

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: CS/CS/SB 214

SPONSOR: Comprehensive Planning, Local & Military Affairs Committee, Commerce and Economic Opportunities Committee and Senator Silver

SUBJECT: Florida Empowerment Zone Act

DATE: April 19, 1999 REVISED: 4/21/99 _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Joseph</u>	<u>Maclure</u>	<u>CM</u>	<u>Favorable/CS</u>
2.	<u>Bowman</u>	<u>Yeatman</u>	<u>CA</u>	<u>Favorable/CS</u>
3.	<u>Hayes</u>	<u>Hadi</u>	<u>FP</u>	<u>Fav/2 amendments</u>
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

On January 13, 1999, it was announced that Miami-Dade County was awarded a “Federal Empowerment Zone” designation by the U.S. Department of Housing and Urban Development. The federal award provides a total of \$130 million in bonding authority and \$100 million in federal grants over a 10-year period. On the same day Miami-Dade County received its award, the Florida community of Immokalee received a federal “Rural Enterprise Community” award of \$250,000 a year for 10 years.

This committee substitute creates statutory authority for a Florida Empowerment Zone Program and appropriates state funds that were pledged as part of the application process under the companion Federal Empowerment Zone Program.

This committee substitute proposes \$5 million in state general revenue each year for 10 years for a Florida community that received a federal empowerment zone designation in January 1999. The only Florida community to receive such a designation is Miami-Dade County. The committee substitute also proposes \$250,000 in state general revenue each year for 10 years for any Florida community that received a federal rural enterprise community designation in January 1999. The only Florida community to receive a rural enterprise community designation in January 1999 is Immokalee. This committee substitute allows the Department of Community Affairs to retain 2 percent of the \$5.25 million of the annual appropriation for state administrative costs associated with the program.

The committee substitute extends the Urban High-Crime Tax credit program to qualified businesses located in that portion of Miami-Dade County designated as a federal empowerment zone. The committee substitute also extends eligibility for the Rural Job Tax Credit Program to qualified businesses located in Immokalee.

The committee substitute qualifies for enterprise zone designation, areas within Miami-Dade County designated as a federal empowerment zone, and the area of Immokalee designated as a rural enterprise community. Finally the committee substitute, authorizes the creation of a satellite enterprise zone, not to exceed three square miles, outside of the boundaries of existing enterprise zones located in Miami-Dade County.

The committee substitute creates s. 290.0491, Florida Statutes.

II. Present Situation:

Federal Empowerment Zone Program

The Empowerment Zone/Enterprise Community program is a federal initiative designed to spur job creation and economic growth in the nation's most distressed urban and rural communities. Empowerment zones and enterprise communities receive tax incentives for businesses to encourage private investment and receive federal grant funding to assist the communities in implementing strategic plans.

In December 1994, the federal government named nine "empowerment zones" (six urban and three rural) and nearly 100 "enterprise communities." The selection entitled each of the six urban empowerment zones to approximately \$100 million over 10 years. Although no Florida communities were selected as empowerment zones, three Florida communities were named enterprise communities: Jackson County (Marianna), Miami-Dade County, and Tampa. Each enterprise community was entitled to receive approximately \$3 million in federal aid over 10 years.

Empowerment Zones -- Round II

In April 1998, the Clinton Administration announced a competition to designate 20 additional empowerment zones (15 urban and five rural). The Administration requested \$1.7 billion for Round II funding.

On January 13, 1999, it was announced that Miami-Dade County was awarded a federal empowerment zone by the U.S. Department of Housing and Urban Development, and will share, with 19 other community winners, \$55 million in federal grants already approved this year -- \$3 million for each urban zone and \$2 million for each rural zone. Congress has approved \$2.2 billion in tax-exempt bonding authority for the group of 20 zones announced in January, along with other tax incentives over the next 10 years.

The Administration is seeking Congressional approval for \$1.5 billion in federal grants for the group of 15 urban zones spread over 10 years, and \$100 million in such grants for the group of five rural zones for the same period. This would total \$130 million in bonding authority and \$100 million in grants for each urban zone, and \$60 million in bonding authority and \$20 million in grants for each rural zone over 10 years. On the same day Miami-Dade County received its award, the Florida community of Immokalee received a federal "Rural Enterprise Community" award of \$250,000 a year for 10 years.

In a letter written to demonstrate state support during the Round II application process, former Governor Lawton Chiles pledged to pursue legislative funding at a total of \$5 million for any Florida community with a successful application. The state pledges are not a required match and will not affect federal funding for the program.

Urban High-Crime Area Job Tax Credit Program

Section 212.097, F.S., 1998 Supp., creates a sales tax credit for new and existing businesses that create a certain number of jobs within a high crime area identified by the Office of Tourism, Trade and Economic Development (OTTED). OTTED ranks nominated areas into three tiers based on certain crime rate factors. Tier-one areas represent the highest crime areas and are ranked 1 through 5. Tier-two areas are ranked 6 through 10, and tier-three areas are ranked 11 through 15. The amount of tax credit a business receives is based on which tier the business is locating and the number of jobs to be created. For example, a new business in a tier-one qualified high crime area that has at least ten employees is entitled to a \$1,500 tax credit for each employee. A new eligible business in a tier-two qualified high crime area that has 20 qualified employees is entitled to a tax credit of \$1,000 for each employee.

Rural Job Tax Credit Program

Section 212.098, F.S., 1998 Supp., creates a sales tax credit for certain new and existing businesses that create jobs in qualified counties. Qualified counties include counties with a population of less than 75,000 persons, or a county with a population of less than 100,000 that is contiguous to a county with a population of less than 75,000, and which is ranked by OTTED according to several economic factors. The ranking criteria include the unemployment rate, per capita income, percentage of residents with incomes below the poverty level and average manufacturing wage. Tier-one counties are ranked 1 through 5 and represent the state's least developed counties. Tier two counties are ranked 6 through 10, and tier three counties are ranked 11 through 15.

Enterprise Zones

Section 290.0065, F.S., 1998 Supp., sets forth the process for the state designation of enterprise zones. Originally, the section provided that the Department of Commerce, (these duties are now performed by OTTED), could designate up to 20 enterprise zones following a process where the governing body of a county or municipality or a county and municipality may jointly apply for an enterprise designation. In addition, s. 290.0065, F.S., provides for several enterprise zones created directly by statute. For example, s. 290.0065(5), F.S., provides that an area designated as a federal empowerment zone or enterprise community pursuant to Title XII of the Omnibus Budget Reconciliation Act of 1993 shall be designated as a state enterprise zone.

Businesses located within enterprise zones are entitled to a number of tax incentives set forth in s. 290.007, F.S. These incentives include:

- ▶ the enterprise zone jobs credit;
- ▶ the enterprise zone property tax credit;
- ▶ the community contribution tax credit;

- ▶ the sales tax exemption for building materials used in the rehabilitation of real property in enterprise zones;
- ▶ the sales tax exemption for electrical energy used in an enterprise zone; and
- ▶ the enterprise zone jobs credit against the sales tax.

III. Effect of Proposed Changes:

This committee substitute creates the “Florida Empowerment Zone Act,” an economic development program that provides funding to local governments that may be designated as federal empowerment zones. The committee substitute defines terms and provides legislative intent.

This committee substitute proposes \$5 million annually in state general revenue to be allocated each year for 10 years to Miami-Dade County to be used in the three areas designated as one federal empowerment zone under 26 U.S.C., s. 1391(g), with funds to be used only for the benefit of the areas so designated. The three areas that are part of Miami-Dade County’s award include East/West Corridor, Homestead/Florida City, and Liberty City. Along with the three primary areas, the federal empowerment zone application and designation include three “Developable Sites”: Northside/Poinciana, Opa Locka, and Homestead/Florida City (adjacent to a primary area).

This committee substitute also proposes \$250,000 in state general revenue annually over 10 years for Immokalee as a supplement to the federal grant associated with its designation as an Enterprise Community.

The program will be administered by the Department of Community Affairs (DCA) and will be 10 years in duration. The committee substitute allows the DCA to retain up to 2 percent of the annual state appropriation for administrative costs to DCA associated with the program. The committee substitute grants DCA the authority to adopt and enforce rules consistent with the Florida Empowerment Zone Act in order to carry out the purposes of the program. The committee substitute provides for DCA to evaluate program performance.

The bill amends s. 212.097, F.S., 1998 Supp., to designate the area within Miami-Dade County designated as a federal empowerment zone as a tier-three, qualified high-crime area for purposes of the Urban High-Crime Area Job Tax Credit Program. A new business within a tier-three area which has at least 30 qualified employees is entitled to a \$500 tax credit for each employee. An existing business within a tier-three area that has at least 15 new qualified employees is entitled to a \$500 tax credit for each employee.

The bill amends s. 212.098, F.S., 1998 Supp., the Rural Job Tax Credit Program, to include the Immokalee area that has been designated as a federal Enterprise Community pursuant to the 1999 Agricultural Appropriations Act as a tier-three qualified county. A new business within a tier - three county with at least 30 qualified employees is eligible for a tax credit of \$500 per employee. An existing business in a tier-three qualified county, with at least 15 new qualified employees, is eligible for a \$500 per employee tax credit.

The bill amends s. 290.0065, F.S., 1998 Supp., to qualify the area within Miami-Dade County designated as a federal empowerment zone under the Taxpayer Relief Act of 1997, and the area of Immokalee designated as a rural empowerment zone or rural enterprise community under the 1999 Agricultural Appropriations Act as eligible for enterprise zone designation. In addition, the bill authorizes Miami-Dade County to create a satellite enterprise zone, not exceeding three square miles, in an area outside of the boundaries of any existing enterprise zone located in Miami-Dade County. The twenty mile limitation imposed by s. 290.0055(4)(d), F.S., does not apply to the satellite enterprise zone.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The committee substitute recommends \$50 million in state funds over 10 years to supplement \$100 million in federal grants for Miami-Dade County. Together the funds could be spent on the following: capital access, employment training and placement, developable sites, and international trade and commerce. A one-stop employment system and a workforce training center will match and train residents. The committee substitute also recommends \$2.5 million in state funds over 10 years to supplement \$2.5 million in federal grants for Immokalee. This large federal and state expenditure will benefit companies that enter these designated areas.

Private businesses would benefit from a number of state tax credits offered by the committee substitute in the form of Urban High-Crime Tax Credits, Rural Job Tax Credits and Enterprise Zone Tax Credits.

C. Government Sector Impact:

Some services and economic development costs usually paid for by the State of Florida or Miami-Dade County might be provided by the new incoming infusion of state and federal funds. The DCA estimates that it will incur about \$107,000 in administrative costs each year.

The possible creation of new enterprise zones including the areas designated a federal empowerment zone or rural enterprise community in Miami-Dade County and Immokalee and a three square mile satellite enterprise zone within Miami-Dade County could have a significant impact on general revenue through foregone tax revenue resulting from tax credits used by qualifying businesses within the enterprise zones. In addition, extending eligibility for the Urban High-Crime Urban Tax Credit and Rural Job Tax Credit programs to businesses located in the federal empowerment zone or rural enterprise community could also result in additional lost state tax revenue.

VI. Technical Deficiencies:

None

VII. Related Issues:

It should be noted that there is not a federal requirement for state matching funds under the empowerment zone program. No federal funds would be lost by not appropriating state money to Miami-Dade County or to Immokalee. In 1994, prior to the federal government's first declaration of empowerment zones and enterprise communities, the Legislature appropriated, from the Working Capital Fund, a one-time payment of \$5 million for any empowerment zone and \$500,000 for each of up to six enterprise communities designated in Florida (see s. 81, chapter 94-136, Laws of Florida). In 1998, Governor Chiles pledged \$5 million in his letter of support for Florida's application under the "Round II" competition. The Governor also pledged to work with the Legislature in securing the \$5 million in state funding.

In addition, the permitted uses of the proposed state matching funds is broadly defined as "for the benefit of the nominated area," rather than tying the use of the matching funds to purposes permitted by or consistent with the Federal Empowerment Zone Program.

VIII. Amendments:

#1 by Fiscal Policy Committee:

This amendment deletes the \$5.25 million appropriation and provides that distribution of funds are contingent upon a specific appropriation for FY 1999-2000.

#2 by Fiscal Policy Committee:

This is a conforming amendment which deletes a reference to specific dollar amounts for distribution to the empowerment zone designees.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
