any one year because of insufficient tax liability on the part of the tax credit applicant, the unused amount may be carried forward for a period not to exceed 5 years. However, the total amount of the tax credit that may be granted each year under the program is \$2 million. To date, however, the total amount of applications for the tax credit has not reached the \$2 million cap in any one year.

As an inducement to complete the voluntary cleanup, the tax credit applicant may claim an additional 10 per cent of the total cleanup costs, not to exceed \$50,000 in the final year of cleanup.

The tax credits may be transferred once to another entity in whole or in units of not less than 25 percent of the remaining credit.

Brownfield Areas Loan Guarantee Program—The Brownfield Areas Loan Guarantee Program was created in 1998. A Brownfield Areas Loan Guarantee Council was created to review, approve, or deny certain partnership agreements with local governments, financial institutions, and others associated with the redevelopment of brownfields for limited guarantees of loans or loss reserves. A loan guarantee may only be for a period of not more than 5 years.

The limited state loan guarantee applies only to 10 percent of the primary lender's loans for redevelopment projects in brownfields areas. The loan guarantee holds until permanent financing is acquired or until the project is sold. Section 376.86, F.S., provides that no more than \$5 million of the balance of the Inland Protection Trust Fund in any fiscal year may be at risk at any time on loan guarantees or as loan loss reserves. To date, the loan guarantee provisions have only been used one time, for a shopping center and an out-parcel in a Clearwater brownfield area.

Brownfield Property Ownership Clearance Assistance and Revolving Loans Trust Fund—Section 376.87, F.S., provides for brownfield property ownership clearance assistance. The Legislature recognized that some brownfield redevelopment projects are more difficult to redevelop due to the existence of various types of liens on the sites and complications from previous ownership having declared bankruptcy. The Brownfield Property Ownership Clearance Assistance Revolving Loan Trust Fund was created to assist in the early stages of redeveloping brownfields by helping to clear prior liens on the property through a negotiated process. The loans would be repaid in later years from the resale of the brownfield properties following site rehabilitation and other activities that will enhance the property's ultimate value. This trust fund has never been capitalized and used for its intended purposes.

In 2004, the Senate Environmental Preservation Committee was assigned an interim project to review Florida's Brownfield Redevelopment Act to determine if the act could be amended to increase its effectiveness.

Affordable Housing—Part 1 of chapter 420, F.S., is the State Housing Strategy Act, which has a goal of assuring "that by the year 2010 each Floridian shall have decent and affordable housing." With respect to housing, "affordable" is defined by s. 420.0004(3) as "monthly rents or monthly

mortgage payments including taxes, insurance, and utilities do not exceed 30 percent of that amount which represents the percentage of the median adjusted gross annual income for the households as indicated in subsection (9), subsection (10), or subsection (14).”

Economic Development Ad Valorem Tax Exemption—Section 3, Art. VII of the State Constitution provides that:

(c) Any county or municipality may, for the purpose of its respective tax levy and subject to the provisions of this subsection and general law, grant community and economic development ad valorem tax exemptions to new businesses and expansions of existing businesses, as defined by general law. Such an exemption may be granted only by ordinance of the county or municipality, and only after the electors of the county or municipality voting on such question in a referendum authorize the county or municipality to adopt such ordinances. An exemption so granted shall apply to improvements to real property made by or for the use of a new business and improvements to real property related to the expansion of an existing business and shall also apply to tangible personal property of such new business and tangible personal property related to the expansion of an existing business. The amount or limits of the amount of such exemption shall be specified by general law. The period of time for which such exemption may be granted to a new business or expansion of an existing business shall be determined by general law. The authority to grant such exemption shall expire ten years from the date of approval by the electors of the county or municipality, and may be renewable by referendum as provided by general law.

This constitutional provision is implemented by s. 196.1995, F.S., which allows the local referendum approving the property tax exemption to limit it to new businesses and expansions of existing businesses in an enterprise zone.

III. **Effect of Proposed Changes:**

Sections 1, 2, and 3 amend ss. 199.1055, 220.1845, and 376.30781, F.S., to increase the tax credit that is available against either the intangible personal property tax or the corporate income tax for costs incurred for voluntary cleanup activity integral to site rehabilitation from 35 percent to 50 percent. In addition, the amount of tax credit that may be granted to a tax credit applicant per year is increased from \$250,000 to \$500,000.

To encourage completion of site rehabilitation at contaminated sites being voluntarily cleaned up, current law allows the applicant to claim an additional 10 percent of the total cleanup costs in the final year of cleanup up to \$50,000. These sections are amended to increase the percentage to 25 percent and the maximum amount from \$50,000 to \$500,000.

The committee substitute provides an additional 25 percent tax credit against the cost of rehabilitation, not to exceed \$500,000, for constructing affordable housing on the site. In order to qualify, the applicant must provide a certification letter from the Florida Housing Finance Corporation, the local housing authority, or other governmental agency that is a party to the use agreement, indicating that the construction on the site is complete, the site has received a

certificate of occupancy, and the site has a properly recorded instrument that limits the use of the property to affordable housing.

The total amount of tax credits that may be granted annually is increased from \$2 million to \$5 million.

Sections 4 and 5 amend ss. 196.012 and 196.1995, F.S., to include brownfield areas in the implementation of the economic development ad valorem tax exemption authorized under s. 3, Art VII of the Florida Constitution. Businesses that open or expand in brownfield areas will qualify as new businesses under these statutes, and a city or county that adopts the economic development ad valorem tax exemption may limit the exemption to businesses located in an enterprise zone or a brownfield area.

Section 6 amends s. 288.9015, F.S., to require Enterprise Florida, Inc., to aggressively market brownfields as locations for potential new investment.

Currently, Part VII of ch. 288, F.S., creates Enterprise Florida, Inc., as the principle economic development organization for the state. It is Enterprise Florida, Inc.'s responsibility to aggressively market Florida's rural communities, distressed urban communities, and enterprise zones as locations for potential new investment, to aggressively assist these communities in the identification and development of new economic opportunities for job creation, and to fully market state incentive programs such as the Qualified Target Industry Tax Refund Program and the Quick Action Closing Fund in economically distressed areas.

Section 7 amends the job creation requirements of s. 376.80, F.S., reducing the required number of new jobs to 5 full-time equivalent positions from 10 full or part-time jobs. It also provides that the job-creation requirement may not apply to the rehabilitation and redevelopment of a site that will provide affordable housing or the creation of recreational areas, conservation areas, or parks.

Section 8 amends s. 376.86, F.S. to increase the amount of the Brownfield Areas Loan Guarantee from 10 percent to 50 percent and to increase the limited state loan guaranty limit to 75 percent of the primary lender's loan for affordable housing redevelopment projects in brownfield areas.

Section 9 repeals ss. 376.87 and 376.875, F.S., which relate to the brownfield property ownership clearance assistance program and the Brownfield Property Ownership Clearance Assistance Revolving Loan Trust Fund. This program has never been capitalized and used for its intended purposes.

Section 10 provides an effective date of July 1, 2006.

IV. Constitutional Issues:**A. Municipality/County Mandates Restrictions:**

This bill does not require cities and counties to expend funds or limit their authority to raise revenue or receive state-shared revenues as specified by s.18, Art. VII, State Constitution.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:**A. Tax/Fee Issues:**

This bill would increase the amount of credit which may be applied against the intangible personal property tax and the corporate income tax for the voluntary cleanup costs of a contaminated dry-cleaning or brownfield site from 35 percent to 50 percent. While annual tax credits have increased each year since 1998, the annual credits have not reached the \$2 million cap. According to DEP and the information provided for the Revenue Estimating Conference, for FY 2004-2005, the total tax credits applied for was \$856,252.51. The total number of applicants applying for the tax credits was 11, most of whom applied for tax credits on brownfield sites.

The Revenue Estimating Conference has estimated that this bill will reduce General Revenue by \$3 million in FY 2006-07 and thereafter. This is based on the assumption that the tax credits applied for and granted will reach the \$5 million cap. The actual amount may be between \$2 million and \$5 million.

Local governments could experience an increase in redevelopment activity in designated brownfield areas. That activity could result in an increased tax base for the local government.

B. Private Sector Impact:

It is anticipated that by increasing the amount of the tax credit available for voluntary cleanup at contaminated dry-cleaning and brownfield sites, interest and participation in redeveloping brownfield areas would increase. The revitalization of these predominantly urban areas would enhance the economy of the local government and bring new job opportunities.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

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

VIII. Summary of Amendments:

None.

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