

STORAGE NAME: h3225a.ft

DATE: April 21,1998

**HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
FINANCE AND TAXATION
BILL RESEARCH & ECONOMIC IMPACT STATEMENT**

BILL #: HB 3225

RELATING TO: Enterprise Zones

SPONSOR(S): Representative Murman

COMPANION BILL(S): SB 300 (i)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) COMMUNITY AFFAIRS YEAS 9 NAYS 0
 - (2) FINANCE AND TAXATION YEAS 14 NAYS 0
 - (3)
 - (4)
 - (5)
-

I. SUMMARY:

This bill entitles a business purchased in February 1992, within an existing enterprise zone in Tampa, to all the enterprise zone incentives available at that time through the period of the program's expiration in 1994. The bill authorizes the business to be eligible to receive tax credits it may be entitled to as long as the credits are applied for by December 1, 1998. All other requirements of the program apply to the business.

This bill is expected to produce a revenue reduction to the General Revenue fund of (\$0.1) million, and a negative insignificant impact to local governments in fiscal year 1998-99 and no fiscal impact for fiscal year 1999-2000.

[See AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES section for changes.]

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

FLORIDA ENTERPRISE ZONE ACT

The Florida Enterprise Zone Act was originally enacted by the Legislature in 1980 as a means of encouraging private enterprise to locate in and employ residents of slum and blighted areas through the use of tax incentives. Enterprise zones are economically distressed areas in Florida which are eligible for certain corporate and sales tax exemptions from the state and various local incentives.

Since 1980, the Florida Enterprise Zone Act has been significantly modified. The 1987 modifications to the act expired in 1994. Any enterprise zone designated on or after January 1, 1995, must have been created in accordance with the 1994 Act, known as the "Florida Enterprise Zone Act of 1994." This act is scheduled for repeal December 31, 2005.

Although the 1987 act expired in 1994, the 1994 provisions of law do not apply to the business seeking relief under the bill. The provisions that applied to enterprise zones under the 1987 act and that are most relevant to this bill are as follows:

Designation of State Enterprise Zones

At that time, there were thirty enterprise zones selected by the Department of Community Affairs (DCA), based on a competitive processing weighing the socio-economic distress of the area (65 percent) and local incentives offered in each zone area (35 percent). Each zone was required to be zoned at least 40 percent residential and 40 percent for commercial or industrial uses. The maximum population for each zone could not exceed the greater of 2,500 persons, or 10 percent of the population of the local government that authorized the creation of the zone, or the percentage of the population of the local government that was equal to the percentage of families with incomes below the poverty level in the county in which the enterprise zone was located.

State Incentives

There were seven state enterprise zone tax incentives available to encourage the revitalization of enterprise zones. Three incentives were credits granted against the corporate income tax while the other four were exemptions or credits against state sales taxes.

Corporate tax incentives

Chapter 220, F.S., impose a tax based on the net income of corporations doing business in Florida. The tax rate is 5.5 percent. The revenues generated by the corporate income tax are deposited in the General Revenue Fund.

Enterprise zone jobs credit

Section 220.181, F.S., allowed any business to claim a corporate tax credit for employing new employees who were enterprise zone residents or Aid to Families with Dependent Children (AFDC) or Job Training Partnership Act (JTPA) recipients. The new employee must be employed for at least three months and can not have been employed by the business within the preceding twelve months. Businesses located in an enterprise zone could claim this credit for up to 24 months, and businesses located elsewhere could claim this credit for up to 12 months. The credit was computed as 15 percent of the actual monthly wages paid in this state to each new employee. The credit applied only to wages subject to unemployment tax and did not apply to any new employee whose wages exceeded \$1,500 a month. The credit could be carried forward for a period not to exceed five years. This credit was due to expire June 30, 1994.

Enterprise zone property tax credit. Section 220.182, F.S., authorized new, expanded or rebuilt businesses to claim a corporate tax credit for ad valorem taxes paid on the new, expanded, or rebuilt business. The credit was available for 10 years and was computed as the ad valorem taxes paid on the new business, or additional ad valorem paid on an expanded or rebuilt business. The maximum amount of credit available in any one year was \$50,000, and any unused credit may be carried forward for up to five years. In order to receive this credit, 20 percent of the business' employees must have been residents of an enterprise zone. In addition, if this credit was claimed for a business expansion, the business must have created five new full-time jobs in this state. This credit was due to expire on December 31, 1994.

Community contribution tax credit. Section 220.183, F.S., authorized the DCA to grant up to \$3 million in corporate community contribution tax credits each year. One of the specific areas where this credit was available was an enterprise zone. This credit was due to expire on June 30, 1994.

Sales tax incentives

Part I of Chapter 212, F.S., imposed a sales tax of six percent on the total price of the retail sale or rental of tangible personal property, certain services and admissions, on the rental or lease of certain real property and transient living accommodations. Additionally, part I of Chapter 212, F.S., imposed a use tax of six percent on the total price of each taxable item brought into Florida to be used, consumed, distributed, rented, or stored for use or consumption in Florida.

Exemption for building materials used in the rehabilitation of real property in an enterprise zone.

Section 212.08(5)(g), F.S., allowed a business located in an enterprise zone to receive a refund of the sales tax paid on building material purchased to rehabilitate property located in an enterprise zone. In order for a business to receive this credit, the assessed value of the property must increase by 30 percent or more over the previous years assessment. The maximum amount of refund a business may have received was 97 percent of the sales tax paid or \$5,000, which ever was less. This exemption was due to expire December 31, 1994.

Exemption for business equipment used in an enterprise zone. Section 212.08(5)(h), F.S., allowed a business located in an enterprise zone to receive a refund of the sales tax paid on business property purchased for use in an enterprise zone. In order for a business to receive this credit, 20 percent of the business's employees must be residents of an enterprise zone. The maximum amount of refund a business may have received was 97 percent of the sales tax paid. This exemption was due to expire December 31, 1994.

Exemption for electrical energy used in an enterprise zone. Section 212.08(15), F.S., allowed a business located in an enterprise zone to receive an exemption for taxes imposed for use of electrical energy in an enterprise zone. In order for a business to receive this exemption, the business must have been located in a local government that had enacted an ordinance providing an exemption from municipal utility taxes. In addition, the business must have occupied a new structure to which electricity has not been previously supplied to; occupied a renovated structure to which electricity has not been previously supplied to for the three preceding billing periods; or the business has received a sales tax refund for building materials purchased to rehabilitate the structure. This exemption was due to expire December 31, 1994.

Credit for job creation in enterprise zones. Section 212.096, F.S., allowed any business to claim a sales tax credit for employing new employees who are enterprise zone residents or AFDC or JTPA recipients. The new employee must be employed for at least three months and can not have been employed by the business within the preceding twelve months. Businesses located in an enterprise zone may claim this credit for up to 24 months, and businesses located elsewhere may claim this credit for up to 12 months. The credit is computed as \$100 per month for each eligible full-time employee, and \$50 per month for each eligible part-time employee. This credit was due to expire December 31, 1994.

B. EFFECT OF PROPOSED CHANGES:

This bill entitles a business purchased in February 1992, within an existing enterprise zone in Tampa, to all the enterprise zone incentives available at that time through the period of the program's expiration in 1994. The bill authorizes the business to be eligible to receive tax credits it may be entitled to as long as the credits are applied for by December 1, 1998. All other requirements of the program apply to the business.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

N/A

- (2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

N/A

- (3) any entitlement to a government service or benefit?

N/A

- b. If an agency or program is eliminated or reduced:

- (1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

- (2) what is the cost of such responsibility at the new level/agency?

N/A

- (3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

- a. Does the bill increase anyone's taxes?

No.

- b. Does the bill require or authorize an increase in any fees?

No.

- c. Does the bill reduce total taxes, both rates and revenues?

This bill entitles a business purchased in February 1992, within an existing enterprise zone in Tampa, to all the enterprise zone incentives available at that time through the period of the program's expiration in 1994. The bill authorizes the business to be eligible to receive tax credits it may be entitled to as long as the credits are applied for by December 1, 1998.

- d. Does the bill reduce total fees, both rates and revenues?

No.

- e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

- a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

N/A

- b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

N/A

4. Individual Freedom:

- a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A

5. Family Empowerment:

- a. If the bill purports to provide services to families or children:

- (1) Who evaluates the family's needs?

N/A

- (2) Who makes the decisions?

N/A

- (3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Chapters 212 and 220, F.S.

E. SECTION-BY-SECTION RESEARCH:

Section 1-- Notwithstanding the provisions of general law, a certain business is authorized to claim incentives to which it would have been entitled retroactively to February, 1992, time of purchase of the business; provides that the business is eligible to receive tax credits if the application is submitted by December 1, 1998.

Section 2 -- Provides for an effective date of July 1, 1998

III. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

See Fiscal Comments Section.

3. Long Run Effects Other Than Normal Growth:

See Fiscal Comments Section.

4. Total Revenues and Expenditures:

See Fiscal Comments Section.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

See Fiscal Comments Section.

3. Long Run Effects Other Than Normal Growth:

See Fiscal Comments Section.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

None, other than any costs associated with gathering the necessary records which may be required to document entitlement to the program benefits.

2. Direct Private Sector Benefits:

A business in Tampa, Florida, purchased in February 1992 will benefit to the extent that incentives available to the business from that time forward to the expiration of the program, will become retroactively available.

3. Effects on Competition, Private Enterprise and Employment Markets:

None.

D. FISCAL COMMENTS:

This bill is expected to produce a revenue reduction to the General Revenue fund of (\$0.1) million, and a negative insignificant impact to local governments in fiscal year 1998-99 and no fiscal impact for fiscal year 1999-2000.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority of municipalities and counties to raise revenues, and the bill is therefore exempt from the provisions of Article VII, Section 18(b), Florida Constitution.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

The bill will not reduce the amount of the local Government Half Cent Sales Tax shared with municipalities and counties, and it does not reduce the percentage of a state tax shared with municipalities and counties. Therefore, Article VII, Section 18(b), Florida Constitution does not apply.

V. COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

The Committee on Community Affairs adopted two amendments to the bill at its meeting on April 15, 1998. The amendments provide:

Amendment #1 by Representative Effman provides that a certain enterprise zone designated pursuant to s.290.0065(5)(b), F.S., may apply to the Office of Tourism, Trade, and Economic Development to amend the boundaries of the enterprise zone. This must be accomplished before December 31, 1998, for the purpose of replacing areas not suitable for development. The change in boundaries may not increase the overall size of the enterprise zone. The amendment also provides that certain home rule charter counties or a consolidated county may amend the boundaries of an enterprise zone upon resolution of the governing body(ies). The added area may not increase the overall size of the expanded zone more

STORAGE NAME: h3225a.ft

DATE: April 21, 1998

PAGE 10

than its original size or 20 square miles, whichever is larger. The expansion must be consistent with the categories, criteria and limitations imposed by s.290.0055, F.S.

Amendment #2 by Representative Rojas extends for one year the date Dade County may apply to OTTED to amend the boundary lines of an enterprise zone located in the areas of Homestead, Florida where the center of Hurricane Andrew crossed over the state.

On April 21, 1998, the Finance and Tax Committee adopted one amendment which will travel with the bill:

The amendment provides that business property used in certain vessels or boats owned by a qualified business in a net-ban enterprise zone may be eligible for a sales tax exemption and provides that a business in a net-ban enterprise zone is eligible for the maximum amount of certain tax credits and exemptions if at least 20 percent of its employees are residents of the county in which the net-ban is located.

FISCAL IMPACT: This amendment is expected to produce a revenue reduction to the General Revenue fund of (\$0.2) million, and a negative insignificant impact to local governments in fiscal year 1998-99 and fiscal year 1999-2000.

VII. SIGNATURES:

COMMITTEE ON COMMUNITY AFFAIRS:

Prepared by:

Legislative Research Director:

Joan E. Highsmith-Smith

Joan E. Highsmith-Smith

AS REVISED BY THE COMMITTEE ON FINANCE AND TAXATION:

Prepared by:

Legislative Research Director:

Carol L. Dickson-Carr

Keith G. Baker, Ph.D.