The Florida Senate

COMMITTEE MEETING EXPANDED AGENDA

FINANCE AND TAX
Senator Hukill, Chair
Senator Abruzzo, Vice Chair

MEETING DATE: Monday, February 2, 2015
TIME: 4:00 —6:00 p.m.
PLACE: *James E. "Jim" King, Jr. Committee Room,* 401 Senate Office Building

MEMBERS: Senator Hukill, Chair; Senator Abruzzo, Vice Chair; Senators Altman, Diaz de la Portilla, Flores, Margolis, Simpson, and Soto

TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
1	Presentation by the Governor's Office of the Governor's Tax Reduction Recommendations		Presented
2	Enterprise Zone Program Presentation by the Office of Program Policy Analysis & Government Accountability of its Research Memorandum on Florida's Enterprise Zone Program, issued January 5, 2012. Presentation by the Office of Economic and Demographic Research of its Analysis of the Enterprise Zone Program, issued January 1, 2015.		Presented
3	**SB 138** Hukill (Identical H 49)	Tax-exempt Income; Increasing the amount of income that is exempt from the corporate income tax; increasing the amount of income that is exempt from the franchise tax imposed on banks and savings associations, etc. BI 01/21/2015 Favorable FT 02/02/2015 Favorable AP	Favorable Yeas 6 Nays 0
	Consideration of proposed bill:		
4	**SPB 7014**	Corporate Income Tax; Adopting the 2015 version of the Internal Revenue Code; incorporating a reference to a recent federal act into state law for the purpose of defining the term "adjusted federal income"; revising the treatment by this state of certain depreciation and expensing of assets that are allowed for federal income tax purposes, etc.	Not Considered
	Other Related Meeting Documents		

GOVERNOR RICK SCOTT
Fiscal Year 2015-16

Senate

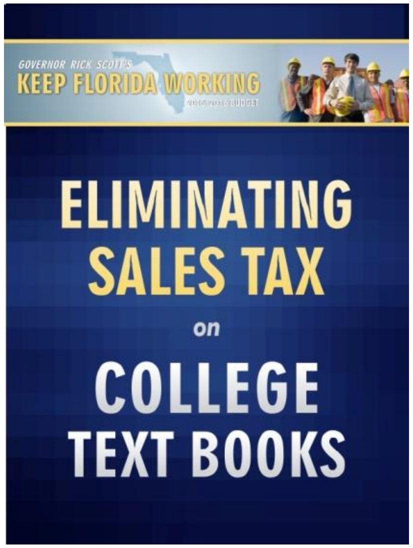
Committee on

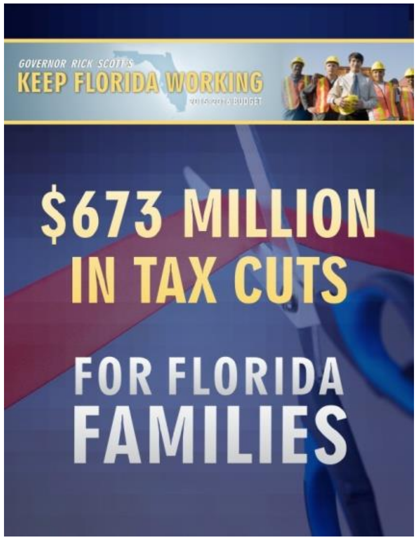
Finance and Tax,

February 2, 2015

Tax Cuts Totaling $673 Million for Florida Families

- Cut the Cellphone and TV Tax by 3.6 Percent
- Eliminate Sales Taxes on College Text Books
- Permanently Eliminate the Tax on Manufacturing Machinery and Equipment
- Further Cut the Business Tax
- 3-day Back-to-School Sales Tax Holiday





Cellphone and TV Tax

- Communications Services Sales Tax Reduction of 3.6%
  - No PECO impact
  - State sales tax rate reduced from 6.65% to 3.05%
  - Local governments held harmless
  - No impact on local option communications taxes
- Savings to Florida households and businesses
  - Cell phone, commercial land line, cable, & satellite TV bills
  - $43 annually for family spending $100 a month
  - Tax cut calculator on KeepFloridaWorking.com

Cellphone and TV Tax

	General Revenue		Local Gov't		Total	
	Cash	Recurring	Cash	Recurring	Cash	Recurring
Across the board rate reduction of 3.6%	$ (367.4)	$ (419.9)	$ (44.6)	$ (51.0)	$ (412.0)	$ (470.9)
Hold local gov't harmless	$ (44.6)	$ (51.0)	$ 44.6	$ 51.0	$ -	$ -
Total	**$ (412.0)**	**$ (470.9)**	**$ -**	**$ -**	**$ (412.0)**	**$ (470.9)**

College Text Book Sales Tax Exemption

- Currently, college text books are subject to the 6% state sales tax plus applicable local option taxes of up to 1.5%
- This proposal exempts college text books from all state and local option sales taxes
- College students will save an estimated $41.4 million per year, or $60 to $75 per student per year
  - General Revenue -$33.9 million
  - Local -$7.5 million

Machinery and Equipment Sales Tax Exemption

- In 2013, the Governor proposed and the Legislature passed a three year sales tax exemption for the purchase of machinery and equipment
- The proposal for this year provides for a permanent exemption to manufacturing businesses for their purchase of machinery and equipment
- The exemption will boost Florida manufacturing competitiveness and increase jobs
- Florida Businesses are expected to save $142.5m per year
  - General Revenue -$116.8 million
  - Local -$25.7 million

Business Tax Exemption Increase

- Increase the corporate income tax exemption from $50,000 to $75,000
- Total number of taxpayers: 9,934
  - 2,189 fully exempted
  - 7,745 partially exempted
- Fiscal Impacts for FY 2015-16
  - -$7.6 million (cash)
  - -$18.7 million (recurring)

Back to School Sales Tax Holiday

- The 3-day sales tax holiday will exempt:
  - Clothing at $100 or less
  - School supplies at $15 or less
  - The first $750 of the price of a computer
- Savings to Florida families of $41.1 million
  - General Revenue -$33.7 million
  - Local -$7.4 million

Measures Affecting Revenues
($ in Millions)

		FY15-16							
		General Revenue Impacts		State Trust		Local		Total	
TAX RELIEF		First Year	Recurring	First Year	Recurring	First Year	Recurring	First Year	Recurring
Sales Tax	Exemption for College Text Books	(33.9)	(33.9)	(*)	(*)	(7.5)	(7.5)	(41.4)	(41.4)
Sales Tax	Permanent Exemption for Manufacturing M&E	0.0	(116.8)	(*)	(*)	0.0	(25.7)	0.0	(142.5)
Sales Tax	3 Day Back-to-School Sales Tax Holiday	(33.7)	0.0	(*)	0.0	(7.4)	0.0	(41.1)	0.0
Corporate Income Tax	Exemption Increase from $50k to $75k	(7.5)	(18.4)	0.0	0.0	0.0	0.0	(7.5)	(18.4)
Communications Services Tax	Rate Reduction of 3.6%	(367.4)	(419.9)	0.0	0.0	(44.6)	(51.0)	(412.0)	(470.9)
Communications Services Tax	Rate Reduction of 3.6% (Hold Local Government Harmless)	(44.6)	(51.0)	0.0	0.0	44.6	51.0	0.0	0.0
TOTAL TAX RELIEF		**(487.1)**	**(640.0)**	**0.0**	**0.0**	**(14.9)**	**(33.2)**	**(502.0)**	**(673.2)**
OTHER MEASURES									
Documentary Stamp Taxes	Amendment 1 General Revenue Distribution	(292.1)	(292.1)	292.1	292.1	0.0	0.0	0.0	0.0
TOTAL OTHER MEASURES		**(292.1)**	**(292.1)**	**292.1**	**292.1**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL MEASURES AFFECTING REVENUE		**(779.2)**	**(932.1)**	**292.1**	**292.1**	**(14.9)**	**(33.2)**	**(502.0)**	**(673.2)**

Note:
(*) Insignificant = less than $50,000

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

Meeting Date: 2/2/2015

Bill Number (if applicable):

Amendment Barcode (if applicable):

Topic: Governor's Tax Cuts Proposal

Name: Christian Weiss

Job Title: Policy Coordinator

Address: 400 South Monroe St., Suite 1702 (Street)

Tallahassee (City) FL (State) 32303 (Zip)

Phone: 850-717-9392

Email: christain.weiss@myflorida.com

Speaking: ☑ For ☐ Against ☑ Information

Waive Speaking: ☐ In Support ☐ Against
(The Chair will read this information into the record.)

Representing: Executive Office of the Governor

Appearing at request of Chair: ☑ Yes ☐ No

Lobbyist registered with Legislature: ☑ Yes ☐ No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/14/14)

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

Meeting Date: 2-2-2015

Bill Number (if applicable): Presentation Governor TAY

Amendment Barcode (if applicable):

Topic: Governor reccomnendations

Name: Brian Pitts

Job Title: Trustee

Address: 1119 Newton Ave. S (Street)

St. Peterburg (City) FL (State) 33705 (Zip)

Phone: 727/897-9291 -11

Email: justice2jesus@yahoo.com

Speaking: ☐ For ☐ Against ☑ Information

Waive Speaking: ☐ In Support ☐ Against
(The Chair will read this information into the record.)

Representing:

Appearing at request of Chair: ☐ Yes ☑ No

Lobbyist registered with Legislature: ☐ Yes ☑ No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

S-001 (10/14/14)

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Florida's Enterprise Zone Program

A presentation to the
Senate Committee on Finance and Tax

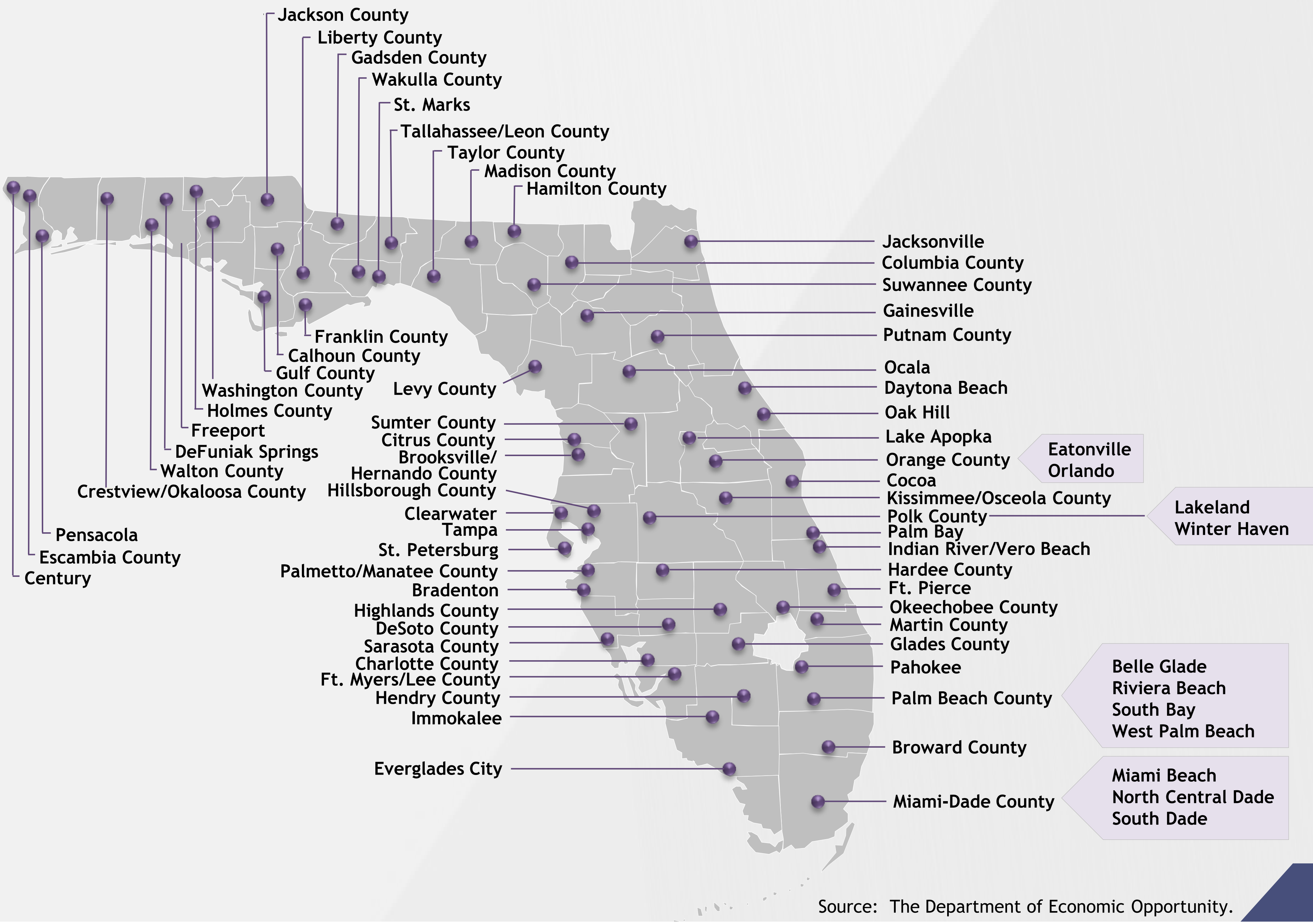
Larry Novey, Chief Legislative Analyst

February 2, 2015

Update of 2014 OPPAGA Enterprise Zone Program Evaluation

- Analyzed economic and social indicators in seven selected zones, including home values, household income, infant mortality, and crime
- Explored program impact on stakeholders via surveys and interviews of economic development organizations, business groups, and local government representatives

Florida Has 65 Enterprise Zones



Source: The Department of Economic Opportunity.

Businesses in Enterprise Zones Have Access to State and Local Incentives

- **State incentives** include job and corporate income tax credits; sales tax refunds; and sales tax exemptions
- **Local incentives** include reduced business, permit, and land development fees; utility tax abatement; ad valorem tax exemptions; and funds for capital projects

State Enterprise Zone Program Incentives Decreased During a Three-Year Period

- OPPAGA's 2014 evaluation was required to examine incentives received in Fiscal Years 2009-10 through 2011-12
- During the period, incentives ranged from $65.6 million to $16.7 million each year
- Most recently, in Fiscal Year 2013-14, businesses received $15.8 million in incentives

Findings

Seven Zones Received 84% of Job Tax Credits and Refunds for Building Materials and Business Machinery

Enterprise Zone	Jobs Tax Credits		Refunds for Building Materials		Refunds for Business Machinery		Total
	Businesses	Incentive	Businesses/ Individuals	Incentive	Businesses	Incentive	Incentive
Miami-Dade County	102	$7,378,945	64	$59,490,547	81	$1,302,308	$68,171,800
Jacksonville	20	775,369	33	478,085	28	650,941	1,904,395
Okeechobee County	19	1,584,204	8	34,083	6	34,241	1,652,528
Tallahassee/ Leon County	5	17,447	52	1,518,649	11	56,984	1,593,080
St. Petersburg	15	624,599	13	509,748	5	13,223	1,147,570
Hendry County	17	1,048,993	23	75,811	8	24,144	1,148,948
Gulf County	17	421,779	19	51,426	5	4,428	477,633
Total	195	$11,851,336	212	$62,158,349	144	$2,086,269	$76,095,954

Source: Department of Economic Opportunity.

Business, Employment, and Wage Growth Varied Widely Among the Seven Zones

Enterprise Zone	Business Growth	Employment Growth	Wage Growth
Gulf County	-26.6%	-35.7%	3.6%
Hendry County	15.8%	-2.1%	34.9%
Jacksonville	-15.5%	-19.0%	13.3%
Miami-Dade County	-1.1%	-12.7%	18.8%
Okeechobee County	-11.5%	-9.4%	17.9%
St. Petersburg	7.1%	-20.9	27.9%
Tallahassee/Leon County	-13.4%	-13.2%	13.2%
Statewide	8.2%	-5.2%	17.4%

Source: Department of Economic Opportunity.

On Other Economic Indicators, the Seven Zones Generally Underperformed

Enterprise Zone	Median Home Value	Median Household Income	Unemployment Rate	Poverty Rate
Gulf County	✗	✗	✓	✗
Hendry County	✗	✗	✗	=
Jacksonville	✗	✗	✗	✗
Miami-Dade	✓	✓	✗	✓
Okeechobee County	✓	✗	✗	✗
St. Petersburg	✓	✓	✗	✗
Tallahassee/Leon	✗	✗	✗	✗

✗ means the Enterprise Zone underperformed compared to non-zone areas
✓ means the Enterprise Zone outperformed compared to non-zone areas

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Social Indicators Show Mixed Results for the Seven Zones

Enterprise Zone	Infant Mortality Rate	Educational Attainment Rate
Gulf County	✓	✗
Hendry County	✓	✗
Jacksonville	✗	✓
Miami-Dade	✗	✗
Okeechobee County	✓	✗
St. Petersburg	✗	✓
Tallahassee/Leon	✗	✗

✗ means the Enterprise Zone underperformed compared to non-zone areas

✓ means the Enterprise Zone outperformed compared to non-zone areas

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Similar to the State as a Whole, Selected Zones Experienced a Decrease in Crime

Enterprise Zone	2000 Total Index Crime Rate	2010 Total Index Crime Rate	Crime Rate Change From 2000 to 2010
Gulf County	2.3	1.2	-1.1
Hendry County	4.3	4.0	-0.3
Okeechobee County	4.4	4.0	-0.4
Jacksonville	12.3	9.4	-2.9
St. Petersburg	13.0	11.5	-1.5
Statewide	**5.7**	**4.1**	**-1.6**

Source: Department of Economic Opportunity.

Many Businesses Are Unaware of the Program and Very Few Use Incentives

- OPPAGA surveyed 7,472 businesses in the seven zones; 548 provided partial responses and 312 provided complete responses
- Most businesses (64%) do not know that they are in an enterprise zone
- Very few businesses reported receiving program marketing materials
- Few businesses took advantage of program incentives
- Various factors were identified as barriers to participation

Businesses Described Several Challenges to Participating in the Program

Challenge	Reason for not Applying for an Incentive	Reason for not Receiving an Incentive
Required that new employees live in the enterprise zone	32%	33%
Minimum threshold for participation too high (e.g., $5,000 minimum investment in a single piece of equipment)	28%	17%
Prospective employees living within the enterprise zone did not have necessary skills	20%	17%
Part-time employees are not eligible	20%	0%
Business does not have a corporate income tax obligation	20%	8%
Incentive application process is too onerous	20%	Not Applicable

Source: OPPAGA survey of businesses located in enterprise zones.

Stakeholders Noted Local Benefits but Suggested Program Improvements

- OPPAGA received feedback from business and economic development organizations as well as local government representatives
- Stakeholders believe enterprise zones are important to attracting new businesses to distressed areas
- However, stakeholders suggested that the program could be improved, particularly with regard to providing greater access to small businesses

The Legislature Could Consider Several Options if it Reauthorizes the Program

Option 1

- Require local governments to reapply for enterprise zone designation and periodically monitor performance goals

Option 2

- Create a tiered program with eligibility requirements and incentive amounts based on business size

Option 3

- Target program incentives to encourage job creation

Questions?

Contact Information

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Florida's Enterprise Zone Program

January 5, 2015

Summary

As directed by the Legislature, OPPAGA supplemented its 2014 evaluation of the Florida Enterprise Zone Program by

- expanding the analysis of employment growth and business participation in seven selected zones to include additional zones, both urban and rural;
- expanding the comparison of changes in home values, household income, unemployment, and poverty to include the additional zones;
- examining additional indicators in all of the selected zones, including crime rates and other social measures; and
- exploring the program's impact on local stakeholders.[1]

The supplemental review analyzed changes in seven selected enterprise zones over time and in comparison to similar non-zone areas. During a three-year period, the seven zones received $76.1 million in state sales tax refunds and jobs tax credits, which represents 84% of such incentives received statewide during the period. For economic indicators (median home value, median household income, unemployment rate, and poverty rate), the seven enterprise zones generally underperformed when compared to similar non-zone areas. For social indicators (infant mortality, educational attainment, crime rate, and population density), the seven enterprise zones showed mixed results, with a few zones outperforming comparison non-zone areas for some indicators. In addition, most businesses that responded to the OPPAGA survey did not know that they are located in an enterprise zone, and very few had taken advantage of program incentives. According to stakeholders, incentive eligibility thresholds constitute a significant barrier to program participation, especially for small businesses. The program is scheduled to sunset on December 31, 2015. If the Legislature chooses to continue the program rather than allowing it to sunset, it may wish to consider several options.

Background

The Enterprise Zone Program was created to revitalize distressed areas; zone businesses have access to state and local incentives. The 1982 Legislature created the Florida Enterprise Zone Program to provide incentives to induce private investments in economically distressed areas of the state.[2] The program targets areas that chronically display extreme and unacceptable levels of unemployment, physical deterioration, and economic disinvestment. The program has several goals including revitalizing and rehabilitating distressed areas, stimulating employment among area residents, and enhancing economic and social well-being in the areas.

To achieve these goals, the state, county, and municipal governments provide investments, tax incentives, and local government regulatory relief to encourage businesses to invest and locate in designated zones and residents to improve their property. State incentives include job and corporate income tax credits as well as sales tax refunds. (See Exhibit 1.)

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[1] *Florida Economic Development Program Evaluations – Year 1,* OPPAGA Report No. 2014-01, January 2014.

[2] Sections 290.001-290.016, *F.S.*, authorize the creation of enterprise zones in Florida and specify goals and criteria for the program. Chapter 2005-287, *Laws of Florida*, re-designated existing enterprise zones and extended the program until December 31, 2015.

Exhibit 1
The State Offers Many Incentives Through the Enterprise Zone Program

State Enterprise Zone Incentives
Jobs Tax Credit (Sales and Use Tax): Section 212.096, *F.S.* Businesses located in a zone that collect and pay Florida sales and use tax are allowed a monthly sales tax credit for wages paid to new employees who have been employed for at least three months and are zone residents or residents of a rural county in rural enterprise zones.
Jobs Tax Credit (Corporate Income Tax): Section 220.181, *F.S.* Businesses located in a zone that pay Florida corporate income tax are allowed a corporate income tax credit for wages paid to new employees who have been employed for at least three months and are zone residents or residents of a rural county in rural enterprise zones.
Property Tax Credit (Corporate Income Tax): Section 220.182, *F.S.* New or expanded businesses located in a zone are allowed a credit on their Florida corporate income tax equal to 96% of ad valorem taxes paid on new or improved property.
Sales Tax Refund for Building Materials: Section 212.08(5)(g), *F.S.* A refund is available for sales taxes paid on the purchase of building materials used to rehabilitate real property located in a zone.
Sales Tax Refund for Business Machinery and Equipment Used in an Enterprise Zone: Section 212.08(5)(h), *F.S.* A refund is available for sales taxes paid on the purchase of certain business property that is used exclusively in a zone for at least three years.
Sales Tax Exemption for Electrical Energy in an Enterprise Zone: Section 212.08(15), *F.S.* A 50% sales tax exemption on the purchase of electrical energy is available to businesses located in a zone. The exemption is only available if the municipality in which the business is located passed an ordinance to exempt qualified enterprise zone businesses from 50% of the municipal utility tax.

Source: The *Florida Statutes.*

In addition to state incentives, counties and municipalities may offer businesses enterprise zone benefits, including

- reduction in occupational license fees;
- reduction in building permit or land development fees;
- utility tax abatement;
- facade/commercial rehabilitation grants;
- local option economic development property tax exemptions;
- ad valorem tax exemptions; and
- local funds for capital projects.

According to local government representatives, coupling local and statewide incentives enhances the value of enterprise zone incentives, making them more attractive to businesses. Local governments reported to the Department of Economic Opportunity (DEO) that they provided businesses $52.9 million in local incentives during Fiscal Year 2012-13. The majority ($27.3 million) of these incentives were in the form of local funds for capital projects.[3] (See Exhibit 2.)

[3] *Florida Enterprise Zone Program Annual Report*, Department of Economic Opportunity, November 1, 2013.

Exhibit 2
Local Incentives Totaled Nearly $53 Million in Fiscal Year 2012-13

Local Incentive	Amount
Municipal Utility Tax Abatement	$62,733
Occupational License or Business Receipt Fee Reduction	185,218
Loans, Grants, and Miscellaneous	1,375,658
Facade Renovation and/or Commercial Revitalization	2,017,157
Reduction of Local Government Regulations	2,800,000
Impact Fee Waiver and/or Discount	2,952,226
Local Economic Development Property Tax Exemption	7,512,455
Additional Local Government Services	8,746,579
Local Funds for Capital Projects	27,248,680
Total	**$52,900,706**

Source: Department of Economic Opportunity.

There are currently 65 enterprise zones. Counties and municipalities may nominate an area to be designated as an enterprise zone that has high poverty (greater than 20%), high unemployment, and general distress, and meets certain geographic specifications (zones may not exceed 20 square miles).[4] Rural enterprise zones are located in counties with populations that generally do not exceed 100,000.[5] Of the 65 enterprise zones within the state, 29 are rural and 36 are urban. (See Exhibit 3.)

Local governments are responsible for zone administration and monitoring activities, creating enterprise zone development agencies, and employing zone coordinators. Zone coordinators serve as local contacts and assist businesses applying for state tax credits and refunds, certify incentive applications to the Department of Revenue (DOR), educate the public about the program, and submit data on zone activities to DEO for inclusion in the enterprise zone annual report. DEO oversees the program at the state level and approves zone designation applications and zone boundary changes. The department also provides technical support to local zone coordinators and submits annual program reports to the Governor and Legislature.

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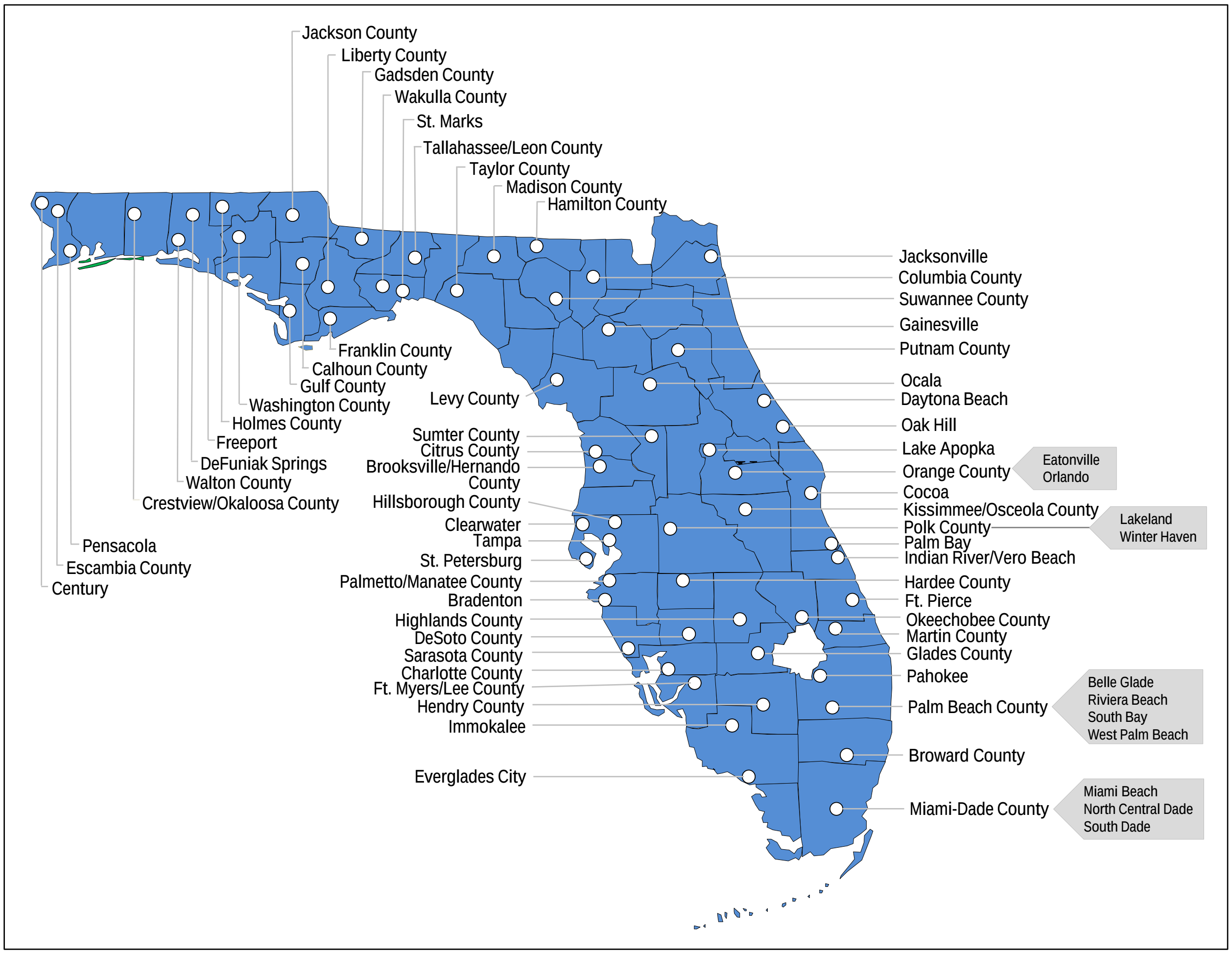
[4] Sections 290.0058 and 290.0055, *F.S.*

[5] Zones may be designated rural if the nominating county has a population of 75,000 or less; a county has a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less; a municipality is located in a county with a population of 75,000 or less; or a municipality is located in a county with a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less.

Exhibit 3
Florida Has 65 Enterprise Zones



Source: The Department of Economic Opportunity.

The Legislature has modified the program several times since its inception. Since 1982, the Legislature has enacted several changes to the Enterprise Zone Program. For example, the 1994 Legislature passed the Florida Enterprise Zone Act of 1994, which repealed the existing enterprise zones on December 31, 1994, created parameters for designation of new zones, and established a program expiration date of June 30, 2005.[6] In addition, the jobs tax credit criteria were revised to require both businesses and employees to reside within an enterprise zone.

The 2005 Legislature extended the program until December 31, 2015 and gave existing enterprise zones an opportunity to have their zones re-designated.[7] By January 1, 2006, the former Office of Tourism, Trade and Economic Development (OTTED) approved 53 re-designation application packages; subsequently, the Legislature authorized and the office approved the designation of nine additional zones.[8]

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[6] Chapter 94-136, *Laws of Florida*.

[7] Chapter 2005-287, *Laws of Florida*.

[8] The office was a predecessor of the Department of Economic Opportunity. When the department was created in 2011, it assumed the office's functions.

In 2010, the Legislature amended the definition of real property by excluding condominiums from the building materials sales tax refund incentive.[9] In October 2011, program management was transferred from OTTED to DEO. The department approved three additional enterprise zone application packages in 2012, bringing the total number of zones to 65.

The amount of enterprise zone incentives provided to businesses has declined. In Fiscal Years 2009-10 through 2011-12, businesses received $110.9 million in Enterprise Zone Program incentives. (See Exhibit 4.) During the period, there was a significant decrease (74.5%) in incentives, primarily due to the 2010 Legislature's exclusion of condominiums from the definition of real property, which in turn made condominiums ineligible for sales tax refunds for building materials.[10] Subsequent to the Legislature's action, annual incentive amounts dropped from $65.6 million in Fiscal Year 2009-10 to $28.7 million in Fiscal Year 2010-11, a 56.3% decrease; incentives continued to decline in Fiscal Year 2011-12, totaling only $16.7 million.[11]

Exhibit 4
Enterprise Zone Program Incentives Decreased 74.5% Between Fiscal Years 2009-10 and 2011-12

	State Incentive Amounts				
Incentives	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Total	Percentage Change FY 2009-10 to 2011-12
Sales Tax Refund for Building Materials Used	$53,030,595	$13,590,376	$2,462,136	$69,083,107	-95.4%
Jobs Tax Credit (Sales and Use Tax)	4,568,257	5,979,438	7,625,993	18,173,688	66.9%
Jobs Tax Credit (Corporate Income Tax)	3,892,991	5,547,786	3,484,013	12,924,790	-10.5%
Sales Tax Refund for Business Machinery and Equipment	1,035,561	679,440	1,228,480	2,943,481	18.6%
Property Tax Credit (Corporate Income Tax)	1,896,648	1,906,552	992,280	4,795,480	-47.7%
Sales Tax Exemption on Electricity Use	1,138,054	972,185	900,476	3,010,715	-20.9%
Total	**$65,562,107**	**$28,675,777**	**$16,693,378**	**$110,931,261**	**-74.5%**

Source: OPPAGA analysis of Department of Revenue data.

Program Performance

Economic Indicators

To more closely examine Enterprise Zone Program performance, OPPAGA sought to gauge program participation and changes in economic outcomes for businesses in seven selected enterprise zones.[12] OPPAGA considered a range of factors when selecting the zones, including incentive amount, population, and urban/rural geography. The seven zones are Gulf County, Hendry County, Jacksonville, Miami-Dade County, Okeechobee County, St. Petersburg, and Tallahassee/Leon County.

The seven zones received 84% of state incentives in a three-year period; job tax credits were awarded for the creation of 3,060 jobs. In Fiscal Years 2009-10 through 2011-12, the seven zones received sales tax refunds for building materials, jobs tax credits, and sales tax refunds for business machinery and equipment totaling $76.1 million; this represents 84% of such incentives

[9] Chapter 2010-147, *Laws of Florida*.

[10] Chapter 2010-147, *Laws of Florida*.

[11] Incentives totaled $16.3 million in Fiscal Year 2012-13.

[12] OPPAGA reviewed five of these seven zones in 2011 and 2014. See *Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program*, OPPAGA Report No. 11-01, January 2011 and *Florida Economic Development Program Evaluations – Year 1*, Report No. 14-01, January 2014.

received statewide during the period. Miami-Dade County received the most incentives, $68.2 million, while Gulf County received the least, $477,633. The most frequently used incentive among the seven counties was the sales tax refund for building materials, which totaled $62.2 million. (See Exhibit 5.)

Exhibit 5
Businesses in Seven Enterprise Zones Received $76.1 Million in Incentives in Fiscal Years 2009-10 Through 2011-12[1]

	Jobs Tax Credits		Refunds for Building Materials		Refunds for Business Machinery		Total
Enterprise Zone	Businesses	Incentive	Businesses/ Individuals	Incentive	Businesses	Incentive	Incentive
Miami-Dade County	102	$7,378,945	64	$59,490,547	81	$1,302,308	**$68,171,800**
Jacksonville	20	775,369	33	478,085	28	650,941	**1,904,395**
Okeechobee County	19	1,584,204	8	34,083	6	34,241	**1,652,528**
Tallahassee/ Leon County	5	17,447	52	1,518,649	11	56,984	**1,593,080**
St. Petersburg	15	624,599	13	509,748	5	13,223	**1,147,570**
Hendry County	17	1,048,993	23	75,811	8	24,144	**1,148,948**
Gulf County	17	421,779	19	51,426	5	4,428	**477,633**
Total	**195**	**$11,851,336**	**212**	**$62,158,349**	**144**	**$2,086,269**	**$76,095,954**

[1] The figures presented do not include credits taken against Florida corporate income taxes because the Department of Revenue does not track these incentives for individual enterprise zones.

Source: OPPAGA analysis of Department of Revenue data.

The Jobs Tax Credit is the only Enterprise Zone Program incentive directly linked to employment. The incentive is available to businesses located in a zone that pay Florida sales and use or corporate income taxes; businesses are granted tax credits for new employees who have been employed for at least three months and are zone residents or residents of a rural county in rural enterprise zones. In Fiscal Years 2009-10 through 2011-12, 195 businesses in the seven selected zones received jobs tax credits totaling $11.9 million. These businesses hired 3,060 new employees. Miami-Dade County claimed the most credits, totaling $7.4 million for 1,837 jobs. (See Exhibit 6.)

Exhibit 6
Businesses in Seven Enterprise Zones Received $11.9 Million in Jobs Tax Credits for 3,060 Employees in Fiscal Years 2009-10 Through 2011-12

Enterprise Zone	Businesses	Credits	Employees[1]
Miami-Dade County	102	$7,378,945	1,837
Okeechobee County	19	1,584,204	242
Hendry County	17	1,048,993	258
Jacksonville	20	775,369	302
St. Petersburg	15	624,599	285
Gulf County	17	421,779	123
Tallahassee/Leon County	5	17,447	13
Total	**195**	**$11,851,336**	**3,060**

[1] This counts all new employees who were eligible for the credit for at least one month between Fiscal Years 2009-10 and 2011-12. Employees are eligible to be claimed for the credit for the first two years after they are hired. If employment is terminated before eligibility expires, the employee cannot be claimed for the remainder of the two years. The Department of Revenue determines when eligibility expires but does not receive data indicating whether employment was terminated before expiration. Thus, this count may include some newly hired individuals whose employment was terminated prior to Fiscal Year 2009-10 and who were not claimed for the credit between Fiscal Years 2009-10 and 2001-12.

Source: OPPAGA analysis of Department of Revenue data.

Business, employment, and wage growth varied widely among the seven zones. In calendar years 2005 through 2012, the number of businesses increased in St. Petersburg (7.1%) and Hendry County (15.8%) but declined for the other five zones.[13] Employment declined for all zones, ranging from a 2.1% decline in Hendry County to a 35.7% decline in Gulf County. However, wages increased in all zones, with growth ranging from 3.6% in Gulf County to 34.9% in Hendry County. (See Exhibit 7.)

Exhibit 7
Economic Growth Varied in Seven Enterprise Zones from Calendar Years 2005 to 2012

Enterprise Zone	Business Growth[1]	Employment Growth[2]	Wage Growth[3]
Gulf County	-26.6%	-35.7%	3.6%
Hendry County	15.8%	-2.1%	34.9%
Jacksonville	-15.5%	-19.0%	13.3%
Miami-Dade County	-1.1%	-12.7%	18.8%
Okeechobee County	-11.5%	-9.4%	17.9%
St. Petersburg	7.1%	-20.9	27.9%
Tallahassee/Leon County	-13.4%	-13.2%	13.2%
Statewide	**8.2%**	**-5.2%**	**17.4%**

[1] Percentage change in number of businesses.
[2] Percentage change in number of employees.
[3] Percentage change in average wages.
Source: OPPAGA analysis of Department of Economic Opportunity data.

For several economic indicators, the seven zones generally underperformed when compared to similar non-zone areas. The purpose of Florida's Enterprise Zone Program is to establish a process that identifies severely distressed areas and to provide state and local economic incentives to businesses, with the goal of inducing private investment and enabling revitalization. As part of the analysis of the degree to which such improvements have occurred, OPPAGA reviewed U.S. Census data from 2000 and 2010 for the seven selected enterprise zones. OPPAGA compared changes in median home values, median household income, unemployment rates, and poverty rates in the seven selected enterprise zones to similar non-enterprise zone census tracts.

OPPAGA's analysis found low to mixed results, with selected enterprise zones meeting some legislative goals but falling short for others. In one of the analyses, three out of seven enterprise zones outperformed similar non-zone comparison areas and in a second analysis two zones outperformed comparison areas. In the other two analyses, only one of seven enterprise zones outperformed similar comparison areas. These results indicate that while there were some successes, in general, the Enterprise Zone Program has not met legislative goals related to revitalizing distressed areas.

One measure of enterprise zone effectiveness at economically revitalizing disadvantaged areas is increased residential property values. In 2000, the seven zones OPPAGA examined all had high percentages of residential properties valued at under $100,000. The lowest percentage among the seven zones was Miami-Dade, where 62% of the personal residences were valued at $100,000 or less; the highest percentage was Jacksonville, where 92% of the personal residences had property values under $100,000. By 2010, all seven zones saw a significant decrease in the percentage of residential property valued at less than $100,000, a sign that property values increased in the zones

[13] OPPAGA chose to examine a longer period for these indicators to account for economic fluctuations.

even for the lowest valued residential properties. However, statewide, the percentage of residential properties valued at under $100,000 also decreased from 55% in 2000 to 21% in 2010, so it is possible that the zones simply benefitted from the 10-year statewide rise in property values.

In order to evaluate the growth in enterprise zone property values against a comparison group, for each zone OPPAGA selected a group of non-zone census tracts from the 2000 census that had the same rural/urban status as the enterprise zones and that had the same percentage of homes valued at less than $100,000 in 2000. This allowed us to determine, for each zone, if the change in personal residences valued at under $100,000 or less was different than the change for a comparison group. In 2010, three of the seven enterprise zones (Miami-Dade County, Okeechobee County, and St. Petersburg) had smaller percentages than their comparison areas. This shows that there was not an across-the-board increase in property values in enterprise zones that was greater than the increases that occurred in the comparison areas. (See Exhibit 8.)

Exhibit 8
Home Values in Enterprise Zones and Non-Enterprise Zones Have Risen Since 2000; Three Zones Outperformed Comparison Areas

Enterprise Zone	2000 Percentage of All Homes Valued at Less than $100,000[1]	2010 Enterprise Zone Percentage of All Homes Valued at Less than $100,000	2010 Enterprise Zone Comparison Group Percentage of All Homes Valued at Less than $100,000	Difference Between Enterprise Zone and Comparison Group
Gulf County	73%	37%	37%	0%
Hendry County	85%	48%	46%	2%
Jacksonville	92%	60%	44%	16%
Miami-Dade County	62%	15%	22%	-7%
Okeechobee County	79%	36%	38%	-2%
St. Petersburg	86%	28%	33%	-5%
Tallahassee/Leon County	84%	40%	31%	9%
Statewide	**55%**		**21%**	

[1] Enterprise zones and comparison groups started at the same percentage.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Another measure of enterprise zone economic impact is median household income, which is a measure of a household's ability to acquire the goods and services that satisfy their needs. OPPAGA's comparison of 2000 and 2010 U.S. Census data for the seven selected zones and similar non-enterprise zone areas shows that in all selected enterprise zones, median household incomes have increased. However, only two enterprise zones, Miami-Dade County and St. Petersburg, showed an increase that exceeded that of its comparison non-enterprise zone area. (See Exhibit 9.)

Exhibit 9
Median Household Incomes Have Increased in All Seven Enterprise Zones Since 2000; Two Zones Outperformed Comparison Areas

Enterprise Zone	Percentage Change from 2000 to 2010: Enterprise Zone	Percentage Change from 2000 to 2010: Non-Enterprise Zone
Gulf County	32%	38%
Hendry County	11%	28%
Jacksonville	29%	32%
Miami-Dade County	43%	23%
Okeechobee County	31%	34%
St. Petersburg	52%	29%
Tallahassee/Leon County	21%	31%
Statewide	26%	

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Unemployment also is often used as a measure of the health of the economy. Consistent with statewide unemployment trends, for all but two of the seven enterprise zones in the review, unemployment rates were higher in 2010 than in 2000; unemployment rates in Miami-Dade and Tallahassee/Leon counties remained at 12% and 15%, respectively. When comparing enterprise zones to non-enterprise zone areas, in 2010, Gulf County was the only zone that had a lower unemployment rate than its comparison non-zone area (10% compared to 13%). However, for three zones, Miami-Dade County, Okeechobee County, and St. Petersburg, unemployment rates were identical to comparison area rates. (See Exhibit 10.)

Exhibit 10
Consistent with State and National Trends, from 2000 to 2010, Unemployment Rates Increased in Most of the Selected Enterprise Zones; Only One Zone Had a Rate Lower than its Comparison Area

Enterprise Zone	2000 Unemployment Rates for Enterprise Zones and Non-Enterprise Zones[1]	2010 Enterprise Zone Unemployment Rates	2010 Non-Enterprise Zone Unemployment Rates
Gulf County	6%	10%	13%
Hendry County	8%	16%	13%
Jacksonville	10%	18%	13%
Miami-Dade County	12%	12%	12%
Okeechobee County	5%	12%	12%
St. Petersburg	9%	12%	12%
Tallahassee/Leon County	15%	15%	11%
Statewide	6%	10%	

[1] Enterprise zones and comparison groups started at the same rate.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Finally, the U.S. Census Bureau uses a set of income thresholds that vary by family size and composition to define poverty. If a family's total income is less than the family's threshold, the family is considered in poverty. Over the 10-year period of the review, poverty rates increased for five of the seven selected enterprise zones. Only one of the seven zones had a lower poverty rate than its comparison non-enterprise zone area in 2010; Miami-Dade County's 2010 rate (26%), while increasing over the 10-year period, was lower than the comparison area (29%). (See Exhibit 11.)

Exhibit 11
From 2000 to 2010, Poverty Rates within Most of the Selected Enterprise Zones Increased; Only One Zone Had a Rate Lower than its Comparison Area

Enterprise Zone	2000 Poverty Rates for Enterprise Zones and Non-Enterprise Zones[1]	2010 Enterprise Zone Poverty Rates	2010 Non-Enterprise Zone Poverty Rates
Gulf County	17%	17%	16%
Hendry County[2]	24%	26%	26%
Jacksonville	30%	33%	29%
Miami-Dade County	27%	26%	29%
Okeechobee County	16%	24%	17%
St. Petersburg	25%	28%	26%
Tallahassee/Leon County	37%	43%	31%
Statewide	**13%**	**15%**	

[1] Enterprise zones and comparison groups started at the same rate.
[2] For Hendry County, to obtain a large enough comparison group, OPPAGA identified census tracts with comparable 2000 poverty rates, selected from tracts in the lowest one-third of the state's population density.
Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Social Indicators

To assess how measures of health and social well-being within enterprise zones have changed over time and how such measures compare to non-enterprise zone areas, OPPAGA conducted additional analysis of 2000 and 2010 U.S. Census data. As part of the analysis, OPPAGA compared changes in educational attainment and infant mortality rates in the seven selected enterprise zones to similar non-enterprise zone census tracts. In addition, OPPAGA analyzed crime data to determine how crime rates in the selected enterprise zones have changed and how they compare to rates in other jurisdictions. OPPAGA also examined population changes in enterprise zones and non-zone areas.

Enterprise zones show mixed results for social indicators. Infant mortality, a measure of maternal and child health, is an important indicator of overall public health. The infant mortality rate is the estimated number of deaths of infants under one year of age for every 1,000 live births. According to Florida Department of Health Vital Statistics data, infant mortality declined in four enterprise zones between 2000 and 2010.[14] Three zones, Gulf, Hendry, and Okeechobee counties, had rates that were slightly lower than their comparison non-zone areas. (See Exhibit 12.)

[14] Florida Department of Health, Bureau of Vital Statistics provides these data for five-year periods. The 2000 data is for the five-year period ending in 2000 (1996 through 2000) and the 2010 data is for the five-year period ending in 2010 (2006 through 2010).

Exhibit 12
Infant Mortality Rates Declined in Four Enterprise Zones from 2000 to 2010; Three Zones Slightly Outperformed Comparison Areas

Enterprise Zone	2000 Infant Mortality Rates for Enterprise Zones and Non-Enterprise Zones (per 1,000 births)[1]	2010 Enterprise Zone Infant Mortality Rates (per 1,000 births)	2010 Non-Enterprise Zone Infant Mortality Rates (per 1,000 births)
Gulf County	20	7	9
Hendry County	6	7	8
Jacksonville	17	13	9
Miami-Dade County	7	8	7
Okeechobee County	9	7	8
St. Petersburg	12	20	6
Tallahassee/Leon County	13	12	8
Statewide	**7**	7	

[1] Enterprise zones and comparison groups started at the same rate

Source: OPPAGA analysis of 2000 and 2010 Florida Department of Health Vital Statistics data.

Educational attainment refers to the highest level of education that an individual has completed. Educational attainment has been linked to income, with average earnings increasing as level of education increases. For all seven of the selected enterprise zones, more residents had at least a high school degree in 2010 than in 2000. However, when compared to non-enterprise zone areas, only two enterprise zones, Jacksonville and St. Petersburg, had slightly higher educational attainment rates than their comparison areas. (See Exhibit 13.)

Exhibit 13
From 2000 to 2010, Educational Attainment Rates Increased in All Enterprise Zones; Two Zones Slightly Outperformed Comparison Areas

Enterprise Zone	2000 Educational Attainment Rates for Enterprise Zones and Non-Enterprise Zones[1]	2010 Enterprise Zone Educational Attainment Rates	2010 Non-Enterprise Zone Educational Attainment Rates
Gulf County	73%	76%	79%
Hendry County[2]	52%	65%	68%
Jacksonville	63%	74%	71%
Miami-Dade County	57%	70%	71%
Okeechobee County[2]	62%	67%	73%
St. Petersburg	69%	79%	78%
Tallahassee/Leon County	86%	89%	90%
Statewide	**79%**	**85%**	

[1] Enterprise zones and comparison groups started at the same rate.

[2] For Hendry and Okeechobee counties, to obtain large enough comparison groups, OPPAGA identified census tracts with comparable 2000 educational attainment levels, selected from tracts in the lowest one-third of the state's population density.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Crime rates are indicators of reported crime activity standardized by population. Statewide, the crime rate decreased 28% between 2000 and 2010.[15] To measure the change in crime rates for enterprise zones, OPPAGA used a different method than the census analysis discussed above. OPPAGA calculated each enterprise zone's crime rate for 2000 and 2010 and each enterprise zone's crime rate percentile ranking relative to other Florida law enforcement jurisdictions.[16] This second metric allowed us to assess the change in enterprise zone crime rates in the context of the statewide crime rate decrease.

Only one of five enterprise zones, Gulf County, improved its crime rate percentile ranking from 2000 to 2010. (See Exhibit 14.) Miami-Dade County and Tallahassee/Leon County are excluded from the analysis because the two zones could not provide similar data for the same period.[17] However, OPPAGA was able to obtain 2004 and 2013 crime data for the Tallahassee/Leon County enterprise zone, which showed that the zone's crime rate remained unchanged at 6.3 crimes per 100 residents.[18] Data for 2013 was not available for other Florida jurisdictions, so OPPAGA calculated the percentile ranking of Tallahassee's 2013 crime rate against 2012 jurisdictional data. This showed an increase in Tallahassee/Leon County's crime rate percentile ranking, from the 62nd percentile to the 85th percentile.

Exhibit 14
Only One of Five Enterprise Zones Experienced a Decrease in Crime Rate Relative to Other Florida Communities

Enterprise Zone	2000 Total Index Crime Rate	2010 Total Index Crime Rate	Crime Rate Change From 2000 to 2010	2000 Percentile Ranking	2010 Percentile Ranking
Gulf County	2.3	1.2	-1.1	25.9%	11.1%
Hendry County	4.3	4.0	-0.3	77.8%	92.6%
Okeechobee County	4.4	4.0	-0.4	81.5%	88.9%
Jacksonville	12.3	9.4	-2.9	92.2%	96.1%
St. Petersburg	13.0	11.5	-1.5	95.3%	100.0%
Statewide	**5.7**	**4.1**	**-1.6**		

Source: OPPAGA analysis of data obtained from law enforcement agencies within enterprise zones, the Florida Department of Law Enforcement, and the U.S. Department of Justice.

Population density measures the number of residents per square mile. Changes in population density show whether an area's population is growing or declining. Statewide, Florida's population density increased by 54.2 residents per square mile from 2000 to 2010. Similarly, population density in five of the seven zones increased during this period. However, when OPPAGA applied a ranking method similar to the approach used for the crime rate analysis, only three of the seven enterprise zones increased in their 2010 population density percentile ranking.[19] That is, four of the seven zones' population density did not increase relative to other Florida communities. (See Exhibit 15.)

[15] OPPAGA measured crime using Uniform Crime Reporting Part 1 Index Crimes, which include homicide, forcible rape, robbery, aggravated assault, burglary, larceny, and motor vehicle theft.

[16] OPPAGA ranked urban and rural enterprise zones separately. Urban enterprise zones were ranked relative to Florida law enforcement jurisdictions with populations of 10,000 or more. Rural enterprise zones were ranked relative to other rural Florida counties that reported crime both years. A high ranking percentile means the zone has a high crime rate.

[17] For the Miami-Dade County enterprise zone, only the Miami-Dade Police Department provided data for 2000 and 2010. Using this data, OPPAGA was able to examine crime for 8% of the Miami-Dade County zone. The crime rate in that portion of the enterprise zone declined from 13.2 crimes per 100 residents in 2000 to 8.8 crimes per 100 residents in 2010. The resulting percentile rank for that portion of the Miami-Dade enterprise zone decreased from 96.1% in 2000 to 93.8% in 2010.

[18] The earliest year for which Tallahassee crime data was available at the census tract level was 2004. Since population data was not available at the census tract level for 2013 at the time of the analysis, OPPAGA used 2000 and 2010 decennial census population data.

[19] OPPAGA ranked urban and rural enterprise zones separately. Urban enterprise zones were ranked relative to Florida Census-defined incorporated places with populations of 10,000 or more. Rural enterprise zones were ranked relative to other rural Florida counties. A high ranking percentile means the zone has a high population density compared to other communities.

Exhibit 15
From 2000 to 2010, the Population Density of Three Enterprise Zones Increased Relative to Other Florida Communities[1]

Enterprise Zone	2000 Population Density	2010 Population Density	Population Density Change from 2000 to 2010	2000 Percentile Ranking	2010 Percentile Ranking
Gulf County	24.1	28.7	4.6	27.6%	31.0%
Hendry County	31.4	33.9	2.5	41.4%	37.9%
Okeechobee County	46.7	52.0	5.3	58.6%	55.2%
Jacksonville	2,765.0	2,528.0	-237.0	57.0%	49.3%
Miami-Dade	1,519.9	1,617.1	97.3	25.8%	31.1%
St. Petersburg	4,301.7	4,137.9	-163.9	76.8%	74.3%
Tallahassee/Leon	380.3	415.1	34.8	1.3%	1.4%
Statewide	**296.4**	**350.6**	**54.2**		

[1] A higher percentile indicates a higher population density.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Local Benefits of Enterprise Zone Programs

To evaluate Enterprise Zone Program benefits, OPPAGA surveyed the 65 local enterprise zone coordinators and business owners within the seven selected enterprise zones; while most zone coordinators responded, very few businesses responded to the survey.[20] OPPAGA was interested in respondents' awareness of the program, economic changes that occurred in enterprise zones and factors contributing to those changes, the value of individual program incentives, and challenges to accomplishing program goals. In addition, OPPAGA interviewed numerous stakeholders, including local government representatives, industry associations, and business groups and asked them to reflect on the program's value, especially at the local level.[21]

Most businesses do not know that they are in an enterprise zone; very few reported receiving program marketing materials. When businesses were asked if they knew that their establishment is in an enterprise zone, the majority (64%) of those responding to the question were unaware that they were located in a zone. In addition, although 84% of the enterprise zone coordinators reported that they market the program, only 17% of the businesses that were aware that their establishment is located in a zone reported receiving marketing materials.

Zone coordinators reported that they market the program using a number of methods, with the primary approaches being an enterprise zone website or program information posted on a local government or other entities' website (84%), one-on-one telephone calls or meetings with existing and new businesses (81%), and workshops for businesses and local organizations (51%). Businesses reported that direct mailings were the primary source of marketing (40%), followed by one-on-one calls from enterprise zone coordinators (30%) and program websites (25%).

[20] OPPAGA obtained Federal Employer Identification Numbers from DEO for 16,888 businesses within the seven enterprise zones under review. OPPAGA matched this data to business names and email addresses provided by DOR. After removing duplicate email addresses, OPPAGA sent an online survey request to 7,472 businesses; 548 (7.3%) businesses answered one or more questions and 312 (4.2%) businesses completed the entire survey. To survey Enterprise Zone Coordinators, OPPAGA used contact information obtained from DEO and sent an online survey to all 65 coordinators; 48 (74%) answered one or more questions and 43 (66%) completed the entire survey.

[21] OPPAGA received feedback from local governments and representatives of the Florida Association of Counties, the Florida Chamber of Commerce, the Florida League of Cities, the Florida Retail Federation, and the National Federation of Independent Businesses.

Enterprise zone coordinators and businesses have differing views regarding the effect of the program on the local economy. OPPAGA asked coordinators and businesses whether the economy had improved in the enterprise zone and what factors contributed to improvements. Seventy percent of coordinators who responded to the question said that the economy had improved since 2010; only 36% of the businesses responding to the same question felt that the economy had improved. For those coordinators and businesses that felt the economy had improved, 69% of coordinators attributed the availability of state enterprise zones incentives to the improvement, while only 11% of businesses expressed the same opinion. Businesses were more likely to cite the increase in new businesses and state economic trends as factors contributing to the improved economy.

Few businesses took advantage of program incentives; various factors were identified as barriers to participation. Of the 68 businesses that were aware of specific Enterprise Zone Program incentives and responded to the question, only 46% reported that they received one or more incentives, 18% reported that they did not receive any incentives, and 37% reported that they did not apply for any incentives.

Of the 37 businesses that were aware of the enterprise zone program but did not apply for or receive incentives, several respondents identified reasons for lack of participation. The top three challenges cited were requiring that new employees live in the enterprise zone (32%), requiring that too many jobs be created (28%), and having too high a threshold for program participation (28%). (See Exhibit 16.)

Exhibit 16
Businesses Described Several Challenges to Participating in the Enterprise Zone Program

Challenge	Reason for not Applying for an Incentive	Reason for not Receiving an Incentive
Required that new employees live in the enterprise zone	32%	33%
Minimum threshold for participation too high (e.g., $5,000 minimum investment in a single piece of equipment)	28%	17%
Required too many jobs to be created	28%	17%
Prospective employees living within the enterprise zone did not have necessary skills	20%	17%
Part-time employees are not eligible	20%	0%
Business does not have a corporate income tax obligation	20%	8%
Incentive application process is too onerous	20%	Not Applicable

Source: OPPAGA survey of businesses located in enterprise zones.

Similarly, enterprise zone coordinators identified barriers to meeting Enterprise Zone Program goals. Coordinators reported that the most significant challenges are

- businesses not benefiting from incentives because they do not have a corporate income tax obligation (50%);
- lack of resources for program marketing and recruitment (48%);
- local infrastructure weaknesses (43%); and
- businesses not qualifying for enterprise zone incentives due to required thresholds, such as number of employees or equipment purchasing amounts, being too high (42%).

Both businesses and enterprise zone coordinators provided suggestions for addressing program challenges. For example, 21 of the businesses surveyed offered program improvements, including increased assistance and education for businesses, a simplified application process, and modified incentive eligibility criteria. Several coordinators (32) also made suggestions, including modifying the jobs tax credits to include the part-time employees most likely to be employed by small businesses; reducing the business property and equipment threshold to a lower amount; and simplifying application forms and facilitating online completion.

Stakeholders believe enterprise zones are needed to attract businesses but suggested that the program could be improved. OPPAGA interviewed numerous business and economic development organizations to determine their opinions on the value of the Enterprise Zone Program. These organizations believe that enterprise zones help communities and are a necessary incentive to attract new businesses to distressed areas. Stakeholders reported that in some cases, enterprise zone incentives are critical to attracting businesses to an area that may be seen as unattractive due to economic blight, high crime, or other negative factors. In addition, some stakeholders reported that in many cases, the businesses that move into enterprise zones provide area residents benefits beyond employment and economic growth. Such reported benefits include increasing access to health care and other services, minimizing food deserts, and lowering incidents of crime.[22]

However, stakeholders suggested that the program could be improved, particularly with regard to providing greater access to small businesses. Recommended improvements range from simplifying eligibility criteria to creating a tiered system that has different requirements and thresholds for small and large businesses. (See Exhibit 17.)

Exhibit 17
Stakeholders Offered Several Suggestions for Improving the Enterprise Zone Program

Program Area	Suggested Improvement
Structure	**Create a small and large business tiered incentive system:** Establish a tiered system with lower thresholds for small businesses and higher thresholds for larger businesses
Administration	**Create a web-based system to verify where employees reside:** Develop an online verification system that would allow employers, especially small businesses with limited resources, to verify if employee's residential addresses are within the enterprise zone
	Increase outreach and marketing: Enhance efforts by state and local government to advise and educate businesses concerning available incentives
	Provide greater assistance: Offer additional assistance to businesses concerning incentive qualifications and compliance
	Improve coordination: Increase coordination among the state and local entities concerning program implementation and incentives offered at the state and local level
	Create an online application system: Develop an online system that facilitates the completion and submission of incentive applications via the internet
Incentive Eligibility Requirements	**Allow businesses to claim employees that reside outside of the enterprise zone:** Permit businesses to receive incentives for employees who reside outside of the zone to compensate for lack of skilled workforce within the zone
	Lower threshold for machinery and equipment purchases: Lower the threshold for small businesses, maintain the current $5,000 threshold for large businesses
	Phase out corporate income tax-based incentives: Eliminate incentives linked to corporate income tax, as many businesses, especially small establishments, do not have a corporate income tax liability and are unable to use such credits
New or Enhanced Incentives	**Create a statewide job training incentive:** Offer a credit that can be used to support training efforts and help develop a skilled workforce
	Create a statewide utility incentive: Offer a credit that can be used to offset utility costs
	Increase state incentive amounts: Offer larger incentives to offset the additional costs often involved in locating and expanding in distressed areas

Source: OPPAGA analysis of stakeholder interviews.

[22] According to the U.S. Department of Agriculture, food deserts are urban neighborhoods and rural towns without ready access to fresh, healthy, and affordable food. Instead of supermarkets and grocery stores, these communities may have no food access or are served only by fast food restaurants and convenience stores that offer few healthy, affordable food options. The lack of access contributes to a poor diet and can lead to higher levels of obesity and other diet-related diseases, such as diabetes and heart disease.

Options for Legislative Consideration

The Florida Enterprise Zone Program is scheduled to sunset on December 31, 2015. If the Legislature chooses to continue the program rather than allowing it to sunset, it may wish to consider several options.

Option 1: Require local governments to reapply for enterprise zone designation and periodically monitor performance goals. To enhance program accountability and create a process for evaluating enterprise zone performance, the Legislature could require all zones to reapply for designation after December 31, 2015. Designation should include establishing goals for economic and social indicators, including business, employment, and wage growth, and poverty, unemployment, and crime reduction. The Department of Economic Opportunity should gather baseline data, including business, employment, and wage data from its Bureau of Labor Market Statistics and crime data from local law enforcement agencies within the zones seeking designation.[23] In addition, on a staggered schedule, the Legislature could require all zones to apply for redesignation. In order to be redesignated, zones should be required to demonstrate business, employment, and wage growth as well as poverty, unemployment, and crime reduction.

Option 2: Create a tiered program with eligibility requirements and incentive amounts based on business size. To make program incentives more accessible to small businesses, the Legislature could modify current thresholds to establish separate standards for small and large businesses. Small business could be defined similarly to s. 288.9932, *Florida Statutes*, which provides that a small business is a business, regardless of corporate structure, domiciled in this state that employs 25 or fewer people and generated average annual gross revenues of $1.5 million or less per year for the preceding two years.

For example, the Legislature could amend s. 212.08(5)(h), *Florida Statutes*, to lower the $5,000 threshold for sales tax refunds on business property to $1,000 for small businesses, and maintain the current threshold for businesses with more than 25 employees and average revenues greater than $1.5 million. Similarly, the Legislature could amend ss. 212.096, and 220.181, *Florida Statutes*, to allow small businesses to claim part-time employees and non-zone residents for jobs tax credits, while maintaining the current requirements for larger businesses.

Option 3: Target program incentives to encourage job creation. To focus the program on job creation, the Legislature could eliminate all program incentives except jobs tax credits. Under this option, the Legislature could also amend ss. 212.096 and 220.181, *Florida Statutes*, to allow businesses to claim part-time employees and non-zone residents for jobs tax credits, which would make the incentives more accessible for small businesses.

[23] The crime data must follow the same rules currently used by all state law enforcement agencies to report Uniform Crime Reporting crimes and arrests to the Florida Department of Law Enforcement.

Analysis of Enterprise Zone Program Options

February 2, 2015

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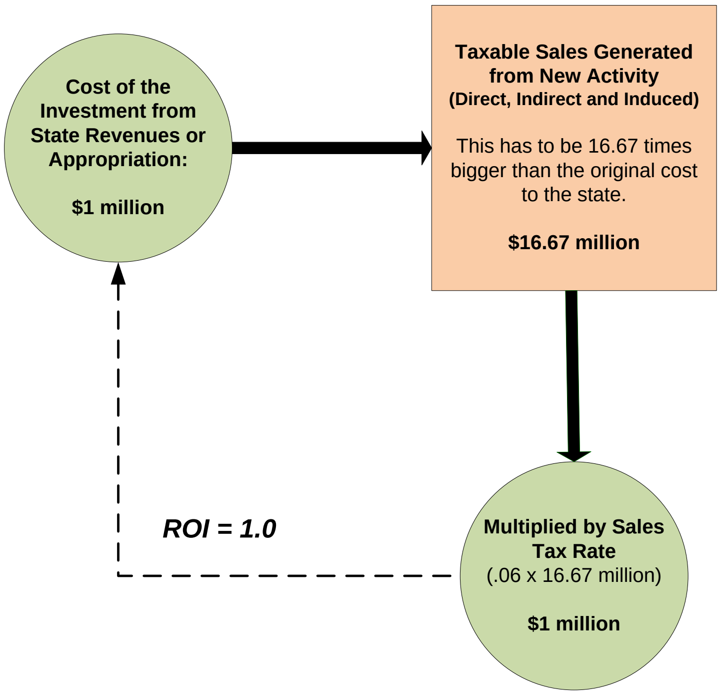
Return on Investment (ROI)...

- In EDR's analysis, the term "Return on Investment" is synonymous with the statutory term "economic benefits" which is defined in s. 288.005, Florida Statutes.

"The direct, indirect, and induced gains in state revenues as a percentage of the state's investment. The state's investment includes state grants, tax exemptions, tax refunds, tax credits, and other state incentives."

Sales Tax Example...



- "Indirect Effects" are changes in employment, income and output of local suppliers that provide goods and services to support direct economic activity.
- "Induced Effects" are the changes in spending by households whose income is affected by direct and indirect economic activity.
- The ROI does not address issues of overall effectiveness or societal benefit; instead, it focuses on tangible financial gains or losses to state revenues.

Starting Premise...

2010 Review of the Revenue Estimating Conference Methodology:

- Economic literature supported the methodology: “The REC assumes that economic activity in an enterprise zone would have occurred within the zone or somewhere else in the State absent formation of the zone. That is, businesses moving into the zone do not increase the total economic activity within the State.”

- Given this, the real research question is whether enterprise zones are effective as mechanisms to eliminate or reduce slum and blight. An economic measure of this effectiveness is changes in property tax values.

- The analysis of three zones (two urban; one rural) between 1999 and 2004 did not find consistent, direct and quantifiable impacts on property values from zone creation.

- However, the literature review suggested that a more recognizable impact may emerge over a longer period.

Return on Investment...

2014 ROI Review:

- Based on an update of the 2010 property tax analysis (longer period of time for the three zones), EDR found that there is some positive economic gain associated with property appreciation in the Enterprise Zones. However, the gain accrues to the local government.
    - The impact of local government spending on state revenues is weak because local government spending is largely not taxable. Generally only the indirect and induced spending attributable to local government spending is taxable, and these effects are small.
    - Homeowners were negatively affected by the appreciation-induced increase in property taxes. This reduces taxable consumer spending within the state.

- The conclusion was that the Enterprise Zone Program has a negative return to the state.
    - “For a number of reasons, the Enterprise Zone Program produces a negative return-on-investment to the state. Most importantly, previously taxable activity has been converted to non-taxable activity. Further, to the extent the state funds supporting the incentive could have been more productively spent elsewhere and the business activity would have occurred anyway, the state actually foregoes revenues beyond the direct cost of the incentives.”
    - Many of the businesses are market or resource dependent (the customers are primarily based in Florida or the business is dependent on Florida’s resources to produce its products or services). These business activities would have been undertaken somewhere in the state or local area absent the incentive.

Findings from 2015 Property Tax Analysis...

Part of the 2015 request to EDR was to expand the property value analysis from three representative zones to a statewide review, and to assess whether there are local characteristics that allow some zones (for example, urban versus rural) to have better results than others.

- Potential benefit again seen in increased property values over an extended period of time (10 years used in the analysis).
- Benefit related to the increased ad valorem tax base is realized by local governments.
- Majority of parcels within an EZ are residential parcels (82%); however, the residential parcels did not realize any detectable benefit.
- There is evidence to believe that enterprise zones benefit commercial and industrial parcels in urban enterprise zones; however, this effect is not seen in rural enterprise zones.

ROI in Context...

"Whereas most of the other programs were developed to induce business expansion or location to the state, the Enterprise Zone program has a more narrow purpose: to induce investment in designated 'severely distressed' areas within the state and provide jobs to area residents. The program primarily captures or shifts existing economic activity from other in-state locations to the zone rather than inducing new economic activity."

- The EDR property tax studies are designed to gauge improvement in blight. Some evidence exists that this occurs through commercial and industrial properties; the economic benefit largely accrues to local governments.

- The state's negative ROI may be an acceptable loss for the achievement of this purpose. This is a decision for the Legislature.

- If legislators want to reduce the loss or achieve a positive state return, there are options for improving the state's ROI. As a note of caution, these options are designed to improve the ROI, but will not necessarily cure blight or improve a severely distressed area to any greater extent than the existing program.

Options for Improving the ROI...

Specific Capital Investment Requirements

Capital investments (construction, machinery and equipment) have strong impacts. Benefits are localized, few leakages.

- Capital investment in physical space has the strongest effect (i.e. construction) due to backward linkages to local suppliers. Machinery and equipment investments have smaller effects, since many of these purchases are tax-free. Although sales tax refunds are currently allowed for businesses and individuals who purchase taxable building materials and equipment, there is no requirement to undertake this activity.

Specific New/Retained Job Requirement

New/retained jobs bring/keep additional income into an area, spending brings additional tax revenue.

- New jobs should be new to the state (not new to the area) from a new business or a business relocating to Florida. Retained jobs should pass a “but for” test indicating that the company would have left Florida. A company that could easily leave Florida would have: locations in other states, not be market or resource dependent, and not be location-bound due to prior investments in Florida.

High Wage Requirements

Higher wages linked to higher output and productivity, increase spending.

- Higher wages lead to greater consumption. However, hiring underemployed and unemployed workers, even at a lower wage, may increase the ROI as it reduces public assistance dollars. Further, those employees spend more of their wages on consumption rather than savings.

Options for Improving the ROI (continued)...

Job Training Requirement

On the Job Training (OJT) and GED assistance improve chances of an employee's retention and promotion.

- The average wage of a worker increases as his education level increases (leads to increased household spending).
- OJT and GED assistance have lasting benefits for the employee and privately funded initiatives defray state costs.

Targeting Industries with High Multipliers

Industries with high multipliers produce greater returns to the state.

- Industries with high multipliers typically have strong backward linkages to local suppliers. They also have high employment multipliers. Both result in greater indirect and induced benefits. There are few leakages to the rest of the world.
- Targeting industries with lower multipliers may be desirable in certain cases, but the trade-off is a lower ROI.
- From the perspective of the state's ROI, excluding certain retail and service-based industries generally leads to better results; however, this is part of the policy-goal decision facing the Legislature. For example, retail trade generally has lower output multipliers—but higher employment multipliers. These effects counteract each other in the overall analysis. In using the Statewide Model to calculate the state's ROI, the relationships between these multipliers, as well as differences in market dependence and product taxability, are all taken into account.

Options for Improving the ROI (continued)...

Targeting Businesses with High Export Volume or Federal Dollars

Businesses that bring in money from outside of the state grow and diversify the economy.

- Options include targeting businesses with strong export capability or requiring that a minimum percentage of the products be exported.
- The state could also target industries that receive significant funding from federal contracts (space, military), although this is less certain.

Imposing a “But For” Requirement

Businesses that would not have located in the state “but for” the incentive improve the state’s ROI.

- Businesses that would otherwise exist bring no additional dollars to the state as a result of the incentive. Essentially, the incentive is unnecessary.
- Similarly, incentives that are too small to induce new activity result in limited or no economic gain.
- Closely related to the determination of market or resource dependence.

Options for Improving the ROI (continued)...

Market or Resource Independence Requirement

Granting incentives to businesses that would have created or retained jobs regardless of incentives is a financial loss to the state.

- Businesses that are dependent on Florida's population growth or resources may be technically qualified to receive incentives from a program, but there is generally no additional state revenue attributed to these business, as they (or a competitor) would have existed regardless of the state's investment.
- From an ROI perspective, the state's investment is a pure loss if the company would have otherwise chosen Florida. In some cases, even if that particular business did not come into existence, another business competitor would have satisfied the market demand.

Limit State Investment

Limit state investment to no more than needed to accomplish goal.

- Actions that reduce the state's cost improve the ROI, assuming the outcomes stay the same.
- Some form of local participation (incentives or required matches) should be considered in lieu of state investments for incentives that produce largely local, non-taxable or property tax-related results. The size of the state incentives should be linked or calibrated to the expected gain in state revenue.
- Local contributions towards a project may have an ambiguous effect on the state's ROI due to the apportioning process. The gain must be strong enough to produce a solid ROI for the state after apportioning

Options for Improving Induced and Indirect Effects...

The literature suggests there are three ways to improve indirect and induced effects:

- By improving the direct effects on the front-end, primarily through the creation of more jobs, increased facilitation of new business establishments in targeted industries, enhanced promotion of higher salaries, or additional capital expenditures.

- By imposing a requirement for backward linkages in the selection of firms for incentives.
  - Industries with strong backward linkages generate economic activity far beyond the nominal value of their products when they spend locally on inputs instead of purchasing those intermediate goods and services from outside the state.
  - Each dollar that remains in Florida reduces leakages and continues to boost local economic activity, employment, and ultimately tax revenue.
  - All else being equal, the stronger the linkage is, the greater the impact will be on the state's economy.

- By incentivizing the creation of strong pools of local suppliers in key locations that can attract businesses who would benefit from those relationships.

Specialized Zones...

Some of these ideas would fundamentally change the nature of the program, while others could be added to the existing program as another option. A hybrid approach would make the new zones eligible for state incentives, while the existing zones would be subject to local referendum and limited to local funding.

- Cultural and Arts Districts
  - High concentration of related cultural facilities serves as the anchor of a mixed-use area.
  - The anchor encourages the development of adjacent retail and hospitality industries.
  - To increase the likelihood that these districts would draw visitors from outside the state—essential to developing a positive ROI—their number would have to be limited.

- Foreign Trade Zones
  - 20 zones already exist in Florida; businesses provide jobs to area residents.
  - Must be in an area where goods are landed, handled, manufactured or reconfigured, and re-exported.
  - However, the linkage to blighted areas would be largely lost by virtue of the requirement that an FTZ be in an area where goods can be landed. It is also unlikely that many more (if any) zones than the current 20 could be established.

- Geographically Compact Zones Tailored to a More Narrow Purpose
  - Current zone boundaries may be “too large” to effectively target policy goals, and these goals can compete against each other (blight versus jobs for area residents).

Specialized Zones (continued)...

- Industry Specific Zones
  - Zones foster clusters of specific industries (ex. healthcare, high tech, manufacturing, R&D).
  - Usually referred to in the economic literature as agglomeration, the economic concept is that related industries benefit from locating near each other through economies of scale, knowledge transfer and networking, and development of a specialized pool of labor skills.
  - Even when the firms directly compete with each other, there are advantages from attracting more customers or suppliers than any one company could on its own.
  - While industry clustering tends to occur naturally in healthy economies, it can be induced with sufficient incentives to offset the downside of being in a blighted area—so long as the general area otherwise meets the industry cluster's needs for customers, suppliers, transportation and workers. In this regard, new incentives that are more tailored to ongoing commercial or industrial development should be considered.
  - To accomplish the change, the existing zones would be eliminated and new zones authorized—each targeted to a specific industry cluster.
  - To ensure the maximum return to the state, the business clusters would need to be related to industries with high multipliers or backward linkages.

Local Funding Participation...

- Current benefits of EZ program accrue to local governments.
- Local officials have expressed support for the program, noting the economic benefits to their respective jurisdictions.
- One option is to calibrate the state's investment to the expected state benefits resulting from a revised program—essentially allocating the costs between the state and local government.
- Another alternative is to make the program a local option with the funding responsibility shifted to the benefitting jurisdictions.
- If the Legislature chooses to do this, it may also want to consider providing additional flexibility or new fiscal resources to the local governments that continue in the program.

Office of Economic and Demographic Research

Analysis of the Enterprise Zone Program

1/1/2015

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BACKGROUND

Summary and Request

Florida's Enterprise Zone Program provides state and local incentives to induce private investment in specific geographic areas targeted for economic revitalization.[1] To qualify, these areas must meet specified criteria, including suffering from pervasive poverty, unemployment, and general distress. Currently, Florida has 65 enterprise zones in 52 of the state's 67 counties.[2]

Qualifying businesses and individuals located within the zones are eligible for state and local incentives. State program incentives include:

- Jobs credit against corporate income and state sales taxes for wages paid to new employees who are either residents of an enterprise zone or participants in a welfare transition program, up to 45 percent of wages paid for two years.
- Corporate income tax credit for ad valorem (property) taxes paid on new, expanded, or rebuilt businesses, up to $50,000 annually for five years.
- Sales tax refund on the purchase of building materials and business equipment. The amount of the refund is the lesser of 97 percent of the sales taxes paid or $5,000, or, if 20 percent or more of the employees of the business reside in an enterprise zone, the lesser of 97 percent of the taxes paid or $10,000.
- Sales tax exemption of 50 percent for electrical energy used in an enterprise zone, if the municipality in which the business is located has passed an ordinance to exempt the municipal utility taxes on such business.

In FY 2013-14, the state awarded $15,767,111 in state incentives to 1,497 businesses and individuals in enterprise zones throughout the state. Local governments report that they awarded $11,373,610 over the same period.[3]

In May 2014, the Speaker of the Florida House of Representatives requested that the Office of Economic and Demographic Research (EDR) and Office of Program Policy Analysis and Government Accountability (OPPAGA) perform additional targeted studies to supplement the 2014 evaluation of the Enterprise Zone Program. EDR was directed to develop "a menu of options that would either improve the state's return on investment (ROI) in the program or increase the program's impact on the state's economy." Specifically, the analysis should:

- Expand the property value analysis from three representative zones to a statewide review, and assess whether there are local characteristics that allow some zones (for example, urban versus rural) to have better results than others;

[1] Enacted in ch. 82-119, *Laws of Florida,* which created ss. 290.001 -- 290.016, F.S., The Florida Enterprise Zone Act.
[2] *See* Department of Economic Opportunity, Bureau of Economic Development, Division of Community Development. *Enterprise Zone Program Annual Report,* November 1, 2014. Tallahassee, Florida.
[3] *Ibid,* pp. 8-9.

- Identify ways to improve the program's direct effects and the state's return on investment, including reconfiguring the program to attract new businesses to the state or otherwise targeting the types of businesses eligible for tax incentives;
- Focus on approaches that improve induced and indirect effects, especially increased reliance on local suppliers;
- Give special attention to the merits of creating specialized hubs that target zones to industry types or introducing new requirements for more geographically compact zones; and
- Explore methods to enable local government participation in the designation of zones, including the cost of any tax incentives offered within the zone.

Each of these topics is discussed separately in the remainder of the paper.

Prior Reviews of the Enterprise Zone Program

In January 2014, EDR released the report "Return-on-Investment for Select State Economic Development Incentive Programs." The report found that:

> "For a number of reasons, the Enterprise Zone Program produces a negative return-on-investment to the state. Most importantly, previously taxable activity has been converted to non-taxable activity. Further, to the extent the state funds supporting the incentive could have been more productively spent elsewhere and the business activity would have occurred anyway, the state actually foregoes revenues beyond the direct cost of the incentives."[4]

These conclusions were based on a number of factors, including the program purpose and design:

> "Whereas most of the other programs were developed to induce business expansion or location to the state, the Enterprise Zone program has a more narrow purpose: to induce investment in designated "severely distressed" areas within the state and provide jobs to area residents. The program primarily captures or shifts existing economic activity from other in-state locations to the zone rather than inducing new economic activity."[5]

Additionally, the report found that:

[4] http://edr.state.fl.us/Content/special-research-projects/economic/EDR%20ROI.pdf

[5] Section 290.003, F.S.,: Policy and purpose.—It is the policy of this state to provide the necessary means to assist local communities, their residents, and the private sector in creating the proper economic and social environment to induce the investment of private resources in productive business enterprises located in severely distressed areas and to provide jobs for residents of such areas. In achieving this objective, the state will seek to provide appropriate investments, tax benefits, and regulatory relief of sufficient importance to encourage the business community to commit its financial participation. The purpose of ss. 290.001-290.016 is to establish a process that clearly identifies such severely distressed areas and provides incentives by both the state and local government to induce private investment in such areas. The Legislature, therefore, declares the revitalization of enterprise zones, through the concerted efforts of government and the private sector, to be a public purpose.

- Unless bundled with other incentives, enterprise zone incentives are an insufficient inducement to relocate to Florida;
- Academic research indicates there is no impact on in-zone expansion, or if anecdotal evidence suggests otherwise, it is possible such expansion is due to the trending rate of growth and general business cycles;
- If any new economic activity is not attributable to these factors, it is likely the business activity is Florida market or resource dependent, which results in no ROI to the state;
- EDR review of property value gains in representative enterprise zones are positive to the local governments, but there are not enough gains to overcome a negative ROI to the state; and
- EDR's conclusions are consistent with recent evaluations of similar programs in other states.

The 2014 report included a property tax analysis of the parcels in three enterprise zones (Hardee, Hernando, and Sarasota). This was a continuation of a prior analysis conducted over a shorter time frame. In the 2010 study, EDR was asked to review the methodology currently used by the Revenue Estimating Conference (REC) to place fiscal impacts on Enterprise Zone creation and expansion. The REC practice was to concentrate on direct impacts to the General Revenue Fund (GR). The REC assumed the economic activity in an enterprise zone would have occurred either within in the zone or somewhere else in the state, whether or not the zone was created. The 2010 analysis indicated that the REC's assumptions were not flawed, even though they did not take into account any impact on property tax revenues. The analysis concluded that Enterprise Zones did not have a consistent, direct, and quantifiable impact on property values. While the analysis did not demonstrate a clear positive impact from construction and redevelopment activities in enterprise zones, it did not find proof that enterprise zones are ineffective from a local perspective.

The 2014 report expanded the 2010 review, adding three additional years of data to the review period. This analysis did support the conclusion that enterprise zones have a direct and positive impact on property values over an extended period of time and that there is a potential benefit to local governments through increased ad valorem (property tax) revenue.

EXTENDED ANALYSIS OF PROPERTY TAX VALUES

To complete the first part of the Speaker's request, EDR extended its prior studies on property values to cover as much of the state as possible and over a longer period. EDR compared the parcels in an Enterprise Zone (EZ) to the parcels in the area surrounding the zone within a two mile buffer (Surrounding Area or SA) to determine if the enterprise zone was successful in improving blight and distress by increasing the property values in the zone. In order to resolve issues caused by significant boundary changes made in 2005 due to the enactment of legislation renewing the Enterprise Zone Program, only parcels that were in the enterprise zone in both 2005 and 2013 were analyzed. The just value and the use code were extracted for each parcel for the relevant years. From the 65 zones, the analysis excluded:

- Zones that were created after 2005 to ensure at least 10 years of data was available for a longitudinal study;
- Some of the very small EZs for which sufficient data could not be obtained; and
- Areas where the zones encompassed the entire county.

Twenty-five of the sixty-five zones were excluded from the study, but a large sample size of 1.46 million parcels remained.

Differential

For both the 2010 and 2014 studies, extensive literature reviews were undertaken. Most of the academic research uses the term "differential" to describe the growth in property values between the enterprise zone and its surrounding area. The differential is a calculation of the difference between the growth rates for the enterprise zones and the areas surrounding the zones. In theory, the patterns of the differentials suggest whether the existence of the Enterprise Zone Program had a disproportionately positive effect on property values. A differential that increases (or becomes less negative) over time would indicate that parcels in the enterprise zone show improving property values relative to the parcels in the area immediately surrounding the zone. A differential that remains stagnant or becomes more negative over time would indicate that the Enterprise Zone Program has not improved the property value of the parcels within the zone relative to the surrounding area.

Rural and Urban Differences

Much of the research looks separately at rural and urban enterprise zones. Rural enterprise zones are at a comparative disadvantage because population size drives many business decisions on where to locate, since there must be sufficient customers and infrastructure for a business to thrive. Accordingly, the enterprise zone must be below a specified statutory population threshold to be classified as a rural enterprise zone. Because rural areas do not attract or retain the same types or number of businesses that urban areas do, the Enterprise Zone Program offers added incentives to businesses that locate within a rural zone. The chart on the following page displays the differences between the current incentives offered to businesses in rural and urban enterprise zones by the state.

Incentive	Rural	Urban
Sales Tax Jobs Credit	30 percent of wages paid if business is located in EZ; has created new jobs; and has hired new eligible employees. 45 percent of wages if 20 percent of all FTEs are employees living in EZ.	20 percent of wages paid if business is located in EZ; has created new jobs; and has hired new eligible employees. 30 percent of wages if 20 percent of all FTEs are employees living in EZ.
Corporate Income Tax Jobs Credit	30 percent of wages paid if business is located in EZ; has created new jobs; and has hired new eligible employees. 45 percent of wages if 20 percent of all FTEs are employees living in EZ.	20 percent of wages paid if business is located in EZ; has created new jobs; and has hired new eligible employees. 30 percent of wages if 20 percent of all FTEs are employees living in EZ.
Corporate Income Tax Credit for Ad Valorem Paid	Up to a max of $25,000 credit for property taxes paid. Up to a max of $50,000 credit for property taxes paid if 20 percent or more of FTEs are living in EZ.	Same.
Building Materials and Business Equipment Sales Tax Refund	Refund up to $5,000 on taxes paid for qualifying purchases. Refund up to $10,000 if 20 percent or more of FTEs are living in EZ.	Same.
Electrical Energy Exemption	50 percent exemption from sales tax for purchases of electrical energy. 100 percent exemption from sales tax for purchases of electrical energy if 20 percent of all FTEs are employees living in EZ.	Same.

Source: Florida Department of Revenue

Commercial, Residential, and Industrial Parcels

The property tax data provided by the Florida Department of Revenue (DOR) contains a special code that characterizes the use of the parcel. For example, if a parcel is used as someone's home, it would be considered a residential parcel. EDR reviewed parcels that could be categorized as commercial, residential, or industrial. Parcels that were categorized as agricultural, government, institutional, or miscellaneous property (generally land being used for public purposes) were excluded from the study.

- Commercial – Includes stores, offices, restaurants, tourist attractions, repair shops, airports, and sports facilities.
- Residential – Includes homes, apartments, mobile homes, and condos.
- Industrial – Includes manufacturing plants, lumberyards, packing plants, and warehousing and storage facilities.

In the 40 zones analyzed, the majority of parcels were residential. Of the parcels located in the zones, 84.2 percent were residential, 11.8 percent were commercial, and 4.0 percent were industrial.

Summary of Results

The following summary details the types of analyses performed on the enterprise zones (EZ) and their surrounding areas (SA). All analyses used the discrete parcel data. A detailed explanation of the analyses and their results can be found on the following pages.

1. Analysis of growth rate differentials for the 40 enterprise zones between 2006-2013. To account for enterprise zones that were added during the window of the analysis (1999-2013), only growth from 2006 to 2013 was analyzed for the state as a whole. The parcels were categorized as commercial, residential, or industrial.
2. Analysis of the zones established prior to 1999, a subset of the 40.
    a) Zones that were established prior to 1999 were compared to their surrounding area to determine if the growth in property values in those EZs saw improvement over the longest period of time available. This was done by comparing the average annual growth rate within the zone from 1999 through 2002 and the average growth rate from 2002 through 2013 to the same growth rates in the surroundin
    b) Analysis 2(a) was segregated into commercial, industrial, and residential parcels.
    c) Analysis 2(a) was segregated into rural and urban enterprise zones.
3. Analysis of the zones established in 2002, a subset of the 40. This analysis compared the property values in enterprise zones that were established in 2002 to their surrounding areas to determine if the designation of an enterprise zone improved property values within the zone. The analysis compared the growth rate in parcels for the three years before and 11 years after the enterprise zone was established. The parcels were then broken out by categories (residential, commercial and industrial) for further review.
4. Analysis of the top five enterprise zones. This was a review of the zones that receive the largest amounts of enterprise zone incentives. The average just value growth rate of the top five enterprise zones that receive the largest amounts of incentives is compared to the growth rates of their surrounding areas.
5. Analysis of average property values for the 40 zones. The average property value of parcels in enterprise zones was compared to the surrounding areas. If the enterprise zones were created in the most distressed and impoverished areas, it would be expected that the average property values per parcel would be lower than the average property value of the parcels in the surrounding area. Zones that were not created in the most distressed, impoverished areas would have skewed results in the other analyses.
6. Analysis of the average annual property value growth rate (by parcel) in an enterprise zone compared to the surrounding area for the entire window of the analysis for all 40 enterprise zones.
7. Analysis of the average property value growth rates of enterprise zones whose boundaries are contiguous and compact versus zones whose boundaries are not contiguous or compact.

Analysis 1 – Growth Rate Differentials 2006-2013

Table 1 : Analysis of Average Property Value Growth Rate, 2006-2013, By Category			
Commercial Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
2006-2013	2.05%	2.15%	0.10%
Industrial Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
2006-2013	1.71%	2.48%	0.77%
Residential Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
2006-2013	-1.79%	-4.40%	-2.61%
# of Parcels included: 1,462,277			

The analysis of 2006-2013 growth rates for all 40 Enterprise Zones indicates that commercial and industrial parcels in Enterprise Zones benefited from being in a zone. The property values of EZ parcels in both these categories grew at a faster rate than the surrounding area's commercial and industrial parcels. EZ residential parcels experienced slower growth than their surrounding areas.

Analysis 2 – Zones established prior to 1999

Table 2A: Analysis of Property Value Growth Rate Differentials Over Time, 1999-2013			
All Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
1999-2002	11.11%	10.16%	-0.95%
2002-2013	3.78%	3.76%	-0.02%
# of Parcels included: 1,175,878			

The analysis of pre-1999 enterprise zones generally supports the hypothesis that enterprise zone designation benefits overall property values over an extended period of time. The 1999-2002 EZ average growth rates were about 1 percent less than the growth rates outside the Enterprise Zones. This difference shrinks to close to 0 percent for the growth rates between 2003 and 2013.

Analysis 2B - Zones established prior to 1999 by Category

Table 2B : Analysis of Property Value Growth Rate Differentials Over Time, 1999-2013, By Category			
Commercial Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
1999-2002	8.47%	9.04%	0.57%
2002-2013	4.88%	5.73%	0.85%
Industrial Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
1999-2002	8.06%	5.72%	-2.34%
2002-2013	5.32%	5.90%	0.58%
Residential Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
1999-2002	12.42%	11.69%	-0.73%
2002-2013	3.21%	1.98%	-1.23%
# of Parcels included in the Study: 1,175,878			

This analysis separated the parcels into 3 uses: commercial, industrial, and residential. The analysis shows that both EZ commercial and EZ industrial parcels saw a benefit from enterprise zone designation. Residential parcels did not see a similar benefit, with the growth rate differential unfavorably increasing between EZ and non-EZ parcels in the long run. Since most EZ incentives are structured to benefit businesses, it is not surprising that business-related parcels (commercial, industrial) were the ones showing improvement from being within an enterprise zone.

Analysis 2c – Urban and Rural Zones established prior to 1999

Table 2C: Analysis of Growth Rate Differentials Over Time, 1999-2013							
Urban Areas				**Rural Areas**			
All	**Surrounding Area**	**Enterprise Zone**	**Differential**	**All**	**Surrounding Area**	**Enterprise Zone**	**Differential**
1999-2002	11.12%	9.66%	-1.46%	1999-2002	8.80%	6.82%	-1.98%
2002-2013	3.77%	3.59%	-0.18%	2002-2013	6.04%	3.52%	-2.52%
# of Parcels included in the Study: 1,175,878							

When the analysis separated the enterprise zones between urban and rural counties, the positive effect only occurred within the urban enterprise zones. Although the differential is still negative, it improved within the urban enterprise zones. Rural enterprise zones appeared to be performing worse in the long run. The most likely explanation for this difference is due to the nature of the Enterprise Zone Program. Other state economic development programs aim to either induce expansion or relocation of businesses to Florida. The Enterprise Zone Program has a more narrow purpose of inducing investment only in "severely distressed" areas, effectively shifting existing economic activity into enterprise zones. In urban areas, significant economic activity is already occurring and enough of it shifts to the enterprise zone to increase property values. In rural counties, little economic activity is occurring, resulting in a negligible shift to the enterprise zones.

Analysis 3 – Zones established in 2002 – By Category

Table 3 : Analysis of Property Value Growth Rate Differentials in Zones Created in 2002, By Category			
All Parcels	**Surrounding Areas**	**Enterprise Zones**	**Differential**
1999-2002	11.14%	12.12%	0.98%
2003-2013	4.26%	2.86%	-1.40%
Commercial Parcels	**Non-Enterprise Zones**	**Enterprise Zones**	**Differential**
1999-2002	8.66%	6.28%	-2.38%
2003-2013	3.92%	3.07%	-0.85%
Industrial Parcels	**Non-Enterprise Zones**	**Enterprise Zones**	**Differential**
1999-2002	5.96%	4.58%	-1.38%
2003-2013	2.61%	1.70%	-0.91%
Residential Parcels	**Non-Enterprise Zones**	**Enterprise Zones**	**Differential**
1999-2002	12.19%	12.47%	0.28%
2003-2013	4.42%	2.87%	-1.55%
# of Parcels included in the Study: 305,329			

This analysis is an expansion of the previous two studies conducted in 2010 and 2014. It replicates what was done with three enterprise zones and expands it to the 10 enterprise zones that were established in the same year (2002). The first two studies limited the geographic characteristics of the zone to the zones that were compact and contiguous. This analysis includes all zones that were created in 2002, regardless of the zone's boundaries. The results for 1999-2002 show the average growth rate for EZ and SA parcels before the enterprise zone designation. The 2003-2013 period shows the average growth rate in enterprise zones after zone designation compared to the surrounding area. The commercial and industrial parcels in the enterprise zones exhibited a shrinking differential, especially for commercial parcels. This indicates the enterprise zone has a positive effect on those parcels. The residential parcels had the opposite result, indicating the enterprise zone does not have a positive effect on the value of residential property.

Analysis 4 – Top Five Enterprise Zones

The following table shows the growth of the enterprise zones that had the highest number of specified tax credits taken in Fiscal Year 2006-07 through Fiscal Year 2013-14. These tax credits include the sales tax job tax credit, the sales tax exemption on electricity and the ad valorem tax credits. DOR does not extract the data necessary to determine which zones benefitted from Corporate Income Tax credits and to what degree. Collectively, Corporate Income Tax credits account for 21 percent of all enterprise zone credits or exemptions issued. While the data is not available by enterprise zone and was not included in this analysis, it is logical to conclude the pattern of sales tax credits taken follow the same general pattern of those taken for corporate income. The top 5 enterprise zones are:

- Miami Dade – 58% of total
- Tampa – 6% of total
- Jacksonville 5% of total
- Broward County – 4% of total
- St. Petersburg – 4% of total

Collectively, the top five enterprise zones account for 77 percent of all incentives granted for enterprise zone credits/exemptions between Fiscal Year 2006-07 and Fiscal Year 2013-14.

Enterprise Zones*	EZ Average Just Value Growth (1999-2013)	Surrounding Area Average Growth Just Value (1999-2013)
Miami	6.4%	6.3%
Tampa	3.6%	5.0%
Jacksonville	2.8%	3.5%
Broward County	4.9%	5.7%
St. Petersburg	2.8%	5.0%

*Note – All of the top five zones were established in 1995.

Miami is the only zone whose average growth in just value is higher (albeit slightly) than the surrounding area. It appears that credit volume does not conclusively lead to a better result.

Analysis 5 – Value of Parcels Compared to the Surrounding Area

The primary purpose of the Enterprise Zone Program, as expressed in statute, is to "induce the investment of private resources in productive business enterprises located in severely distressed areas and to provide jobs for residents of such areas." Given this statutory purpose, it should be safe to assume that the value of parcels in enterprise zones would be lower than otherwise.

Most of the enterprise zones analyzed had an average parcel value less than the surrounding area at the beginning of the period. There were 10 enterprise zones whose average just value per parcel was higher than the surrounding area at the beginning of the period. Five of those (Holmes, Liberty, Madison, Kissimmee, and Putnam) were EZ's enacted during the window of the analysis (1999-2013). Of those five, only one--Kissimmee-- started at a lower average than the surrounding area.

Kissimmee exceeded the average parcel value of the surrounding area three years after zone designation. Whether the growth in the Kissimmee enterprise zone can be credited solely with enterprise zone incentives is hard to discern. Kissimmee averaged less than $75,000 in credits and exemptions related to the sales and use tax every year after its designation.

In Miami-Dade, the residential parcels averaged higher just values within the enterprise zone compared to its surrounding area at the beginning of the period ($148,855 in the EZ vs. $143,417 in the SA). The majority of parcels in the enterprise zone and its surrounding area in Miami are residential parcels (77.5 percent in the EZ and 94.9 percent in the SA). If there is reason to believe that the enterprise zones were not placed in the worst areas of the county to begin with --at least in terms of property value-- the results of any property tax analysis would be skewed.

Analysis 6 - Average Annual Growth

For the parcels that were in an enterprise zone for the entire window of the analysis (pre-1999), only four zones had higher growth within the zone than its surrounding area. Those zones are Gainesville, Miami-Dade, Jackson and Ft. Myers. Miami-Dade is the top recipient of enterprise zone incentives, receiving an average of $14.7 million in incentives per year in Fiscal Year 2006-07 through Fiscal Year 2013-14. Gainesville averaged $339,407 in those same years, Jackson - $225,403, and Ft. Myers - $56,770. It is questionable to assume the small amount of incentives given in three of those zones would contribute to the reduction of blight and distress and cause property values to be higher than the surrounding area.

Analysis 7 – Contiguous and Compact Zones

EDR reviewed the geographical boundaries of each zone and labeled a zone as compact and contiguous or not. Those zones' average growth rates from 1999 to 2013 were compared to the surrounding areas to see if there was a pattern of growth that was different between those two types of zones. Zones that were considered contiguous and compact did not seem to fare better than zones that were more spread out. The average growth rate for contiguous and compact zones (2.92 percent) was less than the surrounding areas (4.55 percent) while the average growth rate for non-contiguous zones (1.58 percent) was also less than its surrounding areas (2.81 percent). The greater difference found in compact zones may be due in part to boundary selection that encompasses areas which are more likely to develop.

Findings and Conclusions

While prior studies found that enterprise zones benefit property appreciation over a sufficiently long period of time, more in-depth analysis finds that the greatest benefit is largely concentrated to a few specific property types. In this regard, there is evidence to believe that enterprise zones benefit commercial and industrial parcels in urban enterprise zones.   However, this effect is not seen in rural enterprise zones. There is also evidence that residential properties do no detectably benefit from being in the zone, whether the zone is urban or rural. Since the vast majority of the parcels in enterprise zones are residential, it is likely that enterprise zone designation provides only a limited benefit to overall property appreciation and eliminating blight. To the extent it exists, the benefit would accrue to local governments and not the state.

IMPROVING THE PROGRAM'S DIRECT EFFECTS AND THE STATE'S RETURN ON INVESTMENT

The chart below describes general characteristics of incentive programs that help produce positive returns on investment (ROI) for the state of Florida. While, the Enterprise Zone Program currently offers incentives for job creation and capital investment, they are not limited to new and expanding businesses. In many instances, the specific combination of drivers shape the result. As a note of caution, these drivers are designed to improve the state's ROI, and will not necessarily cure blight or improve a severely distressed area.

ROI Drivers	Effect on the ROI	How?	Specific Program Features
Specific Capital Investment Requirements	Capital investment requirements contribute towards increasing the ROI for the state.	Capital investment usually takes the form of construction, but can be machinery and equipment. The benefits of construction are typically localized. The work is labor intensive, and the wages are spent locally which also improves indirect and induced effects. Further, many of the materials used in construction projects are purchased locally and are generally taxable. Relative to other industries, there are few leakages to the rest of the world.	Capital investment of physical space has the strongest effect (i.e. construction) due to backward linkages to local suppliers. Machinery and equipment investment have smaller effects, since many of these purchases are tax-free. The strongest results are achieved when these requirements are in tandem with a market or resource independence requirement. (See below).
Specific New/Retained Job Requirement	Requiring job creation or retaining jobs that would otherwise leave the state has a positive impact on the ROI.	New or retained jobs that would have otherwise left the state bring additional income into an area. Part of the income is spent locally, leading to additional tax revenue for the state.	New jobs should be new to the state (not new to the area) from a new business or a business relocating to Florida. Retained jobs should pass a "but for" test indicating that the company would have left Florida. A company that could easily relocate would have: locations in other states, not be market or resource dependent, and not be location-bound due to prior investments.
High Wage Requirements	High wage requirements contribute towards increasing the ROI to the state.	High wage requirements are linked to higher output and productivity as well as more household spending. The county average may not be a high wage from a statewide perspective.	Higher wages lead to greater consumption. However, hiring underemployed and unemployed workers, even at a lower wage, may increase the ROI as it reduces public assistance dollars. Further, those employees spend more of their wages on consumption rather than savings.

Job Training Requirement	On the job training (OJT) including GED assistance, has a positive effect on the state's ROI.	OJT and GED assistance improves the chances of an employee's retention and promotion. The average wage of a worker increases as his education level increases.	OJT and GED assistance have lasting benefits for the employee. Privately funded initiatives defray state costs.
Targeting Industries with High Multipliers	Targeting industries with high multipliers increases the state's ROI.	By targeting certain industries with high multipliers, a greater ROI can be produced. Industries with low multipliers drag down the ROI.	Targeting industries with lower multipliers may be desirable in certain cases, but the trade-off is a lower ROI. In most instances, excluding service based industries leads to better results.
Market or Resource Independence Requirement	There is a negative effect on the ROI when incentives are given to businesses that would have created or retained jobs whether the incentive was given or not.	Businesses that are dependent on Florida's population growth or resources are problematic. While the projects may be technically qualified to receive an incentive from the program, there is no new state revenue resulting from those projects since the businesses are otherwise tied to Florida, meaning the state would have already been their location choice.	In these cases, the state's investment is a pure loss. Even if that particular business did not come into existence, some other business would likely take its place.
Targeting Businesses with High Export Volume or Federal Dollars	Targeting businesses with strong export capability or that bring in federal dollars improve the ROI.	Businesses that bring in dollars from outside the state grow the state's economy.	By requiring businesses to have a percentage of their products be exported or to receive federal funding, the state's economy is expanded and diversified.
"But For" Requirement	New or expanding businesses that would not have existed "but for" the incentive improve the state's ROI.	Businesses that would otherwise have existed bring in no additional dollars to the state. Similarly, an incentive that is too small to induce new activity results in limited economic gain.	In many of these cases, the state's investment is a pure loss.
Limit State Investment to No More than Needed to Accomplish the Goal	Actions that reduce the state's cost improve the ROI, assuming the outcomes stay the same.	Some form of local participation (incentives or required matches) should be considered in lieu of state investments for incentives that produce largely local, non-taxable or property tax-related results. The size of the state incentives should be linked or calibrated to the expected gain in state revenue.	Local contributions towards a project may have an ambiguous affect on the state's ROI due to the apportioning process. The gain must be strong enough to produce a solid ROI for the state after apportioning.

IMPROVING INDUCED AND INDIRECT EFFECTS

Increased Reliance on In-State or Local Suppliers

Academic research regarding economic geography—what Paul Krugman refers to as the "location of factors of production in space"—is fairly limited.[6] The little that does exist usually focuses on multinational enterprises and domestic suppliers. Even so, many analogies can be made to the state environment. The most important point for the analysis of state economic development incentives is that a strong reliance on local suppliers of inputs (referred to as backward linkages) produces higher multipliers—and therefore higher returns on investment for the state. This network of interdependence between businesses and their suppliers can be fostered during the selection process by imposing a requirement that these relationships exist.

Industries with strong backward linkages generate economic activity far beyond the nominal value of their products when they spend locally on inputs instead of purchasing those intermediate goods and services from outside the state. Each dollar that remains in Florida continues to boost local economic activity, employment, and ultimately tax revenue.[7] All else being equal, the stronger the linkage is, the greater the impact will be on the state's economy. A study done in Arizona found that using local independent suppliers resulted in three times the economic benefit of using national chains.[8]

Backward Linkages

Backward linkages represent the interconnection of an industry to other industries from which it purchases its inputs in order to produce its output. An industry has significant backward linkages when its production of output requires substantial intermediate inputs from many local industries[9].

There is widespread agreement in the economic literature that backward linkages between multinational enterprises (foreign) and domestic (local) suppliers are good for the domestic economy.[10] To make this point relevant to Florida, the foreign enterprise can be viewed as a proxy for a new business to the state, and of domestic suppliers as existing suppliers of intermediate goods. For many businesses, the existence of nearby suppliers helps them choose between alternative site locations by reducing transportation costs and increasing economies of scale. One study found a 1 percent change in the size of the backward multiplier increases the probability of a manufacturer selecting a particular location by 17.2 percent.[11]

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[6] See Krugman's "Increasing Returns and Economic Geography," in the *Journal of Political Economy*, Vol. 99, No. 3, pp.483-499.
[7] http://ilsr.org/rule/local-purchasing-preferences/
[8] http://www.localfirstaz.com/studies/procurement-matters/procurement-matters.pdf
[9] Bureau of Economic Analysis
[10] Rodríguez-Clare, 1996; Markusen and Venables, 1999; Javorcik, 2004; Alfaro et al., 2006
[11] See Hefner and Guimaraes' "Backward and Forward Linkages in Manufacturing Location Decisions Reconsidered" in *The Review of Regional Studies*, 24(3), pp.229-244.

However, businesses with strong backward linkages also benefit the surrounding community. Generally, backward linkages imply that the businesses use local suppliers for the intermediate goods used in the production process. By using local suppliers, the area retains the dollars from the new enterprise. In businesses with weak backward linkages, leakages occur when the dollars leave the state. The best way to estimate the strength of backward linkages is through output multipliers used predominantly within input-output (I-O) models; these multipliers gauge both direct and indirect backward linkages. High multipliers reflect stronger backward linkages.

Of interest, a 2009 study[12] conducted by the Kiel Institute for the World Economy found that granting subsidies to the local input manufacturers encourages procurement from foreign firms because of the potentially lower costs and capacity for a higher volume; however, the foreign firms need time to find local suppliers.

Once again keeping in mind the conversion of foreign to new business and domestic to local suppliers, the study states:

> *While backward linkages may have these positive effects on domestic firms they are by no means automatic results of an influx of foreign multinationals. Indeed, research has pointed out that linkages are created, and produce benefits, only when certain conditions are met (Chung and Kim, 2003; Larraín et al., 2000; Belderbos et al., 2001; Alfaro et al., 2006).*
>
> *For example, local suppliers need to be able to manufacture inputs at a sufficiently high capacity before they can hope to secure the custom of foreign MNEs. Others have pointed out that local suppliers have to be sufficiently advanced technologically to absorb knowledge spillovers and deal with the demand for specialised inputs.*

The study suggests that facilitating a strong pool of local suppliers can bring in businesses that would benefit from those backward linkages. This is a different approach from most economic incentives that are focused solely on businesses that are new to the state.

Finally, efforts to improve the direct impact also strengthen indirect and induced effects.

Conclusion

The literature suggests there are three ways to improve indirect and induced effects:

- By improving the direct effects on the front-end, primarily through the creation of more jobs, increased facilitation of new business establishments in targeted industries, enhanced promotion of higher salaries, or additional capital expenditures;
- By imposing a requirement for backward linkages in the selection of firms for incentives; and
- By incentivizing the creation of strong pools of local suppliers in key locations.

[12] Kiel Working Paper No. 1554 – September 2009

SPECIALIZED HUBS AND OTHER ALERNATIVES

Several alternatives to the current Enterprise Zone Program design have been suggested during the legislative process. They include the creation of areas of development that target specific industries or types of business, as well as requiring a more compact configuration that is narrowly drawn.

Some of these ideas would fundamentally change the nature of the program, while others could be added to the existing program as another option. A hybrid approach would make the new zones eligible for state incentives, while the existing zones would be subject to local referendum and limited to local funding.

Cultural and Arts Districts are also known as "creative districts." The development of districts dedicated to this sole purpose is an emerging redevelopment strategy for local governments throughout the US. Each district is promoted as "a well-recognized, labeled, mixed-use area of a city in which a high concentration of cultural facilities serves as the anchor of attraction and robust economic activity."[13] While some states facilitate this strategy by offering planning grants, for the most part these districts are locally conceived, initiated, organized, and funded.

Current law neither prohibits nor encourages the inclusion of arts and cultural districts as an enterprise zone option. Several of the incentives that exist today could facilitate the establishment and development of these districts. For example:

- To the extent that for-profit and not-for-profit arts and cultural enterprises hire zone residents, and these entities have sales or corporate tax obligations against which the jobs tax credit can be applied, arts entities could benefit from the jobs tax credit; and
- To the extent that for-profit and not-for-profit arts and cultural enterprises purchase building materials and business equipment, and they pay sales taxes on these purchases, they could benefit from the sales tax refund.

There may be symbiotic gains by encouraging the development of art districts in lieu of traditional enterprise zones. To the extent that the presence of for-profit and not-for-profit arts and cultural enterprises in the enterprise zone encourages the development of adjacent retail and hospitality industries (such as restaurants or art supply stores), there is likely to be employment opportunities for zone residents. The combination of direct benefits from arts enterprises and indirect benefits from local suppliers and adjacent businesses could contribute to a reduction in blight and improve the area economy. However, to increase the likelihood that these districts would draw visitors from outside the state—essential to developing a positive ROI—their number would have to be limited. In this regard, it would be highly improbable that more than a handful of these zones could be successful.

If interested, the legislature could consider specific strategies and new incentives to encourage the development of art districts. For example, some local areas may lack the expertise to develop this type of specialized district. The knowledge gap could be alleviated through state planning grants, perhaps

[13] http://www.americansforthearts.org/by-topic/cultural-districts

coordinated by the Department of State, to fund initial training and on-going assistance to the new districts. Such grants could be contingent on the development of community partnerships, coordination with existing Community Redevelopment Agencies, and local government sponsorship and funding.

These efforts would be contingent upon local designation of a geographically defined blighted area as an arts and cultural district with special local benefits to those actively involved in alleviating the blight. For example, local government could provide loans to artists to purchase and renovate city-owned or acquired property for studios and adjacent living facilities. Local government could also provide regulatory relief for these properties.

At least 12 local governments have certified local arts and cultural districts located throughout the United States. Those local governments have provided both technical assistance and on-going promotion through state funded programs.[14]

Industry Specific Zones are geographic areas that foster clusters of specific industries such as healthcare, high technology, manufacturing or research and development. This would entail a completely different configuration than today's zones, which are predominantly residential in use. To accomplish the change, the existing zones would be eliminated and new zones authorized—each targeted to a specific industry cluster. To ensure the maximum return to the state, the business clusters would need to be related to industries with high multipliers or backward linkages.

Usually referred to in the economic literature as agglomeration or coagglomeration, the economic concept is that related industries benefit from locating near each other through economies of scale, knowledge transfer and networking, and development of a specialized pool of labor skills.[15] Even when the firms directly compete with each other, there are advantages from attracting more customers or suppliers than any one company could on its own. According to Krugman and Venables:

> "Geographers have long noted the importance of "industrial districts" in interregional specialization within the United States. In many industries firms tend to cluster together, drawn by the availability of a strong local base of specialized suppliers (often including a pool of labor with specialized skills); this local base in turn owes its existence to the local concentration of demand."[16]

While industry clustering tends to occur naturally in healthy economies, it can be induced with sufficient incentives to offset the downside of being in a blighted area—so long as the general area otherwise meets the industry cluster's needs for customers, suppliers, transportation and workers. In this regard, new incentives that are more tailored to ongoing commercial or industrial development should be

[14] "State Cultural Districts," State Policy Briefs, 2012 by the National Assembly of State Arts Agencies. http://www.nasaa-arts.org/Research/Key-Topics/Creative-Economic-Development/StateCulturalDistrictsPolicyBrief.pdf

[15] For a general discussion, see Ellison, Glaeser and Kerr's study entitled "What Causes Agglomeration? Evidence from Coagglomeration Patterns" published as Working Paper No. 13068 by the National Bureau of Economic Research, April 2007, at the following link: http://www.nber.org/papers/w13068.pdf

[16] See Krugman and Venables' study entitled "Integration, Specialization, and Adjustment" published as Working Paper No. 4559 by the National Bureau of Economic Research, December 1993, at the following link: http://www.nber.org/papers/w4559.pdf

considered. For example, eliminating the sales tax on the rental of real property for businesses falling within the new zone's industry cluster. Jobs-related incentives would be designed to meet the policy goals deemed the most important by the Legislature and relevant to the selected industry clusters. The options range from credits for providing on-the-job training and GED assistance to paying higher than normal salaries; however, the requirement that the employees live in the zone would be removed. Finally, because specialized construction and equipment may be needed for the designated industry cluster, the existing refund for building materials and business equipment should be retained. The state's return on investment would be shaped by the ultimate design of the program.

Foreign Trade Zones (FTZs, a.k.a. free trade zones) are geographic areas where goods may be landed, handled, manufactured or reconfigured, and re-exported without incurring customs duties. Host jurisdictions benefit because zone businesses provide jobs to area residents. Because the final product is not available for sale in the host county, it does not displace domestic products, or products on which tariffs have been levied.

Over 200 communities in the United States have FTZs, 20 of which are in Florida. [17] The Miami Free Zone is one of the largest privately owned and operated general purpose zones in North America. Founded in 1976, it employs some 1,000 people and more than $1 billion in goods pass through its 850,000 square feet of facilities every year.[18]

Current law neither prohibits nor encourages the inclusion of FTZs in enterprise zones. If local authorities determine there is merit to this economic development strategy, they are free to pursue it. The state could build upon the FTZ foundation by developing specific strategies and incentives to encourage further development. However, the linkage to blighted areas would be largely lost by virtue of the requirement that an FTZ be in an area where goods can be landed. It is also unlikely that many more (if any) zones than the current 20 could be established. The state's return on investment would be shaped by the ultimate design of the program.

Geographically Compact Zones are not specifically required, but imposing this standard could help focus attention to the Legislature's most important policy goals.

Today, the Enterprise Zone Program's mission is bifurcated and the two components can compete against each other. As expressed in statute, the primary purposes of the Enterprise Zone Program are to "induce the investment of private resources in productive business enterprises located in severely distressed areas" as well as "to provide jobs for residents of such areas." Census blocks are used to configure zones. Each block must have a poverty rate of 20 percent, and at least half of the block groups must have a poverty rate of 30 percent. Rural zones must have at least 20 percent poverty rate for the entire county.

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[17] http://enforcement.trade.gov/ftzpage/letters/ftzlist-map.html

[18] https://www.miamichamber.com/about/greater-miami-foreign-trade-zone

Generally, the larger the zone, the more room there is for the two goals to operate in isolation. This may negatively impact efforts to alleviate poverty or meet other socio-economic goals, given limited government resources.

There are indications that many enterprise zones include a significant portion of relatively unpopulated areas zoned for commercial or industrial activities within the county or city (such as airports, commercial parks, etc.), or include properties actively undergoing development (hotel and retail complexes). Consequently, businesses in these areas are eligible for subsidies for economic activity that would likely otherwise occur absent the incentive. In effect, the state incentives collectively function as a general business subsidy. This subsidy is both widely distributed and available for routine improvements and equipment replacement. This potentially dilutes the impact of the state incentives for the other part of the mission, especially when the available jobs are minimum wage.

To address this circumstance, the Legislature could limit incentives to those businesses located in severely distressed areas, rather than in census blocks that contain distressed areas. If deemed necessary, exceptions could be made for rural counties with high levels of countywide poverty. The state's return on investment would be shaped by the ultimate design of the program, but the smaller program would limit the state's costs.

LOCAL GOVERNMENT FUNDING PARTICIPATION

While EDR's 2014 analysis of the Enterprise Zone Program did not measure the specific return on investment for local governments, it found that the benefits (to the extent they exist) largely accrue to local governments through increased property taxes. One approach to increasing the state's return on investment for the traditional program would be to reduce the state's costs while increasing local funding participation. This change aligns with one of the options presented earlier in this paper for improving the state's return. Namely, some form of local participation (either incentives or required matches) should be considered in lieu of state investments for incentives that produce largely local, non-taxable or property tax-related results. By going a step further and eliminating the state's investment in the program altogether, policymakers would be acting on the option of linking or calibrating the size of the state incentives to the expected gain in state revenue—which in this case is zero.

On the local level, different approaches are used to fund economic development initiatives. Examples include ad valorem tax abatements, free land, reduced rent on government owned facilities, and the use of general funds to meet local matches for state incentive programs such as the Qualified Target Industry Tax Refund (QTI) program. At least one local government has required developers to contribute a portion of their state incentives from the Enterprise Zone Program to fund a separate local program for affordable housing.[19]

Local officials have expressed support for the Enterprise Zone Program, noting the economic benefits to their respective jurisdictions. If the Legislature chooses to make the program a local option with the funding responsibility shifted to the benefitting jurisdictions, it may also want to consider providing additional flexibility or new fiscal resources to the local governments that continue in the program.

These additional resources could include:

- Expanding the authorized uses of the Local Government Infrastructure Surtax and Small County Surtax to include funding incentives for local option enterprise zones; or
- Replacing the Emergency Fire Rescue Services and Facilities Surtax with a surtax of up to one percent to fund incentives for local option enterprise zones.

Eight separate local discretionary sales surtaxes are currently authorized in law to provide funds for specified purposes for county and municipal governments and school districts. The potential combined tax rate varies from county to county depending on the particular surtaxes that can be levied within that county. The current rates range from a low of 1.5 percent in Madison County to a high of 3.5 percent in Alachua, Franklin, Gulf, Leon, and Wakulla counties. To date, only Madison County is at its taxing capacity.

[19] 2008 Boundary Modification Resolution – Miami-Dade County

All of Florida’s 67 counties may levy the Local Government Infrastructure Surtax, for up to one percent, subject to referendum approval. Seventeen counties currently levy the surtax. Thirty-one of the 67 counties are eligible to levy the Small County Surtax, for up to one percent, by extraordinary vote of the county commission if the proceeds are used for operating purposes. If the proceeds are used instead to service bonded indebtedness, the authorization must be made by referendum. Currently, 29 of the 31 eligible counties levy the surtax.

The Legislature could consider expanding the authorized uses of the Local Government Infrastructure Surtax and Small County Surtax to include funding incentives for local option enterprise zones. Providing this authority will allow counties the flexibility to fund incentives, to the extent that these revenues are not already pledged to debt service.

Sixty-five of Florida’s 67 counties are authorized to levy the Emergency Fire Rescue Services and Facilities Surtax for up to one percent, subject to referendum approval. Only those counties that have already imposed two separate discretionary surtaxes without expiration (to date, Miami-Dade and Madison, and certain portions of Orange and Osceola) are restricted from levying the surtax.

In the five and one-half years since its enactment, no county has levied the surtax. Additionally, no county has authorized this surtax levy for the 2015 calendar year.

The Legislature could consider replacing the Emergency Fire Rescue Services and Facilities Surtax with a surtax to fund incentives for local option enterprise zone programs. Because the new surtax would supplant an existing one, it would not expand county taxing capacity for the 65 counties that are currently authorized. Further, it would not impede a county government’s ability to levy any of the other local discretionary sales surtaxes currently available to it. Since no county government has yet authorized the levy of this surtax, no local government entities would be impacted by its replacement.

At the one percent rate, the revised surtax would generate a significant amount of revenue for local incentives. During the 2014-15 local fiscal year, an estimated $3.2 billion could be generated from a one percent surtax levy by all counties in the state. An estimated $1.6 billion or $793 million statewide could be generated from a 0.5 percent or 0.25 percent levy, respectively. Policymakers would have to determine whether the revised surtax (and the local option enterprise zone) would be authorized by voter approval in a countywide referendum or a vote of the county’s governing body.

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

2-2-15
Meeting Date

Bill Number (if applicable)

Amendment Barcode (if applicable)

Topic: Enterprise Zones

Name: Larry Novey

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Speaking: ☐ For ☐ Against ☒ Information

Waive Speaking: ☐ In Support ☐ Against
(The Chair will read this information into the record.)

Representing: OPPAGA

Appearing at request of Chair: ☒ Yes ☐ No

Lobbyist registered with Legislature: ☐ Yes ☒ No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/14/14)

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

2-2-15
Meeting Date

Bill Number (if applicable)

Amendment Barcode (if applicable)

Topic: Analysis of the Enterprise Zone Program

Name: Amy Baker

Job Title: Coordinator

Address: Pepper Building, Room 574, 111 W. Madison Street
Street

Tallahassee FL 32399
City *State* *Zip*

Phone: 487-8272

Email: baker.amy@leg.state.fl.us

Speaking: ☐ For ☐ Against ☑ Information

Waive Speaking: ☐ In Support ☐ Against
(The Chair will read this information into the record.)

Representing: Office of Economic and Demographic Research

Appearing at request of Chair: ☑ Yes ☐ No

Lobbyist registered with Legislature: ☐ Yes ☑ No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/14/14)

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

2/2/14
Meeting Date

N/A
Bill Number (if applicable)

N/A
Amendment Barcode (if applicable)

Topic Enterprise Zones

Name Morgan McCord

Job Title

Address 106 N Bronough
Street

Tallahassee FL
City State Zip

Phone 850-212-5052

Email morgan@floridataxwatch.org

Speaking: [ ] For [ ] Against [X] Information

Waive Speaking: [ ] In Support [ ] Against
(The Chair will read this information into the record.)

Representing Florida TaxWatch

Appearing at request of Chair: [ ] Yes [X] No

Lobbyist registered with Legislature: [ ] Yes [X] No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

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S-001 (10/14/14)

The Florida Senate

BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Finance and Tax

BILL:	SB 138
INTRODUCER:	Senator Hukill
SUBJECT:	Tax-exempt Income
DATE:	January 30, 2015 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Billmeier	Knudson	BI	**Favorable**
2.	Babin	Diez-Arguelles	FT	**Favorable**
3.			AP	

I. Summary:

SB 138 increases the level of income that is exempt from the Florida corporate income tax. Florida imposes a 5.5 percent tax on the net income of corporations doing business in Florida. The first $50,000 of a corporation's income that is subject to the tax is exempt from the corporate income tax under current law. The bill increases the exemption from $50,000 to $75,000 for taxable years beginning on or after January 1, 2016.

The Revenue Estimating Conference estimates that the bill will reduce general revenue by $7.6 million in Fiscal Year 2015-2016, with a recurring reduction of $18.7 million.

II. Present Situation:

Florida began imposing an income tax on corporations in 1972.[1] The initial tax rate was 5 percent, but that rate was increased to 5.5 percent in 1984.[2]

Florida's corporate income tax is imposed on a taxpayer's "net income." Net income[3] is determined through the following process:

1. **Begin with Federal Taxable Income.** Rather than requiring the taxpayer to fully recalculate all of its income and deductions for Florida purposes, Florida taxpayers use their federal taxable income as the starting point for determining how much tax is owed in Florida.

[1] *See* Chapter 71-984, Laws of Fla.
[2] *See* s. 21, ch. 84-549, Laws of Fla. The Florida Constitution requires a 3/5 vote of the membership of each house of the Legislature to impose a tax in excess of 5 percent. *See* FLA. CONST. art. VII, s. 5. The tax is imposed on "c" corporations and financial institutions. In limited circumstances, taxpayer may be subject to an alternative 3.3 percent tax rate.
[3] *See* s. 220.12, F.S.

2. **Make Certain Statutory Adjustments.** These adjustments are generally known as "additions and subtractions,"[4] and they relate to various items that Florida treats differently than the federal government. The income remaining after these additions and subtractions is known as "adjusted federal income."

3. **Apportion and Allocate.** Multi-state taxpayers must determine what portion of their adjusted federal income is properly taxable in Florida – a process generally referred to as "apportionment." Within this process, the taxpayer first determines what portion of its income is from business operations and what portion of its income is from non-business activities.[5] Its business income is then "apportioned"[6] among the states where it does business and its non-business income "allocated" to the state where the transactions or activities that gave rise to the non-business income occurred.[7]

   Florida generally uses a three-factor apportionment formula to determine the amount of a multi-state corporation's taxable income that is subject to tax in Florida. The formula compares the taxpayer's total payroll, sales and property in all states with the taxpayer's payroll, sales and property in Florida. The ultimate result of this calculation is a fraction. A multi-state taxpayer's business income is then apportioned to Florida based on that fraction.

4. **Subtract the Exemption**. Lastly, Florida grants an exemption for the first $50,000 of income that would otherwise be taxable in Florida. Accordingly, after apportionment and allocation are applied to determine a taxpayer's income that is properly taxable in Florida, the taxpayer subtracts $50,000 before applying the tax rate. The amount of income remaining after subtraction of the $50,000 exemption is known as "net income" and is the amount subject to Florida corporate income tax.

III. Effect of Proposed Changes:

The bill increases the $50,000 exemption to $75,000 for taxable years beginning on or after January 1, 2016.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

The mandate restrictions do not apply because the bill does not require counties and municipalities to spend funds, reduce counties' or municipalities' ability to raise revenue or reduce the percentage of a state tax shared with counties and municipalities.

B. Public Records/Open Meetings Issues:

None.

[4] *See generally* s. 220.13, F.S.
[5] Non-business income is certain income that does not arise from transactions and activities in the regular course of business. *See* s. 220.03(1)(r), F.S.
[6] *See generally* s. 220.15, F.S.
[7] *See generally* s. 220.16, F.S.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

The Revenue Estimating Conference estimates that the bill will reduce general revenue receipts by $7.6 million in Fiscal Year 2015-2016, with a recurring reduction of $18.7 million.

B. Private Sector Impact:

This bill will result in a tax reduction for corporate taxpayers.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends the following sections of the Florida Statutes: 220.14 and 220.63.

IX. Additional Information:

A. Committee Substitute – Statement of Changes:
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.

By Senator Hukill

A bill to be entitled

An act relating to tax-exempt income; amending s. 220.14, F.S.; increasing the amount of income that is exempt from the corporate income tax; amending s. 220.63, F.S.; increasing the amount of income that is exempt from the franchise tax imposed on banks and savings associations; providing applicability; providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Subsection (1) of section 220.14, Florida Statutes, is amended to read:

220.14 Exemption.—

(1) In computing a taxpayer's liability for tax under this code, $75,000 ~~there shall be exempt from the tax $50,000~~ of net income as defined in s. 220.12 is exempt from the tax or such lesser amount as will, without increasing the taxpayer's federal income tax liability, provide the state with an amount under this code which is equal to the maximum federal income tax credit which may be available from time to time under federal law.

Section 2. Subsection (3) of section 220.63, Florida Statutes, is amended to read:

220.63 Franchise tax imposed on banks and savings associations.—

(3) For purposes of this part, the franchise tax base is ~~shall be~~ adjusted federal income, as defined in s. 220.13, apportioned to this state, plus nonbusiness income allocated to

this state pursuant to s. 220.16, less the deduction allowed in subsection (5) and less $75,000 ~~$50,000~~.

Section 3. This act applies to taxable years beginning on or after January 1, 2016.

Section 4. This act shall take effect January 1, 2016.

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

2-2-15
Meeting Date

138
Bill Number (if applicable)

Amendment Barcode (if applicable)

Topic: Tax exempt Income

Name: Jon Costello

Job Title: Consultant

Address: 119 S. Monroe
Street

Tallahassee FL 32301
City State Zip

Phone: 681-6788

Email: jon@rutledge-ecenia.com

Speaking: ☐ For ☐ Against ☐ Information

Waive Speaking: ☑ In Support ☐ Against
(The Chair will read this information into the record.)

Representing: Associated Industries of FL

Appearing at request of Chair: ☐ Yes ☐ No

Lobbyist registered with Legislature: ☐ Yes ☐ No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/14/14)

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

2-2-2015
Meeting Date

138
Bill Number (if applicable)

Amendment Barcode (if applicable)

Topic: ~~[illegible] Tax [illegible]~~

Name: Brian Pitts

Job Title: Trustee

Address: 1119 Newton Ave S.
Street

St Petersburg FL 33705
City State Zip

Phone: 727/897-9291

Email: justice2jesus@yahoo.com

Speaking: ☐ For ☐ Against ☑ Information

Waive Speaking: ☐ In Support ☐ Against
(The Chair will read this information into the record.)

Representing: Justice-2-Jesus

Appearing at request of Chair: ☐ Yes ☑ No

Lobbyist registered with Legislature: ☐ Yes ☑ No

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This form is part of the public record for this meeting.

S-001 (10/14/14)

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

2/2/2015 — Meeting Date

SB 138 — Bill Number (if applicable)

Amendment Barcode (if applicable)

Topic: Corporate Income Tax Exemption

Name: Christian Weiss

Job Title: Policy Coordinator

Address: 400 South Monroe St., Suite 1702 (Street)

Tallahassee (City) FL (State) 32303 (Zip)

Phone: 850-717-9392

Email: christain.weiss@myflorida.com

Speaking: ☑ For ☐ Against ☐ Information

Waive Speaking: ☑ In Support ☐ Against
(The Chair will read this information into the record.)

Representing: Executive Office of the Governor

Appearing at request of Chair: ☐ Yes ☑ No

Lobbyist registered with Legislature: ☑ Yes ☐ No

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This form is part of the public record for this meeting.

S-001 (10/14/14)

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

2/2/15 — Meeting Date

138 — Bill Number (if applicable)

Amendment Barcode (if applicable)

Topic: Tax-Exempt Income

Name: Carolyn Johnson

Job Title: Policy Director

Address: 136 S Bronough St (Street)

Tallahassee (City) FL (State) 32311 (Zip)

Phone: 521-1235

Email: cjohnson@flchamber.com

Speaking: ☐ For ☐ Against ☐ Information

Waive Speaking: ☑ In Support ☐ Against
(The Chair will read this information into the record.)

Representing: Florida Chamber of Commerce

Appearing at request of Chair: ☐ Yes ☑ No

Lobbyist registered with Legislature: ☑ Yes ☐ No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/14/14)

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

Meeting Date: 2/2/15

Bill Number (if applicable): 138

Amendment Barcode (if applicable):

Topic: Corporate Income Tax

Name: Tim Nungesser

Job Title: Legislative Director

Address: 110 E Jefferson St
Street

Tallahassee, FL 32301
City, State, Zip

Phone: 850-443-[illegible]

Email: [illegible]

Speaking: [ ] For [ ] Against [ ] Information

Waive Speaking: [X] In Support [ ] Against
(The Chair will read this information into the record.)

Representing: National Federation of Independent Business

Appearing at request of Chair: [ ] Yes [X] No

Lobbyist registered with Legislature: [X] Yes [ ] No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/14/14)

The Florida Senate

BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Finance and Tax

BILL: SPB 7014

INTRODUCER: For consideration by the Finance and Tax Committee

SUBJECT: Corporate Income Tax

DATE: January 30, 2015 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Babin	Diez-Arguelles	FT	**Pre-meeting**

I. Summary:

SPB 7014 updates Florida's corporate Income Tax Code by adopting the Internal Revenue Code as in effect on January 1, 2015.

The Tax Increase Prevention Act of 2014 grants extraordinary deductions for capital asset expensing and depreciation. Similar to past treatment, the bill requires Florida taxpayers to spread the benefit of these deductions over a seven year period.

The bill authorizes the Department of Revenue to adopt emergency rules to implement the bill.

The Revenue Estimating Conference has not completed its review of the bill.

II. Present Situation:

Florida imposes a 5.5 percent tax on the taxable income of corporations and financial institutions doing business in Florida. The determination of taxable income for Florida tax purposes begins with the taxable income determined for federal income tax purposes. This means that a corporation paying taxes in Florida receives the same treatment in Florida as is allowed in determining its federal taxable income.

Florida maintains its relationship with the federal Internal Revenue Code by each year adopting the federal Internal Revenue Code as it exists on January 1 of the year. By doing this, Florida adopts any changes that were made in the previous year to the determination of federal taxable income.

III. Effect of Proposed Changes:

General Update

The bill updates the Florida corporate Income Tax Code to reflect changes in the federal Internal Revenue Code enacted by Congress. The bill takes effect upon becoming a law and operates retroactively to January 1, 2015.

Additions due to Bonus Depreciation and Increased Expensing

President Obama signed into law the Tax Increase Prevention Act of 2014[1] on December 19, 2014. The act contained several significant amendments to the Internal Revenue Code.

The Internal Revenue Code allows a taxpayer to deduct the cost of capital assets by deducting a portion of the cost over the useful life of the property (depreciation).[2] Additionally, the Internal Revenue Code allows a taxpayer to treat a certain amount of the cost of capital assets as a business expense that can be taken entirely in the year of purchase (expensing).[3] Until recently, the amount that could be expensed was limited to $25,000.

Similar to other federal legislation during the past several years,[4] the Tax Increase Prevention Act of 2014 grants an additional depreciation deduction (bonus depreciation) and increases the expensing limitation. The Tax Prevention Act of 2014 grants a first-year bonus depreciation amount of 50 percent of the cost of the property placed in service during 2014 and increases the expensing limitation to $500,000 for taxable years beginning in 2014.

The Revenue Estimating Conference has estimated that the adoption of the Internal Revenue Code, including the bonus depreciation and increased expensing limitation, would result in a reduction of $180 million in corporate tax receipts in Fiscal Year 2015-2016 and increase tax receipts in subsequent years.

In order to mitigate the Fiscal Year 2015-2016 fiscal impact of the increased federal deductions on Florida, the bill requires taxpayers to spread the effect of these deductions over seven taxable years. The bill accomplishes this by requiring taxpayers to “add-back” the bonus depreciation deduction and the amount of the increased expensing deduction above $128,000. The taxpayer is then permitted to subtract from income one-seventh (1/7) of these deductions for the current

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[1] Pub. Law No. 113-295, H.R. 5771, 113th Cong. (December 19, 2014).
[2] *See generally* ss. 167 and 168, Internal Revenue Code
[3] *See generally* s. 179, Internal Revenue Code
[4] The Economic Stimulus Act of 2008, the American Recovery and Reinvestment Act of 2009, the Small Business Jobs Act of 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and the American Taxpayer Relief Act of 2012.

taxable year and the following six taxable years. This mechanism was used to address the impacts of similar federal legislation in 2009, 2011, and 2013.[5]

The bill grants the Department of Revenue emergency rulemaking authority to implement the provisions of the bill.

The bill is effective upon becoming law and operates retroactively to January 1, 2015.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

The Revenue Estimating Conference has not reviewed the impact of the bill. Staff estimates that this bill will have an indeterminate impact on general revenue.

B. Private Sector Impact:

By adopting recent changes to the Internal Revenue Code, Florida provides ease of administration for Florida corporate taxpayers.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

[5] Chapters 2009-132, 2011-229 and 2013-40, Laws of Fla.

VIII. Statutes Affected:

This bill substantially amends the following sections of the Florida Statutes: ss. 220.03 and 220.13.

The bill re-enacts the following sections of the Florida Statutes: ss. 220.15(1), 220.191(1)(d), 220.192(2), 220.63(3), 220.64, and 1009.97(3)(l).

IX. Additional Information:

A. Committee Substitute – Statement of Changes:
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.

FOR CONSIDERATION By the Committee on Finance and Tax

A bill to be entitled

An act relating to the corporate income tax; amending s. 220.03, F.S.; adopting the 2015 version of the Internal Revenue Code; amending s. 220.13, F.S.; incorporating a reference to a recent federal act into state law for the purpose of defining the term "adjusted federal income"; revising the treatment by this state of certain depreciation and expensing of assets that are allowed for federal income tax purposes; authorizing the Department of Revenue to adopt emergency rules; reenacting s. 1009.97(3)(l), F.S., to incorporate the amendment made to s. 220.03, F.S., in a reference thereto; reenacting ss. 220.15(1), 220.191(1)(d), 220.192(2), 220.63(3), and 220.64, F.S., to incorporate the amendments made to s. 220.13, F.S., in references thereto; providing for retroactive application; providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Paragraph (n) of subsection (1) and paragraph (c) of subsection (2) of section 220.03, Florida Statutes, are amended to read:

220.03 Definitions.—

(1) SPECIFIC TERMS.—When used in this code, and when not otherwise distinctly expressed or manifestly incompatible with the intent thereof, the following terms shall have the following meanings:

(n) "Internal Revenue Code" means the United States

Internal Revenue Code of 1986, as amended and in effect on January 1, 2015 ~~2014~~, except as provided in subsection (3).

(2) DEFINITIONAL RULES.—When used in this code and neither otherwise distinctly expressed nor manifestly incompatible with the intent thereof:

(c) Any term used in this code has the same meaning as when used in a comparable context in the Internal Revenue Code and other statutes of the United States relating to federal income taxes, as such code and statutes are in effect on January 1, 2015 ~~2014~~. However, if subsection (3) is implemented, the meaning of a term shall be taken at the time the term is applied under this code.

Section 2. Paragraph (e) of subsection (1) of section 220.13, Florida Statutes, is amended to read:

220.13 "Adjusted federal income" defined.—

(1) The term "adjusted federal income" means an amount equal to the taxpayer's taxable income as defined in subsection (2), or such taxable income of more than one taxpayer as provided in s. 220.131, for the taxable year, adjusted as follows:

(e) *Adjustments related to federal acts*.—Taxpayers shall be required to make the adjustments prescribed in this paragraph for Florida tax purposes with respect to certain tax benefits received pursuant to the Economic Stimulus Act of 2008, the American Recovery and Reinvestment Act of 2009, the Small Business Jobs Act of 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, ~~and~~ the American Taxpayer Relief Act of 2012, and the Tax Increase Prevention Act of 2014.

CODING: Words ~~stricken~~ are deletions; words underlined are additions.

1. There shall be added to such taxable income an amount equal to 100 percent of any amount deducted for federal income tax purposes as bonus depreciation for the taxable year pursuant to ss. 167 and 168(k) of the Internal Revenue Code of 1986, as amended by s. 103 of Pub. L. No. 110-185, s. 1201 of Pub. L. No. 111-5, s. 2022 of Pub. L. No. 111-240, s. 401 of Pub. L. No. 111-312, ~~and~~ s. 331 of Pub. L. No. 112-240, <u>and s. 125 of Pub. L. No. 113-295,</u> for property placed in service after December 31, 2007, and before January 1, <u>2015</u> ~~2014~~. For the taxable year and for each of the 6 subsequent taxable years, there shall be subtracted from such taxable income an amount equal to one-seventh of the amount by which taxable income was increased pursuant to this subparagraph, notwithstanding any sale or other disposition of the property that is the subject of the adjustments and regardless of whether such property remains in service in the hands of the taxpayer.

2. There shall be added to such taxable income an amount equal to 100 percent of any amount in excess of $128,000 deducted for federal income tax purposes for the taxable year pursuant to s. 179 of the Internal Revenue Code of 1986, as amended by s. 102 of Pub. L. No. 110-185, s. 1202 of Pub. L. No. 111-5, s. 2021 of Pub. L. No. 111-240, s. 402 of Pub. L. No. 111-312, ~~and~~ s. 315 of Pub. L. No. 112-240, <u>and s. 127 of Pub. L. No. 113-295,</u> for taxable years beginning after December 31, 2007, and before January 1, <u>2015</u> ~~2014~~. For the taxable year and for each of the 6 subsequent taxable years, there shall be subtracted from such taxable income one-seventh of the amount by which taxable income was increased pursuant to this subparagraph, notwithstanding any sale or other disposition of

the property that is the subject of the adjustments and regardless of whether such property remains in service in the hands of the taxpayer.

3. There shall be added to such taxable income an amount equal to the amount of deferred income not included in such taxable income pursuant to s. 108(i)(1) of the Internal Revenue Code of 1986, as amended by s. 1231 of Pub. L. No. 111-5. There shall be subtracted from such taxable income an amount equal to the amount of deferred income included in such taxable income pursuant to s. 108(i)(1) of the Internal Revenue Code of 1986, as amended by s. 1231 of Pub. L. No. 111-5.

4. Subtractions available under this paragraph may be transferred to the surviving or acquiring entity following a merger or acquisition and used in the same manner and with the same limitations as specified by this paragraph.

5. The additions and subtractions specified in this paragraph are intended to adjust taxable income for Florida tax purposes, and, notwithstanding any other provision of this code, such additions and subtractions shall be permitted to change a taxpayer’s net operating loss for Florida tax purposes.

Section 3. <u>(1) The Department of Revenue is authorized, and all conditions are deemed to be met, to adopt emergency rules pursuant to s. 120.54(4), Florida Statutes, for the purpose of implementing this act.</u>

<u>(2) Notwithstanding any other law, emergency rules adopted pursuant to subsection (1) are effective for 6 months after adoption and may be renewed during the pendency of procedures to adopt permanent rules addressing the subject of the emergency rules.</u>

(3) This section expires January 1, 2018.

Section 4. Paragraph (1) of subsection (3) of s. 1009.97, Florida Statutes, is reenacted for the purpose of incorporating the amendment made by this act to s. 220.03, Florida Statutes, in a reference thereto.

Section 5. Subsection (1) of s. 220.15, paragraph (d) of subsection (1) of s. 220.191, subsection (2) of s. 220.192, subsection (3) of s. 220.63, and s. 220.64, Florida Statutes, are reenacted for the purpose of incorporating the amendments made by this act to s. 220.13, Florida Statutes, in references thereto.

Section 6. This act shall take effect upon becoming a law and shall operate retroactively to January 1, 2015.

THE FLORIDA SENATE

Tallahassee, Florida 32399-1100

COMMITTEES:
Military and Veterans Affairs, Space, and Domestic Security, *Chair*
Children, Families, and Elder Affairs, *Vice-Chair*
Appropriations
Appropriations Subcommittee on General Government
Environmental Preservation and Conservation
Finance and Tax

SENATOR THAD ALTMAN
16th District

February 2, 2015

The Honorable Dorothy Hukill, Chair
Senate Committee on Finance & Tax
305 Senate Office Building
404 South Monroe Street
Tallahassee, FL 32399

Dear Chairwoman Hukill:

I respectfully request an excused absence for the Committee on Finance & Tax meeting on Monday, February 2, 2015 at 4:00 pm. Please contact me or my Legislative Assistants Rick Kendust or Devon West if you have any questions.

Thank you for your consideration.

Sincerely,

Thad Altman

Thad Altman

Cc: Reynold Meyer, Senate President Chief of Staff, 409 The Capitol
Jose Diaz-Aguelles, Staff Director 207 The Capitol
Lynn Wells, Administrative Assistant 207 The Capitol

TA/rk

x Dorothy L Hukill

REPLY TO:
☐ 8710 Astronaut Blvd, Cape Canaveral, FL 32920 (321) 752-3138
☐ 314 Senate Office Building, 404 South Monroe Street, Tallahassee, Florida 32399-1100 (850) 487-5016

Senate's Website: *www.flsenate.gov*

THE FLORIDA SENATE

Tallahassee, Florida 32399-1100

COMMITTEES:
Judiciary, *Chair*
Appropriations Subcommittee on Transportation, Tourism, and Economic Development
Community Affairs
Finance and Tax
Regulated Industries
Rules

SENATOR MIGUEL DIAZ de la PORTILLA
40th District

February 2, 2015

The Honorable Dorothy Hukill
Chair
Senate Finance and Tax

Via Email

Dear Chair Hukill:

I respectfully request that I be excused from the Finance and Tax Committee meeting today.

Thank you for your consideration.

Sincerely,

Miguel Diaz de la Portilla
Senator, District 40

Cc: Mr Jose Diez-Arguelles, Staff Director
Ms. Lynn Wells, Committee Administrative Assistant

X

REPLY TO:
☐ 2100 Coral Way, Suite 505, Miami, Florida 33145 (305) 643-7200
☐ 406 Senate Office Building, 404 South Monroe Street, Tallahassee, Florida 32399-1100 (850) 487-5040

Senate's Website: *www.flsenate.gov*

CourtSmart Tag Report

Room: SB 401 **Case:** **Type:**
Caption: Finance and Tax Committee **Judge:**

Started: 2/2/2015 4:01:48 PM
Ends: 2/2/2015 5:47:04 PM Length: 01:45:17

4:01:50 PM Meeting Called to Order
4:01:56 PM Roll Call
4:02:37 PM Tab 4 - Corporate Income Tax (SPB 7014) -- Not Considered
4:03:30 PM Tab 1 - Presentation by the Governor's Office -- Tax Reduction Recommendations
4:03:46 PM Christian Weiss, Policy Coordinator, Office Policy and Budget
4:11:45 PM Sen. Margolis
4:12:31 PM C. Weiss
4:12:39 PM Sen Margolis
4:12:45 PM Sen. Flores
4:14:12 PM Sen. Soto
4:15:00 PM C. Weiss
4:16:21 PM Sen Soto
4:16:46 PM C. Weiss
4:17:48 PM Sen. Soto
4:18:03 PM C. Weiss
4:18:26 PM Sen. Soto
4:18:40 PM C. Weiss
4:18:55 PM Sen. Soto
4:19:04 PM C. Weiss
4:19:09 PM Sen.Soto
4:19:20 PM C. Weiss
4:19:24 PM Sen. Soto
4:19:46 PM C. Weiss
4:20:23 PM Sen. Margolis
4:20:39 PM C. Weiss
4:20:50 PM Sen. Margolis
4:21:10 PM C. Weiss
4:21:13 PM Sen. Margolis
4:21:47 PM Brian Pitts, Trustee, Justice 2 Jesus
4:26:05 PM Sen. Hukill
4:26:17 PM Sen Flores
4:26:30 PM Tab 3 - Tax-exempt Income (SB 138) by Sen. Hukill
4:27:38 PM Sen. Flores
4:27:44 PM Sen. Soto
4:27:55 PM Sen. Hukill
4:28:07 PM Sen. Soto
4:28:15 PM Sen. Hukill
4:28:42 PM Sen. Flores
4:29:02 PM Brian Pitts, Trustee, Justice-2-Jesus
4:32:09 PM Sen. Flores
4:32:14 PM Jon Costello, Associated Industries of Florida, Carolyn Johnson, Florida Chamber of Commerce, Christian Weiss, Executive Office of the Governor, waives in support
4:32:38 PM Sen. Soto
4:33:12 PM Sen. Margolis
4:36:09 PM Sen. Simpson
4:37:27 PM Sen. Flores
4:37:30 PM Tim Nungesser, National Federation of Independent Business, waives in support
4:37:43 PM Sen. Hukill
4:37:56 PM Roll Call (SB 138)
4:38:10 PM Sen. Hukill
4:38:16 PM Tab 2 - Enterprise Zone Program -- OPPAGA Presentation
4:38:35 PM Larry Novey, Chief Legislative Analyst, OPPAGA

4:50:14 PM	Sen. Flores
4:50:39 PM	L. Novey
4:50:57 PM	Sen. Flores
4:53:16 PM	L. Novey
4:54:00 PM	Sen. Flores
4:54:10 PM	L. Novey
4:54:42 PM	Sen. Flores
4:56:23 PM	Sen. Soto
4:56:46 PM	L. Novey
4:57:49 PM	Sen. Soto
4:57:57 PM	L. Novey
4:58:08 PM	Sen. Soto
4:58:47 PM	Sen. Margolis
5:00:19 PM	L. Novey
5:00:50 PM	Sen. Margolis
5:00:59 PM	Sen. Hukill
5:01:08 PM	L.Novey
5:01:40 PM	Sen. Hukill
5:02:30 PM	L. Novey
5:03:33 PM	Sen. Soto
5:03:59 PM	L. Novey
5:04:26 PM	Tab 2 - Enterprise Zone Program -- Office of Economic and Demographic Research (EDR)
5:04:36 PM	Amy Baker, Coordinator of EDR
5:35:04 PM	Sen. Simpson
5:35:25 PM	A. Baker
5:35:43 PM	Sen. Simpson
5:36:57 PM	A. Baker
5:38:10 PM	Sen. Simpson
5:39:05 PM	Sen. Soto
5:39:38 PM	A. Baker
5:40:39 PM	Sen. Soto
5:40:54 PM	A. Baker
5:41:58 PM	Sen.Soto
5:42:59 PM	Sen. Flores
5:43:46 PM	Sen. Hukill
5:44:55 PM	Sen. Abruzzo
5:46:05 PM	Morgan McCord, Florida Tax Watch
5:46:37 PM	Sen. Abruzzo motion -- Vote favorably on SB 138, Tax-exempt Income
5:46:53 PM	Meeting adjourned