

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 449 CS

Economic Development

SPONSOR(S): Detert

TIED BILLS:

IDEN./SIM. BILLS: HB 305, SB 624

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Economic Development, Trade & Banking Committee</u>	<u>13 Y, 0 N, w/CS</u>	<u>Olmedillo</u>	<u>Carlson</u>
2) <u>Finance & Tax Committee</u>	<u></u>	<u>Rice</u>	<u>Diez-Arguelles</u>
3) <u>Growth Management Committee</u>	<u></u>	<u></u>	<u></u>
4) <u>Commerce Council</u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

The bill renames the Urban High-Crime Area Job Tax Credit Program as the Designated Urban Job Tax Credit Area Program; changes the designation eligibility requirements; changes a variable tax credit of \$500, \$1000, or \$1,500 to a uniform tax credit of \$1,000; and limits designations to a period of six years. This bill grandfathers the value of existing tax credits for selected businesses already in the program until 2012.

The Revenue Estimating Conference has determined that the bill will result in a loss of \$300,000 in state revenues in fiscal year 2006-2007 and a loss of \$2.2 million in state revenues and \$500,000 in local revenues annually thereafter.

The bill has an effective date of July 1, 2006.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Lower Taxes – The bill provides tax incentives for businesses that relocate to or expand in a designated urban job tax credit area.

B. EFFECT OF PROPOSED CHANGES:

Present Situation

Section 212.097, F.S., authorizes the Urban High-Crime Area Job Tax Credit Program. Under this program, job tax credits are provided to businesses located in qualified high crime areas. The credits can be applied either toward the businesses' sales tax or corporate income tax liability. To be eligible, the business must be predominantly engaged in agriculture, forestry, fishing, manufacturing, retail, public warehousing/storage, hotel/lodging, research, development, motion picture related services, public golf courses, amusement parks, or customer centers serving multi-state or international markets.

The tax credits are awarded based on the number of employees a qualified business hires and on the severity of the crime rate where it is located.

Designation

Every three years the Urban High-Crime Area Job Tax Credit Program requires the area to be nominated by the local governing body and to apply to the Office of Tourism, Trade, and Economic Development (OTTED). OTTED is required to rank areas into three 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.

Tier-one areas are ranked 1 through 5 representing the highest crime areas, tier-two areas are ranked 6 through 10, and tier-three areas are ranked 11 through 15. Federal Empowerment Zones as designated under the Taxpayer Relief Act of 1997 (Miami-Dade Empowerment Zone) are automatically given one of the fifteen slots in the program.

High crime areas under the program are required to meet the following specifications:

- No area may exceed 20 square miles;
- The selected area must have either a continuous boundary or consist of no more than three noncontiguous parcels;
- 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.

Tax Credit

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

A tax credit under the Urban High-Crime Area Job Tax Credit Program may not be sold or transferred, but may be carried forward to future tax returns. Any unused portion applied toward sales tax liability may be used within 12 months after the tax credit is approved. Any unused portion applied toward corporate income tax liability may be used within five years after the tax credit is approved.

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 history of the credits used and remaining is described below.

Year	Credits Approved	Credits Not Used
1999	\$260,500	\$4,739,500
2000	\$4,999,500	\$500
2001	\$2,486,500	\$2,513,500
2002	\$2,673,500	\$2,326,500
2003	\$1,069,000	\$3,931,000
2004	\$1,053,500	\$3,946,500
2005	\$1,761,000	\$3,239,000

* Universal Studios received credits in 2000
Source: OTTED

Proposed Changes

The bill renames the Urban High-Crime Job Tax Credit Program as the Designated Urban Job Tax Credit Area Program.

Designation

The bill increases the types of businesses eligible for tax credits by including federal Empowerment Zones as designated in the federal Community Tax Relief Act of 2000 (Jacksonville Empowerment Zone) as well as targeted industries included in the tax refund program for qualified target industry businesses described in section 288.106, F.S.

The bill removes the existing ranking criteria designated for use by OTTED. Instead, each nominated area must possess the following characteristics:

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.

Every five years OTTED is required to select the 30 highest-distress urban job tax credit areas based on the above categories.

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 also provides that an area designated under this section as of June 30, 2006, shall retain designation through June 30, 2012. Upon expiration of an area's designation, that area may seek approval from OTTED for designation under the revised program.

The bill defines the term "urban" to mean a densely populated nonrural area located within an urban county consisting of a cluster of one or more census blocks, each having 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 also adopts the definition of an "urban infill and redevelopment area" from s. 163.2514, F.S., 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 five-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.

Tax Credit

The bill alters the tax credits available to eligible businesses, providing a uniform credit of \$1,000 (instead of \$500, \$1000, or \$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 uniformity 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 or before June 30, 2006, shall retain the right to that value of credit through June 30, 2012, provided it complies with job creation requirements.

Law Conformity

The bill amends chapters 212 (sales and use tax), 220 (corporate income tax), and 288 (commercial developments and capital improvements), F.S., to reflect that the "Urban High-Crime Area Job Tax Credit Program" is renamed as the "Designated Urban Job Tax Credit Area Program."

C. SECTION DIRECTORY:

Section 1. Amends s. 212.08(5)(o), F.S., relating to sales tax exemptions, to reflect that the Urban High-Crime Area Job Tax Credit Program is renamed as the Designated Urban Job Tax Credit Area Program.

Section 2. Amends s. 212.097, F.S., to rename the Urban High-Crime Area Job Tax Credit Program to the Designated Urban Job Tax Credit Area Program; expanding "eligible businesses"; increasing time between designations; changing designation criteria; providing definitions; changing tax credit amounts.

Section 3. Amends s. 220.1895, F.S., relating to corporate income taxes, to conform name changes in the Designated Urban Job Tax Credit Area Program.

Section 4. Amends s. 288.99(2) and (3)(j), F.S., relating to the Certified Capital Company Act, to conform name changes in the Designated Urban Job Tax Credit Area Program.

Section 5. Provides an effective date of July 1, 2006.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

	<u>2006-07</u>	<u>2007-08</u>
General Revenue	(\$0.3)m	(\$2.2)m
State Trust Fund	<u>(Insignificant)</u>	<u>(Insignificant)</u>
Total	(\$0.3)m	(\$2.2)m

2. Expenditures:

None

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

	<u>2006-07</u>	<u>2007-08</u>
Revenue Sharing	(Insignificant)	(\$0.1)m
Local Government Half Cent	(Insignificant)	(\$0.2)m
Local Option	(Insignificant)	(\$0.2)m
Total	(Insignificant)	(\$0.5)m

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None

D. FISCAL COMMENTS:

This bill expands the numbers of businesses that are eligible to participate in the program (from 15 to 30), but does not change the \$5 million cap on the credits that can be approved during a calendar year. Although this bill is expected to have a fiscal impact, it is not beyond the \$5 million cap already included in current law.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill reduces the authority that municipalities and counties have to raise revenue through local option sales taxes. However, the reduction in authority is insignificant. Therefore, the bill is not a mandate.

2. Other:

None

B. RULE-MAKING AUTHORITY:

None

C. DRAFTING ISSUES OR OTHER COMMENTS:

None

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

On January 26, 2006 the Economic Development, Trade & Banking Committee adopted an amendment to the bill. The amendment reduced the term of the grandfather clause allowing previously designated areas to maintain designation. The clause is reduced from seven to six years.