

# 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.)

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Prepared By: Government Efficiency Appropriations Committee

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BILL: CS/CS/SB 624

INTRODUCER: Government Efficiency Appropriations Committee, Commerce and Consumer Services Committee, Senators Saunders and Lynn

SUBJECT: Economic Development/Tax Credit

DATE: April 4, 2006

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Barrett</u>	<u>Cooper</u>	<u>CM</u>	<u>Fav/CS</u>
2.	<u>Vickers</u>	<u>Yeatman</u>	<u>CA</u>	<u>Fav/1 amendment</u>
3.	<u>Gilreath</u>	<u>Johansen</u>	<u>GE</u>	<u>Fav/CS</u>
4.	_____	_____	<u>TA</u>	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

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## I. Summary:

This committee substitute renames the Urban High-Crime Area Job Tax Credit Program the Designated Urban Job Tax Credit Area Program. This committee substitute revises the urban job tax credit area designation criteria, increases the number of areas that may be designated from 15 to 30, and specifies that qualified target industry businesses are among those businesses eligible for the tax credit program. This committee substitute removes the 3-tier ranking system of the areas and replaces provisions for three levels of tax credits (ranging from \$500 to \$1,500 per job) with a single tax credit amount of \$1,000 per job. This committee substitute also provides that a business currently eligible for the tax credits will retain its program and tax credit eligibility and amount through 2012.

This committee substitute amends sections 212.08, 212.097, 220.1895, and 288.99 of the Florida Statutes.

## II. Present Situation:

### Urban High-Crime Area Job Tax Credit Program

Under s. 212.097, F.S., certain businesses located in qualified high-crime areas are eligible to receive an urban high-crime area job tax credit for use against corporate or sales taxes. The amount of the tax credit depends upon the severity of the area's crime rate and the number of employees. The \$5 million in annual tax credits available under the program has never been exhausted. According to Enterprise Florida, Inc., it is difficult to persuade businesses to relocate to an area labeled as a "high-crime" area. Chart 1 shows the amount of credits approved for the program each year.

**Chart 1: Urban High-Crime Jobs Tax Credit Program Funding**

<b>Year</b>	<b>Credits Approved</b>	<b>Available Funds Remaining</b>
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

Source: Office of Tourism, Trade and Economic Development (OTTED)

***Designation of Qualified High-Crime Areas***

Eligible businesses must be located in qualified high-crime areas designated by OTTED. OTTED may designate an area as a qualified high-crime area every three years. A county or a municipality, or a county and a municipality together, may apply to OTTED for the designation of an area as a qualified high-crime area after adopting a resolution that:

- Finds that a high-crime area exists which chronically exhibits extreme and unacceptable levels of poverty, unemployment, physical deterioration, and economic disinvestment;
- Determines that the rehabilitation, conservation, or redevelopment, or a combination thereof, of such a high-crime area is necessary in the interest of the health, safety, and welfare of the residents; and
- Determines that the revitalization of such a high-crime area can occur if the public sector or private sector can be induced to invest its own resources in productive enterprises that build or rebuild the economic viability of the area.<sup>1</sup>

The areas nominated for designation as a qualified high-crime area are ranked into three tiers based on their crime rates. Tier-one areas have the highest crime rates and the largest tax credit per employee. Tier-three areas have the lowest crime rates and the smallest tax credit per employee. OTTED designated 13 areas as qualified high-crime areas; they are listed in Chart 2.

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<sup>1</sup> Section 212.097(6), F.S.

**Chart 2: Qualified High-Crime Areas**

<b>TIER</b>	<b>LOCATION</b>	<b>SIZE</b>
<b>Tier I</b>	Jacksonville	20.00 sq. mi.
	Ocala	4.92 sq. mi.
	Orlando	18.80 sq. mi.
	Palm Beach County	14.25 sq. mi.
	Tampa	16.50 sq. mi.
<b>Tier II</b>	Fort Lauderdale	9.40 sq. mi.
	Miami-Dade County (Carol City, Miami, and Goulds)	18.80 sq. mi.
	Miami-Dade County (Florida City, Homestead, Leisure City, and Naranja)	5.10 sq. mi.
	Pompano Beach	4.82 sq. mi.
	Tallahassee	5.64 sq. mi.
<b>Tier III</b>	Lakeland	3.25 sq. mi.
	Miami-Dade County (Hialeah, Miami, and Opa Locka)	19.30 sq. mi.
	St. Petersburg	16.00 sq. mi.

Source: Office of Tourism, Trade, and Economic Development.

***Tax Credit Amount***

The tax credit available to a new business in a qualified high-crime area depends upon the number of employees and tier ranking of the qualified high-crime area as follows:

A new eligible business in a tier-one qualified high-crime area which has at least 10 qualified employees on the date of application shall receive a \$1,500 tax credit for each such employee. A new eligible business in a tier-two qualified high-crime area which has at least 20 qualified employees on the date of application shall receive a \$1,000 tax credit for each such employee. A new eligible business in a tier-three qualified high-crime area which has at least 30 qualified employees on the date of application shall receive a \$500 tax credit for each such employee.<sup>2</sup>

Existing businesses in a qualified high-crime area are eligible for a tax credit in an amount that depends upon the number of new employees and the tier ranking of the qualified high-crime area as follows:

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

<sup>2</sup> Section 212.097(2), F.S.

business may apply for the credit under this subsection no more than once in any 12-month period.<sup>3</sup>

A business that received a tax credit under the program as a new business may apply for an additional tax credit one year after its initial application for a tax credit as an existing business. The tax credits available to new and existing businesses increase \$500 for each new employee who is a welfare transition program participant.<sup>4</sup> The amount of tax credits that may be approved per year under the program is \$5 million.

A tax credit under the Urban High-Crime Area Jobs Tax Credit program may not be sold or transferred, but may be used on a subsequent tax return 12 months after the tax credit is approved by the Department of Revenue.<sup>5</sup>

### III. Effect of Proposed Changes:

**Section 1** amends s. 212.08(5)(o)1.b. and c., F.S., to reflect that the Urban High-Crime Area Job Tax Credit Program is renamed the Designated Urban Job Tax Credit Area Program.

**Section 2** amends s. 212.097, F.S., to revise and rename the Urban High-Crime Area Job Tax Credit Program the Designated Urban Job Tax Credit Area Program.

This section increases, from 15 to 30, the number of urban areas that may be designated by the Office of Tourism, Trade, and Economic Development (OTTED). This section also adds qualified target industry businesses to the list of businesses eligible for the tax credit program. Although the areas and businesses eligible for the program are increased, the program remains capped at \$5 million annually.

This section removes the 3-tiered ranking system, providing one set of criteria for designated urban job tax credit areas. This section also provides for a single tax credit amount of \$1,000 per job. The additional \$500 tax credit for new employees that are welfare transition program participants is retained.

This section revises the eligibility criteria for the urban areas. The governing body of the entity nominating the area must demonstrate to OTTED that the area has:

- at least 40 percent of its residents earning annual wages equal to or less than the annual wages of a person earning minimum wage, or has more than 20 percent of its residents or families living below the federal standard of poverty;
- an unemployment rate at least 3 percentage points higher than the state's unemployment rate;
- an arrest rate higher than the state's average rate for certain crimes; and
- at least 50 percent of its residents renting, property values that are within the lower half of the county's assessed property values, more than 5 percent of its commercial buildings vacant or

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<sup>3</sup> Section 212.097(3), F.S.

<sup>4</sup> Section 212.097(4), F.S.

<sup>5</sup> Section 212.097(12), F.S.

condemned, or with respect to at least 25 percent of tax or special assessment delinquencies, the amount of the delinquency exceeds the fair value of the land.

This section further provides that the designated areas may not exceed 20 square miles and must be within 3 to 10 miles of an “urban infill and redevelopment area,”<sup>6</sup> depending on the population of the designated area. With the exception of Miami-Dade County, designated areas are limited to one per county.

This section provides that OTTED shall designate the areas every five years rather than every three years. Applications for designation must be received by OTTED no later than April 30, 2007, and every five years thereafter. OTTED must designate the areas by June 30, 2007, and every five years thereafter.

This section also provides that a business currently eligible for tax credits as of June 30, 2006, will retain its program and tax credit eligibility and amount through June 30, 2012.

**Section 3** amends s. 220.1895, F.S., to conform the corporate income tax component of the Rural Job Tax Credit and the Urban Job High-Crime Area Job Tax Credit programs, to reflect that the Urban High-Crime Area Job Tax Credit Program has been renamed as the Designated Urban Job Tax Credit Area Program.

**Section 4** amends s. 288.99, F.S., to conform the Certified Capital Company Act, to reflect that the Urban High-Crime Area Job Tax Credit Program has been renamed as the Designated Urban Job Tax Credit Area Program.

**Section 5** provides an effective date of July 1, 2006.

#### **IV. Constitutional Issues:**

**A. Municipality/County Mandates Restrictions:**

None.

**B. Public Records/Open Meetings Issues:**

None.

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<sup>6</sup> An urban infill and redevelopment area means an area or areas designated by a local government where: public services such as water, 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, F.S.; the area exhibits a proportion of properties that are substandard, overcrowded, dilapidated, vacant or abandoned, or functionally obsolete which is higher than average for the local government; more than 50 percent of the area is within ¼ 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 program or similar programs.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

The 2006 Revenue Estimating Conference projects that increasing eligibility for the tax credit program would result in a recurring General Revenue loss of \$2.2 million and a recurring loss to local governments of \$0.5 million for a total recurring loss of \$2.7 million.

**Fiscal Year 2006-07  
(Millions)**

General Revenue		State Trust		Local		Total	
Cash	Recurr.	Cash	Recurr.	Cash	Recurr.	Cash	Recurr.
(0.3)	(2.2)	(*)	(*)	(*)	(0.5)	(0.3)	(2.7)

\* Insignificant

Although the bill increases eligibility for the tax credit program, the program remains capped at \$5 million dollars. Historically, the program’s \$5 million funding cap has not been reached.

B. Private Sector Impact:

This committee substitute increases the number of urban areas that may be designated from 15 to 30; therefore more businesses may be able to take advantage of the tax credit program. In addition, by removing the high-crime label, urban areas may be viewed more favorably as areas suitable for economic development.

C. Government Sector Impact:

OTTED may incur administrative costs related to evaluating and designating the Urban Job Tax Credit areas.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

## **VIII. Summary of Amendments:**

None

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

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