

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/CS/HB 127 Enterprise Zones
SPONSOR(S): Economic Development and Community Affairs Policy Council, Economic Development Policy Committee/Chestnut and others
TIED BILLS: **IDEN./SIM. BILLS:** SB 628

	REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1)	<u>Economic Development Policy Committee</u>	<u>17 Y, 0 N, As CS</u>	<u>Malcolm</u>	<u>Kruse</u>
2)	<u>Economic Development & Community Affairs Policy Council</u>	<u>13 Y, 0 N, As CS</u>	<u>Malcolm</u>	<u>Tinker</u>
3)	<u>Finance & Tax Council</u>	<u></u>	<u></u>	<u></u>
4)	<u>Transportation & Economic Development Appropriations Committee</u>	<u></u>	<u></u>	<u></u>
5)	<u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

CS/CS/HB 127 creates an opportunity for the city of Ocala to apply for and receive an enterprise zone designation. Ocala’s proposed enterprise zone may be located in the city’s west end and be up to 5 square miles in size.

Ocala is directed to file its enterprise zone application to the Office of Tourism, Trade and Economic Development (OTTED) by December 31, 2009. The application must comply with existing statutory requirements, and OTTED is given discretion to designate an enterprise zone for Ocala, and must establish the enterprise zone’s effective date.

HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Current Situation

The Florida Enterprise Zone Program was created in 1982 to encourage economic development in economically distressed areas of the state by providing incentives to induce private investment.

The Office of Tourism, Trade and Economic Development (OTTED) reports that between October 1, 2006 and September 30, 2007, 4,976 new businesses moved into or were created in enterprise zones and 11,456 new jobs were created by businesses in enterprise zones.¹ Nearly \$36 million in state and \$10 million in local financial incentives were approved during that period.² Additionally, from 2003 to 2007, 17,011 new businesses moved into or were created in enterprise zones and 48,086 new jobs have been created.³

Sections 290.001-290.016, F.S., authorize the creation of enterprise zones and sets forth criteria and goals for the program. Prior to submitting an application for a zone, a local government body must determine that an area:

- Has chronic extreme and unacceptable levels of poverty, unemployment, physical deterioration, and economic disinvestment;
- Needs rehabilitation or redevelopment for the public health, safety, and welfare of the residents in the county or municipality; and
- Can be revitalized through the inducement of the private sector.⁴

OTTED is responsible for approving applications for enterprise zones, and also approves changes in enterprise zone boundaries when authorized by the Florida Legislature. As part of the application process for an enterprise zone, the county or municipality in which the zone will be located is also responsible for creating an Enterprise Zone Development Agency and an enterprise zone development plan.⁵

¹ *Florida Enterprise Zone Program Annual Report, October 1, 2006 - September 30, 2007*, Enterprise Florida, 1, Mar 1, 2008, available at < <http://www.eflorida.com/ContentSubpage.aspx?id=352> > (last visited Feb. 26, 2009).

² *Id.*

³ *Id.*, at 6.

⁴ S. 290.0055(1)(a), F.S.

⁵ S. 290.0055(1)(b), (c), F.S.

As outlined in s. 290.0056, F.S., an Enterprise Zone Development Agency is required to have a board of commissioners of between 8 and 13 members. Powers and responsibilities of the agency include:

- Assisting in the development, implementation, and annual review of the zone and updating the strategic plan or measurable goals;
- Identifying ways to remove regulatory burdens;
- Promoting the incentives to residents and businesses;
- Recommending boundary changes;
- Working with nonprofit development organizations; and
- Ensuring the enterprise zone coordinator receives annual training and works with Enterprise Florida, Inc.

Pursuant to s. 290.0057, F.S., an enterprise zone development plan must accompany an application. At a minimum this plan must:

- Describe the community's goal in revitalizing the area;
- Describe how the community's social and human resources—transportation, housing, community development, public safety, and education and environmental concerns—will be addressed in a coordinated fashion;
- Identify key community goals and barriers;
- Outline how the community is a full partner in the process of developing and implementing this plan;
- Describe the commitment from the local governing body in enacting and maintaining local fiscal and regulatory incentives;
- Identify the amount of local and private resources available and the private/public partnerships;
- Indicate how local, state, and federal resources will all be utilized;
- Identify funding requested under any state or federal program to support the proposed development; and
- Identify baselines, methods, and benchmarks for measuring success of the plan.

Florida's enterprise zones qualify for various incentives from corporate income tax and sales and use tax liabilities. As noted above, OTTED reports that \$35.7 million in state incentives was approved by the Department of Revenue (DOR), between October 1, 2006 and September 30, 2007, for all state enterprise zones. During the same time period, just over \$10 million in incentives was provided by local governing bodies.⁶ Examples of local incentives include: utility tax abatement, reduction of occupational license fees, reduced building permit fees or land development fees, and local funds for capital projects.

Available state sales tax incentives for enterprise zones include:

- Building Materials Used in the Rehabilitation of Real Property Located in an Enterprise Zone: Provides a refund for sales taxes paid on the purchase of certain building materials, up to \$5,000 or 97 percent of the tax paid.
- Business Equipment Used in Enterprise Zones: Provides a refund for sales taxes paid on the purchase of certain equipment, up to \$5,000 or 97 percent of the tax paid.
- Rural Enterprise Zone Jobs Credit Against Sales Tax: Provides a sales and use tax credit for 30 or 45 percent of wages paid to new employees who live within a Rural County.
- Urban Enterprise Zone Jobs Credit Against Sales Tax: Provides a sales and use tax credit for 20 or 30 percent of wages paid to new employees who live within the Enterprise Zone.
- Business Property Used in an Enterprise Zone: Provides a refund for sales taxes paid on the purchase of certain business property, up to \$5,000 or 97 percent of the tax paid per parcel of property, which is used exclusively in an Enterprise Zone for at least 3 years.
- Community Contribution Tax Credit: Provides 50 percent sales tax refund for donations made to local community development projects.
- Electrical Energy Used in an Enterprise Zone: Provides 50 percent sales tax exemption to qualified businesses located within an Enterprise Zone on the purchase of electrical energy.

⁶ Florida Enterprise Zone Program Annual Report, *supra* note 1 at 1.

Available state corporate income tax incentives for enterprise zones include:

- Rural Enterprise Zone Jobs Credit Against Corporate Income Tax: Provides a corporate income tax credit for 30 or 45 percent of wages paid to new employees who live within a Rural County.
- Urban Enterprise Zone Jobs Credit against Corporate Income Tax: Provides a corporate income tax credit for 20 or 30 percent of wages paid to new employees who live within the Enterprise Zone.
- Enterprise Zone Property Tax Credit: Provides a credit against Florida corporate income tax equal to 96 percent of ad valorem taxes paid on the new or improved property.
- Community Contribution Tax Credit: Provides 50 percent credit on Florida corporate income tax or insurance premium tax, or a sales tax refund, for donations made to local community development projects.

Ocala's plans

The city of Ocala is reviewing two sites – in the northwest corner of the city near U.S. 75, State 27, and U.S. 441 and a downtown area – as possible sites for an enterprise zone. No specific projects have been identified for the proposed enterprise zone.

Effect of proposed changes

The bill authorizes a new enterprise zone for the city of Ocala. The bill limits the size and location of the zone that may be designated for the city of Ocala to up to 10 square miles within the western portion of the city. The bill requires application by December 31, 2009 and requires that the application comply with s. 290.0055, F.S. As appropriate, it authorizes OTTED to designate one enterprise zone for the city of Ocala 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.

B. SECTION DIRECTORY:

Section 1: Creates s. 290.00725, F.S., allowing the city of Ocala to file an application with the Office of Tourism, Trade and Economic Development (OTTED) seeking designation of an enterprise zone.

Section 2: Provides that this act shall take effect January 1, 2010.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Estimating Conference on February 20, 2009, evaluated HB 127 and estimated a fiscal general revenue cash impact of \$100,000 in FY 2009-2010 with a recurring general revenue impact of \$300,000, which was based on one full year of the operation of the enterprise zone. However, the effective date of the bill is January 1, 2010, which will likely result in a general revenue cash impact of \$50,000 in FY 2009-2010 with a recurring general revenue impact of \$300,000.

2. Expenditures:

OTTED will have a number of duties related to implementation of HB 127, but has not sought any additional staff or funding.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The Revenue Estimating Conference on February 20, 2009, evaluated HB 127 and estimated a fiscal general revenue cash impact of less than \$50,000 in FY 2009-2010 with a recurring general revenue impact of less than \$50,000.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Indeterminate. However, the impact could be significant to the businesses that locate or already are within the enterprise zone, because of their various tax savings. The general public also could benefit as consumers who shop at new or improved businesses within the enterprise zone. Also, job-seekers could benefit from opportunities afforded them by businesses within the new zone.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

None.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES

On March 25, 2009, the Economic Development Policy Committee amended the bill changing the effective date from "upon becoming law" to January 1, 2010. The bill passed favorably as a committee substitute.

On April 1, 2009, the Economic Development and Community Affairs Policy Council reported the bill favorably with an amendment. The amendment provided a technical change in the bill.