

**HOUSE OF REPRESENTATIVES STAFF ANALYSIS**

**BILL #:** CS/HB 843 Rural Enterprise Zones  
**SPONSOR(S):** Finance & Tax Council; Boyd and others  
**TIED BILLS:** **IDEN./SIM. BILLS:** CS/SB 1724

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	<b>REFERENCE</b>	<b>ACTION</b>	<b>ANALYST</b>	<b>STAFF DIRECTOR</b>
1)	<u>Economic Development Policy Committee</u>	<u>12 Y, 0 N</u>	<u>Wintering</u>	<u>Kruse</u>
2)	<u>Finance &amp; Tax Council</u>	<u>12 Y, 0 N, As CS</u>	<u>Aldridge</u>	<u>Langston</u>
3)	<u>Economic Development &amp; Community Affairs Policy Council</u>	<u>15 Y, 0 N</u>	<u>Wintering</u>	<u>Tinker</u>
4)	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>
5)	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>

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**SUMMARY ANALYSIS**

The Florida Enterprise Zone Program was created in 1982 to encourage economic development in economically distressed areas of the state by providing financial incentives and inducing private investment. Businesses and individuals located within enterprise zones qualify for various state and local tax incentives, among other benefits. Over the last 5 years, 17,325 new businesses have moved into or were created in enterprise zones and 54,000 new jobs have been created.

The bill provides that any catalyst site that was approved prior to January 1, 2010 which is not located in a rural enterprise zone must be designated as a rural enterprise zone by the Office of Tourism, Trade, and Economic Development (OTTED) upon request from the site's host county. "Catalyst site" is defined in s. 288.0656, F.S., as a parcel or parcels of land within a rural area of critical economic concern that has been prioritized as a geographic site for economic development through partnerships with state, regional, and local organizations.

There are currently four Rural Catalyst Sites, with two, Highlands and Calhoun Counties, already located in rural enterprise zones. Suwannee County and Columbia County are not currently located in a Rural Enterprise Zone. The bill provides that upon request from the host county of a catalyst site that is not located in an enterprise zone for rural enterprise zone designation, OTTED must provide such designation. The two catalyst sites will be granted access to the incentives provided by the Florida Enterprise Zone Program, once they acquire the Rural Enterprise Zone designation.

The Revenue Estimating Conference estimates that the bill will have a negative insignificant impact on General Revenue, state trust fund and local government revenue.

## 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:

##### **Present Situation**

##### **Catalyst Sites- Rural Areas of Critical Economic Concern**

Catalyst Sites are defined in s. 288.0656, F.S., as a parcel or parcels of land within a rural area of critical economic concern that has been prioritized as a geographic site for economic development through partnerships with state, regional, and local organizations. The site must be reviewed by the Rural Economic Development Initiative (REDI) and approved by OTTED for the purpose of locating a catalyst project within its boundaries.

No provision currently exists regarding the designation of catalyst sites not located in rural enterprise zones.

Based on the most recent population estimates, thirty-two Florida counties are presently categorized as "rural" pursuant to the statutory definition in s. 288.0656, F.S.<sup>1</sup> Most of these rural counties have been categorized into one of three Rural Areas of Critical Economic Concern (North Central, Northwest, and South Central). The Rural Areas of Critical Economic Concern (RACECs) are defined by OTTED based on measures of economic interdependence among the rural counties in each of the three geographic regions.<sup>2</sup>

REDI was created<sup>3</sup> to encourage and align critical state agency participation and investment around important rural issues and opportunities. The Rural Economic Development Catalyst Project (catalyst project) is designed to further goals set forth in REDI by gathering economic intelligence and perspectives for Florida's three Rural Areas of Critical Economic Concern (RACEC). The catalyst project is intended to identify, improve and market regional physical sites to facilitate the location of significant job creation opportunities within the RACECs.

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<sup>1</sup> *Florida Estimates of Population- 2008*. Prepared by the University of Florida's Bureau of Economic and Business Research. Pages 30-31.

<sup>2</sup> More background and updated information about the RACECs is available at [http://www.eflorida.com/Floridas\\_Future.aspx?id=8188](http://www.eflorida.com/Floridas_Future.aspx?id=8188). Color map of the three RACECs is available at [http://www.eflorida.com/FloridasRegions/racec\\_map.html](http://www.eflorida.com/FloridasRegions/racec_map.html). Last visited April 2, 2010. (Free registration is required.)

<sup>3</sup> Created in s. 288.0656, F.S. REDI's website can be accessed at <http://www.florida-redi.com/Default.aspx>. Last visited April 7, 2010.

In May 2007 each RACEC, in conjunction with Enterprise Florida, (EFI) and OTTED, engaged in the identification and selection of possible sites for their respective catalyst project. Additionally, each RACEC had identified industries of catalytic opportunity and has begun to gear site selection and marketing activities central to the identified industries.

Under current law, catalyst sites and enterprise zones are independent statutory recognitions of areas in need of economic development. While catalyst sites are rural areas of critical economic concern that merit attention from EFI and OTTED, catalyst sites currently have no direct statutory link to the Florida Enterprise Zone Program.

## **The Florida Enterprise Zone Project**

### ***Basic statistics***

The Florida Enterprise Zone Program was created in 1982 to encourage economic development in economically distressed areas of the state by providing incentives and inducing private investment. Currently, Florida has 57 enterprise zones. OTTED reports that between October 1, 2008, and September 30, 2009, new businesses numbering 3,104 moved into or were created in enterprise zones and 9,073 new jobs were created by businesses in enterprise zones.<sup>4</sup> More than \$45 million in state and nearly \$11.6 million in local-government financial incentives were approved during that same period.

Over the last 5 years, 17,325 new businesses have moved into or were created in enterprise zones and 54,000 new jobs have been created.<sup>5</sup>

### ***Designation process***

Sections 290.001-290.016, F.S., authorize the creation of enterprise zones and establish criteria and goals for the program. Prior to submitting an application for an enterprise 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.

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 designation will be located also is responsible for creating an Enterprise Zone Development Agency and an enterprise zone development plan.

As outlined in s. 290.0056, F.S., an Enterprise Zone Development Agency is required to have a board of commissioners of at least eight, and no more than 13, members. The agency has the following powers and responsibilities:

- 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.

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<sup>4</sup> Florida Enterprise Zone Program Annual Report, October 1, 2008 - September 30, 2009. Published March 1, 2010. On file with the House Economic Development Policy Committee.

<sup>5</sup> Ibid, page 3.

Pursuant to s. 290.0057, F.S., an enterprise zone development plan (or strategic 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.

### ***Available incentives***

Florida's enterprise zones qualify for various incentives from corporate income tax and sales and use tax liabilities. As noted above, OTTED reported that \$45.3 million in state incentives were approved by the Department of Revenue (DOR), between October 1, 2008, and September 30, 2009, for all state enterprise zones. During that same time period, \$11.5 million in incentives were provided by local governing bodies, half of the FY 07-08 total. 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.<sup>6</sup>

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.

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<sup>6</sup> Ibid, page 11.

## Summary of state incentives offered in the Florida Enterprise Zone Program<sup>7</sup>

CATEGORY	FY 08-09	FY 07-08	FY 06-07	FY 05-06	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Jobs Tax Credit (SUT)	\$5,227,245	\$5,732,605	\$6,087,843	\$6,777,250	\$4,729,834	\$2,579,512	\$1,444,543	\$970,148
Jobs Tax Credit (CIT)	\$5,072,555	\$5,507,311	\$5,919,236	\$4,253,621	\$2,080,397	\$1,086,747	\$800,029	\$1,965,920
Property Tax Credit (CIT)	\$1,910,708	\$2,184,036	\$2,291,961	\$1,267,999	\$1,668,168	\$507,022	\$272,942	\$303,542
Building Materials (SUT Refund)	\$30,994,860	\$25,665,025	\$18,855,129	\$7,415,711	\$3,878,421	\$1,356,462	\$533,673	\$456,551
Business Equipment (SUT Refund)	\$1,139,066	\$1,269,955	\$1,771,396	\$2,940,864	\$1,618,721	\$1,182,582	\$1,874,145	\$2,813,601
Electrical Energy (SUT exempt)	\$1,007,007	\$606	\$793,179	\$778,090	\$84,516	\$488,937	\$476,251	\$229,789
Total Value of State Incentives	\$45,351,441	\$40,359,538	\$35,718,744	\$23,433,535	\$14,060,057	\$7,201,262	\$5,401,583	\$6,739,551
# of EZs	56 <sup>8</sup>	56	56	55	53	51	51	47

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 a 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.

### Effect of Proposed Changes

HB 843 provides that catalyst sites that are approved prior to January 1, 2010 which are not located in a rural enterprise zone must be designated as a rural enterprise zone by OTTED upon request from the

<sup>7</sup> Information compiled from several editions of the Florida Enterprise Zone Program annual report.

<sup>8</sup> Ocala's enterprise zone designation wasn't approved by OTTED until January 2010, so its activity will be displayed next year.

site's host county. The host county's request must include a legal description of the site and contact information for the filing entity. The reporting criteria for a rural catalyst site designated as a rural enterprise zone is the same as for other rural enterprise zones, with the host economic development organization serving as the reporting entity.

There are currently four Rural Catalyst Sites with two already located in rural enterprise zones, Highlands County and Calhoun County. Suwannee County and Columbia County are not currently located in a Rural Enterprise Zone.

Upon request from Suwannee County and Columbia County to OTTED for rural enterprise zone designation, these two sites will be granted access to the incentives provided by the Florida Enterprise Zone Program.<sup>9</sup>

The bill also provides that host county development authorities may enter into memoranda of agreement to implement this act.

#### B. SECTION DIRECTORY:

**Section 1.** Provides that OTTED must designate catalyst sites as defined in s. 288.0656, F.S., and approved prior to January 1, 2010 as a rural enterprise zone upon request of the host county. Provides that catalyst sites designated as rural enterprise zones must receive the same benefits as enterprise zones designated under s. 290.0065, F.S.

**Section 2.** Provides an effective date of July 1, 2010.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

#### A. FISCAL IMPACT ON STATE GOVERNMENT:

##### 1. Revenues:

The Revenue Estimating Conference estimated a negative insignificant impact on General Revenue and state trust fund revenues.

##### 2. Expenditures:

None.

#### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

##### 1. Revenues:

The Revenue Estimating Conference estimated a negative insignificant impact to local government revenues.

##### 2. Expenditures:

None.

#### C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill may have a positive economic impact to the businesses and individuals that locate or already are located within the new rural enterprise zones, due to the incentives provided. Also, job-seekers could benefit from opportunities afforded them by businesses within the new rural enterprise zones.

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<sup>9</sup> Confirmed as 500 acres per site by Enterprise Florida personnel (03/19/2010).

D. FISCAL COMMENTS:

None.

**III. COMMENTS**

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The mandates provision appears to apply because this bill reduces the authority that counties or municipalities have to raise revenues in the aggregate, however an exemption applies because the Revenue Estimating Conference estimated the fiscal impact on local government to be insignificant.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

**IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES**

On April 9, 2010, the Finance & Tax Council adopted an amendment that specifies that the catalyst sites eligible for designation as rural enterprise zones must have been approved as catalyst sites prior to January 1, 2010. The amendment also provides that host county development authorities may enter into memoranda of agreement to implement this act.

The analysis has been updated to reflect the changes contained in the amendment.