

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 725 Enterprise Zones
SPONSOR(S): Perman and others
TIED BILLS: **IDEN./SIM. BILLS:** SB 872

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Economic Development & Tourism Subcommittee	14 Y, 0 N	Kruse	Kruse
2) Finance & Tax Committee			
3) Economic Affairs Committee			

SUMMARY ANALYSIS

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 59 enterprise zones.

The bill provides authority to a governing body of a jurisdiction which nominated an application for an enterprise zone that includes a portion of the state designated as a RACEC to apply to OTTED to expand the boundary of the enterprise zone by up to 3 square miles. The intent of the bill is for the expansion to be applied to the enterprise zone in Belle Glade. The bill also provides authority to Martin County to apply to OTTED for designation of an enterprise zone of up to 10 square miles. These proposed enterprise zones may have the effect of stimulating private sector economic activity.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

ISSUE BACKGROUND

The bill provides authority to a governing body of a jurisdiction which nominated an application for an enterprise zone that includes a portion of the state designated as a RACEC to apply to OTTED to expand the boundary of the enterprise zone by up to 3 square miles. The intent of the bill is for the expansion to be applied to the enterprise zone in Belle Glade. The bill also provides authority to Martin County to apply to OTTED for designation of an enterprise zone of up to 10 square miles.

Enterprise Zones

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 59 enterprise zones.

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.

The Governor's Office of Tourism, Trade, and Economic Development (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.

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. 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.

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.

OPPAGA Report on Enterprise Zones

The Office of Program Policy Analysis and Government Accountability released a report in January 2011 finding that most enterprise zone activity occurs in a few number of counties. The report also found that program participation remains relatively low in most enterprise zones, which limits the progress toward achieving the legislative goals of revitalizing distressed areas and increasing employment of area residents. The report made several recommendations related to the viability of the program, suggesting that the Legislature could: 1. Encourage more participation by lowering incentive eligibility thresholds; 2. Focus on job creation by eliminating all incentives except jobs tax credits; 3.

Suspend the program for a year; 4. Repeal the program entirely; or 5. Allow it to sunset under current law in 2015.¹

REDI and RACECS

The Rural Economic Develop Initiative (REDI) was created by the Florida Legislature to encourage and align critical state agency participation and investment around important rural issues and opportunities.² In order to strengthen the regional wage and tax base in rural regions of the state, the Initiative facilitates the location and expansion of major economic development projects in rural communities. The initiative is operated by OTTED and involves the participation of all state and regional agencies to assist in meeting the needs of the rural areas.

Within REDI, the Governor may designate up to three Rural Areas of Critical Economic Concern ("RACEC")³. Most rural counties have been categorized into one of three RACECs: the North Central, the Northwest, and the South Central. RACECs are defined by OTTED based on measures of economic interdependence among the rural counties in each of the three geographic regions. A RACEC designation establishes each region as a priority assignment for REDI agencies and allows the Governor, through REDI, to waive criteria for certain economic development incentives including, but not limited to: the Qualified Target Industry Tax Refund Program, the Quick Response Training Program, the Rural Job Tax Credit program and certain transportation projects.⁴ RACEC counties in each region also partner in creating catalyst sites that will attract key businesses.

Changes made by the bill

The bill provides authority to a governing body of a jurisdiction which nominated an application for an enterprise zone that includes a portion of the state designated as a RACEC to apply to OTTED to expand the boundary of the enterprise zone by up to 3 square miles. The intent of the bill is for the expansion to be applied to the enterprise zone in Belle Glade. However, the bill language may allow other jurisdictions to apply for an expansion of their enterprise zones since the language could apply to those jurisdictions as well.

The bill also provides authority to Martin County to apply to OTTED for designation of an enterprise zone of up to 10 square miles. The bill requires that Martin County exclude residential condominiums from benefiting from state enterprise zone incentives unless prohibited by law. If OTTED approves the application, OTTED determines the initial effective date of the enterprise zone.

The bill provides an effective date of January 1, 2012.

B. SECTION DIRECTORY:

- Section 1. Amends s. 290.0055, F.S., to provide authority to a governing body to apply to expand an enterprise zone.
- Section 2. Creates s. 290.00726, F.S., to provide Marin County with authority to apply for an enterprise zone.
- Section 3. Provides an effective date of January 1, 2012.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

¹ Report no. 11-01-Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program, January 2011. Office of Program Policy Analysis and Government Accountability. Report on file with the Subcommittee.

² Section 288.0656, F.S.

³ Section 288.0656(7)(a-c), F.S.

⁴ Section 288.0656(7)(a), F.S.

1. Revenues:

The Revenue Estimating Conference (REC) has not yet estimated the bill's fiscal impact. However, based on a similar enterprise zone bill filed for the 2010 legislative session, the REC scored that bill with a total negative impact of \$300,000 on state revenue.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The Revenue Estimating Conference has not yet estimated the bill's fiscal impact. However, based on a similar enterprise zone bill filed for the 2010 legislative session, the REC scored that bill as having no impact on local revenue.

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 enterprise zones, due to the incentives provided. Also, job-seekers could benefit from opportunities afforded them by businesses within the new enterprise zones.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Although not yet scored by the REC, it appears the mandates provision is not applicable. This bill does not appear to: require counties or municipalities to spend funds or take an action requiring the expenditure of funds; reduce the authority that counties or municipalities have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

None